

July 30, 2014

Nancy,

Accompanying this transmission, you will find one (1) copy of each of the following:

- Audited Financial Statements of the City of Duncan, Oklahoma as of and for the year ended December 31, 2011;
- Annual Survey of City and Town Finances (SA&I Form 2643); and
- The \$100.00 filing fee payable to the Office of the State Auditor & Inspector.

Please let me know if you have any questions.

Sincerely,



Mike Gibson  
For the Firm



# CITY OF DUNCAN, OKLAHOMA

ANNUAL FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S REPORTS

AS OF AND FOR THE FISCAL YEAR  
ENDED DECEMBER 31, 2011

**THE CITY OF DUNCAN, OKLAHOMA**

Annual Financial Statements  
And Independent Auditor's Report

As of and For the Fiscal Year Ended  
December 31, 2011

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## **Independent Auditors' Report**

Honorable Mayor and City Council  
City of Duncan  
Duncan, Oklahoma

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, 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, 2011, 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.

### **Auditors' 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, a discretely presented component unit of the City, which collectively represent 97.4% of the total assets and 99.5% of the revenues of the aggregate discretely presented component units. The financial statements of the Duncan Industrial Authority were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for this entity, is based on the report of the other auditors.

Except as explained in the Basis for Disclaimer of Opinion paragraph, 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.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements whether due to error or fraud. In making those risk assessments, the auditor consider 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.

#### **Summary of Opinions:**

<b>Opinion Unit</b>	<b>Financial Statement</b>	<b>Type of Opinion</b>
Governmental Activities	Statement of Net Position	Unmodified
	Statement of Activities	Disclaimer
Business-Type Activities	Statement of Net Position	Qualified
	Statement of Activities	Disclaimer
General Fund	Balance Sheet	Unmodified
	Statement of Revenues, Expenditures and Changes in Fund Balances	Disclaimer
Special Revenue Fund	Balance Sheet	Unmodified
	Statement of Revenues, Expenditures and Changes in Fund Balances	Disclaimer
Capital Improvement Fund	Balance Sheet	Unmodified
	Statement of Revenues, Expenditures and Changes in Fund Balances	Disclaimer
Enterprise Fund	Statement of Net Position	Qualified
	Statement of Revenues, Expenses and Changes in Net Position	Disclaimer
Enterprise Fund	Statement of Cash Flows	Disclaimer
Aggregate Remaining Fund Information	Balance Sheet/Statement of Net Position	Unmodified
	Statement of Revenues, Expenditures/ Expenses and Changes in Fund	
	Balance/Net Position	Disclaimer
	Statement of Cash Flows	Disclaimer
Aggregate Discretely Presented Component Units	Statement of Net Position/ Combining Statement of Net Position	Adverse
	Statement of Activities/ Combining Statement of Activities	Adverse



### **Basis for Disclaimer of Opinion on 2011 Activities and Cash Flows**

As discussed in Note III.G to the financial statements, the City has prepared numerous and significant restatements to Net Position and Fund Balances as of January 1, 2011. We were unable to satisfy ourselves with respect to whether all of these restatements were appropriate, and were unable to perform additional auditing procedures to determine the fairness of the beginning balances of certain assets, liabilities and net position/fund balances as of January 1, 2011. The amount by which this affects reported revenues and expenses/expenditures, and cash flows thereof, in the 2011 financial statements is not readily determinable.

### **Disclaimer of Opinion on 2011 Activities and Cash Flows**

Because of the significance of the matter discussed in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an opinion on the activities and changes in net position and fund balances, and cash flows thereof, for the year ended December 31, 2011. Accordingly, we do not express an opinion on the Statement of Activities for Governmental Activities and Business-Type Activities, Statement of Revenues, Expenditures and Changes in Fund Balances for Governmental Funds, Statements of Revenues, Expenses and Changes in Net Position and Cash Flows for Proprietary Funds, and Statement of Changes in Plan Net Position for Fiduciary Funds for the year ended December 31, 2011.

### **Basis for Adverse Opinion on the Discretely Presented Component Units**

The financial statements do not include the financial data for the Duncan Area Economic Development Foundation (the "Foundation"), which is a legally separate component unit of the City. The Foundation is a 501(c)(3) not-for-profit organization and its financial statements are audited but are prepared on the modified cash basis of accounting, which is a financial reporting framework other than accounting principles generally accepted in the United States of America. The amount by which this departure would affect the assets, liabilities, net position, and revenues and expenses of the financial statements of the aggregate discretely presented component units has not been determined.

### **Adverse Opinion**

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on the financial statements of the Discretely Presented Component Units, the financial statements referred to above do not present fairly the financial position of the Aggregate Discretely Presented Component Units as of December 31, 2011, or the changes in financial position of the Aggregate Discretely Presented Component Units in Government-Wide Statement of Activities for the year ended December 31, 2011, in conformity with accounting principles generally accepted in the United States of America.

