



# **CITY OF CHOCTAW, OKLAHOMA**

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

**AS OF AND FOR THE FISCAL YEAR ENDED  
JUNE 30, 2018**

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# **INDEPENDENT AUDITOR'S REPORT**

# **DILLON & ASSOCIATES, P.C.**

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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, 2018, 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, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## *Other Matters*

### *Required Supplementary Information*

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

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The other supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2018 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City's internal control over financial reporting and compliance.

***Dillon & Associates, P.C.***

Midwest City, Oklahoma  
October 15, 2018

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**



**CITY OF CHOCTAW, OKLAHOMA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2018**

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, 2018. We encourage readers to use this information in conjunction with the City's financial statements, which follow this section.

**Financial Highlights**

- The City's total net position increased by \$2,553,666 and the assets of the City exceeded its liabilities \$13,828,568 (net position). Of this amount, the City has an unrestricted net deficit of \$623,892.
- At June 30, 2018, the City's governmental funds reported combined ending fund balances of \$5,405,703. Of this total amount, \$1,524,550 is available for spending at the government's discretion (unassigned fund balance).
- At the end of fiscal year 2018, unassigned fund balance for the General Fund was \$1,524,550, or approximately 43.33% of total General Fund expenditures.
- Sales and use taxes increased by \$381,865 or 6.0% 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, 2018**

**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, 2018**

***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, 2018, net position for governmental activities and business-type activities increased to \$13,828,568. 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, 2018

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

Table 1 Net Position (In Thousands)								
	Governmental		% Inc.	Business-type		% Inc.	Total	
	Activities			Activities			Primary Government	% Inc.
	2018	2017		2018	2017	(Dec.)	2018	(Dec.)
Current and other assets	\$ 6,044	5,970		1,519	1,631	-7%	7,563	7,601 0%
Capital assets	20,906	21,664		10,063	7,698	31%	30,969	29,362 5%
Total assets	26,950	27,634		11,582	9,329	24%	38,532	36,963 4%
Deferred outflow of resources	458	630		-	-		458	630
Long-term debt outstanding	13,332	15,285		9,341	8,133	15%	22,673	23,418 -3%
Other liabilities	1,744	2,441		705	612	15%	2,449	3,053 -20%
Total liabilities	15,076	17,726		10,046	8,745	15%	25,122	26,471 -5%
Deferred inflow of resources	40	243		-	-		40	243
Net assets:								
Invested in capital assets, net of debt	7,732	6,732		836	(444)	-288%	8,568	6,288 36%
Restricted	3,881	3,812	2%	346	155	123%	4,227	3,967 7%
Unrestricted (deficit)	679	(249)	-373%	354	873	-59%	1,033	624 66%
Total net assets	\$ 12,292	10,295	19%	1,536	584	163%	13,828	10,879 27%

The largest portion of the City's net position reflects its investment in capital assets (e.g., land, buildings, improvements, vehicles, and equipment) less any related debt used to acquire those assets that are still outstanding. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

A portion of the City's net position, \$4,227,005 represents resources that are subject to external restrictions on how they may be used. The remaining balance is an unrestricted net position of \$1,032,905.

**CITY OF CHOCTAW, OKLAHOMA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2018**

**Change in Net Position**

For the year ended June 30, 2018 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.
	<u>2018</u>	<u>2017</u>	<u>(Dec.)</u>	<u>2018</u>	<u>2017</u>	<u>(Dec.)</u>	<u>2018</u>	<u>2017</u>	<u>(Dec.)</u>
<b>Revenues</b>									
Charges for services \$	1,631	1,426	14%	2,667	2,552	5%	4,298	3,978	8%
Operating grants	171	176	-3%	-	-	-	171	176	-3%
Capital grants	-	-	-	-	-	-	-	-	-
Sales and use taxes	6,774	6,392	6%	-	-	-	6,774	6,392	6%
Franchise tax (fees)	487	468	4%	-	-	-	487	468	4%
Other taxes	679	748	-9%	-	-	-	679	748	-9%
Investment income	9	3	200%	4	1	-	13	4	225%
Land sales	-	1,381	0%	-	-	-	-	1,381	0%
Other	172	171	1%	-	-	0%	172	171	1%
Total revenues	<u>9,923</u>	<u>10,765</u>	-8%	<u>2,671</u>	<u>2,553</u>	5%	<u>12,594</u>	<u>13,318</u>	-5%
<b>Expenses</b>									
General government	2,575	2,639	-2%	-	-	-	2,575	2,639	-2%
Public safety	2,249	2,579	-13%	-	-	-	2,249	2,579	-13%
Public works	1,320	1,639	-19%	-	-	-	1,320	1,639	-19%
Cultural & recreation	703	693	1%	-	-	-	703	693	1%
Water	-	-	-	969	830	17%	969	830	17%
Sewer	-	-	-	704	1,715	-59%	704	1,715	-59%
Sanitation	-	-	-	754	731	3%	754	731	3%
Stormwater	-	-	-	120	98	22%	120	98	22%
Golf course	-	-	-	496	258	0%	496	258	0%
Interest on debt	151	627	-	-	-	-	151	627	-76%
Total expenses	<u>6,998</u>	<u>8,177</u>	-14%	<u>3,043</u>	<u>3,632</u>	-16%	<u>10,041</u>	<u>11,809</u>	-15%
<b>Increase in net position</b>									
before transfers	2,925	2,588	13%	(372)	(1,079)	-66%	2,553	1,509	69%
Transfers	(928)	(230)	303%	928	230	303%	-	-	-
Change in net position	<u>1,997</u>	<u>2,358</u>	-15%	<u>556</u>	<u>(849)</u>	-165%	<u>2,553</u>	<u>1,509</u>	69%
Beginning net position	10,295	7,937	30%	584	608	-4%	10,879	8,545	27%
Contributed capital	-	-	-	396	825	-52%	396	825	-52%
Ending net position \$	<u>12,292</u>	<u>10,295</u>	19%	<u>1,536</u>	<u>584</u>	163%	<u>13,828</u>	<u>10,879</u>	27%

**CITY OF CHOCTAW, OKLAHOMA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2018**

The City's governmental activities tax revenues decrease by \$1,540,575 due in large part to a one-time sale of land in 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)

	Total Expenses		% Inc.	Net Revenue		% Inc.
	of Services		(Dec.)	(Expense) of Services		(Dec.)
	2018	2017		2018	2017	
General government	\$ 2,575	2,639	-2%	(1,176)	(1,486)	-21%
Public safety	2,249	2,579	-13%	(1,930)	(2,262)	-15%
Public works	1,320	1,639	-19%	(1,320)	(1,639)	-19%
Cultural & recreation	703	693	1%	(619)	(561)	10%
Interest on long-term debt	151	627	-76%	(151)	(627)	-76%
Total	\$ 6,998	8,177	-14%	(5,196)	(6,575)	-21%

For the year ended June 30, 2018, total expenses for governmental activities amounted to \$6,998,763 which is a 14% decrease from the prior year.

**CITY OF CHOCTAW, OKLAHOMA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2018**

**Business-type Activities**

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

	Total Expenses of Services		% Inc. (Dec.)	Net Revenue (Expense) of Services		% Inc. (Dec.)
	<u>2018</u>	<u>2017</u>		<u>2018</u>	<u>2017</u>	
Water	\$ 969	830	17%	(66)	79	-184%
Sewer	704	1,715	-59%	(129)	(1,173)	-89%
Sanitation	754	731	3%	28	31	-10%
Stormwater	120	98	22%	109	124	0%
Golf course	496	258	0%	(318)	(140)	-
<b>Total</b>	<b>\$ 3,043</b>	<b>3,632</b>	<b>-16%</b>	<b>(376)</b>	<b>(1,079)</b>	<b>-65%</b>

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 2018 fiscal year, the governmental funds reported a combined fund balance of \$5,405,703, or 1.2% decrease from the prior year. The enterprise funds reported combined net position of \$1,536,207, or 263% increase from 2017.

**Other Fund Highlights Include:**

- For the year ended June 30, 2018, the General Fund's total fund balance increased by \$635, no significant change from the prior year.
- The CUA Enterprise Fund reported a net position increase of \$952,230 from the prior fiscal year.

**General Fund Budgetary Highlights**

For the year ended June 30, 2018, the General Fund reported actual budgetary basis revenues under final estimates by \$26,816 or an 0.3% positive variance. General Fund actual expenditures were under final appropriations by \$208,679 or a 5.6% positive variance.

**CITY OF CHOCTAW, OKLAHOMA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2018**

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of June 30, 2018, the City had \$30,969,546 invested in capital assets, net of depreciation, including land, buildings, machinery and equipment, park facilities, water, sewer and stormwater systems, roads and bridges. This represents a net increase of \$1,607,263 over last year.

