

CITY OF
DUNCAN, OKLAHOMA



ANNUAL FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

AS OF AND FOR THE FISCAL YEAR
ENDED DECEMBER 31, 2014

THE CITY OF DUNCAN, OKLAHOMA

Annual Financial Statements
And Independent Auditor's Report

As of and For the Fiscal Year Ended
December 31, 2014

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Independent Auditor's Report

RSM US LLP

Honorable Mayor and City Council
City of Duncan, Oklahoma
Duncan, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Duncan, Oklahoma (the City), as of and for the year ended December 31, 2014, 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 did not audit the financial statements of the Duncan Industrial Authority and Duncan Area Economic Development Foundation, Inc., discretely presented component units of the City, which represent 99.8%, 99.8% and 99.9%, respectively, of the assets, net position, and revenues of the aggregate discretely presented component units. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Duncan Industrial Authority and Duncan Area Economic Development Foundation, Inc. are based solely on the reports of the other auditors.

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 from material misstatement. The financial statements of Duncan Area Economic Development Foundation, Inc. were audited by other auditors and were not audited in accordance with *Government Auditing Standards*.

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 entity'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 entity'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, based on our audit and the report of other auditors, 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 units, each major fund, and the aggregate remaining fund information of the City of Duncan, Oklahoma, as of December 31, 2014, 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.

Emphasis of Matter

As discussed in Note III.H to the financial statements, the City restated the beginning net position for the Business-Type Activities and the Duncan Public Utilities Authority Enterprise Fund to record utility inventory as of January 1, 2013, in accordance with generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison information, other post-employment benefits (OPEB) schedules, and pension plan schedules, 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 and other auditors 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, 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 combining and individual nonmajor fund financial statements, and the other schedules, as presented in the Supplementary Information section of the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit procedures performed and the report of the other auditors, the combining and individual nonmajor fund financial statements and other schedules are 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 June 27, 2016 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.

RSM US LLP

Oklahoma City, Oklahoma
June 27, 2016

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Management's Discussion and Analysis

Our discussion and analysis of the City of Duncan's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2014. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- For the fiscal year ended December 31, 2014, the City's total net position increased by \$1,428,654 or 1.72% from the prior year.
- In the City's governmental activities, program expenses exceeded program revenues by \$20,540,590, however, the governmental activities total net position increased by \$2,204,235 for the fiscal year due to general revenues and transfers from the business-type activities.
- In the City's business-type activities, such as utilities, program revenues exceeded program expenses by \$1,463,136. The business-type activities total net position decreased by \$775,581 for the fiscal year.
- At December 31, 2014, the General Fund reported an unassigned fund balance deficit of \$4,887,884, a reduction in the size of the unassigned fund balance deficit of the prior year of \$1,857,487.
- For budgetary reporting purposes, the General Fund reported revenues over estimates of \$1,875,307 or 17.4%, while expenditures were under the final appropriations by \$354,699 or 2.3%.
- The city's single employer pension plan implemented GASB Statement 67, *Financial Reporting for Pension Plans*. Separate financial statements for the Plan were not issued.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements presented herein include all of the activities of the City of Duncan (the "City") and its component units using the integrated approach as prescribed by Governmental Accounting Standards Board (GASB) Statements No. 14, 34, 39, and 61. Included in this report are governmental-wide statements for each of three categories of activities – governmental, business-type, and discretely presented component units. 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 activities separately and combined. These statements include all assets of the City (including infrastructure capital assets) and deferred outflows of resources, as well as all liabilities (including all long-term debt) and deferred inflows of resources.

About the City

The City of Duncan is an incorporated municipality with a population of approximately 23,000 located in southwestern Oklahoma. The City operates under a council-manager form of government with a charter that provides for three branches of government.

- Legislative – the governing body includes an elected five-member City Council and Mayor
- Executive – the City Manager is the Chief Executive Officer and is appointed by the City Council
- Judicial – the Municipal Judge is a practicing attorney appointed by the City Council

The City's Financial Reporting Entity

This annual report includes all activities for which the City Council of the City of Duncan is fiscally responsible. These activities are operated within several separate legal entities that are reported together to make up the City's financial reporting entity.

The City's financial reporting entity includes the City of Duncan, two blended component units, and three discretely presented component units.

Primary Government:

The City of Duncan – incorporated municipality that operates the public safety, health and welfare, streets and highways, parks and recreation, and administrative activities

Blended Component Units:

Duncan Utility Authority (DUA) – public trust that operates the electric, water, wastewater, solid waste/sanitation, airport and lake services of the City.

Duncan Economic Development Trust Authority – public trust that accounts for sales tax restricted for the promotion of economic development.

Discretely Presented Component Unit (separate legal entities for which the City Council is fiscally responsible, but appoints a separate governing body):

Duncan Industrial Authority (DIA) - created to finance, promote, develop and maintain industry within the City of Duncan and the surrounding area. The DIA issued separate financial statements, which are available by contacting that entity at Box 1468, Duncan, OK 73534. The DIA fiscal year is December 31.

Duncan Hospital Authority (DHA) - created to provide financing for physical plant facilities, improvements, equipment, and medical services for the purpose of providing or improving health care within the City of Duncan. The Authority does not issue separate financial statements.

Duncan Area Economic Development Foundation (DAEDF) - created as a non-profit corporation December 19, 1954 to promote industry development and job creation within the City and surrounding area. A majority of the Foundation revenues are derived from sales tax proceeds, which are passed through the Duncan Economic Development Trust Authority (DEDTA). The DAEDF issued separate financial statements, which are available by contacting that entity at Box 1051, Duncan, OK 73534.

Using This Annual Report

This annual report is presented in a format that substantially meets the presentation requirements of the Governmental Accounting Standards Board (GASB) in accordance with generally accepted accounting principles. The presentation includes financial statements that communicate the City's financial condition and changes therein at two distinct levels:

- **The City as a Whole** (a government-wide presentation)
- **The City's Funds** (a presentation of the City's major and aggregate non-major funds)

The City's various government-wide and fund financial statements are presented throughout this annual report and are accompanied by:

- **Management's Discussion and Analysis** – that provides useful analysis that facilitates a better understanding of the City's financial condition and changes therein.
- **Footnotes** - that elaborate on the City's accounting principles used in the preparation of the financial statements and further explain financial statement elements.
- **Supplemental Schedules** – that provide additional information about specified elements of the financial statements, such as budgetary comparison information, combining non-major fund schedules, and information related to the City's participation in pension systems and other post-employment benefit plans.

Reporting the City as a Whole

The Statement of Net Position and the Statement of Activities

One of the most frequently asked questions about the City's finances is, "Has the City's overall financial condition improved, declined or remained steady over the past year?" 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 that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two government-wide statements report the City's net position and changes in them from the prior year. You can think of the City's net position – the difference between assets, deferred outflows, liabilities, and deferred inflows – as one way to measure the City's financial condition, or position. Over time, increases or decreases in the City's net position are one indicator of whether its financial health is improving, deteriorating, or remaining steady. However, you must consider other nonfinancial 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 and performance of the City.

As mentioned above, in the Statement of Net Position and the Statement of Activities, we divide the City into three kinds 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 charges a fee to customers to help cover all or most of the cost of certain services it provides. The City's water, wastewater, electric, airport, lake and sanitation activities are reported here.
- Discretely- presented component units -- Accounts for various activities related to industrial development and hospital development.

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. Some funds are required to be established by State law and by bond covenants. However, the City Council 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.

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 und 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. Proprietary funds are reported in the same way in that all activities are reported in the Statement of Net Position, the Statement of Revenues, Expenses and Changes in Fund Net Position and Statement of Cash Flows. In fact, the City's enterprise funds are essentially the same as the business-type activities that the City reports in the government-wide statements but provide more detail and additional information, such as cash flows.

Fiduciary funds - When the City is responsible for assets that – because of a trust arrangement or other fiduciary requirement – can be used only for trust beneficiaries or others parties, these activities are reported as fiduciary funds, such as the Employee Retirement Trust Fund. The City is responsible for ensuring that the assets reported in these funds are used for their intended purpose. All of the City's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. These activities are excluded from the City's government-wide financial statements because the City cannot use these assets to finance operations.

**CITY OF DUNCAN, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended December 31, 2014**

A FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Position

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$85,231,489 at the close of the most recent fiscal year.

**TABLE 1
NET POSITION (In Thousands)**

	Governmental Activities		% Inc. (Dec.)	Business-Type Activities		% Inc. (Dec.)	Total		% Inc. (Dec.)
	2014	2013		2014	Restated, 2013		2014	Restated, 2013	
Current assets	\$ 17,638	\$ 13,294	33%	\$ 19,299	\$ 20,461	-6%	\$ 36,937	\$ 33,755	9%
Capital assets, net	50,099	53,016	-6%	62,499	65,378	-4%	112,598	118,394	-5%
Total assets	<u>67,737</u>	<u>66,310</u>	2%	<u>81,798</u>	<u>85,839</u>	-5%	<u>149,535</u>	<u>152,149</u>	-2%
Current liabilities	3,761	3,748	0%	5,077	5,604	-9%	8,838	9,352	-5%
Non-current liabilities	9,938	10,503	-5%	45,084	47,774	-6%	55,022	58,277	-6%
Total liabilities	<u>13,699</u>	<u>14,251</u>	-4%	<u>50,161</u>	<u>53,378</u>	-6%	<u>63,860</u>	<u>67,629</u>	-6%
Net position									
Net investment capital assets	46,690	48,199	-3%	18,428	18,574	-1%	65,118	66,773	-2%
Restricted	21,147	18,488	14%	8,182	7,335	12%	29,329	25,823	14%
Unrestricted (deficit)	(13,799)	(14,628)	-6%	5,027	6,552	-23%	(8,772)	(8,076)	9%
Total net position	<u>\$ 54,038</u>	<u>\$ 52,059</u>	4%	<u>\$ 31,637</u>	<u>\$ 32,461</u>	-3%	<u>\$ 85,675</u>	<u>\$ 84,520</u>	1%

The largest portion of the City's net position reflects its net investment capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that are still outstanding. For 2014, the net investment in capital assets amounted to \$65,118,049. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in 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 major portion of the City's net position, \$29,329,484 also represents resources that are subject to external restrictions on how they may be used.

Explanations of significant changes displayed in Table 1 are as follows:

Governmental Activities:

Current assets – Increase of \$4.3 million (33%) due to an increase in restricted cash and investments related to sales tax for capital improvements and economic development.

Net Position, restricted – Increase of \$2.0 million (4%) due to an increase in funds restricted for capital improvements and economic development and a slight improvement in the overall net position.

CITY OF DUNCAN, OKLAHOMA
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Changes in Net Position

For the year ended December 31, 2014, net position of the primary government changed as follows:

TABLE 2
CHANGES IN NET POSITION (In Thousands)

	Governmental Activities		% Inc. (Dec.)	Business-Type Activities		% Inc. (Dec.)	Total		% Inc. (Dec.)
	2014	2013		2014	Restated,		2014	Restated,	
					2013			2013	
Revenues									
Charges for service	\$ 1,504	\$ 972	55%	\$ 30,590	\$ 29,165	5%	\$ 32,094	\$ 30,137	6%
Operating grants and contributions	1,431	1,529	-6%	-	-	-	1,431	1,529	-6%
Capital grants and contributions	-	-	-	74	1,093	-93%	74	1,093	-93%
Taxes	17,675	16,617	6%	-	-	-	17,675	16,617	6%
Intergovernmental revenue	526	349	51%	-	-	-	526	349	51%
Investment income	633	(570)	211%	1,468	(991)	248%	2,101	(1,561)	-235%
Miscellaneous	63	24	163%	141	171	-18%	204	195	5%
Total revenues	21,831	18,921	15%	32,273	29,438	10%	54,104	48,359	12%
Expenses									
General government	4,516	3,680	23%	-	-	-	4,516	3,680	23%
Public safety	10,857	11,140	-3%	-	-	-	10,857	11,140	-3%
Streets	3,839	4,057	-5%	-	-	-	3,839	4,057	-5%
Culture and recreation	1,669	1,781	-6%	-	-	-	1,669	1,781	-6%
Cemetery	424	446	-5%	-	-	-	424	446	-5%
Community development	878	863	2%	-	-	-	878	863	2%
Economic development	1,312	786	67%	-	-	-	1,312	786	67%
Interest on long-term debt	205	226	-9%	-	-	-	205	226	-9%
Water	-	-	-	6,033	7,044	-14%	6,033	7,044	-14%
Wastewater	-	-	-	2,155	2,186	-1%	2,155	2,186	-1%
Sanitation	-	-	-	4,153	3,920	6%	4,153	3,920	6%
Electric	-	-	-	16,080	15,156	6%	16,080	15,156	6%
Airport	-	-	-	269	282	-5%	269	282	-5%
Lake	-	-	-	559	709	-21%	559	709	-21%
Total expenses	23,700	22,979	3%	29,249	29,297	0%	52,949	52,276	-1%
Excess (deficiency) before transfers	(1,869)	(4,058)	-54%	3,024	141	2045%	1,154	(3,917)	-129%
Transfers	3,848	2,063	87%	(3,848)	(2,063)	87%	-	-	
Change in net position	1,979	(1,995)	-199%	(824)	(1,922)	-57%	1,154	(3,917)	-129%
Beginning net position, restated	52,059	54,054	-4%	32,461	34,383	-6%	84,520	88,437	-4%
Ending net position	\$ 54,038	\$ 52,059	4%	\$ 31,637	\$ 32,461	-3%	\$ 85,674	\$ 84,520	1%

Explanations of significant changes in Table 2 are as follows:

Governmental Activities:

Charges for Services – Increase of \$0.4 million (55%) due to an increase in court fines assessed. Court fines assessed increased due to the number of tickets written related to violations for the outdoor watering ban.

Interest on investments – Increase of \$1.2 million (211%) due to capital gains on investments.

Economic Development – Increase of \$0.5 million (67%) due to increases in economic development incentives paid.

Transfers – Increase of \$1.8 million (87%) due to increase transfers from the DUA for operational costs.

Business-Type Activities:

Capital grants and contributions – Decrease of \$1.0 million (93%) due to a one time donation in the prior year for the installation of a water line.

Interest on investments – Increase of \$2.4 million (248%) due to capital gains on investments.

Water operations – Decrease of \$1.0 million (14%) due to a decrease in operational cost. The city is in a severe drought and water usage is restricted city wide.

Transfers – Increase of \$1.8 million (87%) due to increase of transfers to the general fund for operations.

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, Expenses, and Changes in Fund Balance. 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 the 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.

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TABLE 3
Net Revenue (Expense) of Governmental Activities
(In Thousands)

	Total Expense of Services		% Inc. (Dec.)	Net Revenue (Expense) of Services		% Inc. (Dec.)
	<u>2014</u>	<u>2013</u>		<u>2014</u>	<u>2013</u>	
General government	\$ 4,516	\$ 3,680	23%	(\$4,372)	\$ (3,572)	22%
Public safety	10,857	11,140	-3%	(8,570)	(9,227)	-7%
Streets	3,839	4,057	-5%	(3,581)	(3,828)	-6%
Culture, parks and recreation	1,669	1,781	-6%	(1,607)	(1,737)	-7%
Cemetery	424	446	-5%	(327)	(365)	-10%
Community development	878	863	2%	(800)	(746)	7%
Economic development	1,312	786	67%	(1,303)	(776)	68%
Interest on long-term debt	205	226	9%	(205)	(226)	-9%
Total	<u>\$ 23,700</u>	<u>\$ 22,979</u>	3%	<u>(\$20,766)</u>	<u>\$ (20,477)</u>	1%

For the year ended December 31, 2014 total expenses for governmental activities amounted to \$23.7 million which was an increase from the prior year of 3%. See Table 2 above for explanations of changes.

Business-type Activities

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

	Total Expense of Services		% Inc. Dec.	Net Revenue (Expense) of Services		% Inc. Dec.
	<u>2014</u>	Restated <u>2013</u>		<u>2014</u>	Restated <u>2013</u>	
Water	\$ 6,033	\$ 7,044	-14%	\$ (537)	\$ (101)	432%
Wastewater	2,155	2,186	-1%	(126)	(130)	-3%
Sanitation	4,153	3,920	6%	(501)	(606)	-17%
Electric	16,080	15,156	6%	3,214	2,632	22%
Airport	269	282	-5%	(208)	(246)	-15%
Lake	559	709	-21%	(427)	(588)	-27%
Total	<u>\$ 29,249</u>	<u>\$29,297</u>	0%	<u>\$ 1,415</u>	<u>\$ 961</u>	47%

The City's business-type activities include utility services for water, electric, wastewater, and sanitation.

In reviewing the business-type activities net (expense)/revenue, the following highlights should be noted:

- Total business-type activities reported net revenues of \$1,414,686 for the year ended December 31, 2014.

- Electric was the only utility that revenues exceeded operational cost.

A FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As the City completed its 2014 fiscal year, the governmental funds reported a combined fund balance of \$16.2 million, or a 36.4% increase of \$4,309,211, mainly due to transfers from the enterprise funds for operations and an increase in restricted sales tax monies for economic development and capital improvements. The enterprise funds reported combined net position of \$31.9 million, or a 2.8% decrease from 2013, mainly related to transferring funds to governmental funds for operations and a decrease in lake and water revenues due to the drought.

General Fund Budgetary Highlights

For budgetary reporting purposes, the General Fund reported revenues over estimates of \$1,875,307 or 17.4%, while expenditures were under the final appropriations by \$354,699 or 2.3%. Transfers out of the General Fund exceeded the appropriated amounts by \$289,872.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of December 31, 2014, the City had \$113 million invested in capital assets, net of depreciation, including police and fire equipment, buildings, park facilities, electrical infrastructure, water lines and sewer lines, along with other capital (See table below). This represents a net decrease of \$5.8 million or 4.9% over last year.

TABLE 5
Capital Assets
(In Thousands)
(Net of accumulated depreciation)

	Governmental		Business-Type		Total	
	<u>Activities</u>		<u>Activities</u>			
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Land	\$ 1,209	\$ 1,209	\$ 359	\$ 350	1,568	\$ 1,559
Buildings	12,387	12,919	10,699	11,381	23,086	24,300
Machinery, furniture and equipment	2,940	3,048	1,166	1,006	4,106	4,054
Infrastructure	33,369	35,798	41,639	42,629	75,008	78,427
Water rights	-	-	8,386	8,619	8,386	8,619
Construction in progress	194	42	249	1,393	443	1,435
Totals	<u>\$ 50,099</u>	<u>\$ 53,016</u>	<u>\$ 62,498</u>	<u>\$ 65,378</u>	<u>\$ 112,597</u>	<u>\$ 118,394</u>

This year's more significant capital asset additions included:

Douglas Park Splash Pad	\$176,500
Emergency Sirens	\$39,390
Street Projects	\$83,988
Criminal Justice Complex Improvements	\$109,569
Halco Water Project	\$1,687,782

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See Note III. D. to the financial statements for more detail information on the City’s capital assets and changes therein.

Long- Term Debt

At year-end, the City had \$49.2 in long-term debt outstanding which represents a \$4.2 million or 7.8% decrease from the prior year. The City’s changes in long-term debt by type of debt are as follows:

TABLE 6
Long-Term Debt
(In Thousands)

	<u>Governmental</u> <u>Activities</u>		<u>Business-Type</u> <u>Activities</u>		<u>Total</u>		<u>Total</u> <u>Percentage</u> <u>Change</u>
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2013-2014</u>
Accrued absences	\$ 1,446	\$ 1,493	\$ 289	\$ 288	\$ 1,735	\$ 1,781	-2.6%
Notes payable	3,095	4,245	44,071	46,804	47,166	51,049	-7.6%
Capital leases	314	572	-	-	314	572	-45.1%
Totals	\$ 4,855	\$ 6,310	\$ 44,360	\$ 47,092	\$ 49,215	\$ 53,402	-7.8%

See Note III. E. to the financial statements for more detail information on the City’s long-term debt and changes therein.

Economic Factors and Next Year’s Budget

Severe draughts occurred in 2014 in Southwestern Oklahoma including the City of Duncan, which reduced lake/water supply levels to critical stages the city has implemented stage five rationing with no outside watering. One the of city’s main sources of revenue is water and the draught continued to have a negative effect on water sales and overall operations.

The calendar Year 2015 budget ended with minor amendments and supplements to complete the year within budget. The city continued to move on certain capital improvement projects with improvements in the electric system, street improvements completed and continuing to look at water supply options. The water restrictions were lifted in 2015 due to the significant rainfall. However, increase in water sales was not significant due to the amount of rainfall deterring outside watering.

The General Fund still struggles to meet its operational needs without a significant transfer from the DPUA. Sales tax collection remained level. The City did proceed with pension plan changes to reduce long term liability. The health plan is being addressed to move from a self-funded plan to a fully insured plan based upon month premiums. There were no across the board salary increases in 2015

The 2016 Budget is very similar to 2015 Budget. No across the board salary increases were given. The budget includes a change in health care cost from a self-insured plan to a fully insured plan based upon monthly premiums. The city feels making the changes in the retirement plan and the health care plan is a step toward addressing the negative long term impact of the plans on the budget.