### **Basis for Qualified Opinions on Business-Type Activities and the Major Enterprise Fund**

The Duncan Public Utilities Authority Enterprise Fund maintains inventory in the normal course of its operations. However, it has not performed a physical inventory or maintained adequate accounting records related to the carrying amount of its inventory, and at December 31, 2011, the City has not recorded any inventory on the financial statements of the Enterprise Fund or the Business-Type Activities. Inventory is required to be reported in financial

statements prepared in accordance with accounting principles generally accepted in the United States of America. The amount by which this departure affects reported assets and net position in the financial statements of the Business-Type Activities and the Major Enterprise Fund is not readily determinable.

### **Qualified Opinions**

In our opinion, except for the matter described in the Basis for Qualified Opinions paragraphs, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and enterprise fund of the City of Duncan, Oklahoma, as of December 31, 2011, in accordance with accounting principles generally accepted in the United States of America.

### **Unmodified Opinions**

In our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of the governmental activities, major governmental funds, and aggregate remaining fund information of the City of Duncan, Oklahoma, as of December 31, 2011, in accordance with accounting principles generally accepted in the United States of America.

### **Emphasis of Matters**

#### *Restatement*

As discussed in Note III.G to the financial statements, the City has restated its January 1, 2011 net position to adjust Net Position/Fund Balance in the government-wide financial statements and governmental funds, proprietary funds and fiduciary funds financial statements. Because we were unable to perform sufficient auditing procedures to satisfy ourselves as to whether the beginning fund balances/net position was fairly stated, we were unable to express an opinion on the activities and cash flows thereof, as described in the Basis for Disclaimer of Opinion paragraph.

#### *General Fund Deficit Fund Balance*

As discussed in Note IV.F to the financial statements, at December 31, 2011, the City's General Fund has a deficit fund balance of \$820,296. In addition, General Fund expenditures exceeded appropriations by \$2,185,491 for the year ended December 31, 2011. These are violations of State of Oklahoma Statutes. The effects of these violations of State of Oklahoma Statutes have not been determined. Our opinion has not been modified for this matter.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the budgetary comparison information, schedule of pension plan funding progress and other post-employment benefits funding progress, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards

generally accepted in the United States of America, which consisted of inquiries of management about the method of preparing the information and comparing the information for consistency with management's response to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Duncan's basic financial statements. The combining and individual nonmajor fund financial statements and 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.

The combining and individual nonmajor fund financial statements and other schedules, as listed in the table of contents, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America.

Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph above, it is inappropriate to and we do not express an opinion on the combining statements/schedules of revenues, expenditures/expenses and changes in fund balances/net positions and combining statements of cash flows, thereof for the General Fund Accounts, Non-Major Governmental Fund Accounts, Enterprise Fund Accounts and Internal Services Funds.

In our opinion, except for the effects on the supplementary information described in the basis for qualified opinions paragraph above, such information presented for the Combining Schedule of Net Position – Duncan Public Utility Authority – Enterprise Fund Account is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

In our opinion, such information presented for the Combining Balance Sheet – General Fund Accounts, Combining Balance Sheet – Non-Major Governmental Funds, Combining Statement of Net Position – Internal Service Funds, and Other Schedules is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

### **Other Reporting Required By Government Auditing**

In accordance with *Government Auditing Standards*, we have also issued our report dated July xx, 2014, 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 the City's internal control over financial reporting and compliance.

Cole & Reed P.C.