Table 5  
Capital Assets

	<u>Governmental</u>		<u>Business-type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>		<u>Primary Government</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Land and in progress	\$ 2,868	2,868	3,298	22	6,166	2,890
Buildings	8,462	8,414	-	-	8,462	8,414
Machinery and equipment	1,968	1,804	918	853	2,886	2,657
Vehicles	1,743	1,743	75	75	1,818	1,818
Infrastructure	58,472	58,303	19,033	19,601	77,505	77,904
Less: Accum. depreciation	<u>(52,606)</u>	<u>(51,468)</u>	<u>(13,261)</u>	<u>(12,853)</u>	<u>(65,867)</u>	<u>(64,321)</u>
Total capital assets, net	\$ <u>20,907</u>	<u>21,664</u>	<u>10,063</u>	<u>7,698</u>	<u>30,970</u>	<u>29,362</u>

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, 2018**

**Long-term Debt**

At year-end, the City had \$22,707,822 in long-term debt outstanding, excluding accrued compensated absences, due to depositors and net pension liability, which represents approximately a \$1,210,639 decrease from the prior year.

**Table 6  
Outstanding Debt**

	<u>Governmental</u>		<u>Business-type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>		<u>Primary Government</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Capital lease obligation	\$ 5	33	-	-	5	33
General obligation bonds	595	690	-	-	595	690
Settlement payable	190	400	-	-	190	400
Notes payable	-	750	1,224	1,330	1,224	2,080
Tax increment note (TIF)	4,885	5,700	-	-	4,885	5,700
Revenue notes	7,455	7,987	8,354	7,029	15,809	15,016
Total long-term debt	\$ 13,130	15,560	9,578	8,359	22,708	23,919

**ECONOMIC OUTLOOK**

- The unemployment rate for the Oklahoma City metropolitan area which includes Choctaw is currently 4.4 percent, which is a decrease of 0.3 percent from a year ago. This compares favorably to the state's average unemployment rate of 4.3 percent and favorably to the national average rate of 4.5 percent.
- Inflationary trends in the region compare favorably to national indices.
- The City's major source of revenue is sales and use tax revenue. Sales and use tax revenue increased 6.0% over the prior year total.

All of these factors were considered in preparing the City's budget for the 2018-2019 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, 2018

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Economic Development Authority
<b>ASSETS</b>				
Pooled cash and cash equivalents	\$ 2,249,546	468,469	2,718,015	75,537
Restricted cash and investments	2,559,056	706,213	3,265,269	-
Receivables (net of allowance for uncollectible)	74,292	248,789	323,081	-
Due from other governments	1,160,387	-	1,160,387	-
Restricted cash and investments	-	96,089	96,089	-
Capital assets:				
Land, improvements, and construction in progress	2,868,369	3,298,012	6,166,381	-
Other capital assets, net of depreciation	18,038,336	6,764,829	24,803,165	-
Total assets	26,949,986	11,582,401	38,532,387	75,537
<b>DEFERRED OUTFLOW OF RESOURCES</b>				
Deferred amounts related to pensions	458,012	-	458,012	-
<b>LIABILITIES</b>				
Accounts payable and accrued expenses	1,083	1,643	2,726	-
Accrued interest payable	219,390	63,887	283,277	-
Deferred revenues	-	55,919	55,919	-
Due to bondholders	1,542	-	1,542	-
Deposits subject to refund	56,656	-	56,656	-
Current portion of long-term debt	1,464,538	584,217	2,048,755	-
Long-term liabilities:				
Long-term debt and other liabilities	13,332,344	9,340,528	22,672,872	-
Total liabilities	15,075,553	10,046,194	25,121,747	-
<b>DEFERRED INFLOW OF RESOURCES</b>				
Deferred amounts related to pensions	40,084	-	40,084	-
<b>NET POSITION</b>				
Net investment in capital assets	7,732,573	836,085	8,568,658	-
Restricted for:				
Debt service	25,379	345,852	371,231	-
Capital improvements	320,319	-	320,319	-
Other purposes	3,535,455	-	3,535,455	-
Unrestricted (deficit)	678,635	354,270	1,032,905	75,537
Total net position	\$ 12,292,361	1,536,207	13,828,568	75,537

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

City of Choctaw, Oklahoma  
Statement of Activities  
For the Year Ended June 30, 2018

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary government:</b>				
Governmental activities:				
General government	\$ 2,575,767	1,400,173	-	-
Public safety	2,248,515	147,283	171,034	-
Public works	1,320,191	-	-	-
Culture and recreation	703,278	83,839	-	-
Interest on long-term debt	151,012	-	-	-
Total government activities	6,998,763	1,631,295	171,034	-
Business-type activities:				
Water	968,549	902,147	-	-
Wastewater	704,104	575,228	-	-
Sanitation	754,471	782,713	-	-
Stormwater	119,687	229,023	-	-
Golf course	496,544	178,348	-	-
Total business-type activities	3,043,355	2,667,459	-	-
Total primary government	10,042,118	4,298,754	171,034	-
<b>Component Unit:</b>				
Economic Development	\$ 116	-	-	-

**City of Choctaw, Oklahoma**  
**Statement of Activities**  
**For the Year Ended June 30, 2018**

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Economic Development Authority
<b>Change in net position:</b>				
<b>Net (expense) revenue</b>	<b>\$ (5,196,434)</b>	<b>(375,896)</b>	<b>(5,572,330)</b>	<b>(116)</b>
<b>General revenues:</b>				
<b>Taxes:</b>				
Sales taxes	6,329,202	-	6,329,202	-
Use taxes	444,306	-	444,306	-
Franchise taxes (fees)	486,882	-	486,882	-
Other taxes	679,327	-	679,327	-
Unrestricted investment income	9,329	5,004	14,333	151
Miscellaneous	171,946	-	171,946	-
Transfers	(927,969)	927,969	-	-
<b>Total general revenues and transfers</b>	<b>7,193,023</b>	<b>932,973</b>	<b>8,125,996</b>	<b>151</b>
<b>Change in net position</b>	<b>1,996,589</b>	<b>557,077</b>	<b>2,553,666</b>	<b>35</b>
<b>Net Position - beginning</b>	<b>10,295,772</b>	<b>582,977</b>	<b>10,878,749</b>	<b>75,512</b>
<b>Contributed capital - fixed assets</b>	<b>-</b>	<b>396,153</b>	<b>396,153</b>	<b>-</b>
<b>Net Position - ending</b>	<b>\$ 12,292,361</b>	<b>1,536,207</b>	<b>13,828,568</b>	<b>75,547</b>

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

**City of Choctaw, Oklahoma**  
**Balance Sheet - Governmental Funds**  
**June 30, 2018**

	General Fund	Dedicated Sales Tax Fund	Town Square Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash and cash equivalents	\$ 685,397	-	-	995,508	1,680,905
Cash - Police fines account	3,135	-	-	-	3,135
Restricted cash and cash equivalents	-	977,689	1,581,367	-	2,559,056
Receivables:					
Franchise tax receivable	61,501	-	-	-	61,501
Due from other governments	1,148,654	-	-	11,733	1,160,387
Due from other funds	-	1,059,010	-	-	1,059,010
<b>Total assets</b>	<b>1,898,687</b>	<b>2,036,699</b>	<b>1,581,367</b>	<b>1,007,241</b>	<b>6,523,994</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Accounts payable	1,083	-	-	-	1,083
Police bonds outstanding	1,542	-	-	-	1,542
Deposits subject to refund	53,991	-	-	2,665	56,656
Due to other funds	317,521	-	741,489	-	1,059,010
<b>Total liabilities</b>	<b>374,137</b>	<b>-</b>	<b>741,489</b>	<b>2,665</b>	<b>1,118,291</b>
<b>Fund balances:</b>					
Reserved for:					
Nonspendable	-	2,036,699	839,878	1,004,576	3,881,153
Unassigned	1,524,550	-	-	-	1,524,550
<b>Total fund balances</b>	<b>1,524,550</b>	<b>2,036,699</b>	<b>839,878</b>	<b>1,004,576</b>	<b>5,405,703</b>
<b>Total liabilities, deferred inflows and fund balances</b>	<b>\$ 1,898,687</b>	<b>2,036,699</b>	<b>1,581,367</b>	<b>1,007,241</b>	

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

Capital assets used in governmental activities are not financial resources and therefore are not required in the governmental fund statements.	20,906,705
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.	578,297
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds:	
Pension related deferred outflows	458,012
Certain liabilities are not due and payable in the current period from current financial resources, and therefore are not reported in the funds:	
Bonds, notes, settlement and capital leases payable	(13,174,132)
Net pension liability	(1,424,680)
Pension related deferred inflows	(40,084)
Accrued interest payable	(219,390)
Accrued compensated absences	(198,070)
<b>Net position of governmental activities</b>	<b>\$ 12,292,361</b>

