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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, 2017. 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

GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans. This Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local government employers. GASB Statement No. 75 establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources and expense/expenditures. For defined benefit OPEB, GASB Statement No. 75 identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed. This standard is effective for financial reporting periods beginning after June 15, 2017. Earlier application is encouraged.

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

GASB Statement No. 82, Pensions Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73. This Statement addresses issues regarding the presentation of payroll-related measures in required supplementary information, the selections of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes and classification of payment made by employers to satisfy employee (plan member) contribution requirements. This Statement is effective for periods beginning after June 15, 2017, except the application date to the first reporting period in which the measurement date of the pension liability is on or after June 15, 2018.

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.

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.

GASB Statement No. 85, *Omnibus*. This Statement addresses accounting practice issues that have been identified during implementation and application of certain GASB Statements. The Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits related to pensions and other postemployment benefits. This Statement is effective for periods beginning after June 15, 2017.

The City 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
November 8, 2017