Oklahoma City, Oklahoma  
July 30, 2014

**BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE**

**CITY OF DUNCAN, OKLAHOMA**  
**ANNUAL FINANCIAL REPORT**  
**As of and for the Year Ended December 31, 2011**

**Statement of Net Position – December 31, 2011**

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>	<b>Component Units</b>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 8,365,589	\$ 5,638,231	\$ 14,003,820	\$ 359,732
Investments	2,754,819	7,353,607	10,108,426	-
Interest receivable	-	-	-	73
Accounts receivable, net of allowance	1,400,605	3,092,142	4,492,747	-
Internal balances	(521,096)	521,096	-	-
Due from other governmental agencies	2,539,403	577,494	3,116,897	-
Capital assets:				
Land and construction in progress	1,211,770	8,472,260	9,684,030	-
Other capital assets, net of depreciation	57,681,572	62,991,746	120,673,318	601,886
Total Assets	<u>73,432,662</u>	<u>88,646,576</u>	<u>162,079,238</u>	<u>961,691</u>
<b>LIABILITIES</b>				
Accounts payable and accrued expenses	1,367,994	1,530,083	2,898,077	1,450
Accrued interest payable	22,524	544,727	567,251	-
Claims payable	1,921,825	-	1,921,825	-
Long-term liabilities				
Due within one year	1,517,328	2,684,594	4,201,922	-
Due in more than one year	11,050,156	51,224,754	62,274,910	-
Total liabilities	<u>15,879,827</u>	<u>55,984,158</u>	<u>71,863,985</u>	<u>1,450</u>
<b>NET POSITION</b>				
Net investment in capital assets	51,587,270	19,817,923	71,405,193	601,886
Restricted for:				
Debt service	88,922	9,519,873	9,608,795	-
Public safety	125,805	-	125,805	-
Capital projects	4,009,190	-	4,009,190	-
Economic development	7,887,043	-	7,887,043	-
Other	661,762	-	661,762	1,380
Unrestricted	(6,807,157)	3,324,622	(3,482,535)	356,975
Total net position	<u>\$ 57,552,835</u>	<u>\$ 32,662,418</u>	<u>\$ 90,215,253</u>	<u>\$ 960,241</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, 2011**

**Statement of Activities – Year Ended December 31, 2011**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenue</u>			<u>Net (Expense) Revenue and Changes in Net Position</u>			<u>Component Unit</u>
		<u>Charges for</u>	<u>Operating</u>	<u>Capital Grants</u>	<u>Governmental</u>	<u>Business-type Activities</u>	<u>Total</u>	<u>Component Units</u>
		<u>Services</u>	<u>Grants and</u>	<u>and</u>	<u>Activities</u>			
			<u>Contributions</u>	<u>Contributions</u>				
<b>Primary government</b>								
Governmental Activities								
General government	\$ 5,582,444	\$ 20,543	\$ 17,258	\$ -	\$ (5,544,643)	\$ -	\$ (5,544,643)	\$ -
Public safety	9,262,669	754,623	783,731	17,607	(7,706,708)	-	(7,706,708)	-
Streets	5,683,201	-	255,089	-	(5,428,112)	-	(5,428,112)	-
Culture and recreation	1,439,587	46,715	24,096	103,662	(1,265,114)	-	(1,265,114)	-
Cemetery	321,807	95,293	-	-	(226,514)	-	(226,514)	-
Community development	602,410	77,265	-	-	(525,145)	-	(525,145)	-
Economic development	865,673	-	71,391	-	(794,282)	-	(794,282)	-
Interest on long-term debt	327,466	-	-	-	(327,466)	-	(327,466)	-
Total governmental activities	<u>24,085,257</u>	<u>994,439</u>	<u>1,151,565</u>	<u>121,269</u>	<u>(21,817,984)</u>	<u>-</u>	<u>(21,817,984)</u>	<u>-</u>
Business-type activities:								
Water	6,845,922	7,304,781	-	-	-	458,859	458,859	-
Wastewater	2,471,621	2,320,379	-	-	-	(151,242)	(151,242)	-
Sanitation	3,606,535	2,936,003	-	-	-	(670,532)	(670,532)	-
Electric	15,557,883	16,463,286	-	-	-	905,403	905,403	-
Airport	282,646	22,535	-	42,178	-	(217,933)	(217,933)	-
Lake	493,795	162,423	-	-	-	(331,372)	(331,372)	-
Total business-type activities	<u>29,258,402</u>	<u>29,209,407</u>	<u>-</u>	<u>42,178</u>	<u>-</u>	<u>(6,817)</u>	<u>(6,817)</u>	<u>-</u>
Total primary government	<u>\$ 53,343,659</u>	<u>\$ 30,203,846</u>	<u>\$ 1,151,565</u>	<u>\$ 163,447</u>	<u>\$ (21,817,984)</u>	<u>(6,817)</u>	<u>(21,824,801)</u>	
<b>Component Unit</b>								
Industrial Development	\$ 10,392	\$ 9,082	\$ -	\$ -				(1,310)
Health and welfare	-	48	-	-				48
Total component units	<u>\$ 10,392</u>	<u>\$ 9,130</u>	<u>\$ -</u>	<u>\$ -</u>				<u>(1,262)</u>
<b>General revenues:</b>								
Taxes:								
Sales and use taxes					14,698,868	-	14,698,868	-
Franchise taxes and public service taxes					684,651	-	684,651	-
Hotel/motel taxes					251,863	-	251,863	-
Other					326,169	-	326,169	-
Unrestricted investment earnings					54,642	1,140,284	1,194,926	-
Miscellaneous					41,094	329,039	370,133	-
Transfers					<u>3,141,616</u>	<u>(3,141,616)</u>	<u>-</u>	<u>-</u>
Total general revenues and transfers					<u>19,198,903</u>	<u>(1,672,293)</u>	<u>17,526,610</u>	<u>-</u>
Change in net position					(2,619,081)	(1,679,110)	(4,298,191)	(1,262)
Net position - beginning, restated					60,171,916	34,341,528	94,513,444	961,503
Net position - ending					<u>\$ 57,552,835</u>	<u>\$ 32,662,418</u>	<u>\$ 90,215,253</u>	<u>\$ 960,241</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, 2011**