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, 2018**

	General Fund	Dedicated Sales Tax Fund	Town Square Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>					
Taxes	\$ 7,260,389	-	439,301	240,027	7,939,717
Intergovernmental	136,395	-	-	8,055	144,450
Licenses and permits	190,609	-	-	-	190,609
Charge for services	-	-	-	138,856	138,856
Fines and forfeitures	147,283	-	-	-	147,283
Interest	1,351	1,092	3,317	527	6,287
Miscellaneous	115,590	5,000	-	51,357	171,947
Total revenues	<u>7,851,617</u>	<u>6,092</u>	<u>442,618</u>	<u>438,822</u>	<u>8,739,149</u>
<b>EXPENDITURES</b>					
Current:					
General government	1,034,644	-	200,670	56,140	1,291,454
Public safety	2,099,002	-	-	227,447	2,326,449
Public works	60,773	290,914	-	660,979	1,012,666
Culture and recreation	326,504	68,193	-	308,581	703,278
Debt service	-	1,437,724	974,610	126,750	2,539,084
Total expenditures	<u>3,520,923</u>	<u>1,796,831</u>	<u>1,175,280</u>	<u>1,379,897</u>	<u>7,872,931</u>
Excess (deficiency) of revenues over expenditures	<u>4,330,694</u>	<u>(1,790,739)</u>	<u>(732,662)</u>	<u>(941,075)</u>	<u>866,218</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	230,000	2,495,958	1,059,339	977,207	4,762,504
Transfers out	(4,560,059)	(692,970)	(437,445)	-	(5,690,474)
Total other financing sources and uses	<u>(4,330,059)</u>	<u>1,802,988</u>	<u>621,894</u>	<u>977,207</u>	<u>(927,970)</u>
Net change in fund balances	635	12,249	(110,768)	36,132	(61,752)
Fund balances-beginning	1,523,915	2,024,450	950,646	968,444	5,467,455
Fund balances-ending	<u>\$ 1,524,550</u>	<u>2,036,699</u>	<u>839,878</u>	<u>1,004,576</u>	<u>5,405,703</u>

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

City of Choctaw, Oklahoma  
Reconciliation of the Statement of Revenues,  
Expenditures, and Changes in Fund Balances of Governmental Funds  
to the Statement of Activities  
For the Year Ended June 30, 2018

Net change in fund balances - total governmental funds	\$ (61,752)
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	380,654
Depreciation expense	(1,138,082)
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.	
	331,084
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	-
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	2,357,400
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	(13,972)
Change in accrued interest payable	30,672
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>110,585</u>
Change in net assets of governmental activities	<u>\$ 1,996,589</u>



**City of Choctaw, Oklahoma**  
**Statement of Net Position - Proprietary Funds**  
**June 30, 2018**

	Business-type Activities - Enterprise Funds				Governmental Activities
	<u>Choctaw Utilities Authority</u>			Total Enterprise Funds	Internal Service Fund
	<u>Operating Fund</u>	<u>Debt Service</u>	<u>Golf Course</u>		<u>Fund</u>
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$ 434,927	-	33,542	468,469	565,506
Restricted:					
Cash and investments	-	706,213	-	706,213	-
Accounts receivable, net of allowance for uncollectible of \$ 138,685	248,789	-	-	248,789	12,791
Due from other funds	1,000	-	-	1,000	-
Total current assets	<u>684,716</u>	<u>706,213</u>	<u>33,542</u>	<u>1,424,471</u>	<u>578,297</u>
Non-current assets:					
Restricted cash and investments	96,089	-	-	96,089	-
Capital assets:					
Land and construction in progress	3,298,012	-	-	3,298,012	-
Other capital assets, net of accumulated depreciation	5,443,757	-	1,321,072	6,764,829	-
Total non-current assets	<u>8,837,858</u>	<u>-</u>	<u>1,321,072</u>	<u>10,158,930</u>	<u>-</u>
Total assets	<u>9,522,574</u>	<u>706,213</u>	<u>1,354,614</u>	<u>11,583,401</u>	<u>578,297</u>
<b>LIABILITIES</b>					
Current liabilities:					
Accounts payable	-	-	1,643	1,643	-
Accrued interest payable	-	63,887	-	63,887	-
Deferred revenues	55,919	-	-	55,919	-
Due to other funds	-	1,000	-	1,000	-
Current portion of long-term obligations	2,945	470,000	111,272	584,217	-
Total current liabilities	<u>58,864</u>	<u>534,887</u>	<u>112,915</u>	<u>706,666</u>	<u>-</u>
Non-current liabilities:					
Deposits subject to refund	246,089	-	-	246,089	-
Notes payable, non-current	-	7,946,390	1,121,543	9,067,933	-
Accrued compensated absences, non-current	26,506	-	-	26,506	-
Total non-current liabilities	<u>272,595</u>	<u>7,946,390</u>	<u>1,121,543</u>	<u>9,340,528</u>	<u>-</u>
Total liabilities	<u>331,459</u>	<u>8,481,277</u>	<u>1,234,458</u>	<u>10,047,194</u>	<u>-</u>
<b>NET POSITION</b>					
Net investment in capital assets	8,741,769	(7,993,941)	88,257	836,085	-
Restricted for:					
Debt service	-	345,852	-	345,852	-
Unrestricted	449,346	(126,975)	31,899	354,270	578,297
Total net position	<u>\$ 9,191,115</u>	<u>(7,775,064)</u>	<u>120,156</u>	<u>1,536,207</u>	<u>578,297</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, 2018**

	Business-type Activities - Enterprise Funds				Governmental Activities
	<u>Choctaw Utilities Authority</u>			Total Enterprise Funds	Internal Service Fund
	<u>Operating Fund</u>	<u>Debt Service</u>	<u>Golf Course</u>		
<b>REVENUES</b>					
Water	\$ 902,147	-	-	902,147	-
Wastewater	575,228	-	-	575,228	-
Sanitation	782,713	-	-	782,713	-
Stormwater and drainage fees	229,023	-	-	229,023	-
Golf course	-	-	178,348	178,348	-
Insurance premiums	-	-	-	-	1,010,097
Total operating revenues	<u>2,489,111</u>	<u>-</u>	<u>178,348</u>	<u>2,667,459</u>	<u>1,010,097</u>
<b>OPERATING EXPENSES</b>					
Water	510,529	-	-	510,529	-
Wastewater	217,348	-	-	217,348	-
Wastewater plant	375,073	-	-	375,073	-
Sanitation	754,471	-	-	754,471	-
Stormwater	119,687	-	-	119,687	-
Golf course	-	-	398,486	398,486	-
Insurance claims and expense	-	-	-	-	902,554
Depreciation and amortization	310,169	-	98,058	408,227	-
Total operating expenses	<u>2,287,277</u>	<u>-</u>	<u>496,544</u>	<u>2,783,821</u>	<u>902,554</u>
Operating income (loss)	<u>201,834</u>	<u>-</u>	<u>(318,196)</u>	<u>(116,362)</u>	<u>107,543</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>					
Interest income	521	4,483	-	5,004	3,042
Debt issuance costs	-	(44,341)	-	(44,341)	-
Interest expense and fiscal charges	-	(143,090)	(73,103)	(216,193)	-
Total nonoperating revenues (expenses)	<u>521</u>	<u>(182,948)</u>	<u>(73,103)</u>	<u>(255,530)</u>	<u>3,042</u>
<b>OPERATING TRANSFERS AND CAPITAL ITEMS</b>					
Transfers in	2,058,108	607,028	419,934	3,085,070	-
Transfers out	(98,993)	(2,058,108)	-	(2,157,101)	-
Total operating transfers	<u>1,959,115</u>	<u>(1,451,080)</u>	<u>419,934</u>	<u>927,969</u>	<u>-</u>
Change in net position	<u>2,161,470</u>	<u>(1,634,028)</u>	<u>28,635</u>	<u>556,077</u>	<u>110,585</u>
Net position - beginning	6,713,129	(6,141,036)	11,884	583,977	467,712
Contributed capital - fixed assets	316,516	-	79,637	396,153	-
Net position - ending	<u>\$ 9,191,115</u>	<u>(7,775,064)</u>	<u>120,156</u>	<u>1,536,207</u>	<u>578,297</u>

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

**City of Choctaw, Oklahoma**  
**Statement of Cash Flows - Proprietary Funds**  
**For the Year Ended June 30, 2018**

	Business-type Activities - Enterprise Funds				Governmental
	Choctaw Utilities Authority	Debt Service	Golf Course	Total Enterprise Funds	Internal Service Fund
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from customers	\$ 2,490,763	-	178,349	2,669,112	1,008,445
Payments to suppliers and employees	(1,949,807)	-	(399,057)	(2,348,864)	(902,554)
Other receipts (payments)	-	(4,559)	-	(4,559)	-
Net cash provided (used) by operating activities	540,956	(4,559)	(220,708)	315,689	105,891
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>					
Operating transfers in (out)	1,959,115	(1,451,080)	419,934	927,969	-
Net cash provided (used) by noncapital financing activities	1,959,115	(1,451,080)	419,934	927,969	-
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Proceeds from long-term debt issuance	-	1,777,837	-	1,777,837	-
Principal paid on long-term debt	-	(390,704)	(96,829)	(487,533)	-
Interest expense and fiscal charges	-	(187,430)	(73,103)	(260,533)	-
Contributed capital from governmental funds	316,516	-	79,637	396,153	-
(Acquisition) disposition of capital assets	(2,693,283)	-	(79,637)	(2,772,920)	-
Net cash provided (used) by capital and related financing activities	(2,376,767)	1,199,703	(169,932)	(1,346,996)	-
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Interest received	521	4,482	-	5,003	3,042
Net cash provided (used) by investing activities	521	4,482	-	5,003	3,042
Net increase (decrease) in cash and cash equivalents	123,825	(251,454)	29,294	(98,335)	108,933
Cash and cash equivalents, beginning of the year	407,191	957,667	4,248	1,369,106	456,573
Cash and cash equivalents, end of the year	531,016	706,213	33,542	1,270,771	565,506
Reconciliation to Statement of Net Position:					
Cash and cash equivalents	434,927	-	33,542	468,469	565,506
Restricted cash and cash equivalents	96,089	706,213	-	802,302	-
Total cash and cash equivalents, end of year	\$ 531,016	706,213	33,542	1,270,771	565,506
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>					
Operating income (loss)	201,834	-	(318,196)	(116,362)	107,543
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation and amortization expense	310,169	-	98,058	310,169	-
Miscellaneous revenue	-	-	-	-	-
Change in assets and liabilities:					
(Increase) decrease in receivables	12,989	-	-	12,989	(1,652)
Increase (decrease) in accounts payable / accrued expenses	(5,588)	(4,559)	(570)	(10,147)	-
Increase (decrease) in deposits subject to refund	17,820	-	-	17,820	-
Increase (decrease) in due to other funds	-	-	-	-	-
Increase (decrease) in deferred revenues	3,732	-	-	3,732	-
Total adjustments	339,122	(4,559)	97,488	334,563	(1,652)
Net cash provided by (used in) operating activities	\$ 540,956	(4,559)	(220,708)	218,201	105,891

