

## DILLON & ASSOCIATES, P.C.

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### COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

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

Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, *Government Audit Standards* and Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter dated February 5, 2018. Professional standards also require that we communicate to you the following information related to our audit.

#### Significant Audit Findings

##### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements. The Government has adopted Governmental Accounting Standards Board Statements (GASBS) No.74, 77 and 80, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, Tax Abatement Disclosures and Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14* are effective for years beginning July 1, 2016. We noted no transactions entered into by the City during the year where there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The most sensitive estimates affecting the City's financial statements were:

- The useful lives of its capital assets. Useful lives are estimated based on the expected length of time during which the asset is able to deliver a given level of service.
- Net pension liability, and related deferred outflows of resources and deferred inflows of resources. The estimate is based on an actuarial report.
- Management's estimate of allowance for uncollectible receivable balances is based on past experience and future expectation for collection of various account balances.

- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the basic financial statements taken as a whole and free from bias.

Disclosures in the financial statements are neutral, consistent and clear.

### *Accounting Standards and Regulatory Updates*

#### Accounting Standards

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, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible asset. A government that has legal obligations to perform future asset retirement activities related to its tangible assets should recognize a liability based on the guidance in the Statement. This Statement is effective for periods beginning after June 15, 2018. The City has not yet determined the potential impact, if any, this statement could have on its financial statements.

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

GASB Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. The Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows or resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under the Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This Statement is effective for periods beginning after December 15, 2019. The City has not yet determined the potential impact, if any, this statement could have on its financial statements.

GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. The objective of this Statement is to improve the information that is

disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The Statement requires that additional essential information related to debt be disclosed in notes to financial statement, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. 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.

The City is evaluating the impact the above GASBs will have on its financial reporting.

#### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### *Uncorrected and Corrected Misstatements*

Professional standards require that the auditor accumulate all known and likely misstatements identified during the audit, other than those the auditors believes to be trivial. The adjustments identified during the audit have been communicated to management and management has posted all adjustments.

In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in aggregate, to the financial statements taken as a whole.

#### *Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

#### *Management Representations*

We have requested certain written representations from management that are included in the management representation letter dated as of the date of the audit report.

#### *Management Consultations with Other Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accounting to check with us to determine that the consultant has all of the relevant facts. To our knowledge, there were no such consultations with other accountants.

### *Other Audit Finding or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### *Other Reports*

Other information that is required to be reported to you is included in the: 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*. Please read all information included in this report to ensure you are aware of relevant information.

### *Report on Required Supplemental Information*

With respect to the required supplementary information accompanying the financial statements, which includes management's discussion and analysis, budgetary comparison schedules, retirement system information and other postemployment benefit information, we 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.

### *Report on Other Supplementary Information*

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

### **Other Information in Documents Containing Audited Financial Statements**

Our responsibility for the supplementary information accompanying the financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements taken as whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole. We made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the governing body of the City of Choctaw and is not intended to be and should not be used by anyone other than these specified parties.

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

Midwest City, Oklahoma  
October 15, 2018