Contacting the City's Financial Management

This report is designed to provide our citizens, taxpayers, customers and creditors with an understanding of the City's finances and to demonstrate the City's accountability for the resources it receives. If you have questions about this report or need additional financial information, contact:

City of Duncan
PO Box 969
Duncan OK 73534

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BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE

CITY OF DUNCAN, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended December 31, 2014

Statement of Net Position – December 31, 2014

	Governmental	Business-type		Aggregate
	Activities	Activities	Total	Discretely
				Presented
				Component Units
ASSETS				
Cash and cash equivalents	\$ 12,791,443	\$ 240,652	\$ 13,032,095	\$ 2,566,234
Investments	6,042,406	1,002,113	7,044,519	3,526,791
Interest receivable	-	-	-	7,497
Accounts receivable, net of allowance	709,952	3,810,134	4,520,086	83,901
Other receivable	-	-	-	1,573
Internal balances	(3,907,337)	3,907,337	-	-
Due from other governmental agencies	2,002,255	25,642	2,027,897	-
Inventories	-	735,823	735,823	919,547
Prepaid items	-	-	-	35,000
Cash and cash equivalents, restricted	-	2,251,298	2,251,298	125,481
Investments, restricted	-	7,326,384	7,326,384	-
Capital assets:				
Land and construction in progress	1,402,682	607,772	2,010,454	-
Other capital assets, net of depreciation	48,695,943	61,890,983	110,586,926	6,632,492
Total Assets	<u>67,737,344</u>	<u>81,798,138</u>	<u>149,535,482</u>	<u>13,898,516</u>
LIABILITIES				
Accounts payable and accrued expenses	912,119	1,561,519	2,473,638	126,633
Accrued interest payable	10,884	382,116	393,000	11,419
Claims payable	1,208,790	-	1,208,790	-
Unearned income	-	124,980	124,980	-
Long-term liabilities				
Due within one year	1,629,178	3,008,166	4,637,344	358,446
Due in more than one year	9,937,993	45,084,092	55,022,085	2,556,083
Total liabilities	<u>13,698,964</u>	<u>50,160,873</u>	<u>63,859,837</u>	<u>3,052,581</u>
NET POSITION				
Net investment in capital assets	46,689,845	18,428,204	65,118,049	7,552,039
Restricted for:				
Debt service	100,354	8,182,067	8,282,421	-
Public safety	302,846	-	302,846	-
Capital projects	8,470,047	-	8,470,047	-
Economic development	11,492,350	-	11,492,350	-
Other	781,820	-	781,820	96,037
Unrestricted (deficit)	(13,798,882)	5,026,994	(8,771,888)	3,197,859
Total net position	<u>\$ 54,038,380</u>	<u>\$ 31,637,265</u>	<u>\$ 85,675,645</u>	<u>\$ 10,845,935</u>

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

CITY OF DUNCAN, OKLAHOMA
ANNUAL FINANCIAL REPORT
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Statement of Activities – Year Ended December 31, 2014

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Position			Aggregate Discretely Presented Component Units
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	Component Units
Primary government								
Governmental Activities								
General government	\$ 4,515,523	\$ 143,970	\$ -	\$ -	\$ (4,371,553)	\$ -	\$ (4,371,553)	\$ -
Public safety	10,856,654	1,144,043	1,142,659	-	(8,569,952)	-	(8,569,952)	-
Streets	3,839,480	-	258,480	-	(3,581,000)	-	(3,581,000)	-
Culture and recreation	1,668,740	40,595	20,685	-	(1,607,460)	-	(1,607,460)	-
Health	424,162	97,276	-	-	(326,886)	-	(326,886)	-
Community development	878,076	77,703	1	-	(800,372)	-	(800,372)	-
Economic development	1,311,993	-	8,986	-	(1,303,007)	-	(1,303,007)	-
Interest on long-term debt	205,451	-	-	-	(205,451)	-	(205,451)	-
Total governmental activities	<u>23,700,079</u>	<u>1,503,587</u>	<u>1,430,811</u>	<u>-</u>	<u>(20,765,681)</u>	<u>-</u>	<u>(20,765,681)</u>	<u>-</u>
Business-type activities:								
Water	6,032,299	5,445,047	-	50,020	-	(537,232)	(537,232)	-
Wastewater	2,155,349	2,029,807	-	-	-	(125,542)	(125,542)	-
Sanitation	4,152,775	3,651,406	-	-	-	(501,369)	(501,369)	-
Electric	16,080,347	19,294,408	-	-	-	3,214,061	3,214,061	-
Airport	268,862	36,787	-	23,850	-	(208,225)	(208,225)	-
Lake	559,263	132,256	-	-	-	(427,007)	(427,007)	-
Total business-type activities	<u>29,248,895</u>	<u>30,589,711</u>	<u>-</u>	<u>73,870</u>	<u>-</u>	<u>1,414,686</u>	<u>1,414,686</u>	<u>-</u>
Total primary government	<u>\$ 52,948,974</u>	<u>\$ 32,093,298</u>	<u>\$ 1,430,811</u>	<u>\$ 73,870</u>	<u>\$ (20,765,681)</u>	<u>1,414,686</u>	<u>(19,350,995)</u>	
Component Unit								
Industrial Development	\$ 6,517	\$ 8,359	\$ 19,650	\$ -				21,492
Economic Development	798,741	1,462,778	6,790	-				670,827
Health and welfare	-	38	-	-				38
Total component units	<u>\$ 805,258</u>	<u>\$ 1,471,175</u>	<u>\$ 26,440</u>	<u>\$ -</u>				<u>692,357</u>
General revenues:								
Taxes:								
Sales and use taxes					16,552,001	-	16,552,001	-
Franchise taxes and public service taxes					605,031	-	605,031	-
Hotel/motel taxes					491,037	-	491,037	-
Property tax					25,828	-	25,828	-
Other					528,527	-	528,527	-
Unrestricted investment earnings					633,231	1,467,520	2,100,751	-
Miscellaneous					61,610	141,323	202,933	-
Transfers					3,847,560	(3,847,560)	-	-
Total general revenues and transfers					<u>22,744,825</u>	<u>(2,238,717)</u>	<u>20,506,108</u>	<u>-</u>
Change in net position					1,979,144	(824,031)	1,155,113	692,357
Net position - beginning, restated					52,059,236	32,461,296	84,520,532	10,153,578
Net position - ending					<u>\$ 54,038,380</u>	<u>\$ 31,637,265</u>	<u>\$ 85,675,645</u>	<u>\$ 10,845,935</u>

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

**CITY OF DUNCAN, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended December 31, 2014**

BASIC FINANCIAL STATEMENTS – GOVERNMENTAL FUNDS

**CITY OF DUNCAN, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended December 31, 2014**

Balance Sheet – Governmental Funds – December 31, 2014

	General Fund	Special Revenue		Other Governmental Funds	Total Governmental Funds
		Duncan Economic Development Trust Authority (DEDTA)	Capital Improvement Fund		
ASSETS					
Cash and cash equivalents	\$ 44,890	\$ 5,973,418	\$ 5,305,258	\$ 1,430,795	\$ 12,754,361
Investments	-	5,282,910	759,496	-	6,042,406
Receivable from other governments	1,344,977	280,080	560,160	137,429	2,322,646
Due from other funds	277,823	-	267,707	85,658	631,188
Taxes receivable, net	171,898	-	-	-	171,898
Court fines receivable, net	183,186	-	-	-	183,186
Other receivables	14,850	-	-	619	15,469
Advance from other funds	-	-	1,870,784	-	1,870,784
Total assets	<u>\$ 2,037,624</u>	<u>11,536,408</u>	<u>\$ 8,763,405</u>	<u>\$ 1,654,501</u>	<u>\$ 23,991,938</u>
LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES (DEFICIT)					
Liabilities:					
Accounts payable	\$ 103,694	44,058	\$ 219,780	\$ 5,988	\$ 373,520
Accrued payroll payable	460,755	-	-	-	460,755
Due to other funds	274,832	-	73,578	463,115	811,525
Due to bondholders	600	-	-	-	600
Payable to other governments	6,394	-	-	-	6,394
Advance to other funds	6,003,711	-	-	-	6,003,711
Total liabilities	<u>6,849,986</u>	<u>44,058</u>	<u>293,358</u>	<u>469,103</u>	<u>7,656,505</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue	<u>84,491</u>	<u>-</u>	<u>-</u>	<u>67,338</u>	<u>151,829</u>
Fund balances (deficit):					
Restricted	-	11,492,350	8,470,047	1,128,566	21,090,963
Unassigned (deficit)	<u>(4,896,853)</u>	<u>-</u>	<u>-</u>	<u>(10,506)</u>	<u>(4,907,359)</u>
Total fund balances (deficit)	<u>(4,896,853)</u>	<u>11,492,350</u>	<u>8,470,047</u>	<u>1,118,060</u>	<u>16,183,604</u>
Total liabilities, deferred inflows and fund balances (deficit)	<u>\$ 2,037,624</u>	<u>\$ 11,536,408</u>	<u>\$ 8,763,405</u>	<u>\$ 1,654,501</u>	<u>\$ 23,991,938</u>

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

CITY OF DUNCAN, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended December 31, 2014

Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances –Year Ended December 31, 2014

	General Fund	Special Revenue			Total Governmental Funds
		Duncan Economic Development Trust Authority (DEDTA)	Capital Improvement Fund	Other Governmental Funds	
REVENUES					
Taxes	\$ 10,959,589	2,193,814	\$ 4,387,627	\$ 377,508	\$ 17,918,538
Intergovernmental	1,245,281	-	-	273,159	1,518,440
Licenses and permits	79,916	-	-	-	79,916
Charges for services	263,189	-	-	11,529	274,718
Fees and fines	1,118,035	-	-	-	1,118,035
Investment earnings	573	345,287	287,365	6	633,231
Miscellaneous	124,518	8,986	-	170,556	304,060
Total revenues	<u>13,791,101</u>	<u>2,548,087</u>	<u>4,674,992</u>	<u>832,758</u>	<u>21,846,938</u>
EXPENDITURES					
Current:					
General government	3,856,459	-	5,122	100	3,861,681
Community Development	787,087	-	-	-	787,087
Public safety	9,862,420	-	-	27,758	9,890,178
Highways and streets	866,262	-	-	195,032	1,061,294
Health	380,239	-	-	-	380,239
Culture and recreation	1,289,019	-	-	19,722	1,308,741
Economic development	-	1,260,397	-	-	1,260,397
Capital Outlay	-	-	1,825,161	180,781	2,005,942
Debt Service:					
Principal	1,618	-	253,126	1,184,398	1,439,142
Interest and other charges	38	-	14,126	200,107	214,271
Total expenditures	<u>17,043,142</u>	<u>1,260,397</u>	<u>2,097,535</u>	<u>1,807,898</u>	<u>22,208,972</u>
Excess (deficiency) of revenues over expenditures	<u>(3,252,041)</u>	<u>1,287,690</u>	<u>2,577,457</u>	<u>(975,140)</u>	<u>(362,034)</u>
OTHER FINANCING SOURCES (USES)					
Proceeds from capital leases	-	-	30,913	-	30,913
Transfers in	7,512,558	-	-	1,319,252	8,831,810
Transfers out	(2,411,999)	-	(1,583,826)	(195,653)	(4,191,478)
Total other financing sources and uses	<u>5,100,559</u>	<u>-</u>	<u>(1,552,913)</u>	<u>1,123,599</u>	<u>4,671,245</u>
Net change in fund balances	1,848,518	1,287,690	1,024,544	148,459	4,309,211
Fund balances (deficit) - beginning	(6,745,371)	10,204,660	7,445,503	969,601	11,874,393
Fund balances - (deficit) ending	<u>\$ (4,896,853)</u>	<u>\$ 11,492,350</u>	<u>\$ 8,470,047</u>	<u>\$ 1,118,060</u>	<u>\$ 16,183,604</u>

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

CITY OF DUNCAN, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended December 31, 2014

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position – December 31, 2014

Total fund balance, governmental funds	\$	16,183,604
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position.		50,098,625
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Certain long-term assets are not available to pay for current fund liabilities and, therefore, are reported as deferred inflows in the funds.		151,829
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Some liabilities are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Position:

Interest payable		(10,884)
Net pension obligations		(2,332,978)
Net OPEB obligations		(4,379,396)
Accrued compensated absences		(1,446,017)
Note payable		(3,095,000)
Capital leases payable		(313,780)

Internal service funds are used by management to charge costs of certain activities that benefit multiple funds, such as self-insurance, to individual funds. The assets and liabilities of the internal service funds are reported in governmental activities:

Internal service fund net position (deficit)		(817,623)
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Net Position of Governmental Activities in the Statement of Net Position	\$	54,038,380
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The accompanying notes are an integral part of these financial statements.

CITY OF DUNCAN, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended December 31, 2014

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit) of Governmental Funds to the Statement of Activities - Year Ended December 31, 2014

Net change in fund balances - total governmental funds: \$ 4,309,211

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period.

Capital asset purchases capitalized	940,585
Depreciation expense	(3,858,112)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:

Change in unavailable revenue	(15,275)
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Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position:

Decrease in accrued compensated absences	47,475
Increase in net OPEB obligation	(762,069)
Increase in net pension obligation	(176,561)
Principal payments on notes payable	1,150,000
Capital lease proceeds	(30,913)
Principal payments on capital leases payable	289,142

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 interest payable	4,044
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Internal service fund activity is reported as a proprietary fund in fund financial statements, but certain net revenues are reported in governmental activities on the Statement of Activities:

Total change in net position of governmental activities -internal service funds	81,617
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Change in net position of governmental activities	\$ 1,979,144
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The accompanying notes are an integral part of these financial statements.

**CITY OF DUNCAN, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended December 31, 2014**

BASIC FINANCIAL STATEMENTS - PROPRIETARY FUNDS

CITY OF DUNCAN, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended December 31, 2014

Proprietary Funds Statement of Net Position –December 31, 2014

	Duncan Public Utilities Authority Enterprise Fund	Internal Service Fund
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 240,652	\$ 37,082
Investments	1,002,113	-
Restricted:		
Cash and cash equivalents	2,251,298	-
Due from other funds	98,428	643,972
Accounts receivable, net	3,755,971	-
Receivables from other governments	25,642	-
Other receivables	54,163	-
Annuities receivable	-	19,008
Total current assets	7,428,267	700,062
Non-current assets:		
Advance from other funds	4,132,927	-
Restricted:		
Investments	7,326,384	-
Inventories	735,823	-
Capital assets:		
Land and construction in progress	607,772	-
Other capital assets, net of accumulated depreciation	61,890,983	-
Total non-current assets	74,693,889	-
Total assets	82,122,156	700,062
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	1,331,732	70,850
Salaries payable	141,368	-
Accrued interest payable	382,116	-
Due to other funds	96,447	465,616
Payable to other governments	88,419	-
Unearned revenue	124,980	-
Deposits subject to refund	110,314	-
Compensated absences	28,868	-
Claims and judgments	-	585,682
Notes payable	2,868,984	-
Total current liabilities	5,173,228	1,122,148
Non-current liabilities:		
Compensated absences, net of current portion	259,806	-
Deposits subject to refund, net of current portion	1,055,836	-
Claims and judgments, net of current portion	-	623,108
Net pension obligation	1,857,923	-
Net OPEB obligation	708,960	-
Notes payable, net of current portion	41,201,567	-
Total non-current liabilities	45,084,092	623,108
Total liabilities	50,257,320	1,745,256
NET POSITION		
Net investment in capital assets	18,428,204	-
Restricted for debt service	8,182,067	-
Unrestricted (deficit)	5,254,565	(1,045,194)
Total net position	\$ 31,864,836	\$ (1,045,194)

Some amounts reported for business-type activities in the Statement of Net Position are different because certain internal service fund balances are included with business-type activities and reported as interfund balances

\$ (227,571)

Total net position per Government-Wide financial statements

\$ 31,637,265

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

CITY OF DUNCAN, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended December 31, 2014

Proprietary Funds Statement of Revenues, Expenses, and Changes in Net Position –Year Ended December 31, 2014

	Duncan Public Utilities Authority Enterprise Fund	Internal Service Fund
REVENUES		
Water	\$ 5,210,491	\$ -
Electric	19,227,891	-
Wastewater	2,029,807	-
Sanitation	3,651,406	-
Lake	132,256	-
Airport	36,787	-
Charges for services	-	3,170,407
Miscellaneous	301,286	68,717
Total operating revenues	<u>30,589,924</u>	<u>3,239,124</u>
OPERATING EXPENSES		
General government	560,315	118,093
Water	2,716,054	-
Wastewater	1,115,572	-
Sanitation	3,477,526	-
Electric	15,643,788	-
Lake	399,829	-
Airport	36,985	-
Claims expense	-	3,045,502
Depreciation	3,683,038	-
Total operating expenses	<u>27,633,107</u>	<u>3,163,595</u>
Operating income	<u>2,956,817</u>	<u>75,529</u>
NON-OPERATING REVENUES (EXPENSES)		
Interest and investment revenue	1,467,520	346
Miscellaneous revenue	135,549	23,754
Gain on capital asset disposal	5,561	-
Interest expense	(1,382,388)	-
Total non-operating revenue (expenses)	<u>226,242</u>	<u>24,100</u>
Income before contributions and transfers	<u>3,183,059</u>	<u>99,629</u>
Capital contributions	615,230	-
Transfers in	3,995,825	-
Transfers out	(8,636,157)	-
Change in net position	<u>(842,043)</u>	<u>99,629</u>
Total net position - beginning, restated	32,706,879	(1,144,823)
Total net position - ending	<u>\$ 31,864,836</u>	<u>\$ (1,045,194)</u>
Change in net position per above	\$ (842,043)	
Some amounts reported for business-type activities in the Statement of Activities are different because the net revenue of certain internal service fund are reported with business-type activities	18,012	
Change in Business-Type Activities in Net Postion per Government-Wide Financial Statements	<u>\$ (824,031)</u>	

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

CITY OF DUNCAN, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended December 31, 2014

Proprietary Funds Statement of Cash Flows – Year Ended December 31, 2014

	Duncan Public Utilities Authority	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 30,009,493	\$ 3,258,091
Payments to suppliers and employees	(24,185,037)	(114,767)
Claims and judgments paid	-	(2,803,623)
Receipts of customer meter deposits	380,591	-
Refunds of customer meter deposits	(327,836)	-
Interfund receipts	2,313,249	(158,351)
Interfund payments	(1,213,530)	(205,137)
Net cash provided by (used in) operating activities	6,976,930	(23,787)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Interfund payments	(300,000)	-
Transfers from other funds	3,995,825	-
Transfers to other funds	(8,636,157)	-
Miscellaneous revenue	135,549	23,754
Net cash provided by (used in) noncapital financing activities	(4,804,783)	23,754
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	(255,862)	-
Proceeds of sale of capital assets	5,561	-
Principal paid on debt	(2,733,488)	-
Interest and fiscal agent fees paid on debt	(1,402,723)	-
Net cash provided by (used in) capital and related financing activities	(4,386,512)	-
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	1,433,836	-
Interest and dividends	839,851	346
Net cash provided by investing activities	2,273,687	346
Net increase (decrease) in cash and cash equivalents	59,322	313
Balances - beginning of year	2,432,628	36,769
Balances - end of year	\$ 2,491,950	\$ 37,082
Reconciliation to Statement of Net Position:		
Cash and cash equivalents	\$ 240,652	37,082
Restricted cash and cash equivalents - current	2,251,298	-
Total cash and cash equivalents, end of year	\$ 2,491,950	\$ 37,082
Reconciliation of operating income to net cash provided by (used in) operating activities:		
Operating income	\$ 2,956,817	75,529
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Depreciation expense	3,683,038	-
Change in assets and liabilities:		
Due from other funds	1,937,968	(169,169)
Due to other funds	(838,249)	(194,319)
Accounts receivable	(581,785)	-
Other receivable	1,354	18,967
Annuities receivable	-	-
Inventory	231,014	-
Accounts payable	(639,676)	50,882
Accrued payroll payable	18,764	-
Deposits subject to refund	52,755	-
Claims and judgments liability	-	194,323
Net pension obligation	29,462	-
Other post employment benefits	125,015	-
Accrued compensated absences	453	-
Net cash provided by (used in) operating activities	\$ 6,976,930	\$ (23,787)
Noncash activities:		
Capital asset transferred from other funds	\$ 541,360	-
Capital asset contributed by others	50,020	-
	\$ 1,182,760	\$ -

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

**CITY OF DUNCAN, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended December 31, 2014**

BASIC FINANCIAL STATEMENTS – FIDUCIARY FUNDS

CITY OF DUNCAN, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended December 31, 2014

Fiduciary Funds Statement of Net Position –December 31, 2014

	City Employees Retirement Trust Fund	Deposit and Refund - Agency Fund
ASSETS		
Cash and cash equivalents	\$ 129,236	\$ 113,738
Investments, at market value:		
Common trust funds equity	1,330,710	-
Mutual fund equity	2,405,041	-
Mutual fund fixed	3,310,863	-
Total assets	\$ 7,175,850	\$ 113,738
LIABILITIES		
Refunds payable and others	\$ -	\$ 107,859
Other accrued expenses	3,815	5,879
Notes Payable		
Capital Lease Obligation		
Total liabilities	\$ 3,815	\$ 113,738
NET POSITION		
Restricted for employees' pension benefits held in trust	\$ 7,172,035	

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

CITY OF DUNCAN, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended December 31, 2014

Fiduciary Funds Statement of Changes in Plan Net Position – Year Ended December 31, 2014

	<u>City Employees Retirement Trust Fund</u>
ADDITIONS	
Contributions:	
Employer	\$ 1,492,416
Plan Members	413,154
Total contributions	<u>1,905,570</u>
Adjustment to record balances attributable to defined contribution plan participants not previously recorded	<u>472,453</u>
Investment earnings:	
Net increase in fair value of investments	134,059
Interest and dividends	232,851
Total net investment earnings	<u>366,910</u>
Total additions	<u>2,744,933</u>
DEDUCTIONS	
Benefits paid to participants or beneficiaries	1,479,311
Refunds of contributions	105,838
Administrative	55,355
Total deductions	<u>1,640,504</u>
Change in net position held in trust for employees' pension benefits	1,104,429
Net position held in trust for employee's pension benefits - beginning	<u>6,067,606</u>
Net position held in trust for employees' pension benefits- ending	<u><u>\$ 7,172,035</u></u>

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

CITY OF DUNCAN, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended December 31, 2014