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, 2018**

**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, 2018

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Basis of presentation:**

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

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

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

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

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

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

**City of Choctaw, Oklahoma**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2018**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

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

The following are the City's major governmental funds:

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

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

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

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

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

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

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

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

City of Choctaw, Oklahoma  
Notes to Financial Statements  
For the Year Ended June 30, 2018

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

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

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

The following are the City's major proprietary funds:

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

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

**Accounting Policies -**

**Assets, Liabilities, and Fund Equity**

- a. *Cash and Cash Equivalents* - The City considers all highly liquid investments with an original maturity of three months or less when purchased to be cash and cash equivalents.
- b. *Investments* - Investments are stated at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties. The City considers quoted market price at June 30, 2018, 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, 2018

**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, 2018

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

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

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

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

- i. *Claims and Judgments Payable* - Under state law, judgments against the City can be paid over three years or can be paid immediately. The Risk Management Fund pays all claims and judgments. A liability has been recorded within the government-wide, proprietary and fiduciary fund financial statements for claims and judgments payable. A liability for these amounts is reported in governmental funds only if they will be paid from current financial resources.
- j. *Compensated Absences* - Under the terms of union contracts and City personnel policies, City employees are granted vacation and sick leave in varying amounts. In the event of termination, an employee is paid for vacation leave accumulated and vested accumulated sick leave. Vesting of sick leave by employees and maximum number of hours that can be accumulated for vacation and sick leave are dependent upon an employees' service as contained in the City's personnel manual. Upon retirement, one-third of accumulated sick leave is converted to cash, subject to the above limitation for maximum compensation for unused compensated absences.
- k. *Pensions* - For the purpose of measuring the net pension liability, deferred outflows of resources and deferred inflow of resources related to pensions and pension expense, information about the fiduciary net position of the City's multiemployer pension plans and additions to/deductions from the multiemployer pension plans have been determined on the same basis as they are reported by the plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

City of Choctaw, Oklahoma  
Notes to Financial Statements  
For the Year Ended June 30, 2018

**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, 2018

**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, 2018

**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, 2018 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 20<sup>th</sup> of the month following collection. The tax is then paid to the City by the 10<sup>th</sup> 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, 2018**

**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 MPWA and the MEDA funds are included in this report.

**Deposits and Investment Laws and Regulations**

In accordance with State law, all uninsured deposits of municipal funds in financial institutions must be secured with acceptable collateral valued at no more than market value. Acceptable collateral includes certain U.S. Government or Government Agency securities, certain State of Oklahoma or political subdivision debt obligations, surety bonds or certain letters of credit. As required by 12 U.S.C.A., Section 1823e, all financial institutions pledging collateral to the City must have a written collateral agreement approved by the board of directors or the loan committee. As reflected in Note 3, the City's uninsured deposited were sufficiently collateralized in accordance with these provisions for the year ended in June 30, 2018.

**City of Choctaw, Oklahoma  
Notes to Financial Statements  
For the Year Ended June 30, 2018**

**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, 2018, 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, 2018

**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, 2018:

<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. 2018 OWRB Revenue Note	The Authority maintained all required accounts and made the required payments into such accounts.
- Construction fund	
- Debt service fund	
7. 2018A OWRB Revenue Note	The Authority maintained all required accounts and made the required payments into such accounts.
- Construction fund	
- Debt service fund	
8. 2018C 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, 2018

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - Continued**

**Fund Equity/Net Position Restrictions**

**Restricted Net Position**

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

**NOTE 3 - DETAILED NOTES CONCERNING THE FUNDS**

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

**Deposits and Investment Risks**

The City of Choctaw, including its blended component units, held the following deposits and investments at June 30, 2018:

<u>Type</u>	<u>Maturities</u>	<u>Credit Rating</u>	<u>Carrying Value</u>
<b>Deposits:</b>			
Demand deposits			\$ 4,206,124
Cash on hand			<u>1,581</u>
			4,207,705
<b>Investments:</b>			
Trustee money market account		AAAm	<u>1,871,668</u>
<b>Total deposits and investments</b>			<b>\$ <u>6,079,373</u></b>
<b>Reconciliation to Statement of Net Position:</b>			
Cash and cash equivalents			\$ 2,718,015
Restricted cash and investment			3,265,269
Restricted cash and investment			<u>96,089</u>
			<b>\$ <u>6,079,373</u></b>

**City of Choctaw, Oklahoma**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2018**

**NOTE 3 - DETAILED NOTES CONCERNING THE FUNDS**

*Custodial Credit Risk*

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

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

At June 30, 2018, the City was not exposed to custodial credit risk as defined above.

*Investment Interest Credit Risk*

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

As noted in the schedule of deposits and investments above, at June 30, 2018, the investments held by the City mature at various times.

*Concentration of Investment Credit Risk*

Exposure to concentration of credit risk is considered to exist when investments in any one issuer represent a significant percent of total investments of the City (any over 5% are disclosed). Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this consideration. The City places no limit on the amount it may invest with any one issuer. The City has the following concentration of credit risk: 100% or \$1,382,469 invested in Federal Treasury Obligations money market accounts at Bank of Oklahoma and \$3,570,394 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, 2018**

**NOTE 3 - DETAILED NOTES CONCERNING THE FUNDS - Continued**

The restricted assets as of June 30, 2018 were as follows:

**Sales Tax Revenue Note, Series 2014:**

Project account	\$ 442,936
Debt service	233,320
Accounts not held at trustee bank	301,432

**Tax Increment Revenue Note, Taxable Series 2016:**

Project account	-
Debt service	489,199
Accounts not held at trustee bank	1,092,169

**Sales Tax Revenue Note, Series 2013A:**

Debt service	136,194
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**Sales Tax Revenue Note, Series 2013B:**

Project account	52,275
Debt service	39,630

**OWRB Clean Water SRF Note, Series 2017:**

Project account	503
Debt service	99,127

**OWRB Clean Water SRF Note, Series 2017A:**

Project account	307,583
Debt service	70,901

Utility customer deposits	96,089
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Total restricted assets	\$	<u>3,361,358</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, 2018**

**NOTE 3 - DETAILED NOTES CONCERNING THE FUNDS - Continued**

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Choctaw Utilities Authority</u>	<u>Total</u>
Receivables:				
Accounts	\$ 61,501	-	387,474	448,975
Due from other governments	1,148,654	11,733	-	1,160,387
Gross receivables	1,210,155	11,733	387,474	1,609,362
Less: Allowance for uncollectibles	-	-	138,685	138,685
Net total receivables	<u>\$ 1,210,155</u>	<u>11,733</u>	<u>248,789</u>	<u>1,470,677</u>

**Capital Assets**

Capital asset balances and activities for the year ended June 30, 2018, were as follows:

	<u>Beginning</u>	<u>Additions</u>	<u>Transfers</u>	<u>Retirements</u>	<u>Ending</u>
<b>Governmental activities</b>					
Capital assets not being depreciated :					
Land	\$ 2,868,369	-	-	-	2,868,369
Construction in progress	-	-	-	-	-
Total capital assets not being depreciated	<u>2,868,369</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,868,369</u>
Capital assets being depreciated :					
Buildings and improvements	8,413,972	48,243	-	-	8,462,215
Machinery and equipment	1,803,461	164,072	-	-	1,967,533
Vehicles	1,742,946	-	-	-	1,742,946
Infrastructure	58,303,185	168,339	-	-	58,471,524
Total capital assets being depreciated	<u>70,263,564</u>	<u>380,654</u>	<u>-</u>	<u>-</u>	<u>70,644,218</u>
Less : Accumulated depreciation	<u>51,467,799</u>	<u>1,138,083</u>	<u>-</u>	<u>-</u>	<u>52,605,882</u>
Governmental activities capital assets, net	<u>\$ 21,664,134</u>	<u>(757,429)</u>	<u>-</u>	<u>-</u>	<u>20,906,705</u>