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**BASIC FINANCIAL STATEMENTS – GOVERNMENTAL FUNDS**



**CITY OF DUNCAN, OKLAHOMA**  
**ANNUAL FINANCIAL REPORT**  
As of and for the Year Ended December 31, 2011

**Balance Sheet – Governmental Funds – December 31, 2011**

	General Fund	Duncan Economic Development Trust Authority (DEDTA)	Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash and cash equivalents	\$ 49,561	\$ 4,778,445	\$ 2,600,518	\$ 455,768	\$ 7,884,292
Investments	10,665	2,737,977	-	-	2,748,642
Receivable from other governments	1,728,653	370,621	753,849	56,901	2,910,024
Due from other funds	102,302	-	1,424,632	353,387	1,880,321
Interaccount due from other funds	22	-	-	-	22
Taxes receivable, net	162,031	-	-	-	162,031
Court fines receivable, net	125,523	-	-	-	125,523
Other receivables	178,863	-	56,345	39,597	274,805
Total assets	<u>\$ 2,357,620</u>	<u>7,887,043</u>	<u>\$ 4,835,344</u>	<u>\$ 905,653</u>	<u>\$ 15,985,660</u>
<b>LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES</b>					
Liabilities:					
Accounts payable	\$ 162,296	-	\$ 900,619	\$ 8,357	\$ 1,071,272
Accrued payroll payable	277,507	-	-	-	277,507
Due to other funds	2,680,760	-	-	4,004	2,684,764
Interaccount due to other funds	22	-	-	-	22
Due to bondholders	600	-	-	-	600
Payable to other governments	6,190	-	-	-	6,190
Total liabilities	<u>3,127,375</u>	<u>-</u>	<u>900,619</u>	<u>12,361</u>	<u>4,040,355</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Deferred revenue	<u>50,541</u>	<u>-</u>	<u>-</u>	<u>45,379</u>	<u>95,920</u>
Fund balances:					
Restricted	-	7,887,043	3,934,725	853,634	12,675,402
Assigned	18,791	-	-	-	18,791
Unassigned (deficit)	(839,087)	-	-	(5,721)	(844,808)
Total fund balances	<u>(820,296)</u>	<u>7,887,043</u>	<u>3,934,725</u>	<u>847,913</u>	<u>11,849,385</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 2,357,620</u>	<u>\$ 7,887,043</u>	<u>\$ 4,835,344</u>	<u>\$ 905,653</u>	<u>\$ 15,985,660</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, 2011

**Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances –Year Ended December 31, 2011**

	<u>General Fund</u>	<u>Duncan Economic Development Trust Authority (DEDTA)</u>	<u>Capital Improvement Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>					
Taxes	\$ 9,688,549	1,950,614	\$ 3,900,903	\$ 326,169	\$ 15,866,235
Intergovernmental	803,552	-	17,607	243,768	1,064,927
Licenses and permits	94,298	-	-	-	94,298
Charges for services	140,754	-	-	11,399	152,153
Fees and fines	795,279	-	-	-	795,279
Investment earnings	1,209	21,463	31,933	37	54,642
Miscellaneous	184,223	-	503	77,669	262,395
Total revenues	<u>11,707,864</u>	<u>1,972,077</u>	<u>3,950,946</u>	<u>659,042</u>	<u>18,289,929</u>
<b>EXPENDITURES</b>					
Current:					
General government	4,813,257	-	5	-	4,813,262
Community Development	549,709	-	-	-	549,709
Public safety	7,629,730	-	-	8,273	7,638,003
Highways and streets	750,596	-	-	-	750,596
Health	268,468	-	-	-	268,468
Culture and recreation	1,001,772	-	-	18,185	1,019,957
Streets	-	-	-	143,164	143,164
Economic development	-	109,225	-	-	109,225
Capital Outlay	-	-	2,708,236	338,507	3,046,743
Debt Service:					
Principal	68,500	-	112,706	1,014,481	1,195,687
Interest and other charges	2,957	-	13,215	316,365	332,537
Total expenditures	<u>15,084,989</u>	<u>109,225</u>	<u>2,834,162</u>	<u>1,838,975</u>	<u>19,867,351</u>
Excess (deficiency) of revenues over expenditures	<u>(3,377,125)</u>	<u>1,862,852</u>	<u>1,116,784</u>	<u>(1,179,933)</u>	<u>(1,577,422)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Proceeds from capital leases	-	-	622,792	155,551	778,343
Transfer from component unit	-	71,391	-	-	71,391
Transfer to component unit	-	(589,656)	-	-	(589,656)
Transfers in	2,579,248	-	2,993,559	1,325,413	6,898,220
Transfers out	<u>(1,325,413)</u>	<u>-</u>	<u>(2,149,997)</u>	<u>(281,194)</u>	<u>(3,756,604)</u>
Total other financing sources and uses	<u>1,253,835</u>	<u>(518,265)</u>	<u>1,466,354</u>	<u>1,199,770</u>	<u>3,401,694</u>
Net change in fund balances	(2,123,290)	1,344,587	2,583,138	19,837	1,824,272
Fund balances - beginning, restated	1,302,994	6,542,456	1,351,587	828,076	10,025,113
Fund balances (deficit) - ending	<u>\$ (820,296)</u>	<u>\$ 7,887,043</u>	<u>\$ 3,934,725</u>	<u>\$ 847,913</u>	<u>\$ 11,849,385</u>