BASIC FINANCIAL STATEMENTS – DISCRETELY PRESENTED COMPONENT UNITS

CITY OF DUNCAN, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended December 31, 2014

Component Units Combining Statement of Net Position –December 31, 2014

	Duncan Industrial Authority	Duncan Area Economic Development Foundation	Duncan Hospital Authority	TOTALS
<u>ASSETS</u>				
Current Assets:				
Cash and cash equivalents	\$ 136,988	\$ 2,404,054	\$ 25,192	\$ 2,566,234
Investments	205,868	3,320,923	-	3,526,791
Receivables:				
Accounts receivable	-	83,901	-	83,901
Interest receivable	35	7,462	-	7,497
Other	-	1,573	-	1,573
Cash and cash equivalents, restricted	1,380	124,101	-	125,481
Prepaid building lease	-	35,000	-	35,000
Total current assets	344,271	5,977,014	25,192	6,346,477
Noncurrent Assets:				
Capital Assets:				
Depreciable, net of accumulated depreciation	-	6,632,492	-	6,632,492
Land available for development	604,007	315,540	-	919,547
Total noncurrent assets	604,007	6,948,032	-	7,552,039
Total Assets	948,278	12,925,046	25,192	13,898,516
<u>LIABILITIES</u>				
Current Liabilities:				
Accounts payable and accrued liabilities	\$ -	\$ 115,895	\$ -	\$ 115,895
Wages payable	-	10,738	-	10,738
Interest payable	-	11,419	-	11,419
Real estate mortgage loan	-	358,446	-	358,446
Total Current Liabilities	-	496,498	-	496,498
Noncurrent Liabilities:				
Real estate mortgage loan	-	2,556,083	-	2,556,083
Total Noncurrent Liabilities	-	2,556,083	-	2,556,083
Total Liabilities	-	3,052,581	-	3,052,581
<u>NET POSITION</u>				
Net investment in capital assets	604,007	6,948,032	-	7,552,039
Restricted	1,380	94,657	-	96,037
Unrestricted	342,891	2,829,776	25,192	3,197,859
Total Net Position	\$ 948,278	\$ 9,872,465	\$ 25,192	\$ 10,845,935

CITY OF DUNCAN, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended December 31, 2014

Component Units Combining Statement of Activities - Year Ended December 31, 2014

	Duncan Industrial Authority	Duncan Area Economic Development Foundation	Duncan Hospital Authority	TOTALS
Operating Revenues:				
Contributions	\$ -	\$ 1,260,035	\$ -	\$ 1,260,035
Rentals	7,435	101,497	-	108,932
Total Operating Revenues	<u>7,435</u>	<u>1,361,532</u>	<u>-</u>	<u>1,368,967</u>
Operating Expenses:				
Economic development	6,517	798,741	-	805,258
Total Operating Expenses	<u>6,517</u>	<u>798,741</u>	<u>-</u>	<u>805,258</u>
Operating Income	918	562,791	-	563,709
Non-Operating Revenues :				
Investment income	924	101,246	38	102,208
Miscellaneous income	19,650	6,790	-	26,440
Net non-operating revenues	<u>20,574</u>	<u>108,036</u>	<u>38</u>	<u>128,648</u>
Change in Net Position	21,492	670,827	38	692,357
Net Position, beginning of year	<u>926,786</u>	<u>9,201,638</u>	<u>25,154</u>	<u>10,153,578</u>
Net Position, end of year	<u>\$ 948,278</u>	<u>\$ 9,872,465</u>	<u>\$ 25,192</u>	<u>\$ 10,845,935</u>

I. Organization

The City of Duncan, Oklahoma, (the City) operates under a Council-Manager form of government under Title 11 of the *Oklahoma Statutes*. The City provides the following services to its citizens: public safety (police and fire), streets and highways, sanitation, social services, culture and recreation, public improvements, utilities, planning and zoning, and general administrative services.

II. Summary of significant accounting policies

A. Reporting entity

The accompanying financial statements present the City 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. The City's financial statements include three discretely presented component units, which are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the City.

Blended component units. The Duncan Public Utilities Authority (DPUA) was created to finance, develop, and operate the electric, water, sewer, and solid waste activities. The current City Council serves as the entire governing body (trustees) and city management has operational responsibility of the DPUA. Any issuance of debt would require a two-thirds approval of the City Council. DPUA is reported as an enterprise fund.

The Duncan Economic Development Trust Authority (DEDTA) was created to develop, finance, and promote the development of industry within the City of Duncan and the surrounding area. The current City Council serves as its entire governing body (trustees) and city management has operational responsibility of the DEDTA. Any issuance of debt would require a two-thirds approval of the City Council. DEDTA is reported as a special revenue fund.

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

Discretely presented component units. Duncan Industrial Authority (DIA) was created to finance, promote, develop and maintain industry within the City of Duncan and the surrounding area. The governing body is appointed by the City Council. Any issuance of debt requires a two-thirds approval of the City Council. The DIA issued separate financial statements, which are available by contacting that entity at Box 1468, Duncan, OK 73534. The DIA fiscal year is June 30.

Duncan Hospital Authority (DHA) was created to provide financing for physical plant facilities, improvements, equipment, and medical services for the purpose of providing or improving health care within the City of Duncan. The governing body is appointed by the City Council. Any issuance of debt requires a two-thirds approval of the City Council. The DHA consist of a savings account remaining from when the city owned and operated the hospital. The Authority does not issue separate financial statements.

Duncan Area Economic Development Foundation (the "DAEDF") was created as a non-profit corporation December 19, 1954 to promote industry development and job creation within the City and surrounding area. It is a legally separate, tax-exempt component unit of the City. The DAEDF receives the majority of its resources through a sales tax allocation from the City and these

resources are restricted to directly benefit the constituents of the City, or the city itself. Because these restricted resources held by the DAEDF can only be used by, or for the benefit of, the City or the City's constituents, the DAEDF is considered a component unit of the City and its financial statements are discretely presented in the City's financial statements. The DAEDF issued separate financial statements, which are available by contacting that entity at Box 1051, Duncan, OK 73534. DAEDF's fiscal year is December 31.

Each of these components, with the exception of the DAEDF (which is a non-profit organization), listed above are Public Trusts 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 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 the state law, the City Council must approve, by two-thirds vote, all debt obligations of these public trusts prior to incurring the obligation. The Authorities generally retain title to assets which are acquired or constructed with Authority debt or other Authority generated resources. In addition, the City has leased certain existing assets from the Authorities on a long-term basis. The city, as beneficiary of the Public Trusts, receives title to any residual assets when a Public Trust is dissolved.

Jointly Governed Organizations

The city, in conjunction with the cities of Marlow and Comanche, has created the South Central Oklahoma Environmental Authority (SCOEA). The SCOEA's board is composed of three trustees one appointed by each governing body. The city paid the SCOEA \$3,759,327 in FY 2014 for sanitation services.

B. 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 and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges 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.

Combined and/or individual financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. 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 and fiduciary 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 and budgeted. Grants 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 to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period.

For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditure driven grants are recorded as revenues when the related expenditures are incurred. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, claims, and judgments are recorded only when payment is due.

Sales and use taxes, 2014 property taxes, franchise taxes, licenses, court fines and interest associated with the current fiscal period are all considered to be susceptible to accrual, and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following fund types:

General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted or committed to expenditures for certain purposes.

Debt Service Fund – accounts for ad-valorem taxes levied by the City for use in retiring judgments rendered against the City.

Capital Project Funds are used to account for resources restricted for the acquisition or construction of specific capital projects.

Proprietary funds include both enterprise funds and internal service funds. Enterprise funds are used to account for business-type activities provided to the general public. Internal service funds are used to account for business-type activities provided and charged to other funds or entities within the reporting entity.

Fiduciary funds are used to report net position and changes therein of assets held by the City in a fiduciary capacity. The net position is not available for operations of the City and is not included in the Government-wide financial statements. The city reports a Pension Trust Fund and an Agency Fund. Agency Funds are custodial in nature (i.e. assets equal liabilities) and do not involve the measurement of changes in net position.

The funds of the financial reporting entity are described below:

The City reports the following major governmental funds:

- The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The most significant operating revenue is the sales tax. For reporting purposes the General Fund includes the activities of the following accounts: Police Uniform Allowance, Fire Uniform Allowance, Police Reserve, Communication Trust, Police Firing Range, Hunting and Fishing and Retiree Insurance Account.
- The Duncan Economic Development Trust Authority is a special revenue fund that accounts for sales tax restricted for the promotion of economic development.
- The Capital Improvement fund accounts for the purchase of capital equipment and construction of facilities funded with sales tax.

The City reports the following major proprietary fund:

- The Duncan Public Utilities Authority accounts for the City's electric, water, sewer, sanitation, lake and airport operations. The funds' major revenue source is user charges.

The City reports the following internal service funds:

- Worker's Comp internal service fund accounts for workers' compensation insurance services provided to other departments or agencies of the City based on premiums charged per full-time employee.
- Employee Insurance internal service fund accounts for employee health insurance services provided to other departments or agencies of the City based on premiums charged per full-time employee.
- Self-Insurance/Internal service fund accounts for liability claim services and unemployment claims provided to other departments or agencies of the City based on premiums charged per full-time employee.

Included in the aggregated other governmental fund totals are the following funds:

- The Street and Alley Fund accounts for the operation and maintenance of local streets and thoroughfares through dedicated taxes.
- The Cemetery Care Fund accounts for the continuing care and maintenance as well as future capital investments of the City owned cemetery funded with fees restricted by external sources.
- The Library Gifts and Grants Fund accounts for grants and donations restricted for the operations of the library.
- The CDBG Grant Funds account for federal funds received by the City and expenditures related to the operation of these grants.
- The E-911 Dispatch Fund accounts for the operations and maintenance of the City's 911 emergency services through dedicated taxes.
- The DPUA Debt Service Fund accounts for sales tax pledged for the repayment of the DPUA Sales Tax revenue note used to finance street construction and improvements.
- The Police Grants and Seizures Fund account for grants and seized property funds for police operations.
- The First Responder Program Fund accounts for funds restricted for public safety operations.
- The DARE Fund accounts for grants and donations for the operations of the DARE program.
- The Stimulus Grant Fund accounts for the residual funds of the stimulus grant.
- The Sinking Fund accounts for ad valorem taxes related to a judgment levied against the city.

The City reports two fiduciary funds:

- City Employees Retirement Trust Fund accounts for assets and changes therein of the City's single employer defined benefit plan.
- Deposit and Refund Agency Fund accounts for deposits held on behalf of others.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payment-in-lieu of taxes and other charges between the City's utility functions and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Duncan Public Utilities Authority enterprise fund and of the City's internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Assets, deferred outflows, liabilities, deferred inflows, and fund equity

1. Deposits and investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less at the date of acquisition. Trust account investment in open-ended mutual fund shares are also considered cash equivalents.

Investments consists of U.S. Treasury bonds and notes, U.S. agency securities, government money market funds, mutual funds and common stock (in the employee retirement fund only). Investments are reported at fair value which is determined by quoted market prices.

2. Receivable and payable

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

In addition, because the City has a pooled cash arrangement for the majority of its funds, for financial reporting purposes, a negative position in the pooled cash fund is a reflected as a due to other funds, with corresponding due from other funds presented in funds with positive cash positions in the pooled cash fund.

All trade and property tax receivables are shown net of an allowance for uncollectibles. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. Major receivable balances for governmental activities include sale and use taxes, franchise taxes, grant and court fines. Non-exchange transactions collectible but not available are deferred inflows (unavailable revenues) in the fund financial statements in accordance with modified accrual, but not deferred in the government-wide financial statements in accordance with the accrual basis. Business-type activities report utilities as its major receivable, and include receivables for which services have been provided by not billed as of the end of the fiscal year. Accounts receivable are net of the allowance for doubtful accounts.

3. Restricted assets

Certain proceeds of the DPUA enterprise fund promissory notes, as well as certain resources set aside for their repayment, are classified as restricted assets on the Proprietary Funds Statement of Net Position because they are maintained in separate bank accounts, and their use is limited by applicable loan covenants. The projects fund account is used to report those proceeds that are restricted for use in construction. The debt service fund account is used to segregate resources accumulated for debt service payments over the next 12 months. The debt service reserve account is used to report resources set aside to make up potential future deficiencies in the debt services account. The Waurika debt service account is used to segregate resources from a one-cent restricted sales tax accumulated for debt service payments over the remaining life of the notes.

4. Inventories

Inventories in governmental funds normally consist of minimal amounts of expendable supplies held for consumption. The costs of such inventories are recorded as expenditures when purchased rather than when consumed. Inventories in proprietary funds consist of transformers electrical supplies and other materials held for utility installation. The items are recorded at cost when purchased and either transferred to capital assets when used, if the item is part of new construction or a significant expansion of an existing network, or they are expensed.

5. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and the proprietary fund statement of net position. Capital assets are defined by the City as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost 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 of the primary government, as well as the component units, are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	25-50
Improvements other than buildings	10-50
Infrastructure	20-75
Furniture, equipment, and vehicles	2-40

DAEDF capitalizes individual items of property and equipment when the cost exceeds \$2,500.

6. Compensated absences

It is the City’s policy to permit employees to accumulate earned but unused vacation benefits after six months of employment. Sick leave is earned by full-time, permanent employees upon hire. Salaried employees are awarded compensatory time for work performed in excess of forty hours per week. City employees are entitled to payment for accrued vacation benefits upon termination with a maximum of 520 hours and accrued compensatory time with a maximum of 40 hours. Firefighters are paid 85% of excess sick leave over 1,040 hours per year, not to exceed 108 hours. Upon retirement, police officers are paid 20% of total accrued sick leave up to a maximum of 1,040 hours. Upon voluntary separation, other employees will be compensated for 15% of the total amount of his/her accrued sick leave. The General Fund is used to liquidate compensated absences in the governmental activities.

Vacation pay is accrued when earned and sick leave is recorded when vested in the government-wide and proprietary fund financial statements.

7. Long-term obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statements of Net Position. Bond premiums and discounts are amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of bond premium or discount. Bond issuance cost are expensed when incurred.

8. Deferred Outflow/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expenses/expenditure) until then. In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenues) until that time. The City also reports deferred inflows of resources for unavailable revenues in its governmental funds financial statements.

9. Fund equity

Government-Wide and Proprietary Fund Financial Statements:

Net Position is displayed in three components:

- a. *Net investment in capital assets* - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
- b. *Restricted Net Position* - Consists of net position with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or 2) law through constitutional provisions or enabling legislation.
- c. *Unrestricted Net Position* - All other net position that does not meet the definition of “restricted” or “net investment in capital assets.”

When both restricted and unrestricted resources are available for use, it is the City’s policy to use restricted resources first, then unrestricted resources as they are needed.

Governmental Fund Financial Statements:

Governmental fund equity is classified as fund balance. Fund balance is further classified as nonspendable, restricted, committed, assigned and unassigned. These classifications are defined as:

- a. Nonspendable – includes amounts that cannot be spent because they are either (1) not in spendable form or (2) legally or contractually required to be maintained intact.
- b. Restricted – consists of fund balance with constraints placed on the use of resources either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or (2) laws through constitutional provisions or enabling legislation.
- c. Committed – includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the City’s highest level of decision-making authority. The City’s highest level of decision-making authority is made by ordinance.
- d. Assigned – includes amounts that are constrained by the City’s intent to be used for specific purposes but are neither restricted nor committed. Assignments of fund balance may be made by city council action, motion or resolution, or by management decision when the city council has authorized management (city manager) to make the decision. Assignments for transfers and interest income for governmental funds are made through the budgetary process.
- e. Unassigned – represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes within the general fund. At December 31, 2014, two of the City’s governmental funds are reporting deficits in the unassigned classification.

The City’s policy for the use of fund balance amounts require that restricted amounts would be reduced first followed by committed amounts, then assigned amounts and then unassigned amounts, when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

E. Revenues, Expenditures, and Expenses

1. Sales Tax

The City levies a three and one-half cent sales tax on taxable sales within the City. The sales tax is collected by the Oklahoma Tax commission and remitted to the City in the month following receipt by the Tax Commission. The Tax Commission receives the sales tax approximately one month after collection by vendors. The sales tax is recorded as follows:

- Two (2) cents recorded in the General Fund for general operations. Fifty-five one hundredths (.55) of one cent transferred from the General Fund to the DPUA as pledged revenue for the 2007 Sales Tax Revenue Note, in accordance with the pledged sales tax agreement.
- One (1) cent recorded in the Capital Improvement Fund as restricted by the voters for capital improvement or for debt service payments on capital projects.
- One-half (.50) cent recorded in the Duncan Economic Development Trust Authority (DEDTA) as restricted by the voters for economic development (.25) and capital improvements (.25).

2. Property Tax

Under State law, municipalities are limited in their ability to levy a property tax. Such tax may only be levied to repay principal and interest on general obligation bonded debt approved by voters and any court-assessed judgments.

At the present time the City levies a property tax to fund a court assessed judgment. The property tax levy, as determined by the City's debt service needs, is submitted to the County Excise Board for approval. County assessors, elected officials, determine the taxable value of real estate and personal property in the County. A State Board of Equalization hears complaints on real estate values with the power to equalize assessments. Under present State law, the ratio of assessed value to true value cannot be less than 11 percent or more than 13 ½ percent.

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 normally in October and are due in equal installments on December 31 and March 31. Property taxes unpaid for the fiscal year are considered delinquent in the following October. Property taxes levied, but not collected during the year or within 60 days of the year-end are reported as deferred inflows of resources.

For the year ended December 31, 2014, the City's net assessed valuation of taxable property was \$170,804,629. The taxes levied by the City per \$1,000 of net assessed valuation of the year ended December 31, 2014 was \$0.1593.

3. Program Revenues

In the Statement of Activities, revenues that are derived directly from each activity or from parties outside the City's taxpayers are reported as program revenues. The City has the following program revenues in each category:

- General Government – rents and royalties, special assessments, and federal and state operating and capital grants.
- Public Safety – court fines and fees, fire runs, restitution, school resource officer reimbursements, state on-behalf pension payments, property seizures, and federal and state capital and operating grants.
- Streets – reimbursements, motor fuel and commercial vehicle taxes, and federal and state grants.
- Cemetery – cemetery opening and closings, lot sales, and monument fees.
- Culture and Recreation – park and recreation fees, library fines and fees, donations, swimming pool fees, lake permits and fees, donations and federal and state capital and operating grants.
- Community Development – license and permits.
- Economic Development – reimbursements and fees.

All other governmental revenues are reported as general. It is important to note that all taxes are classified as general revenue even if restricted for a specific purpose.

4. Expenditures/Expenses

In the government-wide statement of activities, expenses, including depreciation of capital assets, are reported by function or activity. In the governmental fund financial statements, expenditures are reported by function, capital outlay, and debt service. In proprietary fund financial statements, expenses are reported by activity. Fiduciary funds report additions and deductions to net position.

F. Use of Estimates

The preparation of financial statements in conformity with accounting principles general accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures; accordingly, actual results could differ from those estimates.

G. New Accounting Pronouncements

Effective January 1, 2014, the City implemented GASB Statement No. 67, *Financial Reporting for Pension Plans*. This Statement is to improve the usefulness of pension information included in the general purpose external financial reports for pension plans for making decisions and assessing accountability. GASB Statement 68, *Accounting and Financial Reporting for Pensions*, which will be implemented next fiscal year, will establish standards for government employer recognition, measurement, and presentation of information about pensions provided through pension plans that are within the scope of this statement. It also establishes requirements for reporting information about pension-related financial support provided by entities that make contributions to pension plans that are used to provide pensions to employees of other entities. The two Statements are closely related in some areas, and certain provisions of this Statement refer to Statement 68.

III. Detailed notes on all funds

A. Deposits and investments – The City held the following deposits/investments at December 31, 2014:

PRIMARY GOVERNMENT:

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Schedule of Deposits and Investments by Type

Type	Fair Value	Credit Rating	Maturities in Years					
			On Demand	Less Than One	1 - 5	6 - 10	11-20	20+
Government money markets	\$ 720,879	AAA	\$ 720,879	\$ -	\$ -	\$ -	\$ -	\$ -
Money Markets	374,099	n/a	374,099	-	-	-	-	-
US Treasury	4,746,075	AA+	-	-	4,746,075	-	-	-
USAGENCY (GNMA)	9,677,233	AA+	-	-	-	-	253,746	9,423,487
Mutual funds fixed income	9,071,556	n/a	9,071,556	-	-	-	-	-
Sub-total	24,589,842		\$ 10,166,534	\$ -	\$ 4,746,075	\$ -	\$ 253,746	\$ 9,423,487
Demand accounts	\$ 8,616,080							
Cash on hand	2,211							
Mutual Funds:								
Equity	2,405,041							
Common trust fund equity	1,330,710							
	\$ 36,943,884							
Reconciliation to Statement of Net Position:								
Cash and cash equivalents	\$ 13,032,095							
Cash and cash equivalents restricted	2,251,298							
Investments	7,044,519							
Investments, restricted	7,326,384							
Pension cash and cash equivalents	129,236							
Pension investments	7,046,614							
Agency fund cash and cash equivalents	113,738							
	\$ 36,943,884							

The City has adopted an investment policy for the general city accounts, Duncan Public Utilities Authority, and the Duncan Economic Development Trust Authority, as discussed below in the city's policies on Investment Credit Risk. A separate policy has been adopted for the City Retirement Plan.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of bank failure, the City's deposits may not be returned to it. The City's policy as it relates to custodial credit risk is to secure its uninsured deposits with collateral, valued at no more than a market value of 102% of the uninsured deposits. The City's policy limits acceptable collateral to U.S. Treasury bills, notes or bonds; Government National Mortgage Association obligations; Student Loan Marketing Association obligations, Federal National Mortgage Association obligations; Federal Home Loan Mortgage Corporation obligations; Small business Association obligations; Federal Farm Credit Bank obligations; Federal Land Bank obligations; Federal Home Loan Bank obligations; and insured or direct obligation of the State of Oklahoma or its' agencies, county or school districts. At December 31, 2014, the total bank balances of the City's deposits was approximately \$8,614,000, and the City's deposits exposed to custodial credit risk was \$163,000.