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

**Governmental activities:**

General government	\$ 449,961
Public safety	172,594
Public works administration	272,112
Cultural and recreation	243,415
Total depreciation expense - governmental activities	<u>\$ 1,138,082</u>

**City of Choctaw, Oklahoma**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2018**

**NOTE 3 - DETAILED NOTES CONCERNING THE FUNDS - Continued**

Capital asset activity for business-type activities for the year ended June 30, 2018 was as follows:

	<u>Beginning</u>	<u>Additions</u>	<u>Transfers</u>	<u>Retirements</u>	<u>Ending</u>
<b><i>Business-type activities</i></b>					
Capital assets not being depreciated :					
Land	\$ 22,185	-	-	-	22,185
Construction in progress	-	2,263,897	1,011,930	-	3,275,827
Total capital assets not being depreciated	22,185	2,263,897	1,011,930	-	3,298,012
Capital assets being depreciated :					
Buildings and improvements	-	-	-	-	-
Machinery and equipment	852,762	65,837	-	-	918,599
Vehicles	74,651	-	-	-	74,651
Infrastructure	19,601,450	443,184	(1,011,930)	-	19,032,704
Total capital assets being depreciated	20,528,863	509,021	(1,011,930)	-	20,025,954
Less : Accumulated depreciation	12,852,897	408,228	-	-	13,261,125
Business-type activities capital assets, net \$	7,698,151	2,364,690	-	-	10,062,841

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

**Business-type activities:**

Water	\$ 242,428
Sewer	67,342
Golf course	98,058
General government	400
Total depreciation expense - business-type activities	<u>\$ 408,228</u>

**Deposits Subject to Refund**

Utility customers are required to make a meter deposit, which is refunded upon the customer's termination of services, provided there are no outstanding bills. Monies are deposited in separate accounts, and a liability has been recorded to represent the amount of deposits due to customers. As of June 30, 2018, cash and investments included \$96,089 available for refund of customer deposits, while the liability to customers was \$246,089.

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, 2018, \$1,542 was being held that was subject to refund.

City of Choctaw, Oklahoma  
Notes to Financial Statements  
For the Year Ended June 30, 2018

**NOTE 3 - DETAILED NOTES CONCERNING THE FUNDS - Continued**

**Long-term Debt**

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

***Governmental Activities:***

At June 30, 2018, the governmental activities long-term debt consisted of the following:

**Capital Leases**

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

\$ 4,731

Total governmental activities capital lease obligations

\$ 4,731

Current portion

\$ 4,731

Non-current portion

\$ -  
4,731

**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%.

\$ 595,000

Current portion

\$ 95,000

Non-current portion

500,000  
\$ 595,000

**City of Choctaw, Oklahoma  
Notes to Financial Statements  
For the Year Ended June 30, 2018**

**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. \$ 1,930,000

\$6,455,000 Choctaw Utilities Authority Sales Tax Revenue Notes, Subordinated Series 2014; dated July 3, 2014, secured by a pledge of sales tax to provide funding for water system, sewer system and park improvements; due in semi-annual principal and interest payments beginning July 1, 2015 and maturing July 1, 2029; initial interest at 2.25% per annum and adjusting every 5 years to the 5-year Constant Maturity Treasury rate plus 50 basis points. 5,525,000

Total Revenue Notes \$ 7,455,000

Current portion \$ 510,000

Non-current portion 6,945,000

\$ 7,455,000

**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. \$ 4,885,000

Current portion \$ 835,000

Non-current portion 4,050,000

\$ 4,885,000

City of Choctaw, Oklahoma  
Notes to Financial Statements  
For the Year Ended June 30, 2018

**NOTE 3 - DETAILED NOTES CONCERNING THE FUNDS - Continued**

***Business-type Activities Long-term Debt:***

At June 30, 2018, 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.	\$ 1,725,000
\$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.	3,085,000
\$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.	2,099,960
\$1,400,000 Clean Water SFR, Series 2017A loan payable to the OWRB dated February 23, 2017, payable in semi-annual principal installments of varying amounts beginning September 15, 2018 and maturing September 15, 2027. The loan has an interest rate of 2.20%; secured by a lien against gross utility revenues and a sales tax pledge.	1,400,000
\$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.	44,341



**City of Choctaw, Oklahoma  
Notes to Financial Statements  
For the Year Ended June 30, 2018**

**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. 1,153,102

\$144,000 Non-Recourse Promissory note to an Oklahoma corporation dated November 18, 2016 for the purchase of golf carts, payable in monthly of \$4,316, with the initial payment due December 15, 2016 and maturing Novemebr 15, 2019, inclusive of interest at 5%; secured by the golf carts. 70,689

Total Revenue Notes Payable	\$	9,578,091
Current portion	\$	581,272
Non-current portion		8,996,819
	\$	9,578,091

**Due to Depositors**

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

Current portion	\$	-
Non-current portion		246,089
Total Due to Depositors	\$	246,089

**Accrued Compensated Absences**

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

Governmental activities	\$	198,070
Business-type activities		29,451
Total Accrued Compensated Absences	\$	227,521

City of Choctaw, Oklahoma  
Notes to Financial Statements  
For the Year Ended June 30, 2018

**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, 2018:

	Beginning <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	Ending <u>Balance</u>	Amounts Due Within <u>One Year</u>
<b>Governmental activities</b>					
Capital Lease Obligations	\$ 32,756	-	28,025	4,731	4,731
General Obligation Bonds:					
Series 2009 Funding Bonds	690,000	-	95,000	595,000	95,000
Revenue Notes:					
Sales Tax Revenue Note - 2007	2,085,000	-	155,000	1,930,000	165,000
Sales Tax Revenue Note - 2014	5,850,000	-	325,000	5,525,000	345,000
Tax Increment Note (TIF) - 2016	5,700,000	-	815,000	4,885,000	835,000
Note Payable - BancFirst	750,000	-	750,000	-	-
Settlement Payable	400,000	-	210,000	190,000	190,000
Accrued compensated absences	212,042	-	13,972	198,070	19,807
Net Pension Liability	1,668,895	-	244,215	1,424,680	-
Total Governmental Activities	<u>17,388,693</u>	<u>-</u>	<u>2,636,212</u>	<u>14,752,481</u>	<u>1,654,538</u>
Unamortized discount/premium				<u>44,402</u>	
Net long-term debt				<u>14,796,883</u>	

**City of Choctaw, Oklahoma**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2018**

**NOTE 3 - DETAILED NOTES CONCERNING THE FUNDS - Continued**

	<u>Beginning</u>			<u>Ending</u>	<u>Amounts</u>
	<u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u>	<u>Due Within</u>
					<u>One Year</u>
<b>Business-type activities</b>					
Revenue Notes Payable:					
Utility & Sales Tax - Series 2013A	\$ 2,085,000	-	360,000	1,725,000	370,000
Utility & Sales Tax - Series 2013B	3,105,000	-	20,000	3,085,000	20,000
OWRB CWSFR Note - Series 2017	1,400,000	-	-	1,400,000	80,000
OWRB CWSFR Note - Series 2017A	366,464	1,733,496	-	2,099,960	-
OWRB CWSFR Note - Series 2017C	-	44,341	-	44,341	-
Note Payable - Golf course	1,211,984	-	58,882	1,153,102	61,895
Note Payable - Golf carts	117,662	-	46,973	70,689	49,377
Deposits subject to return	228,269	17,820	-	246,089	-
Accrued compensated absences	35,039	-	5,588	29,451	2,945
Total Business-type Activities	<u>8,549,418</u>	<u>1,795,657</u>	<u>491,443</u>	<u>9,853,632</u>	<u>584,217</u>
Unamortized bond premium/discount				<u>76,369</u>	
Net Long-Term Debt				<u>9,930,001</u>	

**Annual Debt Service Requirements**

The annual debt service requirements to maturity, including principal and interest, for long-term debt, with interest rates applicable at June 30, 2018, excluding accrued compensated absences, due to depositors, estimated claims liability, net pension liability and net OPEB obligation are as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2019	\$ 1,634,731	460,471	581,272	292,103
2020	1,505,000	420,914	561,374	275,360
2021	1,590,000	374,181	563,390	260,832
2022	1,640,000	323,703	576,889	246,105
2023	1,695,000	271,771	595,568	230,319
2024-2028	4,180,000	743,690	3,164,282	851,609
2029-2033	885,000	53,400	3,535,316	244,543
Totals	<u>\$ 13,129,731</u>	<u>2,648,130</u>	<u>9,578,091</u>	<u>2,400,871</u>

City of Choctaw, Oklahoma  
Notes to Financial Statements  
For the Year Ended June 30, 2018

**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, 2018, the remaining outstanding defeased bonds were as follows:

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

**Pledge of Future Revenues**

**Sales Tax Pledge** - The City has entered into a Sales Tax Agreements dated October 15, 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 \$19,891,254. Pledged sales tax received in the current year was \$2,978,448. Scheduled debt service payments on the 2007, 2013A, 2013B, 2014, 2017, 2017A and 2017C Revenue Notes of \$1,473,809 for the current fiscal year were 49.5% 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, 2018