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

**CITY OF DUNCAN, OKLAHOMA**  
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**Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position**

Total fund balance, governmental funds	\$	11,849,385
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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.		58,893,342
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Certain long-term assets are not available to pay for current fund liabilities and, therefore, are deferred in the funds.		95,920
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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		(22,524)
Net pension obligations		(2,528,508)
Other post employment benefits		(1,406,551)
Accrued compensated absences		(1,326,353)
Note payable		(6,405,000)
Capital leases payable		(901,072)

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		(695,804)
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Net Position of Governmental Activities in the Statement of Net Position	\$	<u>57,552,835</u>
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The accompanying notes are an integral part of these financial statements.

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**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of  
Governmental Funds to the Statement of Activities - Year Ended December 31, 2011**

Net change in fund balances - total governmental funds: \$ 1,824,272

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	3,258,744
Depreciation expense	(6,064,803)

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

Change in deferred revenue	(36,443)
----------------------------	----------

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:

Increase in accrued compensated absences	(241,214)
Increase in other post employment benefits	(1,406,551)
Increase in net pension obligation	(402,387)
Change in note payable	1,010,000
Capital lease proceeds	(778,342)
Change in capital leases payable	185,687

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	3,552
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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 - proprietary funds	28,404
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Change in net position of governmental activities	<u><u>\$ (2,619,081)</u></u>
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The accompanying notes are an integral part of these financial statements.

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**BASIC FINANCIAL STATEMENTS - PROPRIETARY FUNDS**

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**Proprietary Funds Statement of Net Position –December 31, 2011**

	<b>Duncan Public Utilities Authority Enterprise Fund</b>	<b>Internal Service Fund</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 2,593,714	\$ 481,297
Investments	-	6,177
Restricted:		
Cash and cash equivalents	2,546,712	-
Due from other funds	737,832	172,009
Accounts receivable, net	3,056,377	-
Receivables from other governments	577,494	-
Other receivables	35,765	85,716
Annuities receivable	-	31,680
Total current assets	<u>9,547,894</u>	<u>776,879</u>
Non-current assets:		
Restricted:		
Cash and cash equivalents	497,805	-
Investments	7,353,607	-
Capital assets:		
Land and construction in progress	8,472,260	-
Other capital assets, net of accumulated depreciation	62,991,746	-
Total non-current assets	<u>79,315,418</u>	<u>-</u>
Total assets	<u>88,863,312</u>	<u>776,879</u>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable and accrued liabilities	1,400,251	24,794
Salaries payable	74,990	-
Accrued interest payable	544,727	-
Due to other funds	105,398	-
Payable to other governments	54,842	-
Deposits subject to refund	84,671	-
Compensated absences	28,921	-
Claims and judgments	-	1,559,227
Bonds payable	2,571,002	-
Total current liabilities	<u>4,864,802</u>	<u>1,584,021</u>
Non-current liabilities:		
Compensated absences, net of current portion	260,319	-
Deposits subject to refund, net of current portion	762,038	-
Claims and judgments, net of current portion	221,273	-
Other post employment benefits	764,305	-
Notes payable, net of current portion	49,216,819	-
Total non-current liabilities	<u>51,224,754</u>	<u>-</u>
Total liabilities	<u>56,089,556</u>	<u>1,584,021</u>
<b>NET POSITION</b>		
Net investment in capital assets	19,817,923	-
Restricted for debt service	9,311,933	-
Unrestricted (deficit)	3,643,900	(807,142)
Total net position	<u>\$ 32,773,756</u>	<u>\$ (807,142)</u>

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

\$ (111,338)

Total net position per Government-Wide financial statements

\$ 32,662,418

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

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**Proprietary Funds Statement of Revenues, Expenses, and Changes in Net Position –Year Ended December 31, 2011**