Exposure to custodial credit risk related to investments exists 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. At December 31, 2014, the City had no investments that are exposed to custodial credit risk.

Interest Rate 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 various investments by date range as outlined in the table above. The City of Duncan's formal investment policy requires that the portfolio be designed to attain a market rate of return throughout budgetary and economic cycles, taking into account the City's legal constraints, investment risk constraints and the cash flow characteristics of the portfolio.

Investment Credit Risk. Credit risk is the risk that an issuer or other counterparty to a debt investment will not fulfill its obligations. The City's investments are subject to credit risk as shown in the table above. The City of Duncan's policy limits investments to those items allowed in State Statutes: a)

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obligations of the U.S. Government, its agencies or instrumentalities, and the State of Oklahoma and certain mortgage insured federal debt; b) certificates of deposit or savings accounts that are either insured or secured with acceptable collateral; c) negotiable certificates of deposit, prime bankers 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 or public trusts whose beneficiary is a county, municipality or school district; and e) government money market funds regulated by the SEC.

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. All U.S. Agencies investments held by the city are explicitly guaranteed by the U.S. government.

PENSION PLAN INVESTMENTS:

The Plan policy provides that assets be invested to provide for “growth and income” with the primary objective to provide a balance between capital appreciation and current income. The Plan shall be invested in a diversified portfolio that will provide current income to pay retirees and equity investments for long-term growth. The overall rate of return objective of the portfolio is a reasonable “real” rate, consistent with the risk levels established by the Pension Board. The minimum acceptable long-term rate of return over a full market cycle (5 year) is that which achieves the total return of its benchmark while maintaining a risk level similar to, or less than, that of the benchmark.

Asset allocation guidelines for the Plan are as follows:

Class	Target Percent	December 2014 Percent
Equities	45-65%	31%
Small Cap Equities	Up to 25%	17%
International Equities	Up to 15%	7%
Fixed Income	35%-55%	43%
Cash and equivalents	0% to 5%	2%

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 net position of the plan (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. All investments of the plan are in common trust funds, money markets or cash at December 31, 2014.

Rate of return – For the year ended December 31, 2014, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 5.18 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

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COMPONENT UNITS:

The DIA was not exposed to custodial credit risk at December 31, 2014. The \$138,368 of cash and cash equivalents was held in cash deposits and interest-bearing certificate of deposits fully insured by Federal Depository Insurance (FDIC) or direct obligations of the U.S. government. The DIA does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

The DHA was not exposed to custodial credit risk at December 31, 2014. The \$25,192 of cash and cash equivalents was held in cash deposits fully insured by Federal Depository Insurance (FDIC) or direct obligations of the U.S. government. The DHA does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

The DAEDF total demand deposits and certificates of deposit in banks were \$2,903,202 of which \$2,095,563 were covered by FDIC insurance. The deposits are placed with quality financial institutions and management believes the risk of loss is minimal. Other cash and cash equivalents consist of \$1,606,036 placed in a US Treasury fund backed by short-term US government securities.

B. Receivables

Receivables as of December 31, 2014, for the City of Duncan's governmental and business-type activities, including the applicable allowances for uncollectible accounts are as follows:

	Accounts Receivable	Less: Allowance for Uncollectible Accounts	Net Accounts Receivable
Governmental Activities:			
Taxes	\$ 212,209	\$ -	\$ 212,209
Court fines	610,619	(427,433)	183,186
Other	314,557	-	314,557
Total Governmental Activities	\$ 1,137,385	\$ (427,433)	\$ 709,952
Business-Type Activities:			
Utilities	\$ 4,362,316	\$ (552,182)	\$ 3,810,134

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C. Restricted assets

The amounts reported as restricted assets of the business-type activities are comprised of assets held by the trustee bank on behalf of the Duncan Public Utilities Authority related to their required revenue note and bond accounts, as well as deposits held for refund.

<u>Type of Restricted Assets</u>	Current	<u>Noncurrent</u>	
	Cash and Cash Equivalents	<u>Investments</u>	<u>Total</u>
Due to Depositors	\$ 1,247,236	\$ -	\$ 1,247,236
Trustee Accounts:			
2009A Debt Service Account	158,857	-	158,857
2009A SRF	67,073	-	67,073
OWRB 2002A Debt Service Account	63,254	-	63,254
2012 Note Revenue Account	307,851	-	307,851
Waurika Debt Service	407,027	7,326,384	7,733,411
Total Restricted Assets	<u>\$ 2,251,298</u>	<u>\$ 7,326,384</u>	<u>\$ 9,577,682</u>

DAEDF restricted assets consist of unexpended sales tax funds transferred from the primary government to be used for economic development.

D. Capital Assets

The following is a summary of changes in capital assets during fiscal year 2014 for the primary government:

PRIMARY GOVERNMENT:

	Balance at January 1, 2014	Additions	Disposals	Balance at December 31, 2014
<i>Governmental activities:</i>				
Capital assets not being depreciated:				
Land	\$ 1,209,125	\$ -	\$ -	\$ 1,209,125
Construction in progress	42,150	151,407	-	193,557
Total capital assets not being depreciated	<u>1,251,275</u>	<u>151,407</u>	<u>-</u>	<u>1,402,682</u>
Capital assets being depreciated:				
Buildings	21,928,508	209,903	-	22,138,411
Machinery, furniture and equipment	12,875,065	579,275	554,367	12,899,973
Infrastructure	92,578,281	-	-	92,578,281
Total other capital assets at historical cost	<u>127,381,854</u>	<u>789,178</u>	<u>554,367</u>	<u>127,616,665</u>
Less accumulated depreciation for:				
Buildings	9,009,615	742,050	-	9,751,665
Machinery, furniture and equipment	9,827,524	686,629	554,367	9,959,786
Infrastructure	56,779,838	2,429,433	-	59,209,271
Total accumulated depreciation	<u>75,616,977</u>	<u>3,858,112</u>	<u>554,367</u>	<u>78,929,722</u>
Capital assets being depreciated, net	<u>51,764,877</u>	<u>(3,068,934)</u>	<u>-</u>	<u>48,695,943</u>
Governmental activities capital assets, net	<u>\$ 53,016,152</u>	<u>\$ (2,917,527)</u>	<u>\$ -</u>	<u>\$ 50,098,625</u>

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Business-type activities:

Capital assets not being depreciated:				
Land	\$ 350,067	\$ 8,609	\$ -	\$ 358,676
Construction in progress	1,393,231	119,887	1,264,022	249,096
Total capital assets not being depreciated	<u>1,743,298</u>	<u>128,496</u>	<u>1,264,022</u>	<u>607,772</u>
Capital assets being depreciated:				
Buildings	19,173,816	10,940	-	19,184,756
Machinery, furniture and equipment	6,714,946	338,903	15,091	7,038,758
Utility property	97,362,192	1,588,905	-	98,951,097
Water rights	18,785,708	-	-	18,785,708
Total other capital assets at historical cost	<u>142,036,662</u>	<u>1,938,748</u>	<u>15,091</u>	<u>143,960,319</u>
Less accumulated depreciation for:				
Buildings	7,792,458	693,050	-	8,485,508
Machinery, furniture and equipment	5,709,231	178,785	15,091	5,872,925
Utility property	54,733,364	2,578,247	-	57,311,611
Water rights	10,166,336	232,956	-	10,399,292
Total accumulated depreciation	<u>78,401,389</u>	<u>3,683,038</u>	<u>15,091</u>	<u>82,069,336</u>
Capital assets being depreciated, net	<u>63,635,273</u>	<u>(1,744,290)</u>	<u>-</u>	<u>61,890,983</u>
Business-type activities capital assets, net	<u>\$ 65,378,571</u>	<u>\$ (1,615,794)</u>	<u>\$ 1,264,022</u>	<u>\$ 62,498,755</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:		Business-Type Activities:	
General government	\$ 197,972	Water	\$1,743,175
Culture and recreation	296,450	Wastewater	814,418
Community development	15,494	Sanitation	410,206
Economic development	145,884	Electric	353,001
Cemetery	23,634	Lake	130,361
Public safety	450,852	Airport	231,877
Streets	2,727,826		
	<u>\$ 3,858,112</u>		<u>\$3,683,038</u>

DAEDF capital assets were as follows:

Duncan Area Economic Development Foundation:	Balance, December 31, 2014
Capital assets, being depreciated:	
Buildings and improvements	\$ 9,176,373
Equipment	118,600
Total capital assets, being depreciated	<u>9,294,973</u>
Less accumulated depreciation	<u>(2,662,481)</u>
Total capital assets, being depreciated, net	<u>6,632,492</u>
Governmental activities capital assets, net	<u>\$ 6,632,492</u>

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E. Long-term liabilities

Long-term liabilities of the City of Duncan as of December 31, 2014, are summarized as follows:

Governmental activities

Notes Payable:

\$10,000,000 Sales Tax revenue Note, dated June 20, 2007, payable to JP Morgan due in semi-annual installments \$235,000 to \$645,000, with interest of 4.22%. The Duncan Public Utilities Authority collects a pledged sales tax to pay the note. Final payment due June 1, 2017. Proceeds were used for street improvements.	<u>\$ 3,095,000</u>
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Capital Leases Payable:

\$659,9443 capital lease agreement for the purchase of two fire pumpers, payable to First Bank & Trust Co. in annual installments of \$128,000 plus interest at 2.850%, with final payment due November 2015.	\$ 147,471
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\$155,551 capital lease agreement for the purchase of 911 wireless system, payable to SWBT in monthly installments of \$3,000, including interest at 5.9%, with final payment due October 2016.	62,411
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\$30,913 capital lease agreement for the purchase of a van and pickup, payable to Firsts Bank and Trust Co. in annual installments of 16,094, including interest at 2.5%, with final payment due December 2015.	15,665
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\$174,148 capital lease agreement for the purchase of police/animal control vehicles, payable to First Bank & Truts Co. in annual installments of \$90,616, including interest at 2.50%, with final payment due May 2015.	88,233
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Total Capital Leases	<u>\$ 313,780</u>
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Compensated Absences:

Accrued compensated absences. The general fund typically has been used to liquidate this liability.	<u>\$ 1,446,017</u>
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Business-type Activities

Notes payable:

\$12,068,282 note payable to the Waurika Lake Master Conservancy District, issued January 10, 1978, payable in monthly installments of \$55,060, including principal and interest at 3.463%, final payment due June 30, 2030. The note is secured by pledged revenues of the DPUA and a one percent sales tax restricted for debt retirement. Debt was issued for the city's use of water rights. \$ 7,068,036

\$9,318,240 note payable to the Waurika Lake Master Conservancy District, issued November 1, 2010, payable in monthly variable amounts, final payment due October 1, 2035. The note is secured by pledged water revenues of the DPUA. Debt was issued for the city's use of water rights. 8,136,642

\$3,606,378 note payable to the Oklahoma Water Resources Board, issued September 12, 2002, payable semi-annually with interest at 0.0%, the DPUA pays a 0.5% administrative fee, final payment due August 15, 2022. The note is secured by pledged revenues of the DPUA. Debt was issued for wastewater system improvements. 1,442,551

\$7,635,000 note payable to the Oklahoma Water Resources Board, originally issued September 28, 2015 and amended September 12, 2013, payable semi-annually with interest at 2.75% and an administrative fee of 0.5%, final payment due March 15, 2021. The note is secured by pledged revenues of the DPUA. Debt was issued for water system improvements. 4,717,000

\$7,755,000 note payable to the Oklahoma Water Resources Board, originally issued September 26, 2007 and amended September 12, 2013, payable semi-annually with interest at 3.10% and an administrative fee of 0.5%, final payment due September 15, 2021. The note is secured by pledged revenues of the DPUA. Debt was issued for water system improvements. 5,816,000

\$4,130,000 note payable to the Oklahoma Water Resources Board, issued March 17, 2009, payable semi-annually with interest at 3.13%, and an administrative fee of 0.5%, final payment due September 15, 2030. The note is secured by pledged revenues of the DPUA. Debt was issued for a construction of a new water tower. 3,221,604

\$11,245,000 note payable to the Oklahoma Water Resources Board, issued August 26, 2009, payable semi-annually with interest at 2.79% and an administrative fee of 0.5%, final payment due September 15, 2030. The note is secured by pledged revenues of the DPUA. Debt was issued to upgrade pump stations and install automated meters. 7,746,718

\$7,390,000 Series 2012 Utility System Revenue Note, issued October 12, 2012, payable to BancFirst semi-annually with interest at 2.350%, final payment due September 2021. The note is secured by pledged revenues of the DPUA. Debt was issued for the refunding of the 2002B and 2009 Notes. 5,922,000

Total notes payable \$ 44,070,551

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Compensated Absences:

Accrued compensated absences. The Duncan Public Utilities Authority typically has been used to liquidate this liability.

\$ 288,674

Long-term liability transactions for the year ended December 31, 2014 and changes therein were as follows:

Type of Debt	Balance January 1, 2014	Additions	Deductions	Balance December 31, 2014	Due Within One Year
Governmental Activities:					
Notes payable	\$ 4,245,000	\$ -	\$ 1,150,000	\$ 3,095,000	\$ 1,200,000
Capital leases payable	572,009	30,913	289,142	313,780	284,576
Accrued compensated absences	1,493,492	707,654	755,129	1,446,017	144,602
Total Governmental Activities	<u>\$ 6,310,501</u>	<u>\$ 738,567</u>	<u>\$ 2,194,271</u>	<u>\$ 4,854,797</u>	<u>\$ 1,629,178</u>
			Add: OPEB obligation	4,379,396	
			Add: Net Pension obligation	2,332,978	
				<u>\$ 11,567,171</u>	
Business-Type Activities:					
Notes Payable	\$ 46,804,039	\$ -	\$ 2,733,488	\$ 44,070,551	\$ 2,868,984
Meter deposits	1,113,395	380,591	327,836	1,166,150	110,314
Accrued compensated absences	288,221	41,563	41,110	288,674	28,868
Total Business-Type Activities	<u>\$ 48,205,655</u>	<u>\$ 422,154</u>	<u>\$ 3,102,434</u>	<u>\$ 45,525,375</u>	<u>\$ 3,008,166</u>
			Add: OPEB obligation	708,960	
			Add: Net Pension obligation	1,857,923	
				<u>\$ 48,092,258</u>	

Annual debt service requirements to maturity for long-term debt are as follows:

Fiscal Year Ending December 31,	Governmental Activities			
	Notes Payable		Capital Leases	
	Principal	Interest	Principal	Interest
2015	1,200,000	118,055	284,576	9,270
2016	1,250,000	66,888	29,204	796
2017	645,000	13,610	-	-
	<u>\$ 3,095,000</u>	<u>\$ 198,553</u>	<u>\$ 313,780</u>	<u>\$ 10,066</u>

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Fiscal Year Ending December 31,	Business-Type Activities	
	Notes Payable	
	Principal	Interest
2015	2,868,984	1,292,545
2016	2,946,361	1,223,803
2017	3,230,554	1,150,756
2018	3,693,000	1,071,477
2019	3,799,282	977,298
2020-2024	13,637,680	3,609,604
2025-2029	10,316,182	1,815,543
2030-2034	3,109,647	557,572
2034-2036	468,861	29,583
	<u>\$ 44,070,551</u>	<u>\$ 11,728,181</u>

DAEDF has a mortgage loan payable to finance expansion of a commercial property; permanent financing of the construction project was completed in November 2009 in the amount of \$4,500,000. The loan requires monthly payments of \$42,842 including interest at 5.508 percent until maturity on October 15, 2021. The loan is secured by commercial real estate with a net book value of \$4,610,749. Total interest paid during 2014 was \$184,565. Current loan balance of \$2,914,529. Future debt service requirements are as follows:

Fiscal Year Ending December 31,	DAEDF Component Unit	
	Notes Payable	
	Principal	Interest
2015	\$ 358,446	\$ 151,337
2016	378,273	131,510
2017	400,003	109,780
2018	422,566	87,217
2019	446,402	63,381
2020-2021	908,839	50,019
	<u>\$ 2,914,529</u>	<u>\$ 593,244</u>

Pledge of Future Revenues

Sales Tax Pledge – The City has fifty-five hundredths of a one penny tax (or .55%) of future sales tax revenues to repay \$10,000,000 of Series 2007 Sales Tax Revenue Note. Proceeds from the notes provided financing for street capital assets. The note is payable from pledged sales tax revenues. The note is payable through fiscal year 2017. The total principal and interest payable for the remainder of the life of this note is \$3,293,553. Pledged sales taxes in the current year were \$2,403,576. Debt service payment of \$1,319,612 the current fiscal year were 54.8% of pledged sales tax.

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Utility Revenues Pledge – The City has also pledged future gross water, wastewater, electric and garbage revenues to repay \$3,606,378 of the 2002A Series OWRB Note Payable, \$7,635,000 of the 2005 Series OWRB Note Payable, \$7,755,000 of the 2007 Series OWRB Note Payable, \$4,130,000 of the 2009 Series OWRB Note Payable, \$11,245,000 of the 2009A series OWRB Note Payable, and \$7,390,000 of the 2012 Utility Revenue Note. Proceeds from the notes provided financing for utility system capital assets. The notes are payable through 2022, 2021, 2021, 2030, 2030, and 2021, respectively. The total principal and interest payable for the remainder of the life of these notes is \$34,125,343. The notes are payable from the above-mentioned utility revenues. The debt service payments on the notes this year were \$1,937,912 which was 6.5% of pledged utility revenues of \$30,020,466.

Water Revenues Pledge - The City has also pledged future gross water revenues to repay \$9,318,240 and \$12,068,282 of Waurika Master Conservancy District Debt. Proceeds from the notes provided water rights. The note is payable through 2035 and 2030. The total principal and interest payable for the remainder of the life of the notes is \$21,673,289. The notes are payable from the above-mentioned utility revenues. The debt service payments on the note this year were \$1,273,352 which was 23.4% of pledged utility revenues of \$5,445,047.

F. Interfund receivables, payables, and transfers

The composition of interfund balances as of December 31, 2014 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Nature of Interfund Balance</u>
* General	Library grants	\$ 4,004	Revenue posted to incorrect fund
* General	E911 Dispatch	180,052	E911 landline fees
* General	* DPUA	93,767	Revenue posted to incorrect fund
Street and alley	Internal service - workers comp	85,658	Negative pooled cash
Internal service - Insurance	Internal service - workers comp	369,140	Negative pooled cash
Internal service - Insurance	General	274,832	Negative pooled cash
DPUA	Sinking fund	24,850	Negative pooled cash
* Capital Improvement Fund	* General	1,870,784	Negative pooled cash (advance)
* Capital Improvement Fund	* DPUA	2,680	Project funding
* Capital Improvement Fund	Library Grants	6,054	Negative pooled cash
* Capital Improvement Fund	Internal Service	10,818	Negative pooled cash
* Capital Improvement Fund	E911 Dispatch	248,155	Project funding
* DPUA	* Capital Improvement Fund	73,578	Revenue posted to incorrect fund
* DPUA	* General	4,132,927	Negative pooled cash (advance)
		<u>\$ 7,377,299</u>	

Reconciliation to Fund Financial Statements:

	<u>Advance/Due From</u>	<u>Advance/Due to</u>	<u>Net Interfund Balances</u>
Governmental Funds	\$ 2,501,972	\$ 6,815,236	\$ (4,313,264)
Proprietary Funds	4,231,355	96,447	4,134,908
Internal Service Funds	643,972	465,616	178,356
	<u>\$ 7,377,299</u>	<u>\$ 7,377,299</u>	<u>\$ -</u>

Reconciliation of Statement of Net Position:

Net Internal Balances	\$ 4,134,908
Internal Service Fund Activity reported in Business-type Activities	(227,571)
Net Internal Balances - Government Wide	<u>\$ 3,907,337</u>

* Denotes major fund.

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A summary of interfund transfers for the fiscal year ended December 31, 2014 is as follows:

<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>	<u>Purpose of Transfer</u>
911 Telephone	* General	\$ 193,133 B	Budgeted operational transfer
DARE	* General	1,004 B	Close fund
Stimulus Grant	* General	1,516 B	Close fund
General Fund	* DPUA	6,600	Governmental activities - capital contributions
* DEDTA	* DPUA	48,828	Governmental activities - capital contributions
* DPUA	* General	7,316,905	Budgeted operational transfer
* DPUA	DPUA Debt Service	1,319,252 A	Pledged sales tax
* General	DPUA	2,411,999 A	Pledged sales tax
* Capital Improvement Fund	* DPUA	485,932	Governmental activities - capital contributions
* Capital Improvement Fund	* DPUA	1,583,826	Capital projects
Total		<u>\$ 13,368,995</u>	

Reconciliation to Fund Financial Statements:

	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Net Transfers</u>
Governmental Funds	\$ 8,831,810	\$ (4,191,478)	\$ 4,640,332
Proprietary Funds	4,537,185	(8,636,157)	(4,098,972)
	<u>\$ 13,368,995</u>	<u>\$ (12,827,635)</u>	<u>\$ 541,360</u>

* Denotes major fund.