**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 \$10,319,487. Water and sewer net revenues received in the current year were \$374,425. Debt service payments of \$685,805 for the current fiscal year were 183% 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, 2018**

**NOTE 3 - DETAILED NOTES CONCERNING THE FUNDS - Continued**

**Transfers:**

<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>	<u>Purpose of Transfer</u>
General Fund	Parks & Tourism Fund	124,654	Operating subsidy
General Fund	Capital Projects Fund	279,135	Operating subsidy
General Fund	Street & Alley Fund	498,418	Operating subsidy
General Fund	Dedicated Sales Tax Fund	2,288,513	Sales tax transfer
General Fund	Golf Course Fund	250,000	Operating subsidy
General Fund	Community Development	60,000	Operating subsidy
General Fund	Town Sq TIF Fund	1,059,339	Debt service payments
Dedicated Sales Tax Fund	Golf Course Fund	169,934	Debt service payments
Dedicated Sales Tax Fund	CUA Debt Service Fund	523,036	Debt service payments
Town Sq TIF Fund	General fund	230,000	Internal repayment
Town Sq TIF Fund	Dedicated Sales Tax Fund	207,445	Debt service payments
CUA Debt Service Fund	CUA Operating Fund	2,058,108	Capital assets
CUA Operating Fund	Community Development	15,000	Operating subsidy
CUA Operating Fund	CUA Debt Service Fund	83,992	Debt service payments
		<u>7,847,574</u>	

**Reconciliation to Fund Financial Statements:**

	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Net Transfers</u>
Governmental Funds	4,762,504	(5,690,474)	(927,970)
Proprietary Funds	3,085,070	(2,157,100)	927,970
	<u>7,847,574</u>	<u>(7,847,574)</u>	<u>-</u>

**Reconciliation to Statement of Activities:**

Net Transfers	<u>-</u>
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City of Choctaw, Oklahoma  
Notes to Financial Statements  
For the Year Ended June 30, 2018

**NOTE 3 - DETAILED NOTES CONCERNING THE FUNDS - Continued**

**Balances:**

<u>Payable Fund</u>	<u>Receivable Fund</u>	<u>Amount</u>	<u>Nature of Interfund Balance</u>
General Fund	Dedicated Sales Tax Fund	317,521	Sales tax transfer receivable
Dedicated Sales Tax Fund	Town Sq TIF Fund	741,489	Internal financing
		<u>1,059,010</u>	

Reconciliation to Fund Financial Statements:

	<u>Due To</u>	<u>Due From</u>	<u>Net Interfund Balance</u>
Governmental Funds	1,059,010	(1,059,010)	-
Proprietary Funds	-	-	-
	<u>1,059,010</u>	<u>(1,059,010)</u>	<u>-</u>

**Fund Balances and Net Position**

**Fund Balances**

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

	<u>General Fund</u>	<u>Dedicated Sales Tax Fund</u>	<u>Town Square TIF Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
<b>Fund Balances:</b>					
<b>Nonspendable:</b>					
Capital improvements	-	-	-	320,319	320,319
Debt service	-	2,036,699	839,878	25,379	2,901,956
Public safety	-	-	-	90,718	90,718
Economic development	-	-	-	32,432	32,432
Street	-	-	-	208,138	208,138
Parks and recreation	-	-	-	146,356	146,356
Cemetery	-	-	-	181,234	181,234
Subtotal Nonspendable	-	2,036,699	839,878	1,004,576	3,881,153
Unassigned (deficit):	1,524,550	-	-	-	1,524,550
<b>TOTAL FUND BALANCES</b>	<u>1,524,550</u>	<u>2,036,699</u>	<u>839,878</u>	<u>1,004,576</u>	<u>5,405,703</u>

**City of Choctaw, Oklahoma**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2018**

**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, 2018

**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, 2018 and 2016, the City's net assessed valuation of taxable real and personal property aggregated \$89,541,781 and \$86,556,605 while the property taxes levied per \$1,000 of net assessed valuation were \$1.40 and \$1.47, respectively.

**COMMITMENTS AND CONTINGENCIES**

**Commitments**

***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, 2018, the City has received \$3,544,301 in funding with the balance to be drawn as the project progresses. A summary of construction in progress as of June 30, 2018 is as follows:

	Construction In Progress	Total Project	Remaining To Complete
Choctaw Utilities Authority: Wastewater treatment plant	\$ 3,275,827	12,600,000	9,324,173
	<u>\$ 3,275,827</u>	<u>12,600,000</u>	<u>9,324,173</u>

**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.

City of Choctaw, Oklahoma  
Notes to Financial Statements  
For the Year Ended June 30, 2018

**NOTE 4. OTHER INFORMATION - Continued**

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

**EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS**

The City participates in three employee pension systems as follows:

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

***Oklahoma Police Pension and Retirement System (PPRS)***

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

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

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

City of Choctaw, Oklahoma  
Notes to Financial Statements  
For the Year Ended June 30, 2018

**NOTE 4. OTHER INFORMATION - Continued**

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

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

Survivor's benefits are payable in full to the participant's beneficiary upon the death of a retired participant. The beneficiary of any active participant killed in the line of duty is entitled to a pension benefit.

Contributions - The contributions requirements of the Plan are at an established rate determined by Oklahoma Statute and are not based on actuarial calculations. Employees are required to contribute eight percent (8%) of their annual pay. Participating cities are required to contribute thirteen percent (13%) of the employees' annual pay. Contributions to the pension plan from the City were \$81,797. In the government-wide Statement of Activities, revenue is recognized for the state's on-behalf contributions on an accrual basis of \$72,338. These on-behalf payments did not meet the criteria of a special funding situation.

Pension Liabilities/Asset, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2018, the City reported a liability of \$16,230 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2017. 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, 2017. Based upon this information, the City's proportion was 0.2110%.

City of Choctaw, Oklahoma  
Notes to Financial Statements  
For the Year Ended June 30, 2018

**NOTE 4. OTHER INFORMATION - Continued**

For the year ended June 30, 2018, the City recognized pension expense of \$99,122. At June 30, 2018, 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	\$ 815	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	120,886	-
Changes in proportion and differences between City contributions and proportionate share of contributions	1,055	-
City contributions during measurement period	-	-
City contributions subsequent to the measurement date	<u>89,423</u>	<u>-</u>
Total	<u>\$ 212,179</u>	<u>\$ -</u>

\$89,423 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, 2018. 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:	
2019	\$ 45,861
2020	45,861
2021	30,971
2022	63
2023	<u>-</u>
	<u>\$ 122,756</u>

City of Choctaw, Oklahoma  
Notes to Financial Statements  
For the Year Ended June 30, 2018

**NOTE 4. OTHER INFORMATION - Continued**

**Actuarial Assumptions** - The total pension liability was determined by an actuarial valuation as of July 1, 2017, using the following actuarial assumptions, applied to all prior periods included in the measurement:

Inflation:	3%
Salary increases:	4.5% to 17.0% averages, including inflation
Investment rate of return:	7.5% net of pension plan investment expense
Mortality rates:	Active employees (pre-retirement) RP-2000 Blue Collar Healthy Combined table with age set back 4 years with fully generational improvement using Scale AA.  Active employees (post retirement) and nondisabled pensioners: RP-2000 Blue Collar Healthy Combined table with fully generational improvement using Scale AA.  Disabled pensioners: RP-2000 Blue Collar Healthy Combined table with age set forward 4 years with fully generational improvement using Scale AA.

The actuarial assumptions used in the July 1, 2017, valuation was based on the results of an actuarial experience study for the period July 1, 2007 to June 30, 2012.

The long-term expected rate of return on pension plan investments was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2017, are summarized in the following table:

City of Choctaw, Oklahoma  
Notes to Financial Statements  
For the Year Ended June 30, 2018

**NOTE 4. OTHER INFORMATION - Continued**

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed income	4.51%
Domestic equity	6.62%
International equity	9.70%
Real estate	6.96%
Private equity	9.86%
Commodities	5.18%

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

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

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

	1% Decrease 6.5%	Current Discount Rate (7.5%)	1% Increase 8.5%
Employers' net pension liability(asset) \$	\$ 548,535	\$ 16,230	\$ (433,381)

City of Choctaw, Oklahoma  
Notes to Financial Statements  
For the Year Ended June 30, 2018

**NOTE 4. OTHER INFORMATION - Continued**

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

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

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

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

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

City of Choctaw, Oklahoma  
Notes to Financial Statements  
For the Year Ended June 30, 2018

**NOTE 4. OTHER INFORMATION - Continued**

Contributions - The contributions requirements of the Plan are at an established rate determined by Oklahoma Statute and are not based on actuarial calculations. Employees are required to contribute 9% of their annual pay. Participating cities are required to contribute 14% of the employees' annual pay. Contributions to the pension plan from the City were \$44,562. In the government-wide Statement of Activities, revenue is recognized for the state's on-behalf contributions on an accrual basis of \$98,696. These on-behalf payments did not meet the criteria of a special funding situation.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2018, the City reported a liability of \$1,408,450 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2017. 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, 2017. Based upon this information, the City's proportion was 0.111984%.