	<b>Duncan Public Utilities Authority Enterprise Fund</b>	<b>Internal Service Fund</b>
<b>REVENUES</b>		
Water	\$ 7,043,665	\$ -
Electric	16,573,388	-
Sewer	2,320,099	-
Sanitation	2,936,003	-
Lake	162,423	-
Airport	22,535	-
Charges for services	-	3,869,876
Miscellaneous	310,782	466,295
Total operating revenues	<u>29,368,895</u>	<u>4,336,171</u>
<b>OPERATING EXPENSES</b>		
General government	985,120	151,536
Water	2,438,357	-
Wastewater	1,048,140	-
Sanitation	2,808,985	-
Electric	14,351,460	-
Lake	330,488	-
Airport	38,407	-
Claims expense	-	4,281,249
Depreciation	5,190,111	-
Total operating expenses	<u>27,191,068</u>	<u>4,432,785</u>
Operating income (loss)	<u>2,177,827</u>	<u>(96,614)</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Interest and investment revenue	1,140,284	535
Miscellaneous revenue	127,580	13,145
Gain on capital asset disposal	41,971	-
Operating grants and contributions	42,178	-
Interest expense	(1,955,996)	-
Total non-operating revenue (expenses)	<u>(603,983)</u>	<u>13,680</u>
Income (loss) before transfers	<u>1,573,844</u>	<u>(82,934)</u>
Transfers in	2,149,997	-
Transfers out	(5,291,613)	-
Change in net position	<u>(1,567,772)</u>	<u>(82,934)</u>
Total net position (deficit) - beginning, restated	34,341,528	(724,208)
Total net position (deficit) - ending	<u>\$ 32,773,756</u>	<u>\$ (807,142)</u>
Change in net position per above	\$ (1,567,772)	
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	(111,338)	
Change in Business-Type Activities in Net Postion per Government-Wide Financial Statements	<u>\$ (1,679,110)</u>	

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

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**Proprietary Funds Statement of Cash Flows – Year Ended December 31, 2011**

	<b>Duncan Public Utilities Authority</b>	<b>Internal Service Funds</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 30,825,507	\$ 4,298,868
Payments to suppliers and employees	(21,815,612)	(140,789)
Claims and judgments paid	-	(3,600,537)
Receipts of customer meter deposits	415,327	-
Refunds of customer meter deposits	(326,681)	-
Interfund receipts	105,398	-
Interfund payments	(737,832)	(172,009)
<b>Net cash provided by operating activities</b>	<b>8,466,107</b>	<b>385,533</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Transfers from other funds	2,149,997	-
Transfers to other funds	(5,291,613)	-
<b>Net cash provided by (used in) noncapital financing activities</b>	<b>(3,141,616)</b>	<b>-</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchases of capital assets	(2,161,060)	-
Proceeds from debt	1,773,425	-
Principal paid on debt	(2,650,471)	-
Interest and fiscal agent fees paid on debt	(1,902,085)	-
<b>Net cash provided by (used in) capital and related financing activities</b>	<b>(4,940,191)</b>	<b>-</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Sale of investments	1,504,031	4,361
Interest and dividends	1,140,280	535
<b>Net cash provided by investing activities</b>	<b>2,644,311</b>	<b>4,896</b>
<b>Net increase in cash and cash equivalents</b>	<b>3,028,611</b>	<b>390,429</b>
<b>Balances - beginning of year</b>	<b>2,609,620</b>	<b>90,868</b>
<b>Balances - end of year</b>	<b>\$ 5,638,231</b>	<b>\$ 481,297</b>
<b>Reconciliation to Statement of Net Position:</b>		
Cash and cash equivalents	\$ 2,593,714	481,297
Restricted cash and cash equivalents - current	2,546,712	-
Restricted cash and cash equivalents - noncurrent	497,805	-
<b>Total cash and cash equivalents, end of year</b>	<b>\$ 5,638,231</b>	<b>\$ 481,297</b>
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>		
Operating income (loss)	\$ 2,177,827	(96,614)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	5,190,111	-
Miscellaneous revenue	211,729	13,145
Change in assets and liabilities:		
Due to other funds	(690,000)	(172,009)
Accounts receivable	1,282,606	-
Due from other governments	(90,010)	-
Other receivable	4,455	(85,716)
Annuities receivable	-	35,268
Accounts payable	(122,521)	20,664
Accrued payroll payable	(22,381)	-
Deposits subject to refund	88,646	-
Claims and judgments liability	105,398	670,795
Net pension obligation	121,768	-
Other post employment benefits	221,273	-
Accrued compensated absences	(12,794)	-
<b>Net cash provided by operating activities</b>	<b>\$ 8,466,107</b>	<b>\$ 385,533</b>