Sum A Non Major transfer in	\$ 3,731,251
Sum B Non Major transfer out	\$ 195,653

Reconciliation to Statement of Activities:

Net transfers governmental activities	\$ 4,640,332
Transfer of capital assets to business-type activities	(541,360)
Transfer of operational expense to business-type activities	(251,412)
Transfers - internal activity	<u>\$ 3,847,560</u>

G. Net Position/Fund Equity

Government-Wide and Proprietary Fund Financial Statements

The following table shows the net position restricted for other purposes shown on the Statement of Net Position:

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Fund	Restricted By	Amount
Governmental Activities:		
Cemetery Fund	Statutory requirements	\$ 165,210
Street and Alley Fund	Statutory requirements	276,317
E911 Fund	Statutory requirements	152,142
		<u>\$ 593,669</u>
CDBG Fund	External sources	\$ 340,293
Police grants and seizures	External sources	140,667
First responder	External sources	10,037
Economic Development Fund	External sources	11,492,350
Capital Projects Fund	External sources	8,470,047
Debt Service Fund	External sources	100,354
		<u>\$ 20,553,748</u>
Total Governmental Restricted		<u><u>\$ 21,147,417</u></u>
Reconciliation to Statement of Net Position:		
Restricted for:		
Debt service		\$ 100,354
Public Safety		302,846
Capital projects		8,470,047
Economic development		11,492,350
Other		781,820
Total Governmental Restricted		<u><u>\$ 21,147,417</u></u>
Business Type Activities:		
Debt Service Reserves	External sources	<u><u>\$ 8,182,067</u></u>

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Governmental Fund Financial Statements:

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

	<u>General Fund</u>	<u>DEDTA</u>	<u>Capital Improvement Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Fund Balance:					
Restricted for:					
Street improvements	\$ -	\$ -	\$ -	\$ 208,979	\$ 208,979
911 dispatch	-	-	-	152,142	152,142
First responder program	-	-	-	10,037	10,037
Debt service	-	-	-	111,238	111,238
Capital improvements	-	-	8,470,047	-	8,470,047
Cemetery improvements	-	-	-	165,210	165,210
Police	-	-	-	140,667	140,667
CDBG programs	-	-	-	340,293	340,293
Economic development	-	11,492,350	-	-	11,492,350
Sub-total restricted	<u>-</u>	<u>11,492,350</u>	<u>8,470,047</u>	<u>1,128,566</u>	<u>21,090,963</u>
Unassigned (deficit)	(4,896,853)	-	-	(10,506)	(4,907,359)
TOTAL FUND BALANCE	<u>\$ (4,896,853)</u>	<u>\$ 11,492,350</u>	<u>\$ 8,470,047</u>	<u>\$ 1,118,060</u>	<u>\$ 16,183,604</u>

H. Prior Year Restatement:

Prior to 2014, the City did not record its electric utility inventory in its financial statements due to insufficient records. In 2014, the City performed physical counts of its utility inventory and developed systems sufficient to record the inventory in its financial statements. Beginning net position of the proprietary funds and the business-type activities were restated to record the inventory as of January 1, 2014, as follows:

	<u>Enterprise Funds</u>	<u>Business- Type Activities</u>
Beginning net position as previously reported	\$ 31,740,052	\$ 31,494,459
Unrecorded inventory	966,837	966,837
Beginning net position as restated	<u>\$ 32,706,889</u>	<u>\$ 32,461,296</u>

I. Postemployment Healthcare Plan

Plan Description. The City sponsors Medical insurance to qualifying retirees and their dependents. Coverage is provided through fully-insured arrangements that collectively operate as a substantive single-employer defined benefit plan. Qualifying retirees are those employees who are eligible for

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immediate disability or retirement benefits under the Oklahoma Police Pension and Retirement System, Oklahoma Firefighter’s Pension and Retirement System, or the City of Duncan Employees Retirement System. Retirees may continue coverage with the City by paying the carrier premium rate. Coverage is available until the age of 65 for retirees. Authority to establish and amend benefit provisions rests with the City Council. Benefits are paid from general operating assets of the City. The plan does not issue separate financial statements.

Funding Policy. The contribution requirements of plan members and the City are established by the City Council. Annual health insurance premium amounts are established by the third party insurance provider. The required contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2014, the City contributed \$381,657 to the Plan. Plan members receiving benefits contributed \$174,796 of the total premiums, through their payment of the full carrier determined premium in FY 2014.

Annual OPEB Cost and Net OPEB Obligation. The City's annual other postemployment 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, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. 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 of thirty years. The following table shows the components of the City's annual OPEB cost, the amount actually contributed to the plan, and changes in the City's net OPEB obligation for the year ended December 31, 2014:

Normal cost	\$ 688,816
Amortization of Actuarial Accrued Liability (AAL)	639,018
Annual Required Contribution (with Interest)	<u>1,327,834</u>
Interest on Net OPEB Obligation	132,566
Adjustment to the ARC	<u>(191,660)</u>
Annual OPEB cost (expense)	1,268,740
Employer Contributions of FY 14	(381,657)
Net OPEB obligation—beginning of year	<u>4,201,273</u>
Net OPEB obligation—end of year	<u><u>\$5,088,356</u></u>

The City’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2012	\$2,300,148	26.7%	\$3,314,188
12/31/2013	\$1,268,742	30.1%	\$4,201,273
12/31/2014	\$1,268,740	30.1%	\$5,088,356

Funded Status and Funding Progress. As of January 1, 2013, the most recent actuarial valuation date, the Plan was not funded. The actuarial accrued liability (AAL) for benefits was \$11.5 million, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$11.5

million. The covered payroll (annual payroll of active employees covered by the plan) was \$9.1 million, and the ratio of the UAAL to the covered payroll was 125.98 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported 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. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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.

In the January 1, 2013, actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included an annual healthcare cost trend rate of 9.0 percent initially, reduced by decrements to an ultimate rate of 4.5 percent after six years. Inflation rate assumed is 4%. The UAAL is being amortized over 30 years based on a level dollar method. The remaining amortization period at January 1, 2014, was twenty-seven. As of the date of this valuation, there are no plan assets.

IV. Other Information

A. 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; and natural disasters. The City has insurance for the major risks such as property and general liability, and is self-insured for workers' compensation and employee health.

- General Liability – Covered through purchased insurance.
- Physical Property – Covered through purchase insurance with a \$1,000 deductible.
- Workers Compensation – self-insured using a third party administrator that process claims and establish reserves. The City has a stop-loss policy which covers individual claims in excess of \$500,000, per occurrence. The maximum indemnity limit is \$2,000,000.
- Employee's Group Medical – Self-insured using a third party processor to process medical claims. The city also has a stop loss policy which covers individual claims in excess of \$75,000.
- Judgments against the City may be paid by a property tax assessment over a three-year period. Claims have not exceeded coverage in the past three years.

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Claims Liability Analysis

The claims liabilities related to the above noted risk of loss that is retained is determined in accordance with Generally Accepted Accounting Principles, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. For the internal service self-insurance workers' compensation fund and health claims fund, changes in the claims liability for the City from December 31, 2012 to December 31, 2014, are as follows:

CLAIMS LIABILITY ANALYSIS

	Health	Worker's Comp	Total
Claims liability, December 31, 2012	\$ 308,568	\$ 783,124	\$ 1,091,692
Claims and changes in estimates	2,786,874	495,862	3,282,736
Claims payments	<u>(2,894,373)</u>	<u>(465,588)</u>	<u>(3,359,961)</u>
Claims liability, December 31, 2013	201,069	813,398	1,014,467
Claims and changes in estimates	2,790,296	614,669	3,404,965
Claims payments	<u>(2,858,339)</u>	<u>(352,303)</u>	<u>(3,210,642)</u>
Claims liability, December 31, 2014	<u>\$ 133,026</u>	<u>\$ 1,075,764</u>	<u>\$ 1,208,790</u>

B. Commitments and contingent liabilities

Grant Programs

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

Litigation

The City is a party 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 insurance coverage maintained by the City and the State statute relating to judgments, the City feels that any settlement or judgment not covered by insurance would not have a material adverse effect on the financial condition of the City.

Annuity Contracts for Workers Compensation Claims

The city has entered into long-term annuity contracts totaling \$19,008 to satisfy long-term worker's compensation claims. The city considers it remote that will have to make future payments on the claims and considers the claims to be satisfied, therefore, the liability has been removed from the balance sheet.

Pension Fund Contingency

For the single-employer pension plan to remain solvent, the actuary has determined that the city must continue to make the annual contribution amount required by ordinance of 8% of covered wages for employees and 10% for employer. In addition, the employer must make additional contributions of \$1.175 million in year one (FY 2015) increasing with a three percent inflation rate each year for the next twenty years with the contribution in the twentieth year of \$2.060 million. Total estimated additional contributions over the twenty year period are \$31.5 million.

DAEDF

As of December 31, 2014, DAEDF has committed a total of \$215,220 for industry incentives, \$650,000 for water infrastructure, \$168,029 for infrastructure on Second Street in the City of Duncan, \$2,186,991 for three lab buildings, \$3,900,000 industrial building, and \$316,610 for expansion and improvements to the CMS facility.

Outstanding Contracts

The City has the following construction contracts outstanding at December 31:

Fund/Project	Balance Remaining at December 31, 2014
Airport lighting engineering	\$ 43,400
Library boiler replacement	21,447
Street improvement engineering	33,100
Duncan power service center	2,952
Lake Humphreys pump station	502,000
Osage waterline project	5,000

The Duncan Public Utilities Authority has entered into a long term contract with the Oklahoma Municipal Power Authority (OMPA), to purchase electrical power and transmission services required for the operations of the electrical system. Purchased power requirements are based upon average demand.

C. Employee retirement systems and pensions plans

The City of Duncan participates in the Oklahoma State Police Pension and Retirement System and the Oklahoma State Firefighters' Pension and Retirement System, both of which are cost-sharing multiple-employer defined benefit pension plans administered by the State of Oklahoma. Copies of the State of Oklahoma sponsored multiple-employer plans and a schedule of funding progress is available, for each from the respective Plan. Additionally, for City employees not covered by the other plans, the City of Duncan maintains the City of Duncan Employee Retirement Plan, a single employer defined benefit pension plan.

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Oklahoma State Police Pension and Retirement System (OPPRS)

Plan Description – The OPPRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The ability to establish and amend benefit provisions is delegated to the administrators of the OPPRS. The OPPRS issues a publicly available financial report that includes financial statements and required supplementary information for the police employees of the City. That report may be obtained by writing to the Oklahoma State Police Pension and Retirement System, 1001 N.W. 63rd Street, Suite 305, Oklahoma City, Oklahoma 73116-7335, or by calling (405) 840-3555.

Funding Policy – Plan members are required to contribute 8.0% of their annual covered salary, and the City of Duncan contributes 13.0% of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by the state legislature. Contributions to the OPPRS for the year ended December 31, 2014, for employees and employer were \$185,434 and \$301,331 respectively, on covered payroll of \$2,230,110. The state made on-behalf payments for the police pension system of \$249,772. These on-behalf payments were recognized as both revenue and expenditures in the current fiscal year.

The required employer contributions and actual employer contributions made to OPPRS for the current and past two fiscal years are as follows:

<u>Fiscal year</u>	<u>Required</u>	<u>Contributed</u>
December 31, 2012	\$284,000	\$284,000
December 31, 2013	\$284,058	\$284,058
December 31, 2014	\$301,331	\$301,331

Oklahoma State Firefighters' Pension and Retirement System (OFPRS)

Plan Description – The OFPRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The ability to establish and amend benefit provisions is delegated to the administrators of the OFPRS. The OFPRS issues a publicly available financial report that includes financial statements and required supplementary information for the firefighting employees of the City. That report may be obtained by writing to the Oklahoma State Firefighters' Pension and Retirement System, 4545 North Lincoln Boulevard, Suite 265, Oklahoma City, Oklahoma 73105-3414, or by calling (405) 525-7813.

Funding Policy – Plan members are required to contribute 9.0% of their annual covered salary, and the City of Duncan contributes 14.0% of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by the state legislature. Contributions to the OFPRS for the year ended December 31, 2014, for employees and employer were \$215,696 and \$335,527, respectively, on covered payroll of \$2,372,076. The state made on-behalf payments for the fire pension system of \$711,623. These on-behalf payments were recognized as both revenue and expenditures in the current fiscal year.

The required employer contributions and actual employer contributions made to OFPRS for the current and past two fiscal years are as follows:

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<u>Fiscal year</u>	<u>Required</u>	<u>Contributed</u>
December 31, 2012	\$280,555	\$280,555
December 31, 2013	\$300,836	\$300,836
December 31, 2014	\$335,527	\$335,527

City of Duncan Employee Retirement Plan (the Plan) – Single-Employer, Defined Benefit Pension Plan

Plan Description – The City maintains a single-employer defined benefit retirement plan, the City of Duncan Employee Retirement Plan (the Plan), which covers employees not covered by other plans. The Plan is administered by a five member Board consisting of two department heads appointed by the City Council, the city clerk/treasurer, and two other city employees elected by their fellow employees. The City Council must approve all amendments to The Plan. The Plan does not issue separate financial statements.

Plan Participation and Benefits: Plan benefits and contribution rates are set by Ordinance approved by the City Council. All regular, full-time City employees not covered by other plans are required to participate in the Plan and temporary employees with 12 consecutive months of employment with the city. Benefits partially vest after ten years with full vesting after twenty years of service. Employees hired prior to November 1, 1994, who retire at age 65 with completion of five years of service, are entitled to an annual retirement benefit, payable monthly in an amount equal to 3% of final average compensation multiplied by the number of years of credited service through April 30, 1995, plus 2.5% of the final average earning multiplied by years of credited service earned after April 30, 1995. Final average earnings for service are not to exceed 75% of final average earnings. Final average compensation is defined as the average last 60 months of compensation paid.

For employees hired after November 1, 1994, the monthly benefit is 2.5% of the final average earnings multiplied by the number of years of credited service not to exceed 30 years. Final average compensation is defined as the average last 60 months of compensation paid.

A participant who has completed eleven years of credited service will have a 10% vested interest in the Plan. This interest will increase to 100% after 20 years of credited service.

Employees who have reached the maximum accrual rate may choose to freeze their accrued benefit and have future contributions made to a defined contribution account.

An employee is eligible for an early retirement benefit once he has attained age 55 and has completed five years of service if hired prior to November 1, 1994 and ten years of service if hired after November 1, 1994. The amount of benefit is determined based on the final average salary and credited service as of the date of termination. If benefit payments are to begin before age 65, the amount of benefit will not be reduced. A late retirement benefit is computed in the same manner as a normal retirement based on average salary and credited service as of the termination of employment.

A participant who becomes totally and permanently disabled will be entitled to a disability benefit based on a monthly benefit equal to the amount he would be entitled to at the date of disability.

A death benefit is payable based upon the employees' accrued benefit. This benefit is payable for life or until remarriage of the surviving spouse.

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Plan Membership -

Non-vested active members	82
Partially vested active member	28
Vested active members	<u>14</u>
Total active members	124
Inactive members/beneficiaries receiving benefits	103
Inactive plan members not yet receiving benefits	<u>4</u>
Total Members	231

Effective March 11, 2015, the single employer pension plan was closed to new employees. In addition, in January 2016, the salaries of employees in the plan were frozen for retirement benefit calculation.

Summary of Significant Accounting Policies and Plan Asset Matters - Basis of Accounting – Disclosures of the System’s financial condition are prepared using the accrual basis of accounting. Employee and employer contributions are recognized as System revenues in the period in which they are due to the plan per the plan agreement. Benefits and refunds are recognized when due and payable per plan provisions.

Method Used to Value Investments – Value of System assets are reported at fair value. As of December 31, 2014, the System held no related party investments or individual investments whose market value exceeds five percent of more the net position available for benefit.

GASB No. 27 Disclosures:

Funding Policy – The amount shown below as the actuarial accrued liability is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the funding status of the Plan on a going concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among employers. The measure is the actuarial present value of credited projected benefits, and is independent of the funding method used to determine contributions to the Plan.

The actuarial accrued liability was computed as part of an actuarial valuation performed as of January 1, 2014. Significant actuarial assumptions used in the valuation include 1) a rate of return on the investment of present and future assets of 7% compounded annually, and 2) future salary increases based on 4%.

The Plan’s funding policy provides for actuarially determined periodic contributions at rates that, for individual employees, increases gradually over time so sufficient assets will be available to pay benefits when due. Required contributions are determined using the entry age normal cost method. Unfunded actuarial accrued liabilities are being amortized as a level dollar of payroll over a rolling period of thirty years.

Significant actuarial assumptions used for the Plan are as follows:

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Valuation Date	January 1, 2014
Actuarial cost method	Entry Age Normal
Amortization method	Level dollar, (for funding purposes)
Remaining amortization period	40 years rolling
Asset valuation method	Market
Rate of return on investments	7% compounded annually
Projected salary increases	4% average
Inflation rate	3% per annum
Mortality rates – before and after retirement	RP2000 fully projected

For the year ended December 31, 2014, employees were required to contribute 8% of annual compensation while the City contributed 10%, of annual compensation, per ordinance. City contributions are based upon the plan document and not the actuarial determined amounts. Contributions to the Plan for the year ended December 31, 2014, for employees and employer were \$355,792 and \$442,614, respectively. In addition, the city made a lump sum payment to the plan of \$1,000,000. For the year ended December 31, 2014, the City's covered payroll was \$5,013,833. Covered payroll refers to all compensation paid by the City of Duncan to active employees covered by the Plan on which contributions are based.

The actuarially determined contributions for both the employee and the employer for the current and past two fiscal years are as follows:

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2012	1,617,237	76.4%	3,705,249
2013	1,726,558	83.8%	3,984,878
2014	1,648,637	87.5%	4,190,901

The following schedule shows the change in net pension obligation based on the actuarially required contributions to the plan compared to the actual contributions made by the city:

Annual required contribution (ARC)	\$ 1,690,823
Interest on NPO	278,941
ARC Adjustment	<u>(321,127)</u>
Annual pension cost for 2014 plan year	\$ 1,648,637
Actual contributions made	<u>(1,442,614)</u>
Increase in net pension obligation	206,023
Beginning of year net pension obligation	<u>3,984,878</u>
End of year net pension obligation	<u><u>\$ 4,190,901</u></u>

The governmental fund used to liquidate the net pension obligation is the general fund. There are no assets legally reserved for purposes other than the payment of plan member benefits. There are no long-term contracts for contributions.

The schedule of funding progress for the Plan for the current year is as follows:

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Actuarial Valuation Date	Value of Assets Available for Benefits	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Percentage Funded	Annual Covered Payroll	Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll
1/1/2014	\$ 6,067,606	\$ 23,970,234	\$ 17,902,628	25.3%	\$ 4,261,764	420.1%

The required supplementary information schedules of funding progress immediately following the notes to the financial statements presents multi-year trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

GASB No. 67 Disclosures:

Actuarial Assumptions - The valuation date for the GASB No. 67 disclosures was December 31, 2014. All other assumptions, were the same as those used in the GASB No. 27 actuarial valuation.

Rate of Return on Investments – 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 percentages and by adding expected inflation (3.0%) and deducting investment related expenses. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan’s target asset allocation as of December 31, 2014 are summarized in the following table:

Asset Class	Target Allocation	Real Return
Large cap stocks S&P 500	30%	5.10%
Mid/small cap stocks Russell 2000	20%	5.90%
International stocks MSCI EAFE	4%	4.80%
Bonds Barclays US	40%	2.50%
Multi-sector bonds	4%	3.50%
Real Estate	0%	4.80%
Cash equivalents	2%	0.00%

Discount Rate - The discount rate used to measure the total pension liability was a blended rate of 5.50 percent. This was based on the expected rate of return on pension plan investments of 7.0% and the municipal bond rate of 3.56%. The discount rate includes no allowance for administrative expenses, which are expensed separately. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be 8 percent of pay and that City contributions will be 10 percent of pay with additional supplementary contributions from the City under the established funding policy. By making additional contributions per year for twenty years funds will be depleted after 24 years based on the assumptions used. There is not yet an established funding policy for determining the supplementary contribution so the projection uses the average of the five most recent available years of supplementary contributions. The actuary assumes these supplemental contributions. Supplemental contributions of about \$1.16 million have been made in recent years.

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Sensitivity of the net pension liability to changes in the discount rate – The following presents the net pension liability of Plan, calculated using the discount rate of 5.50 percent, as well as what the City’s net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.50 percent) or 1-percentage-point higher (6.50 percent) than the current rate:

	1% Decrease 4.50%	Current Discount Rate	1% Increase 6.50%
City's Total Pension Liability			
Active Employees	\$ 15,427,281	\$ 13,342,165	\$ 11,709,498
Retirees and beneficiaries	17,084,960	15,760,187	14,615,140
total Pension Liability	\$ 32,512,241	\$ 29,102,352	\$ 26,324,638
Plan Fiduciary Net Position	\$ (6,575,894)	\$ (6,575,894)	\$ (6,575,894)
City's Net Pension Liability	\$ 25,936,347	\$ 22,526,458	\$ 19,748,744

The components of the net pension liability of City at December 31, 2014, was as follows:

	2014
Total Pension Liability	\$ 29,102,352
Plan Fiduciary Net Position	6,575,894
Net Pension Liability	\$ 22,526,458
 Plan Fiduciary Net Position as a percentage of the total pension liability	 22.73%

City of Duncan Defined Contribution Plan (the New Plan)

Plan Description – As part of the City’s Defined Benefit Plan, the City has also provided a defined contribution plan known as the City of Duncan “New Plan” Defined Contribution Plan under Section 401(a) of the IRS Code. The defined contribution plan are available to all full-time employees who have completed at least 30 years of credited service or is entitled to a monthly pension benefit of at least 75% of the Participant’s Final Average Earnings and who elects termination of coverage under the Defined Benefit Plan. The Defined Contribution Plan is included within the City’s Employee Retirement Trust Fund. Separate audited financial statements are not available.

The New Plan is administered by a five member Board of city employees. The City Council must approve changes to the plan. Benefits depend solely on amounts contributed to the Plan plus investment earnings. At December 31, 2014, there were eight (8) participants in the New Plan.