For the year ended June 30, 2018, the City recognized pension expense of \$155,667. At June 30, 2018, 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	\$ 188,145	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	39,249
Changes in proportion and differences between City contributions and proportionate share of contributions	10,440	-
City contributions during measurement date	-	835
City contributions subsequent to the measurement date	<u>47,248</u>	<u>-</u>
Total	<u>\$ 245,833</u>	<u>\$ 40,084</u>



**City of Choctaw, Oklahoma**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2018**

**NOTE 4. OTHER INFORMATION - Continued**

\$47,248 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, 2018. 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:

2019 \$	35,659
2020	46,243
2021	38,300
2022	14,469
2023	19,858
Thereafter	<u>3,972</u>
\$	<u>158,501</u>

Actuarial Assumptions - The total pension liability was determined by an actuarial valuation as of July 1, 2017, using the following actuarial assumptions, applied to all prior periods included in the measurement:

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

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

The actuarial assumptions used in the July 1, 2015, valuation was based on the results of an actuarial experience study for the period July 1, 2007 to June 30, 2012.

The long-term expected rate of return on pension plan investments was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015, are summarized in the following table:

City of Choctaw, Oklahoma  
Notes to Financial Statements  
For the Year Ended June 30, 2018

**NOTE 4. OTHER INFORMATION - Continued**

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed income	4.38%
Domestic equity	7.72%
International equity	9.70%
Real estate	6.96%
Other assets	5.75%

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:

	<u>1% Decrease (6.5%)</u>	<u>Current Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
Employers' net pension liability	\$ <u>1,847,680</u>	\$ <u>1,408,450</u>	\$ <u>1,036,213</u>

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](http://www.ok.gov/fprs).

City of Choctaw, Oklahoma  
Notes to Financial Statements  
For the Year Ended June 30, 2018

**NOTE 4. OTHER INFORMATION - Continued**

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

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

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

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

Funding Policy - The employee contributes 3% of compensation to the Plan, and the employer contributes 8% of employee compensation. Contributions to the Plan for the year ended June 30, 2018, for employees and employer were \$45,569 and \$121,808, respectively. For the year ended June 30, 2018, the City's covered payroll was \$1,522,606. Covered payroll refers to all compensation paid by the City of Choctaw to active employees covered by the Plan on which contributions are based.

City of Choctaw, Oklahoma  
Notes to Financial Statements  
For the Year Ended June 30, 2018

**NOTE 4. OTHER INFORMATION - Continued**

**Other Post-Employment Benefits**

*Plan Description:* City provides post-retirement benefit options for health care, prescription drug, dental and vision benefits for retired employees and their dependents that elect to make required contributions. The benefits are provided in accordance with State Law, police and firefighter's union contracts and the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA). The relationship for these benefits is not formalized in a contract or plan document, only a few sentences in the administrative policy. These benefits are considered for accounting purposes to be provided in accordance with a single employer substantive plan. A substantive plan is one in which the plan terms are understood by the City and plan members. This understanding is based on communications between the employers and plan member and the historical pattern of practice with regard to the sharing of benefit costs.

Substantially all of the government's employees may become eligible for those post-retirement benefits if they reach normal retirement age while working for the City. The plan is only provided for employees between the ages of 62 and 65. As of June 30, 2018, approximately no retired employees are receiving benefits under this plan.

*Funding Policy.* The contribution requirement of the City is an implicit subsidy. The implicit subsidy is not a direct payment from the employer on behalf of the member but rather stems from retiree contribution levels that are less than the claims cost at retiree ages. Since claims experience for employees and non-Medicare eligible retirees are pooled when determining premiums, these retired members pay a premium based on a pool of members that, on average, are younger and healthier. There is an implicit subsidy from the employee group since the premiums paid by the retirees are lower than they would have been if the retirees were insured separately. The subsidies are valued using the difference between the age-based claims costs and the premium paid by the retiree. The amount required to fund the implicit rate is based on projected pay-as-you-go financing requirements. For fiscal year 2018, the City contributed 0% to the plan for previously retired employees (0 retirees) and 0% of premiums on newly retired employees (0 retirees).

*Annual OPEB Cost and Net OPEB Obligation.* The City's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. GASB 45 requires entities with over 200 employees to have the actuarial valuation performed biennially. The City is not required to perform the actuarial valuation of the OPEB cost and related OPEB obligation for the year ended June 30, 2018 since no one is participating at this time.

City of Choctaw, Oklahoma  
Notes to Financial Statements  
For the Year Ended June 30, 2018

**NOTE 4. OTHER INFORMATION - Continued**

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

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

**NEW ACCOUNTING PRONOUNCEMENTS**

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

*GASB Statement No. 83, Asset Retirement Obligations.* This Statement addresses accounting practice issues that have been identified during implementation and application of certain GASB Statements. The Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits related to pensions and other postemployment benefits. This Statement is effective for periods beginning after June 15, 2018. The City has not yet determined the potential impact, if any, this statement could have on its financial statements.

*GASB Statement No. 84, Fiduciary Activities.* This Statement addresses accounting practice issues that have been identified during implementation and application of certain GASB Statements. The Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits related to pensions and other postemployment benefits. This Statement is effective for periods beginning after June 15, 2018. The City has not yet determined the potential impact, if any, this statement could have on its financial statements.

City of Choctaw, Oklahoma  
Notes to Financial Statements  
For the Year Ended June 30, 2018

GASB Statement No. 87, Leases. This Statement addresses accounting practice issues that have been identified during implementation and application of certain GASB Statements. The Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits related to pensions and other postemployment benefits. This Statement is effective for periods beginning after June 15, 2018. The City has not yet determined the potential impact, if any, this statement could have on its financial statements.

GASB Statement No. 88, *Debt Disclosure and Direct Borrowing*. This Statement addresses accounting practice issues that have been identified during implementation and application of certain GASB Statements. The Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits related to pensions and other postemployment benefits. This Statement is effective for periods beginning after June 15, 2018. The City has not yet determined the potential impact, if any, this statement could have on its financial statements.

## **REQUIRED SUPPLEMENTARY INFORMATION**

City of Choctaw, Oklahoma  
General Fund  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
Budget and Actual  
For the Year Ended June 30, 2018

		Budget			Variance with Final Budget Over (Under)
	Original	Revisions	Final	Actual	
<b>REVENUES</b>					
Taxes	\$ 6,757,043	510,690	7,267,733	7,260,389	(7,344)
Intergovernmental	137,657	3,709	141,366	136,395	(4,971)
Licenses and permits	199,725	(22,825)	176,900	190,609	13,709
Fines and forfeitures	141,500	750	142,250	147,283	5,033
Interest	-	1,260	1,260	1,351	91
Miscellaneous	89,176	6,116	95,292	115,590	20,298
Total revenues	<u>7,325,101</u>	<u>499,700</u>	<u>7,824,801</u>	<u>7,851,617</u>	<u>26,816</u>
<b>EXPENDITURES</b>					
General government:					
Administration	679,909	9,721	689,630	648,519	41,111
General government	119,323	4,652	123,975	108,884	15,091
Developmental services	201,828	(8,699)	193,129	184,430	8,699
Municipal court	98,379	(125)	98,254	92,811	5,443
Public safety:					
Police	1,470,897	(63,383)	1,407,514	1,324,365	83,149
Fire	804,030	(9,218)	794,812	774,637	20,175
Public works:					
Fleet	57,050	2,754	59,804	60,773	(969)
Culture and recreation:					
Parks	346,956	3,250	350,206	316,396	33,810
Senior center	6,090	6,188	12,278	10,108	2,170
Total expenditures	<u>3,784,462</u>	<u>(54,860)</u>	<u>3,729,602</u>	<u>3,520,923</u>	<u>208,679</u>
Excess (deficiency) of revenues over (under) expenditures	3,540,639	554,560	4,095,199	4,330,694	235,495
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers	<u>(3,786,152)</u>	<u>(537,190)</u>	<u>(4,323,342)</u>	<u>(4,330,059)</u>	<u>(6,717)</u>
Net change in fund balances	(245,513)	17,370	(228,143)	635	228,778
Fund balances - beginning	307,820	-	307,820	620,183	312,363
Fund balances - ending	<u>\$ 62,307</u>	<u>17,370</u>	<u>79,677</u>	<u>620,818</u>	<u>541,141</u>



**City of Choctaw, Oklahoma**  
**Notes to Required Supplemental Information**  
**On Budgetary Accounting and Control**  
**For the Year Ended June 30, 2018**

**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, 2018

***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, 2018, are as follows:

	General Fund
	<hr/>
Fund balances - budgetary basis, June 30, 2018	\$ 620,183
Current year revenue accruals	1,221,888
Current year expenditure accruals	-
Current year sales tax transfer accruals	<u>(317,521)</u>
Fund balances - fund financial statements, June 30, 2018	<u>\$ 1,524,550</u>
 Revenues - budgetary basis, June 30, 2018	 \$ 7,828,506
Current year revenue accruals	1,221,888
Prior year revenue accruals	<u>(1,198,777)</u>
Revenues - fund financial statements, June 30, 2018	<u>\$ 7,851,617</u>
 Expenditures - budgetary basis, June 30, 2018	 \$ 3,520,923
Current year expenditure accruals	-
Prior year expenditure accruals	<u>-</u>
Expenditures - fund financial statements, June 30, 2018	<u>\$ 3,520,923</u>

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

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
1. Employer's proportion of the net pension liability (asset)	0.174100%	0.216900%	0.205300%	0.211000%
2. Employer's proportionate share of the net pension liability (asset)	\$ (58,617)	\$ 8,842	\$ 314,405	\$ 16,230
3. Employer's covered-employee payroll	\$ 487,054	\$ 611,962	\$ 605,592	\$ 629,208
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%
5. Plan fiduciary net position as a percentage of the total pension liability	101.53%	99.82%	93.50%	99.68%

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

Data is reported is measured as of July 1, 2017.