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



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**BASIC FINANCIAL STATEMENTS – FIDUCIARY FUNDS**

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**Fiduciary Funds Statement of Net Position –December 31, 2011**

	<u>City Employees Retirement Trust Fund</u>	<u>Deposit and Refund - Agency Fund</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 133,863	\$ 181,240
Investments, at market value:		
Mutual funds	1,905,183	-
Common trust funds	2,525,733	-
Other receivable	-	825
Total assets	<u>\$ 4,564,779</u>	<u>\$ 182,065</u>
<b>LIABILITIES</b>		
Refunds payable and others	-	\$ 58,205
Other accrued expenses	-	123,860
Total liabilities	<u>-</u>	<u>\$ 182,065</u>
<b>NET POSITION</b>		
Held in trust for pension benefits	<u>\$ 4,564,779</u>	

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

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**Fiduciary Funds Statement of Changes in Plan Net Position – Year Ended December 31, 2011**

	<b>City Employees Retirement Trust Fund</b>
<b>ADDITIONS</b>	
Contributions:	
Employer	940,566
Plan Members	350,675
Total contributions	<u>1,291,241</u>
Investment earnings:	
Net decrease in fair value of investments	(272,475)
Interest	97,559
Total net investment earnings	<u>(174,916)</u>
Total additions	<u>1,116,325</u>
<b>DEDUCTIONS</b>	
Benefits paid to participants or beneficiaries	1,453,625
Refunds of contributions	262,976
Administrative	23,432
Total deductions	<u>1,740,033</u>
<b>Change in net position held in trust for employees' pension benefits</b>	<u>(623,708)</u>
<b>Net position - beginning, restated</b>	<u>5,188,487</u>
<b>Net position - ending</b>	<u><u>\$ 4,564,779</u></u>

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

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**BASIC FINANCIAL STATEMENTS – DISCRETELY PRESENTED COMPONENT UNITS**

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**Component Units Combining Statement of Net Position –December 31, 2011**

	<b>Duncan Industrial Authority</b>	<b>Duncan Hospital Authority</b>	<b>TOTALS</b>
<b><u>ASSETS</u></b>			
<b>Current Assets:</b>			
Cash and cash equivalents	\$ 333,319	\$ 25,033	\$ 358,352
Cash and cash equivalents, restricted	1,380	-	1,380
Receivables:			
Interest Receivable	73		73
<b>Total current assets</b>	<u>334,772</u>	<u>25,033</u>	<u>359,805</u>
<b>Noncurrent Assets:</b>			
Land available for development	601,886		601,886
<b>Total noncurrent assets</b>	<u>601,886</u>	<u>-</u>	<u>601,886</u>
<b>Total Assets</b>	<u>936,658</u>	<u>25,033</u>	<u>961,691</u>
<b><u>LIABILITIES</u></b>			
<b>Current Liabilities:</b>			
Accounts payable and accrued liabilities	\$ 1,450	\$ -	\$ 1,450
<b>Total Liabilities</b>	<u>1,450</u>	<u>-</u>	<u>1,450</u>
<b><u>NET POSITION</u></b>			
Net investment in capital assets	601,886	-	601,886
Restricted	1,380	-	1,380
Unrestricted	<u>331,942</u>	<u>25,033</u>	<u>356,975</u>
<b>Total Net Position</b>	<u>\$ 935,208</u>	<u>\$ 25,033</u>	<u>\$ 960,241</u>

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**Component Units Combining Statement of Activities - Year Ended December 31, 2011**

	<b>Duncan Industrial Authority</b>	<b>Duncan Hospital Authority</b>	<b>TOTALS</b>
<b>Operating Revenues:</b>			
Rentals	\$ 6,000		\$ 6,000
<b>Total Operating Revenues</b>	6,000	-	6,000
<b>Operating Expenses:</b>			
Economic development	10,392	-	10,392
<b>Total Operating Expenses</b>	10,392	-	10,392
<b>Operating Income (Loss)</b>	(4,392)	-	(4,392)
<b>Non-Operating Revenues (Expenses):</b>			
Investment income	3,082	48	3,130
<b>Net non-operating revenues (expenses)</b>	3,082	48	3,130
<b>Change in Net Position</b>	(1,310)	48	(1,262)
<b>Net Position, beginning of year, restated</b>	936,518	24,985	961,503
<b>Net Position, end of year</b>	\$ 935,208	\$ 25,033	\$ 960,241

## 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 two 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 its entire governing body (trustees) of the DPUA. Any issuance of debt would require a two-thirds approval of the City Commission. 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) 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 finance provide financing for physical plant facilities, improvements, equipment, and medical services for the purpose of providing or improving health care with 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 Authority does not issue separate financial statements.