Funding Policy – Benefits depend solely on amounts contributed to the Plan plus investment earnings. Employees are eligible to participate upon thirty years of employment, and must make a mandatory minimum pre-tax contribution of 8%. By City ordinance, the City, as the employer, is required to make contributions to the Plan, based on an amount equal to the city contributions that would have been made under the Defined Benefit Plan. City contributions for fiscal year 2013 were 10%. The employee is always fully vested in the New Plan. The authority to establish and amend the provisions of the Plan rests with the City Council. Contributions to the Plan for the year ended December 31, 2014, for employees and employer were \$44,784 and \$55,981, respectively, on a covered payroll of \$559,805.

ICMA Retirement Deferred Compensation Plan (the ICMA Plan)

The City of Duncan offers a retirement plan through ICMA which is totally employer and employee funded. Employee and employer contributions to the ICMA Plan for the year ended December 31, 2014, were \$43,047 and \$53,402, respectively. Separate audited financial statements are not available.

D. DAEDF Operating Lease

In 2003, DAEDF leased an industrial building to a private company for twelve years with monthly rental payments of \$14,215. On November 1, 2009 a major expansion of the facilities was completed and the original lease was replaced with a new agreement providing for monthly rental payments of \$60,459 for an initial term of fifteen years and option for another five years. Total lease payments received on this property during 2014 were \$725,508; future minimum lease payments are \$7,134,162.

The Foundation receives other rental income from various tenants in exchange for office, manufacturing and warehouse space in connection with its business incubator program, Duncan Center for Business Development. Rents received in the incubator and industrial lease program were \$171,040 during 2014.

Total lease revenues from all properties for 2014 was \$898,548. Real estate lease revenue presented in the statement of activities is reflected net of direct expense in the amount of \$797,051, for a net return of \$101,497. Cost and carrying amount of property held for leasing as of December 31, 2014:

Building and land (cost)	\$8,669,835
Accumulated depreciation	<u>(2,595,846)</u>
Net book value	<u>\$6,073,989</u>

Future minimum lease payments on lease agreements in existence at December 31, 2014 are approximately \$906,872 for 2015 and \$725,508 annually through 2024.

E. Subsequent Event

On March 2015, the city adopted the Employee Retirement System, Defined Contribution Plan for all full-time employees hired on or after March 12, 2015. The Plan is administered by the City Council and is part of the Oklahoma Municipal Retirement Fund. Employees are required to contribute 5.0% of compensation and are assumed picked up by the employer and paid to the fund in lieu of contributions by the Participant. The employer contributes 5%. Voluntary contributions are allowed by employees. After five years of service employees are considered 50% vested. Vesting increases by 10% up to ten years of service.

In May 2015, the city entered into a debt agreement with the Waurika Lake Master Conservancy District for \$3,080,000. The debt is for the City of Duncan portion of restructuring the intake valve at the Lake. The debt is payable in annual installments of \$195,000 including principal and interest with final payment due October 2040.

F. Non-Compliance

In the General Fund, the City had expenditures exceeding appropriations at the legal level of control in the following department and for the following amount:

General Fund – Transfers out - \$289,872

State law prohibits negative fund balance in governmental funds. The General Fund had negative fund balance at December 31, 2014, of \$4,887,884.

G. New Accounting Pronouncements

Statement No. 68, *Accounting and Financial Reporting for Pensions, an Amendment of GASB Statement No. 27*. GASB No. 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and pension expenses. GASB No. 68 also details the recognition and disclosure requirements for employers with liabilities to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. Defined benefit pensions are further classified by GASB No. 68 as single employer plans, agent employer plans and cost-sharing plans, and recognition and disclosure requirements are addressed for each classification. GASB No. 68 was issued in June 2012, the City portion of the liability for fire pension is \$8,747,637 and police pension liability \$33,116. The Statement is effective for fiscal years ending after June 15, 2015.

Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* – GASB No. 71 was issued in November 2013, and addresses issues in Statement No. 68, *Accounting and Financial Reporting for Pension*, concerning transition provisions related to certain pension contributions made to defined benefit pension plans prior to implementation of that Statement by employer and nonemployer contributing entities. The requirements of this Statement should be implemented with Statement 68.

Statement No. 72, *Fair Value Measurement and Application* – GASB No. 72 was issued in February 2015, and addresses issues related to fair value measurements. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. Statement 72 is effective for financial statements for period beginning after June 15, 2015. The impact to the city is increased disclosures regarding the city's investments.

Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* – GASB No. 73 was issued in June 2015 and establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement 68 for pension plans and pensions that are within their respective scopes. The requirements of this Statement that address accounting and financial reporting by employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68 are

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effective for financial statements for fiscal years beginning after June 15, 2016, and the requirements of this Statement that address financial reporting for assets accumulated for purposes of providing those pensions are effective for fiscal years beginning after June 15, 2015. The requirements of this Statement for pension plans that are within the scope of Statement 67 or for pensions that are within the scope of Statement 68 are effective for fiscal years beginning after June 15, 2015.

Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans - GASB No. 74 was issued in June 2015, and replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No. 50, *Pension Disclosures*. This Statement is effective for financial statements for fiscal years beginning after June 15, 2016.

Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* – GASB No., 75 was issued in June 2015, and addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For a defined benefit OPEB, this Statement 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 Statement is effective for fiscal years beginning after June 15, 2017. This statement will require the city to record the entire amount of its unfunded OPEB obligation in its financial statements.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* – GASB No. 76 was issued in June 2015, and was issued to identify the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015. The city does not believe that GASB No. 76 will have a significant impact on its financial statements.

GASB Statement No. 77, *Tax Abatement Disclosures* - GASB 77 was issued in August 2015, and establishes financial reporting standards for tax abatement agreements entered into by state and local governments. The disclosures required by this Statement encompass tax abatements resulting from both (a) agreements that are entered into by the reporting government and (b) agreements that are entered into by other governments and that reduce the reporting government’s tax revenues. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015. The city has not yet determined the impact that the implementation of GASB No. 77 will have on its financial statements.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants* – GASB 79 was issued in December 2015, and establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the criteria. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015. The City has not yet determined the impact that implementation of GASB 79 will have on its net position.

GASB Statement No. 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14* – GASB 80 was issued January 2016, and amends the blending requirements for the financial statement presentation of component units. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2016. The City has not yet determined the impact that implementation of GASB 80 will have on its net position.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements* – GASB 81 was issued in March 2016, to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The city does not believe that GASB No. 81 will have significant impact on its financial statements.

GASB Statement No. 82, *Pension Issues-an amendment of GASB Statements No. 67, No. 68, and No. 73* – GASB 82 was issued in March 2016 to address certain issues that have been raised with respect to Statements No. 67, Financial Reporting for Pension Plans, No. 68, Accounting and Financial Reporting for Pensions, and No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The city does not believe that GASB No. 82 will have significant impact on its financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

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Budgetary Comparison Schedules – General Fund - (Budgetary Basis) – Year Ended December 31, 2014

	<u>Budgeted Amounts</u>		<u>Actual Amounts, Budgetary Basis</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes	\$ 9,714,415	\$ 9,714,415	\$ 10,959,589	\$ 1,245,174
Licenses and permits	108,550	114,050	69,759	(44,291)
Intergovernmental	106,350	106,350	283,886	177,536
Charges for services	71,070	62,620	263,189	200,569
Fees and fines	687,900	682,400	985,848	303,448
Investment earnings	10	10	573	563
Miscellaneous	122,620	131,070	123,378	(7,692)
Total revenues	<u>10,810,915</u>	<u>10,810,915</u>	<u>12,686,222</u>	<u>1,875,307</u>
EXPENDITURES				
Departmental:				
General government	2,749,296	3,507,198	3,449,440	57,758
Community development	867,625	817,625	787,087	30,538
Public Safety	9,658,202	9,009,262	8,882,418	126,844
Streets	971,151	917,151	866,262	50,889
Health	388,134	397,134	380,239	16,895
Culture and recreation	1,349,131	1,339,834	1,268,059	71,775
Total Expenditures	<u>15,983,539</u>	<u>15,988,204</u>	<u>15,633,505</u>	<u>354,699</u>
Excess (deficiency) of revenues over expenditures	<u>(5,172,624)</u>	<u>(5,177,289)</u>	<u>(2,947,283)</u>	<u>2,230,006</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	7,328,966	7,328,966	7,590,382	261,416
Transfers out	<u>(2,102,338)</u>	<u>(2,136,343)</u>	<u>(2,426,215)</u>	<u>(289,872)</u>
Total other financing sources and uses	<u>5,226,628</u>	<u>5,192,623</u>	<u>5,164,167</u>	<u>(28,456)</u>
Net change in fund balances	54,004	15,334	2,216,884	2,201,550
Fund balances - beginning	<u>(6,780,845)</u>	<u>(6,780,845)</u>	<u>(6,780,845)</u>	<u>-</u>
Fund balances - ending	<u>\$ (6,726,841)</u>	<u>\$ (6,765,511)</u>	<u>\$ (4,563,961)</u>	<u>\$ 2,201,550</u>

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Budgetary Comparison Schedules – DEDTA Major Special Revenue Fund - (Budgetary Basis) – Year Ended December 31, 2014

	<u>Budgeted Amounts</u>		<u>Actual Amounts, Budgetary Basis</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes	\$ 1,911,216	\$ 1,911,216	\$ 2,193,814	\$ 282,598
Investment earnings	30,350	30,350	559,896	529,546
Miscellaneous	9,580	9,580	8,986	(594)
Total revenues	<u>1,951,146</u>	<u>1,951,146</u>	<u>2,762,696</u>	<u>811,550</u>
EXPENDITURES				
Departmental:				
Economic Development	<u>586,183</u>	<u>1,176,183</u>	<u>661,397</u>	<u>514,786</u>
Total Expenditures	<u>586,183</u>	<u>1,176,183</u>	<u>661,397</u>	<u>514,786</u>
Excess (deficiency) of revenues over expenditures	<u>1,364,963</u>	<u>774,963</u>	<u>2,101,299</u>	<u>1,326,336</u>
OTHER FINANCING SOURCES (USES)				
Transfers in - component unit	-	-	-	-
Transfers out - component unit	<u>(599,000)</u>	<u>(599,000)</u>	<u>(599,000)</u>	<u>-</u>
Total other financing sources and uses	<u>(599,000)</u>	<u>(599,000)</u>	<u>(599,000)</u>	<u>-</u>
Net change in fund balances	765,963	175,963	1,502,299	1,326,336
Fund balances - beginning	9,990,051	9,990,051	9,990,051	-
Fund balances - ending	<u>\$ 10,756,014</u>	<u>\$ 10,166,014</u>	<u>\$ 11,492,350</u>	<u>\$ 1,326,336</u>

Footnotes to Budgetary Comparison Schedule:

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 December 1, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted at regular Council meetings to obtain taxpayer comments. Public hearings are 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 January 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.

All funds with revenues and/or expenditures/expenses as defined by State law are required to have annual budgets under this section of state law, except funds of public trusts or authorities. The legal level of control at which expenditures may not legally exceed appropriations is the department level within a fund. The following departments exceeded appropriations:

General Fund – Transfers out - \$289,872

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All supplemental appropriations require the approval of the City Council. All transfers of appropriation between departments also require the approval of the City Council. The City prepared and adopted a legal annual budget for all governmental funds.

In accordance with Title 60 of the Oklahoma State Statutes, the Duncan Public Utilities Authority, the Duncan Economic Development Trust Authority, the Duncan Industrial Authority and the Duncan Hospital 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 the budget or definition of a legal spending limit.

Budgetary Accounting

The annual operating budgets of the General Fund are prepared and presented on a modified cash basis of accounting.

The following is a reconciliation of the difference in budget and actual:

	General Fund
Total revenue - budgetary basis	\$ 20,276,604
Total expenses - budgetary basis	(18,059,720)
Change in fund balance - budgetary basis	2,216,884
Add change in fund balance of sub-accounts combined for reporting purposes:	
Police Uniform Allowance	14,216
Fire Uniform Allowance	(20,263)
Police Reserve	(598)
Communication Trust	(77,192)
Police Firing Range	(34)
Hunting and Fishing	(694)
Retiree Health Account	(274,832)
Change in fund balance - GAAP basis	\$ 1,857,487

The City utilizes encumbrance accounting under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve a portion of the applicable appropriation. The City considers most all appropriations to lapse at year-end; any open purchase orders to be honored in the subsequent budget year are reappropriated in the next year's budget. As a result, encumbrances are not treated as the equivalent of expenditures in the budget and actual financial statements.

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Schedule of Funding Progress – City Employee Retirement System

Accrual Valuation Date	Value of Assets Available for Benefits	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Percentage Funded	Annual Covered Payroll	Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll
1/1/2005	\$ 5,290,681	\$ 18,269,684	\$ 12,979,003	29.0%	\$ 3,273,258	396.5%
1/1/2006	5,159,994	19,077,027	13,917,033	27.0%	3,324,858	418.6%
1/1/2007	5,430,783	19,375,887	13,945,104	28.0%	3,478,956	400.8%
1/1/2008	5,614,047	20,284,876	14,670,829	27.7%	3,789,364	387.2%
1/1/2009	4,403,945	20,885,464	16,481,518	21.1%	4,209,380	391.5%
1/1/2010	5,192,451	21,168,352	15,975,901	24.5%	4,254,695	375.5%
1/1/2011	5,187,615	22,425,310	17,237,695	23.1%	4,384,280	393.2%
1/1/2012	4,563,752	22,721,821	18,158,069	20.1%	4,235,881	428.7%
1/1/2013	4,989,308	24,125,998	19,136,689	20.7%	4,440,377	431.0%
1/1/2014	6,067,606	23,970,234	17,902,628	25.3%	4,261,764	420.1%

Schedule of Employer Contributions

Fiscal Year	Annual Required Contributions	Percentage Contributed
2005	\$ 1,155,409	75.4%
2006	1,210,679	77.4%
2007	1,253,289	88.9%
2008	1,351,132	71.3%
2009	1,521,808	52.4%
2010	1,488,556	56.6%
2011	1,627,373	58.8%
2012	1,652,424	76.4%
2013	1,765,783	83.8%
2014	1,690,823	87.5%

Notes to Required Supplementary Information Pension Plan Funding Schedules

Covered payroll is the total annualized rate of pay as of the valuation date based on actual pay for the preceding year.

Actuarial method is “Entry Age Normal”.

The city changed its fiscal year to a December 31 year-end beginning in 2011.

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**SCHEDULE OF CHANGES IN THE CITY'S NET PENSION LIABILITY AND RELATED RATIOS
Last Fiscal Year**

	Year Ended December 31, 2014
Total pension liability	
Service cost	\$ 819,768
Interest	1,537,164
Changes of benefit terms	-
Difference between expected and actual experience	-
Changes of assumptions	-
Benefit payments, including refunds of member contributions	(1,576,141)
Net change in total pension liability	<u>\$ 780,791</u>
Total pension liability - beginning	<u>28,321,561</u>
Total pension liability - ending (a)	<u><u>\$ 29,102,352</u></u>
Plan fiduciary net position	
Contributions - employer	\$ 1,442,614
Contributions - members	360,374
Net investment income	346,092
Benefit payments, including refunds of member contributions	(1,576,141)
Administrative expense	(25,806)
Other	
Net change in plan fiduciary net position	<u>547,133</u>
Plan fiduciary net position - beginning	<u>6,067,606</u>
Plan fiduciary net position - ending (b)	<u><u>\$ 6,614,739</u></u>
City's net pension liability - ending (a-b)	<u>\$ 22,487,612</u>
Plan fiduciary net position as a percentage of the total pension liability	22.73%
Covered-employee payroll	\$ 4,261,764
City's net pension liability as a percentage of covered employee payroll	527.66%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full ten-year trend is compiled, pension plans should present information for those years for which information is available.

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**SCHEDULE OF CITY'S CONTRIBUTIONS
Last Ten Fiscal Years**

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Actuarially determined contribution	\$ 1,935,238	\$ 1,936,546	\$ 1,909,362	\$ 1,735,087	\$ 1,795,874	\$ 1,768,611	\$ 1,788,029	\$ 1,586,366	\$ 1,466,593	\$ 1,422,857
Contributions in relation to the actuarially determined contribution	1,802,988	1,803,423	1,589,473	1,291,241	1,211,069	1,139,668	1,313,635	1,418,106	1,226,021	1,146,436
Contribution deficiency (excess)	\$ 132,250	\$ 133,123	\$ 319,889	\$ 443,846	\$ 584,805	\$ 628,943	\$ 474,394	\$ 168,260	\$ 240,572	\$ 276,421
Covered-employee payroll	\$ 4,261,764	\$ 4,440,377	\$ 4,235,881	\$ 4,384,280	\$ 4,254,695	\$ 4,209,380	\$ 36,789,364	\$ 3,478,956	\$ 3,324,858	\$ 3,273,258
Contributions as a percentage of covered-employee payroll	42.3%	40.6%	37.5%	29.5%	28.5%	27.1%	3.6%	40.8%	36.9%	35.0%

Notes to Schedule:

Valuation Date December 31, 2014
Actuarially determined contribution rates are calculated as of January 1, one year prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age Normal Cost Method
Amortization method	Level dollar (for funding purpose)
Remaining amortization period	40 years rolling (funding)
Asset valuation method	Fair Market Value
Salary increases	4.0%
Investment rate of return	7.0% (before admin expenses)
Retirement age	Age-related
Mortality	RP 2000 projected

SCHEDULE OF INVESTMENT RETURNS

Last Ten Fiscal Years

Year Ended	Annual money-weighted rate of return, net of investment expense
2014	5.61%
2013	16.94%
2012	9.87%
2011	-3.51%
2010	10.32%
2009	24.75%
2008	-19.54%
2007	3.24%
2006	8.43%
2005	2.15%

Other Post Employment Benefits

The funded status and funding progress of the City's defined benefit OPEB plan for the most recent actuarial valuations is as follows:

	January 1, 2011	January 1, 2012	January 1, 2013
Actuarial accrued liability - AAL (a)	\$17,811,723	\$19,110,494	\$11,491,909
Actuarial value of plan assets (b)	-	-	-
Unfunded actuarial accrued liability – UAAL (funding excess) (a) – (b)	\$17,811,723	\$19,110,494	\$11,491,909
Funded ratio (b)/(a)	-	-	-
Covered payroll (c)	\$8,448,341	\$8,701,791	\$9,121,930
UAAL (funding excess) as a % of covered payroll [UAAL/(c)]	210.83%	219.62%	125.98%

SUPPLEMENTARY INFORMATION

**CITY OF DUNCAN, OKLAHOMA
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Combining Balance Sheet – General Fund Accounts – December 31, 2014

	General Fund	Police Uniform Allowance	Fire Uniform Allowance	Police Reserve	Communication Trust	Police Firing Range	Hunting and Fishing	Retiree Insurance Account	Total General Fund
ASSETS									
Cash and cash equivalents	\$ 19,641	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 25,249	\$ -	\$ 44,890
Receivable from other governments	1,344,977	-	-	-	-	-	-	-	1,344,977
Due from other funds	277,823	-	-	-	-	-	-	-	277,823
Taxes receivable, net	171,898	-	-	-	-	-	-	-	171,898
Court fines receivable, net	183,186	-	-	-	-	-	-	-	183,186
Other receivables	14,850	-	-	-	-	-	-	-	14,850
Total assets	<u>2,012,375</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>25,249</u>	<u>-</u>	<u>2,037,624</u>
LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES									
Liabilities:									
Accounts payable	103,502	-	91	-	-	-	101	-	103,694
Accrued payroll payable	460,755	-	-	-	-	-	-	-	460,755
Due to other funds	-	-	-	-	-	-	-	274,832	274,832
Due to bondholders	-	-	-	-	-	-	600	-	600
Payable to other governments	6,394	-	-	-	-	-	-	-	6,394
Advance to other funds	5,930,163	-	73,548	-	-	-	-	-	6,003,711
Total liabilities	<u>6,500,814</u>	<u>-</u>	<u>91</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>701</u>	<u>549,664</u>	<u>7,124,818</u>
Deferred inflows of resources:									
Unavailable revenue	84,491	-	-	-	-	-	-	-	84,491
Fund balances:									
Unassigned (deficit)	(4,572,930)	-	(73,639)	-	-	-	24,548	(274,832)	(4,896,853)
Total fund balances	<u>(4,572,930)</u>	<u>-</u>	<u>(73,639)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>24,548</u>	<u>(274,832)</u>	<u>(4,896,853)</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 2,012,375</u>	<u>\$ -</u>	<u>\$ (73,548)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 25,249</u>	<u>\$ 274,832</u>	<u>\$ 2,312,456</u>

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**Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances – General Fund Accounts
– December 31, 2014**