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

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Statutorily required contribution	\$ 63,317	\$ 79,555	\$ 78,727	\$ 81,797
Contributions in relation to the statutorily required contribution	\$ (63,317)	\$ (79,555)	\$ (78,727)	\$ (81,797)
Contribution deficiency (excess)	\$ -	\$ -	\$ (0)	\$ -
City's covered-employee payroll	\$ 487,054	\$ 611,962	\$ 605,592	\$ 629,208
Contributions as a percentage of covered-employee payroll	13.00%	13.00%	13.00%	13.00%

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

Data is reported is measured as of July 1, 2017.

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

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
1. Employer's proportion of the net pension liability (asset)	0.107400%	0.105100%	0.110868%	0.111984%
2. Employer's proportionate share of the net pension liability (asset)	\$ 1,104,620	\$ 1,115,064	\$ 1,354,490	\$ 1,408,450
3. Employer's covered-employee payroll	\$ 286,764	\$ 287,036	\$ 310,121	\$ 318,300
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%
5. Plan fiduciary net position as a percentage of the total pension liability	68.12%	68.27%	64.87%	66.61%

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

Data is reported is measured as of July 1, 2017.

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

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Statutorily required contribution	\$ 40,147	\$ 40,185	\$ 43,417	\$ 44,562
Contributions in relation to the statutorily required contribution	\$ (40,147)	\$ (40,185)	\$ (43,417)	\$ (44,562)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
City's covered-employee payroll	\$ 286,764	\$ 287,036	\$ 310,121	\$ 318,300
Contributions as a percentage of covered-employee payroll	14.00%	14.00%	14.00%	14.00%

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

Data is reported is measured as of July 1, 2017.

## **OTHER SUPPLEMENTARY INFORMATION**

**City of Choctaw, Oklahoma**  
**Combining Balance Sheet - Nonmajor Governmental Funds**  
**June 30, 2018**

ASSETS	Special Revenue					Permanent Cemetery Perpetual Care	Debt Service Sinking Fund	Capital Projects			Total Nonmajor Governmental Funds
	Street & Alley	Parks and Tourism	Public Safety	Emergency Management	Industrial Park			Capital Projects	Community Development	Library Construction	
Cash and cash equivalents	\$ 196,405	149,021	89,647	1,071	32,432	181,234	25,379	250,622	44,816	24,881	995,508
Receivables, net	11,733	-	-	-	-	-	-	-	-	-	11,733
Due from other funds	-	-	-	-	-	-	-	-	-	-	-
TOTAL	208,138	149,021	89,647	1,071	32,432	181,234	25,379	250,622	44,816	24,881	1,007,241
LIABILITIES AND FUND BALANCES											
Liabilities:											
Accounts payable	-	-	-	-	-	-	-	-	-	-	-
Deposits subject to refund	-	2,665	-	-	-	-	-	-	-	-	2,665
Total liabilities	-	2,665	-	-	-	-	-	-	-	-	2,665
Fund balances:											
Reserved for:											
Restricted	208,138	146,356	89,647	1,071	32,432	181,234	25,379	250,622	44,816	24,881	1,004,576
Assigned	-	-	-	-	-	-	-	-	-	-	-
Unassigned	-	-	-	-	-	-	-	-	-	-	-
Total fund balances	208,138	146,356	89,647	1,071	32,432	181,234	25,379	250,622	44,816	24,881	1,004,576
TOTAL	\$ 208,138	149,021	89,647	1,071	32,432	181,234	25,379	250,622	44,816	24,881	1,007,241

**City of Choctaw, Oklahoma**  
**Statement of Revenues, Expenses and Changes in Fund Balance - Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2018**

	Special Revenue				Permanent	Debt Service	Capital Projects			Total
	Street & Alley	Parks and Tourism	Public Safety	Emergency Management	Industrial Park		Cemetery Perpetual Care	Sinking Fund	Capital Projects	
<b>REVENUES</b>										
Taxes	\$ 114,944	-	-	-	-	-	-	125,083	-	240,027
Intergovernmental	-	-	8,055	-	-	-	-	-	-	8,055
Charge for services	-	63,128	11,792	-	6,300	-	20,711	-	36,925	138,856
Interest	-	-	-	-	-	-	-	5	522	527
Miscellaneous	6,627	3,951	36,951	-	-	-	495	-	3,333	51,357
<b>Total revenues</b>	<b>121,571</b>	<b>67,079</b>	<b>56,798</b>	<b>-</b>	<b>6,300</b>	<b>-</b>	<b>21,206</b>	<b>125,088</b>	<b>40,780</b>	<b>438,822</b>
<b>EXPENDITURES</b>										
Current:										
General government	-	-	-	-	-	-	-	-	-	56,140
Public safety	-	-	25,336	128,554	-	-	-	-	73,557	227,447
Public works	494,468	-	-	-	-	-	-	-	71,166	660,979
Cultural and recreational	-	176,388	-	-	-	-	18,951	-	113,242	308,581
Debt service	-	-	-	-	-	-	-	126,750	-	126,750
<b>Total expenditures</b>	<b>494,468</b>	<b>176,388</b>	<b>25,336</b>	<b>128,554</b>	<b>-</b>	<b>-</b>	<b>18,951</b>	<b>126,750</b>	<b>71,166</b>	<b>1,379,897</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>(372,897)</b>	<b>(109,309)</b>	<b>31,462</b>	<b>(128,554)</b>	<b>6,300</b>	<b>-</b>	<b>2,255</b>	<b>(1,662)</b>	<b>(71,166)</b>	<b>(941,075)</b>
<b>OTHER FINANCING SOURCES (USES)</b>										
Transfers in	498,418	124,654	-	-	-	-	-	-	75,000	977,207
Transfers out	-	-	-	-	-	-	-	-	-	-
<b>Total other financing sources and uses</b>	<b>498,418</b>	<b>124,654</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>75,000</b>	<b>977,207</b>
<b>Net change in fund balances</b>	<b>125,521</b>	<b>15,345</b>	<b>31,462</b>	<b>(128,554)</b>	<b>6,300</b>	<b>-</b>	<b>2,255</b>	<b>(1,662)</b>	<b>3,834</b>	<b>36,132</b>
<b>Fund balances-beginning</b>	<b>82,617</b>	<b>131,011</b>	<b>58,185</b>	<b>129,625</b>	<b>26,132</b>	<b>-</b>	<b>178,979</b>	<b>27,041</b>	<b>40,982</b>	<b>968,444</b>
<b>Fund balances-ending</b>	<b>\$ 208,138</b>	<b>146,356</b>	<b>89,647</b>	<b>1,071</b>	<b>32,432</b>	<b>-</b>	<b>181,234</b>	<b>25,379</b>	<b>44,816</b>	<b>1,004,576</b>

City of Choctaw, Oklahoma  
Debt Service Coverage Schedule  
Series 2013A, 2013B and OWRB Series 2017, 2017A and 2017C  
*For the Year Ended June 30, 2018*

Gross Revenue Available For Debt Service:

Pledged sales tax (2 cents)	\$ 2,978,448
System-wide gross revenues (Water and Sewer)	<u>1,477,375</u>
Total Gross Revenues Available	<u>4,455,823</u>
System-wide operating expense - Exclusive of capital improvements, debt service and depreciation	<u>(1,102,950)</u>
Net Revenues Available for Debt Service	<u><u>\$ 5,558,773</u></u>

Maximum Annual Debt Service Requirements:

Revenue notes - Series 2013A	411,810
Revenue notes - Series 2013B	412,000
Revenue note - OWRB Series 2017A	<u>219,380</u>
Maximum annual debt service	<u><u>\$ 1,043,190</u></u>
Coverage	<u><u>5.33</u></u>
Coverage requirement	<u><u>1.25</u></u>



**DILLON & ASSOCIATES, P.C.**

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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, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 15, 2018.

**Internal Control Over Financial Reporting**

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

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

***Dillon & Associates, P.C.***

Midwest City, Oklahoma  
October 15, 2018

City of Choctaw, Oklahoma  
Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2018

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS - THROUGH GRANTOR NUMBER	FEDERAL EXPENDITURES
<b>FEDERAL ASSISTANCE</b>			
<u>U.S. Department of Transportation</u>			
Passed through Oklahoma Dept. of Public Safety:			
Oklahoma Highway Safety Office	20.600	AL-17-03-02-01	8,055
Total Federal Assistance			\$ <u>8,055</u>

**Footnotes to Schedule of Expenditures of Federal Awards:**

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