	<u>General Fund</u>	<u>Police Uniform Allowance</u>	<u>Fire Uniform Allowance</u>	<u>Police Reserve</u>	<u>Communication Trust</u>	<u>Police Firing Range</u>	<u>Hunting and Fishing</u>	<u>Retiree Insurance Account</u>	<u>Total General Fund</u>
REVENUES									
Taxes	\$ 10,959,589	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,959,589
Intergovernmental	1,245,281	-	-	-	-	-	-	-	1,245,281
Licenses and permits	69,759	-	-	-	-	-	10,157	-	79,916
Charges for services	263,189	-	-	-	-	-	-	-	263,189
Fees and fines	985,848	-	-	-	-	-	-	132,187	1,118,035
Investment earnings	573	-	-	-	-	-	-	-	573
Miscellaneous	123,378	-	-	-	-	-	1,140	-	124,518
Total revenues	<u>13,647,617</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,297</u>	<u>132,187</u>	<u>13,791,101</u>
EXPENDITURES									
Current:									
General government	3,449,440	-	-	-	-	-	-	407,019	3,856,459
Community Development	787,087	-	-	-	-	-	-	-	787,087
Public Safety	9,842,157	-	20,263	-	-	-	-	-	9,862,420
Highways and Streets	866,262	-	-	-	-	-	-	-	866,262
Health	380,239	-	-	-	-	-	-	-	380,239
Culture and recreation	1,277,028	-	-	-	-	-	11,991	-	1,289,019
Debt Service:									
Principal	1,618	-	-	-	-	-	-	-	1,618
Interest and other charges	38	-	-	-	-	-	-	-	38
Total expenditures	<u>16,603,869</u>	<u>-</u>	<u>20,263</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,991</u>	<u>407,019</u>	<u>17,043,142</u>
Excess (deficiency) of revenues over expenditures	<u>(2,956,252)</u>	<u>-</u>	<u>(20,263)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(694)</u>	<u>(274,832)</u>	<u>(3,252,041)</u>
OTHER FINANCING SOURCES (USES)									
Transfers in - interaccount	77,824	14,216	-	-	-	-	-	-	92,040
Transfers out - interaccount	(14,216)	-	-	(598)	(77,192)	(34)	-	-	(92,040)
Transfers in	7,512,558	-	-	-	-	-	-	-	7,512,558
Transfers out	(2,411,999)	-	-	-	-	-	-	-	(2,411,999)
Total other financing sources and uses	<u>5,164,167</u>	<u>14,216</u>	<u>-</u>	<u>(598)</u>	<u>(77,192)</u>	<u>(34)</u>	<u>-</u>	<u>-</u>	<u>5,100,559</u>
Net change in fund balances	2,207,915	14,216	(20,263)	(598)	(77,192)	(34)	(694)	(274,832)	1,848,518
Fund balances - beginning	(6,780,845)	(14,216)	(53,376)	598	77,192	34	25,242	-	(6,745,371)
Fund balances - ending	<u>\$ (4,572,930)</u>	<u>\$ -</u>	<u>\$ (73,639)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 24,548</u>	<u>\$ (274,832)</u>	<u>\$ (4,896,853)</u>

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Combining Balance Sheet – Nonmajor Governmental Funds – December 31, 2014

	Street and Alley Fund	Cemetery Care	Library Gifts and Grants	CDBG	E911 Dispatch	DPUA Debt Service Fund
ASSETS						
Cash and cash equivalents	\$ 98,995	\$ 164,591	\$ -	\$ 340,293	\$ 540,038	\$ 110,260
Receivable from other governments	97,054	-	-	-	40,311	-
Due from other funds	85,658	-	-	-	-	-
Other receivables	-	619	-	-	-	-
Total assets	<u>281,707</u>	<u>165,210</u>	<u>-</u>	<u>340,293</u>	<u>580,349</u>	<u>110,260</u>
LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES						
Liabilities:						
Accounts payable and accrued liabilities	5,390	-	448	-	-	-
Due to other funds	-	-	10,058	-	428,207	-
Total liabilities	<u>5,390</u>	<u>-</u>	<u>10,506</u>	<u>-</u>	<u>428,207</u>	<u>-</u>
Deferred inflows of resources:						
Unavailable revenue	<u>67,338</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances:						
Restricted	208,979	165,210	-	340,293	152,142	110,260
Unassigned (deficit)	-	-	(10,506)	-	-	-
Total fund balances	<u>208,979</u>	<u>165,210</u>	<u>(10,506)</u>	<u>340,293</u>	<u>152,142</u>	<u>110,260</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 281,707</u>	<u>\$ 165,210</u>	<u>\$ -</u>	<u>\$ 340,293</u>	<u>\$ 580,349</u>	<u>\$ 110,260</u>

continued

**CITY OF DUNCAN, OKLAHOMA
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Combining Balance Sheet – Nonmajor Governmental Funds – December 31, 2014, continued

	<u>Police Grants and Seizures</u>	<u>First Responder Program</u>	<u>DARE</u>	<u>Sinking Fund</u>	<u>Stimulus Grant</u>	<u>Total Other Governmental Funds</u>
ASSETS						
Cash and cash equivalents	\$ 140,817	\$ 10,037	\$ -	\$ 25,764	\$ -	\$ 1,430,795
Receivable from other governments	-	-	-	64	-	137,429
Due from other funds	-	-	-	-	-	85,658
Other receivables	-	-	-	-	-	619
Total assets	<u>140,817</u>	<u>10,037</u>	<u>-</u>	<u>25,828</u>	<u>-</u>	<u>1,654,501</u>
LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES						
Liabilities:						
Accounts payable and accrued liabilities	150	-	-	-	-	5,988
Due to other funds	-	-	-	24,850	-	463,115
Total liabilities	<u>150</u>	<u>-</u>	<u>-</u>	<u>24,850</u>	<u>-</u>	<u>469,103</u>
Deferred inflows of resources:						
Unavailable revenue	-	-	-	-	-	67,338
Fund balances:						
Restricted	140,667	10,037	-	978	-	1,128,566
Unassigned (deficit)	-	-	-	-	-	(10,506)
Total fund balances	<u>140,667</u>	<u>10,037</u>	<u>-</u>	<u>978</u>	<u>-</u>	<u>1,118,060</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 140,817</u>	<u>\$ 10,037</u>	<u>\$ -</u>	<u>\$ 25,828</u>	<u>\$ -</u>	<u>\$ 1,654,501</u>

**CITY OF DUNCAN, OKLAHOMA
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Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds – December 31, 2014

	<u>Street and Alley Fund</u>	<u>Cemetery Care</u>	<u>Library Gifts and Grants</u>	<u>CDBG</u>	<u>E911 Dispatch</u>	<u>DPUA Debt Service Fund</u>
REVENUES						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 351,680	\$ -
Intergovernmental	242,185	-	20,586	-	-	-
Charges for services	-	11,529	-	-	-	-
Investment earnings	-	-	-	-	-	6
Miscellaneous	-	1,411	99	1	-	-
Total revenues	<u>242,185</u>	<u>12,940</u>	<u>20,685</u>	<u>1</u>	<u>351,680</u>	<u>6</u>
EXPENDITURES						
Current:						
Public safety	-	-	-	-	27,758	-
Streets	195,032	-	-	-	-	-
Culture and recreation	-	-	19,722	-	-	-
General government	-	100	-	-	-	-
Debt Service						
Principal	-	-	-	-	34,398	1,150,000
Interest and other charges	-	-	-	-	4,776	169,612
Capital outlay	-	-	803	-	31,013	-
Total Expenditures	<u>195,032</u>	<u>100</u>	<u>20,525</u>	<u>-</u>	<u>97,945</u>	<u>1,319,612</u>
Excess (deficiency) of revenues over expenditures	<u>47,153</u>	<u>12,840</u>	<u>160</u>	<u>1</u>	<u>253,735</u>	<u>(1,319,606)</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	-	-	-	-	-	1,319,252
Transfers out	-	-	-	-	(193,133)	-
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(193,133)</u>	<u>1,319,252</u>
Net change in fund balances	47,153	12,840	160	1	60,602	(354)
Fund balances - beginning	161,826	152,370	(10,666)	340,292	91,540	110,614
Fund balances - ending	<u>\$ 208,979</u>	<u>\$ 165,210</u>	<u>\$ (10,506)</u>	<u>\$ 340,293</u>	<u>\$ 152,142</u>	<u>\$ 110,260</u>

(continued)

**CITY OF DUNCAN, OKLAHOMA
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**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor
Governmental Funds – December 31, 2014, continued**

	Police Grants and Seizures	First Responder Program	DARE	Sinking Fund	Stimulus Grant	Total Other Governmental Funds
REVENUES						
Taxes	\$ -	\$ -	\$ -	\$ 25,828	\$ -	\$ 377,508
Intergovernmental	8,611	1,777	-	-	-	273,159
Charges for services	-	-	-	-	-	11,529
Investment earnings	-	-	-	-	-	6
Miscellaneous	169,045	-	-	-	-	170,556
Total revenues	<u>177,656</u>	<u>1,777</u>	<u>-</u>	<u>25,828</u>	<u>-</u>	<u>832,758</u>
EXPENDITURES						
Current:						
Police	-	-	-	-	-	27,758
Streets	-	-	-	-	-	195,032
Parks and recreation	-	-	-	-	-	19,722
Culture and recreation	-	-	-	-	-	100
Debt Service						
Principal	-	-	-	-	-	1,184,398
Interest and other charges	-	-	-	25,719	-	200,107
Capital outlay	148,965	-	-	-	-	180,781
Total Expenditures	<u>148,965</u>	<u>-</u>	<u>-</u>	<u>25,719</u>	<u>-</u>	<u>1,807,898</u>
Excess (deficiency) of revenues over expenditures	<u>28,691</u>	<u>1,777</u>	<u>-</u>	<u>109</u>	<u>-</u>	<u>(975,140)</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	-	-	-	-	-	1,319,252
Transfers out	-	-	(1,004)	-	(1,516)	(195,653)
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>(1,004)</u>	<u>-</u>	<u>(1,516)</u>	<u>1,123,599</u>
Net change in fund balances	28,691	1,777	(1,004)	109	(1,516)	148,459
Fund balances - beginning	111,976	8,260	1,004	869	1,516	969,601
Fund balances - ending	<u>\$ 140,667</u>	<u>\$ 10,037</u>	<u>\$ -</u>	<u>\$ 978</u>	<u>\$ -</u>	<u>\$ 1,118,060</u>

**CITY OF DUNCAN, OKLAHOMA
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Combining Schedule of Net Position – Duncan Public Utilities Authority – December 31, 2014

	DPUA - Other Utilities	DPUA - Electric	DPUA Airport	DPUA Sinking - Waurika	Redeposit Cash	Meter Deposit	Waterline Improvement	DPUA Sewer Replacement	Total
ASSETS									
Current assets:									
Cash and cash equivalents	\$ 172,519	\$ 38,565	\$ -	\$ -	\$ -	\$ -	\$ 29,568	\$ -	\$ 240,652
Investments	-	1,002,113	-	-	-	-	-	-	1,002,113
Restricted:									
Cash and cash equivalents	597,035	-	-	407,027	-	1,247,236	-	-	2,251,298
Due from other funds	65,594	30,872	-	1,962	-	-	-	-	98,428
Due from other funds - interaccount	449,809	-	-	231,775	-	-	18,264	-	699,848
Accounts receivable, net	1,439,989	2,311,538	4,444	-	-	-	-	-	3,755,971
Receivables from other governments	-	1,792	23,850	-	-	-	-	-	25,642
Other receivables	20,836	9,406	-	-	23,921	-	-	-	54,163
Inventories	-	735,823	-	-	-	-	-	-	735,823
Total current assets	2,745,782	4,130,109	28,294	640,764	23,921	1,247,236	47,832	-	8,863,938
Non-current assets:									
Due from other funds	-	4,132,927	-	-	-	-	-	-	4,132,927
Restricted:									
Investments	-	-	-	7,326,384	-	-	-	-	7,326,384
Capital assets:									
Land and construction in progress	420,786	55,887	131,099	-	-	-	-	-	607,772
Other capital assets, net of accumulated depreciation	57,491,620	2,333,107	2,066,256	-	-	-	-	-	61,890,983
Total non-current assets	57,912,406	6,521,921	2,197,355	7,326,384	-	-	-	-	73,958,066
Total assets	60,658,188	10,652,030	2,225,649	7,967,148	23,921	1,247,236	47,832	-	82,822,004
LIABILITIES									
Current liabilities:									
Accounts payable and accrued liabilities	385,221	944,804	1,692	-	-	-	-	15	1,331,732
Salaries payable	85,243	50,313	-	-	-	-	-	5,812	141,368
Accrued interest payable	382,116	-	-	-	-	-	-	-	382,116
Due to other funds	72,354	-	2,680	-	-	-	-	21,413	96,447
Due to other funds - interaccount	-	-	18,264	-	6,985	442,824	-	231,775	699,848
Payable to other governments	-	88,419	-	-	-	-	-	-	88,419
Unearned revenue	124,980	-	-	-	-	-	-	-	124,980
Deposits subject to refund	-	-	-	-	-	110,314	-	-	110,314
Compensated absences	17,071	11,306	-	-	-	-	-	491	28,868
Bonds payable	2,868,984	-	-	-	-	-	-	-	2,868,984
Total current liabilities	3,935,969	1,094,842	22,636	-	6,985	553,138	-	259,506	5,873,076
Non-current liabilities:									
Compensated absences, net of current portion	153,635	101,752	-	-	-	-	-	4,419	259,806
Deposits subject to refund	-	63,013	-	-	-	992,823	-	-	1,055,836
Net OPEB obligation	356,793	352,167	-	-	-	-	-	-	708,960
Net pension obligation	921,163	820,413	-	-	-	-	-	116,347	1,857,923
Notes payable, net of current portion	41,201,567	-	-	-	-	-	-	-	41,201,567
Total non-current liabilities	42,633,158	1,337,345	-	-	-	992,823	-	120,766	45,084,092
Total liabilities	46,569,127	2,432,187	22,636	-	6,985	1,545,961	-	380,272	50,957,168
NET POSITION									
Net investment in capital assets	13,841,855	2,388,994	2,197,355	-	-	-	-	-	18,428,204
Restricted for debt service	214,919	-	-	7,967,148	-	-	-	-	8,182,067
Unrestricted (deficit)	32,287	5,830,849	5,658	-	16,936	(298,725)	47,832	(380,272)	5,254,565
Total net position	\$ 14,089,061	\$ 8,219,843	\$ 2,203,013	\$ 7,967,148	\$ 16,936	\$ (298,725)	\$ 47,832	\$ (380,272)	\$ 31,864,836

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Combining Schedule of Revenues, Expenses, and Changes in Net Position – Duncan Public Utilities Authority – Year Ended December 31, 2014

	Enterprise Fund Accounts							Total	
	DPUA - Other Utilities	DPUA - Electric	DPUA Airport	DPUA Sinking - Waurika	Redeposit Cash	Meter Deposit	Waterline Improvement		DPUA Sewer Replacement
REVENUES									
Water	\$ 5,210,491	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,210,491
Electric	-	19,227,891	-	-	-	-	-	-	19,227,891
Sewer	2,029,807	-	-	-	-	-	-	-	2,029,807
Sanitation	3,651,406	-	-	-	-	-	-	-	3,651,406
Lake	132,256	-	-	-	-	-	-	-	132,256
Airport	-	-	36,787	-	-	-	-	-	36,787
Miscellaneous	234,281	66,517	-	-	275	-	-	213	301,286
Total operating revenues	<u>11,258,241</u>	<u>19,294,408</u>	<u>36,787</u>	<u>-</u>	<u>275</u>	<u>-</u>	<u>-</u>	<u>213</u>	<u>30,589,924</u>
OPERATING EXPENSES									
General government	560,315	-	-	-	-	-	-	-	560,315
Water	2,715,759	-	-	295	-	-	-	-	2,716,054
Wastewater	871,565	-	-	-	-	-	-	244,007	1,115,572
Sanitation	3,477,526	-	-	-	-	-	-	-	3,477,526
Electric	-	15,643,788	-	-	-	-	-	-	15,643,788
Lake	399,829	-	-	-	-	-	-	-	399,829
Airport	-	-	36,985	-	-	-	-	-	36,985
Depreciation	3,098,160	353,001	231,877	-	-	-	-	-	3,683,038
Total operating expenses	<u>11,123,154</u>	<u>15,996,789</u>	<u>268,862</u>	<u>295</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>244,007</u>	<u>27,633,107</u>
Operating income (loss)	<u>135,087</u>	<u>3,297,619</u>	<u>(232,075)</u>	<u>(295)</u>	<u>275</u>	<u>-</u>	<u>-</u>	<u>(243,794)</u>	<u>2,956,817</u>
NON-OPERATING REVENUES (EXPENSES)									
Interest and investment revenue	751	(13,126)	-	1,479,895	-	-	-	-	1,467,520
Miscellaneous revenue	63,828	71,721	-	-	-	-	-	-	135,549
Gain on capital asset disposal	-	5,561	-	-	-	-	-	-	5,561
Interest expense	(1,382,388)	-	-	-	-	-	-	-	(1,382,388)
Total non-operating revenue (expenses)	<u>(1,317,809)</u>	<u>64,156</u>	<u>-</u>	<u>1,479,895</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>226,242</u>
Income (loss) before contributions and transfers	<u>(1,182,722)</u>	<u>3,361,775</u>	<u>(232,075)</u>	<u>1,479,600</u>	<u>275</u>	<u>-</u>	<u>-</u>	<u>(243,794)</u>	<u>3,183,059</u>
Capital contributions	431,485	129,340	54,405	-	-	-	-	-	615,230
Transfers in - interaccount	664,589	-	-	-	-	-	-	317,214	981,803
Transfers out - interaccount	(317,214)	-	-	(660,471)	-	-	-	(4,118)	(981,803)
Transfers in	3,995,825	-	-	-	-	-	-	-	3,995,825
Transfers out	(4,412,457)	(4,223,700)	-	-	-	-	-	-	(8,636,157)
Change in net position	(820,494)	(732,585)	(177,670)	819,129	275	-	-	69,302	(842,043)
Total net position - beginning, restated	14,909,555	8,952,428	2,380,683	7,148,019	16,661	(298,725)	47,832	(449,574)	32,706,879
Total net position - ending	<u>\$ 14,089,061</u>	<u>\$ 8,219,843</u>	<u>\$ 2,203,013</u>	<u>\$ 7,967,148</u>	<u>\$ 16,936</u>	<u>\$ (298,725)</u>	<u>\$ 47,832</u>	<u>\$ (380,272)</u>	<u>\$ 31,864,836</u>

**CITY OF DUNCAN, OKLAHOMA
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Combining Schedule of Cash Flows – Duncan Public Utilities Authority – Year Ended December 31, 2014

	Enterprise Fund Accounts							Total	
	DPUA - Other Utilities	DPUA - Electric	DPUA Airport	DPUA Sinking		Meter Deposit	Waterline Improvement		DPUA Sewer Replacement
				Waurika	Redeposit Cash				
CASH FLOWS FROM OPERATING ACTIVITIES									
Receipts from customers	\$ 11,033,492	\$ 18,934,067	\$ 38,020	\$ -	\$ 3,701	\$ -	\$ -	\$ 213	\$ 30,009,493
Payments to suppliers and employees	(8,442,258)	(15,455,903)	(37,786)	(295)	-	-	-	(248,795)	(24,185,037)
Receipts of customer meter deposits	-	2,404	-	-	-	378,187	-	-	380,591
Refunds of customer meter deposits	-	-	-	-	-	(327,836)	-	-	(327,836)
Interfund receipts	1,748,432	391,743	-	-	-	143,506	29,568	-	2,313,249
Interfund payments	(123,272)	(120,797)	(234)	(901,012)	(3,701)	-	-	(64,514)	(1,213,530)
Net cash provided by (used in) operating activities	4,216,394	3,751,514	-	(901,307)	-	193,857	29,568	(313,096)	6,976,930
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES									
Interfund payments	-	(300,000)	-	-	-	-	-	-	(300,000)
Transfers from other funds - interaccount	664,589	-	-	-	-	-	-	317,214	981,803
Transfers to other funds interaccount	(317,214)	-	-	(660,471)	-	-	-	(4,118)	(981,803)
Transfers from other funds	3,995,825	-	-	-	-	-	-	-	3,995,825
Transfers to other funds	(4,412,457)	(4,223,700)	-	-	-	-	-	-	(8,636,157)
Miscellaneous revenue	63,828	71,721	-	-	-	-	-	-	135,549
Net cash provided by (used in) noncapital financing activities	(5,429)	(4,451,979)	-	(660,471)	-	-	-	313,096	(4,804,783)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES									
Purchases of capital assets	(200,188)	(55,674)	-	-	-	-	-	-	(255,862)
Proceeds from sale of capital assets	-	5,561	-	-	-	-	-	-	5,561
Principal paid on debt	(2,733,488)	-	-	-	-	-	-	-	(2,733,488)
Interest and fiscal agent fees paid on debt	(1,402,723)	-	-	-	-	-	-	-	(1,402,723)
Net cash provided by (used in) capital and related financing activities	(4,336,399)	(50,113)	-	-	-	-	-	-	(4,386,512)
CASH FLOWS FROM INVESTING ACTIVITIES									
Sale of investments	-	764,807	-	669,029	-	-	-	-	1,433,836
Interest and dividends	751	6,771	-	832,329	-	-	-	-	839,851
Net cash provided by investing activities	751	771,578	-	1,501,358	-	-	-	-	2,273,687
Net increase (decrease) in cash and cash equivalents	(124,683)	21,000	-	(60,420)	-	193,857	29,568	-	59,322
Balances - beginning of year	894,237	17,565	-	467,447	-	1,053,379	-	-	2,432,628
Balances - end of year	\$ 769,554	\$ 38,565	\$ -	\$ 407,027	\$ -	\$ 1,247,236	\$ 29,568	\$ -	\$ 2,491,950
Reconciliation to Statement of Net Position:									
Cash and cash equivalents	\$ 172,519	\$ 38,565	\$ -	\$ -	\$ -	\$ -	\$ 29,568	\$ -	\$ 240,652
Restricted cash and cash equivalents - current	597,035	-	-	407,027	-	1,247,236	-	-	2,251,298
Total cash and cash equivalents, end of year	\$ 769,554	\$ 38,565	\$ -	\$ 407,027	\$ -	\$ 1,247,236	\$ 29,568	\$ -	\$ 2,491,950
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:									
Operating income (loss)	\$ 135,087	\$ 3,297,619	\$ (232,075)	\$ (295)	\$ 275	\$ -	\$ -	\$ (243,794)	\$ 2,956,817
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:									
Depreciation expense	3,098,160	353,001	231,877	-	-	-	-	-	3,683,038
Change in assets and liabilities:									
Due from other funds	1,748,432	391,743	-	(231,775)	-	-	29,568	-	1,937,968
Accounts receivable	(223,772)	(359,246)	1,233	-	-	-	-	-	(581,785)
Due from other governments	-	-	-	-	-	-	-	-	-
Other receivable	(977)	(1,095)	-	-	3,426	-	-	-	1,354
Inventory	-	231,014	-	-	-	-	-	-	231,014
Accounts payable	(529,070)	(106,553)	(801)	-	-	-	-	(3,252)	(639,676)
Accrued payroll payable	24,590	(5,331)	-	-	-	-	-	(495)	18,764
Deposits subject to refund	-	2,404	-	-	-	50,351	-	-	52,755
Due to other funds	(123,272)	(120,797)	(234)	(669,237)	(3,701)	143,506	-	(64,514)	(838,249)
Net pension obligation	15,548	10,332	-	-	-	-	-	3,582	29,462
Net OPEB obligations	66,063	58,952	-	-	-	-	-	-	125,015
Accrued compensated absences	5,605	(529)	-	-	-	-	-	(4,623)	453
Net cash provided by (used in) operating activities	\$ 4,216,394	\$ 3,751,514	\$ -	\$ (901,307)	\$ -	\$ 193,857	\$ 29,568	\$ (313,096)	\$ 6,976,930
Noncash activities:									
Asset contributed by others	\$ 50,020	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 50,020
Asset transferred from other funds	381,465	129,340	30,555	-	-	-	-	-	541,360
	\$ 431,485	\$ 129,340	\$ 30,555	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 591,380

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Combining Statement of Net Position – Internal Service Funds – December 31, 2014

	<u>Self Insurance Fund</u>	<u>Employee Insurance</u>	<u>Worker's Comp</u>	<u>Total</u>
ASSETS				
Current assets:				
Cash and cash equivalents	\$ -	\$ 31,858	\$ 5,224	\$ 37,082
Due from other funds	-	643,972	-	643,972
Accounts receivable, net	-	-	-	-
Annuities receivable	-	-	19,008	19,008
Total current assets	<u>-</u>	<u>675,830</u>	<u>24,232</u>	<u>700,062</u>
Total assets	<u>-</u>	<u>675,830</u>	<u>24,232</u>	<u>700,062</u>
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities	1,086	67,715	2,049	70,850
Due to other funds	10,818	-	454,798	465,616
Claims and judgments	-	133,026	452,656	585,682
Total current liabilities	<u>11,904</u>	<u>200,741</u>	<u>909,503</u>	<u>1,122,148</u>
Non-current liabilities:				
Claims and judgments, net of current portion	-	-	623,108	623,108
Total non-current liabilities	<u>-</u>	<u>-</u>	<u>623,108</u>	<u>623,108</u>
Total liabilities	<u>11,904</u>	<u>200,741</u>	<u>1,532,611</u>	<u>1,745,256</u>
NET POSITION				
Unrestricted (deficit)	(11,904)	475,089	(1,508,379)	(1,045,194)
Total net position	<u>\$ (11,904)</u>	<u>\$ 475,089</u>	<u>\$ (1,508,379)</u>	<u>\$ (1,045,194)</u>

**CITY OF DUNCAN, OKLAHOMA
ANNUAL FINANCIAL REPORT
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Combining Statement of Revenues, Expenses, and Changes in Net Position – Internal Service Funds – Year Ended December 31, 2014

	<u>Self Insurance Fund</u>	<u>Employee Insurance</u>	<u>Worker's Comp</u>	<u>Total</u>
REVENUES				
Charges for services	\$ -	\$ 2,568,751	\$ 601,656	\$ 3,170,407
Miscellaneous	34,953	33,764	-	68,717
Total operating revenues	<u>34,953</u>	<u>2,602,515</u>	<u>601,656</u>	<u>3,239,124</u>
OPERATING EXPENSES				
General government	-	52,312	65,781	118,093
Claims expense	47,556	2,383,277	614,669	3,045,502
Total operating expenses	<u>47,556</u>	<u>2,435,589</u>	<u>680,450</u>	<u>3,163,595</u>
Operating income (loss)	<u>(12,603)</u>	<u>166,926</u>	<u>(78,794)</u>	<u>75,529</u>
NON-OPERATING REVENUES (EXPENSES)				
Interest and investment revenue	-	-	346	346
Miscellaneous revenue	-	-	23,754	23,754
Total non-operating revenue (expenses)	<u>-</u>	<u>-</u>	<u>24,100</u>	<u>24,100</u>
Change in net position	(12,603)	166,926	(54,694)	99,629
Total net position - beginning	699	308,163	(1,453,685)	(1,144,823)
Total net position - ending	<u>\$ (11,904)</u>	<u>\$ 475,089</u>	<u>\$ (1,508,379)</u>	<u>\$ (1,045,194)</u>

**CITY OF DUNCAN, OKLAHOMA
ANNUAL FINANCIAL REPORT
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Combining Statement of Cash Flows – Internal Service Funds – Year Ended December 31, 2014

	Self Insurance Fund	Employee Insurance	Worker's Comp	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 34,953	\$ 2,617,258	\$ 605,880	\$ 3,258,091
Payments to suppliers and employees	(51,486)	8,944	(72,225)	(114,767)
Claims and judgments paid	-	(2,451,320)	(352,303)	(2,803,623)
Interfund receipts	16,533	(174,884)	-	(158,351)
Interfund payments	-	-	(205,137)	(205,137)
Net cash provided by (used in) operating activities	-	(2)	(23,785)	(23,787)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers from other funds	-	-	-	-
Miscellaneous revenue	-	-	23,754	23,754
Net cash provided by (used in) noncapital financing activities	-	-	23,754	23,754
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchases of capital assets	-	-	-	-
Proceeds of capital grants	-	-	-	-
Proceeds from sale of capital assets	-	-	-	-
Proceeds from debt	-	-	-	-
Note issuance cost paid	-	-	-	-
Principal paid on debt	-	-	-	-
Premium on issuance of debt	-	-	-	-
Interest and fiscal agent fees paid on debt	-	-	-	-
Net cash provided by (used in) capital and related financing activities	-	-	-	-
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investments	-	-	-	-
Interest and dividends	-	-	346	346
Net cash provided by (used in) investing activities	-	-	346	346
Net increase (decrease) in cash and cash equivalents	-	(2)	315	313
Balances - beginning of year	-	31,860	4,909	36,769
Balances - end of year	\$ -	\$ 31,858	\$ 5,224	\$ 37,082
Reconciliation to Statement of Net Position:				
Cash and cash equivalents	\$ -	\$ 31,858	\$ 5,224	\$ 37,082
Total cash and cash equivalents, end of year	<u>\$ -</u>	<u>\$ 31,858</u>	<u>\$ 5,224</u>	<u>\$ 37,082</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ (12,603)	\$ 166,926	\$ (78,794)	\$ 75,529
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Change in assets and liabilities:				
Due from other funds	5,715	(174,884)	-	(169,169)
Due to other funds	10,818	-	(205,137)	(194,319)
Other receivable	-	14,743	4,224	18,967
Accounts payable	(3,930)	61,256	(6,444)	50,882
Accrued payroll payable	-	-	-	-
Claims and judgments liability	-	(68,043)	262,366	194,323
Net cash provided by (used in) operating activities	\$ -	\$ (2)	\$ (23,785)	\$ (23,787)

**CITY OF DUNCAN, OKLAHOMA
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Combining Statement of Net Position – Pension Trust Funds – December 31, 2014

	City Employees Retirement Trust Fund - Defined Benefit	City Employees Retirement Trust Fund - Defined Contribution	Totals
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Cash and cash equivalents	\$ 116,572	\$ 12,664	\$ 129,236
Investments, at market value:			
Common trust funds equity	1,330,710		1,330,710
Mutual fund equity	2,274,071	130,970	2,405,041
Mutual fund fixed	2,858,356	452,507	3,310,863
Total assets	<u>\$ 6,579,709</u>	<u>\$ 596,141</u>	<u>\$ 7,175,850</u>
LIABILITIES			
Other accrued expenses	3,815	-	3,815
Total liabilities	<u>\$ 3,815</u>	<u>\$ -</u>	<u>\$ 3,815</u>
NET POSITION			
Restricted for employees' pension benefits held in trust	<u>\$ 6,575,894</u>	<u>\$ 596,141</u>	<u>\$ 7,172,035</u>

**CITY OF DUNCAN, OKLAHOMA
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Combining Statement Changes in Plan Net Position – Pension Trust Funds – Year Ended December 31, 2014

	City Employees Retirement Trust Fund - Defined Benefit	City Employees Retirement Trust Fund - Defined Contribution	Totals
ADDITIONS			
Contributions:			
Employer	\$ 1,436,483	\$ 55,933	\$ 1,492,416
Plan Members	368,322	44,832	413,154
Total contributions	<u>1,804,805</u>	<u>100,765</u>	<u>1,905,570</u>
Adjustment to record balances attributable to defined contribution plan participants not previously recorded	-	472,453	472,453
Investment earnings:			
Net increase in fair value of investments	127,309	6,750	134,059
Interest and dividends	215,495	17,356	232,851
Total net investment earnings	<u>342,804</u>	<u>24,106</u>	<u>366,910</u>
Total additions	<u>2,147,609</u>	<u>597,324</u>	<u>2,744,933</u>
DEDUCTIONS			
Benefits paid to participants or beneficiaries	1,479,311	-	1,479,311
Refunds of contributions	105,838	-	105,838
Administrative	54,172	1,183	55,355
Total deductions	<u>1,639,321</u>	<u>1,183</u>	<u>1,640,504</u>
Change in net position held in trust for employees' pension benefits	508,288	596,141	1,104,429
Net position held in trust for employee's pension benefits - beginning	<u>6,067,606</u>	-	<u>6,067,606</u>
Net position held in trust for employees' pension benefits- ending	<u>\$ 7,172,035</u>	<u>\$ 596,141</u>	<u>\$ 7,172,035</u>

**CITY OF DUNCAN, OKLAHOMA
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Debt Service Coverage Schedule – Year Ended December 31, 2014

DEBT SERVICE COVERAGE:	OWRB Series 2002A, 2005, 2007, 2009A, 2009C Promissory Notes
GROSS REVENUE AVAILABLE:	
Charges for services (water, electric, garbage and wastewater)	\$ 30,119,595
Investment income	(12,375)
Total Gross Revenue Available	30,107,220
OPERATING EXPENSES:	
Total Operating Expenses (excludes depreciation and amortization)	23,268,953
Net Revenue Available for Debt Service	6,838,267
Maximum Annual Remaining Debt Service on all OWRB Obligations Payable From Revenues of the System	
	\$ 2,570,472
	\$ 2,570,472
Computed Coverage	266%
Coverage Requirement	125%

INTERNAL CONTROL AND COMPLIANCE INFORMATION

**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**

Independent Auditor's Report

Honorable Mayor and Members of City Council
City of Duncan, Oklahoma
Duncan, Oklahoma

We have audited, 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, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Duncan, Oklahoma (the City) as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 27, 2016. Our report includes a reference to other auditors who audited the financial statements of Duncan Industrial Authority and Duncan Area Economic Development Foundation, discretely presented component units of the City as described in our report on the City's financial statements. This report does not include the results of Duncan Industrial Authority auditors' testing of internal control over financial reporting or compliance and other matters that are reported separately by those auditors. The Duncan Area Economic Development Foundation was not audited in accordance with *Government Auditing Standards*.

Our report included an emphasis of matter referencing the restatement of beginning net position for the Duncan Public Utility Authority and business type activities for the recognition of beginning inventory balances. Our opinion was not modified with respect to this matter.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 the 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a 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 a 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitation, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies. These significant deficiencies are identified as Findings 2014-001, 2014-002, 2014-003 and 2014-004.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2014-005.

City of Duncan's Response to Findings

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is 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 on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RSM US LLP

Oklahoma City, Oklahoma
June 27, 2016

City of Duncan

Schedule of Findings and Responses

Findings Required to be Reported by *Government Auditing Standards* Internal Controls over Financial Reporting December 31, 2014

FINDING 2014-001

Finding: The City is not recognizing capitalized interest on construction projects, nor timely transferring completed projects from construction in-progress to capital assets being depreciated.

Criteria: Construction in progress projects should be placed in service upon their completion date and depreciated at the full project cost. The project should also include capitalized interest costs for proprietary funds during the acquisition period as part of the full project cost.

Condition: The City did not have adequate procedures in place to ensure that interest is being capitalized on construction in-progress, and that upon completion, the projects are being transferred timely to capital assets and depreciation is being recognized on those assets. The City's construction in progress were not being reviewed on a monthly basis, only at year end. This resulted in several construction in progress projects that had been completed not being moved to capital assets and depreciated when placed in service. Additionally, this lack of tracking of capital projects resulted in construction in progress not having capitalized interest properly recorded resulting in the understatement of capital assets.

Cause: The City maintained the capital asset listing in Excel and was not reviewing capital projects until year end.

Effect: Potential misstatement to the capital asset ending balances and related depreciation expense recognized.

Recommendation: We recommend the City use the general ledger system to accurately track their assets and perform a monthly review of all projects and assets to ensure that assets are placed in to service and depreciated and assets that are disposed are removed from the detail. We also recommend the City recognize capitalized interest related to projects in the Duncan Public Utility Authority fund on an annual basis.

Management Response and Corrective Action Plan:

Staff has begun cleaning up the Incode system to be used for tracking capital assets. The review process of comparing excel reports to items in the Incode system to update and correct old items that should no longer be on the asset list is on-going while also adding new assets. Staff adopted a capital asset policy in fiscal year 2015 and began monthly reviews to be located and track new assets. Capital projects from old records are being reviewed for accuracy and proper inclusion in the system. Moving forward staff will track and review projects on a monthly basis.

City of Duncan

Schedule of Findings and Responses

Findings Required to be Reported by *Government Auditing Standards* Internal Controls over Financial Reporting December 31, 2014

FINDING 2014-002

Finding: The City is not establishing workers' compensation premiums sufficient to cover claim expenses.

Criteria: The City has reported the worker's compensation fund as an internal service fund. Per Governmental Accounting Standards Board No. 34 paragraph 68, internal service funds may be used to report any activity that provides goods or services to other funds, departments, or agencies of the primary government and its component units, or to other governments, on a cost reimbursement basis.

Condition: The City has a significant deficit in the net position of the worker's compensation internal service fund. This deficit existed at the end of the prior year. However, the current year premiums that were collected were not sufficient to pay for the fund expenses during the year. This increased the fund deficit in net position at year end. As such, the fund is not operating on a cost reimbursement basis.

Effect: The worker's compensation fund has a deficit of \$1,508,379 at December 31, 2014, and current year premiums collected from other funds was not adequate to cover claims expenses for the fund. The fund operated at a net loss of \$54,694 in 2014.

Cause: The City did not have a process in place to determine an appropriate yearly premium that should be charged to each fund in order to ensure that all claims and operating expenses for the worker's compensation fund are covered by revenues collected and the fund is operating on a cost reimbursement basis and that transfers from funds were not performed to reimburse the workers compensation fund.

Recommendation: We recommend that the City formulate a process with the third party administrator to determine estimated yearly premiums as part of the budget process. Additionally, the City should take steps to reduce the deficit net position for the fund.

Management Response and Corrective Action Plan:

The calculations for the 2014 workers compensation premiums was budgeted by the former Finance Director. How that was determined is unknown for 2014. The 2015 Budget carried over similar numbers, however, unlike the 2014 during 2015 necessary transfers were made monthly to the Workers Compensation fund. The 2016 Budget includes transfers and the establishment of a required escrow amount as mandated by the State Insurance Fund.

Staff has established a review of this expenditure budgeting process and we are implementing a process to review the accuracy of the transfer budgeted each year.

With new staff and new roles assumed in late 2014, staff is defining new roles to budget expenditures and becoming more accurate in the process.

City of Duncan

Schedule of Findings and Responses

**Findings Required to be Reported by *Government Auditing Standards*
Internal Controls over Financial Reporting
December 31, 2014**

FINDING 2014-003

Finding: The City's electric utility inventory included items that were priced incorrectly.

Criteria: Inventory balances accounted for under the first in first out method should be valued at the lower of cost or market.

Condition: The value of certain inventory items was not accurately entered in to the system resulting in an understatement of the inventory balance for those items. One item was misstated by \$43,639.

Effect: The City's inventory could be misstated as a result of these errors.

Cause: While the City is performing a regular observation of inventory to ensure of its existence, it is not doing a regular review of the value of said inventory to ensure it is recorded at its accurate value.

Recommendation: We recommend that the City review inventory balances for potential pricing errors to ensure that the value of inventory is accurate and that incorrect values be updated.

Management Response and Corrective Action Plan:

Past audits did not include an audit/review of the electric and/or water inventory items. Fiscal year 2014 was the first year the city included the inventory value in the annual financial statements. The Electric Department is the largest holder of inventory due to the type of items that must be kept on hand due to the immediate need of transformers which generally are not readily available. The Electric Department keeps a detailed inventory list of items on hand and routinely spot checks the number of items. In the past the spot checks did not include checking the value per item. As the City continues to strengthen the inventory process, staff will periodically spot check the value of the items in inventory to ensure the accuracy of the inventory value.

City of Duncan

Schedule of Findings and Responses

**Findings Required to be Reported by *Government Auditing Standards*
Internal Controls over Financial Reporting
December 31, 2014**

FINDING 2014-004

Finding: The City did not record assets held in trust for the participants in the Defined Contribution plan in its financial statements, as required by U.S. GAAP.

Criteria: Paragraph 70 of GASB Statement No. 34 states that *Pension (and other employee benefit) trust funds* should be used to report resources that are required to be held in trust for the members and beneficiaries of defined benefit plans, defined contribution plans, other postemployment benefit plans, or other employee benefit plans.

Condition: The City's retirement system provides a single-employer Defined Benefit plan for non-uniform personnel. When employees reach certain length of service and level of benefits criteria, they are eligible to opt out of the Defined Benefit Plan and begin participation in a Defined Contribution Plan. During 2014, there were 8 such participants. The City was properly accounting for the contributions to the Defined Contribution Plan, but was not including the assets held in trust for the participants in its Fiduciary Fund financial statements.

Cause: The individual account statements are not being sent to the City but instead were being provided by the Trustee directly to the participant.

Effect: The assets, net position, and additions and deductions of the Pension Trust Funds were understated by the exclusion of the Defined Contribution plan.

Recommendation: We recommend that the City obtain the participant account statements related to the Defined Contribution Plan from the Trustee and record such activity in its General Ledger.

Management Response and Corrective Action Plan:

The City will require BancFirst (the Trustee) to send the Defined Contribution statements of the participants to the City directly. Currently all statements are sent directly to the participants. When we receive the statements, the Finance Department will record the activity in the General Ledger.

City of Duncan

Schedule of Findings and Responses

Findings Required to be Reported by *Government Auditing Standards* Compliance Finding December 31, 2014

FINDING 2014-005

Finding: For the year ended December 31, 2014, the City of Duncan did not comply with certain statutory provisions and ordinances dealing with deficit fund balances and use of restricted revenues.

Criteria: State of Oklahoma Statute 11-17-211 states the following:

- a. No expenditure may be incurred or made by any officer or employee which exceeds the fund balance for any fund. Any fund balance remaining in a fund at the end of the fiscal year shall be carried forward to the credit of the fund for the next fiscal year. No expenditure may be authorized or made by any officer or employee which exceeds the appropriation of any fund.
- b. It shall be unlawful for any officer or employee of the municipality in any budget year:
 1. To create or authorize creation of a deficit in any fund; or
 2. To authorize, make or incur expenditures in excess of ninety percent (90%) of the appropriation for any fund of the budget as adopted or amended until revenues received, including the prior fiscal year's fund balance carried forward, totals an amount equal to at least ninety percent (90%) of the appropriation for the fund. Expenditures may then be made and authorized so long as any expenditure does not exceed any fund balance.

In addition, Section 2 of City Ordinance No. 1116 states the following:

It is hereby declared for the sole purpose of this Ordinance to provide revenues for capital improvements for the City of Duncan, Oklahoma. All revenues raised here from shall be used for capital improvements of said City and for making deposits into the Sinking Fund of said City to pay the principal of and interest on bonded indebtedness of said City incurred for capital improvements of said City, and the proceeds of said tax shall be so utilized and shall not otherwise be expended or appropriated.

Condition: At December 31, 2014, the following matters existed:

- The City's General Fund had a deficit fund balance of \$4,896,853.
- The Capital Improvement Fund had an advance from the General Fund totaling \$1,870,784, which is an inappropriate use of the restricted revenues of that fund.

Cause: The conditions identified above were caused by incurring and paying for operating expenditures in excess of available revenues in the General Fund for a number of years up to that date, specifically the years from 2011 through 2013, and failure to take timely action on this financial and budgetary condition. The General Fund's share of the City's pooled cash was not sufficient to fund all of the General Fund's expenditures resulting in a negative cash position for the General Fund. As a result, other funds, including DPUA and the Capital Improvement Fund, helped cash flow the operating expenditures of the General Fund. After City management recorded interfund loans from available unrestricted monies, the General Fund had a remaining negative cash position of \$1,870,784. The Capital Improvement Fund, which accounts for restricted sales taxes dedicated to capital improvements, was the only Fund remaining with a sufficient cash position to loan monies to the General Fund. As a result, an interfund loan between the Capital Improvement Fund and the General Fund for \$1,870,784 was recorded resulting in noncompliance with the ordinances and state law applicable to the use of restricted revenues.

Effect: The City is in violation of O.S. 11-17-211 and Ordinance No. 1116.

City of Duncan

Schedule of Findings and Responses

**Findings Required to be Reported by *Government Auditing Standards*
Compliance Finding
December 31, 2014**

Management Response and Corrective Action Plan:

Management and staff have implemented a rigorous monthly budget review process to better monitor the overall budget and catch discrepancies early. The staff will continue to work towards reducing the budget deficit by strengthening controls related to budget monitoring and financial reporting. Staff understands it will take several years to reduce the deficit by reducing expenditures by; working to strengthen the tax base, analyzing programs and user charges and work with Council to make the best choice for the city.