Duncan Area Economic Development Foundation (DAEDF) was 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 prepares its' financial statements on the modified cash basis of accounting, those financial

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statements have not been included in this report. The DAEDF issued separate financial statements, which are available by contacting that entity at Box 1051, Duncan, OK 73534.

Each of these components, with the exception of the DAEDF, 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 at the creation for the Authorities to the Trustees 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 \$2,808,985 in FY 2011 for sanitation services.

The city, in conjunction with Board of County Commissioners of Stephens County, has created the Stephens County Public Safety Communication Authority (SCPSCA). The SCPSCA's board is composed of five trustees consisting of the Police and Fire Chief of the City of Duncan and the Sheriff, undersheriff and Directory of Emergency Management of Stephens county. The city paid the SCPSCA \$146,625 in FY 2011 for emergency dispatch.

#### **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. 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 except for reimbursement type grants that are recorded as revenues when the related expenditures are recognized. 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, property taxes, franchise taxes, licenses, 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 or administratively restricted to expenditures for certain purposes.

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-like activities provided and charged to other funds or entities within the reporting entity. Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Nonoperating revenues of the proprietary funds include such items as investment earnings, interest expense and subsidies.

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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 the 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. Fiduciary fund activity is not included in the government-wide financial statements.

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 sub-funds: Police Uniform Allowance, Fire Uniform Allowance, Police Reserve, Communication Trust, Police Firing Range, and Hunting and Fishing.
- The Duncan Economic Development Trust Authority 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 funding source is user charges.

**The City also reports the following fund type:**

- Worker's Comp internal service fund accounts for workers' compensation insurance services provided to other departments or agencies of the City on a cost reimbursement basis.
- Employee Insurance internal service fund accounts for employee health insurance services provided to other departments or agencies of the City on a cost reimbursement basis.
- Internal service fund accounts for liability claim services provided to other departments or agencies of the City on a cost reimbursement basis.

**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.

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- 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 funds 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 City maintains 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.

Amounts reported as program revenues include, 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

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 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 from the date of acquisition. Trust account investment in open-ended mutual fund shares are also considered cash equivalents

Investments consist of long-term certificates of deposit, U.S. Treasury bonds and notes, U.S. agency securities, government money market funds and common stock in the employee retirement fund only. Certificates of deposit are reported at cost, while the U.S. Treasury and agency securities and common stock are reported a fair value which is determined by quoted market value.

***2. Receivable and payable***

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/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). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

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 count fines. Non-exchange transactions collectible but not available are deferred (unearned 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.

***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 balance sheet 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 accounts 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 normally consist of water meters, electrical

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supplies and other materials held of subsequent unit. The city has elected to expense proprietary items when purchased rather than when consumed.

**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. 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

**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 incurred 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 unearned and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of bond premium or discount. Unamortized gain/loss on refundings are amortized over the shorter of the life of the new debt or the remaining life of the refunded debt. Unamortized gain/losses are shown as deferred inflows or outflows.

## 8. *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.”

### *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 – included 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 authorize management to make the decision. Assignments for transfers and interest income for governmental funds are made through 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.

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.

## **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 received 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. Then, 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.

### ***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 December 31, 2011, the city did not levy a property tax.

### ***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 operating 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 governmental revenue even if restricted for a specific purpose.

#### ***4. Operating Revenues and Expenses***

Operating revenues and expenses for proprietary funds and similar discretely presented component units are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities.

#### ***5. 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 class as current (further reported by function), capital outlay, and debt service. In proprietary fund financial statements, expenses are reported by object or 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**

- The City implemented GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* - GASB No. 60 addresses issues related to service concession arrangements (SCA's), which are a type of public-private partnership. The Statement applies only to those arrangements in which specific criteria determining whether a transferor has control over the facility are met.
- The City implemented GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – An Amendment of GASB Statements No. 14 and No. 34*. GASB No. 61 modifies certain requirements for inclusion of component units in the financial reporting entity and also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. The Statement is effective for periods beginning after June 15, 2012 and has been early implemented.
- The City implemented GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB No. 62 is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain FASB and AICPA pronouncements. The City has chosen to early implement.
- The City implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB No. 63 provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. The city has chosen to early implement.



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- The City also implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. GASB No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources (expenses) or inflows of resources (revenues), certain items that were previously recognized as assets and liabilities. The Statement is effective for fiscal years ended June 30, 2014, however, the City chose to early implement Statement No. 65. This early implementation resulted in a prior period restatement for the removal of prior year unamortized bond issuance costs from the Statement of Net Position in the Business Type Activities and the Proprietary Fund Statement of Changes in Net Position totaling \$1,032,389.

### III. Detailed notes on all funds

**A. Deposits and investments** – The City held the following deposits/investments at December 31, 2011:

#### PRIMARY GOVERNMENT:

Type	Fair Value	Credit Rating	Maturities in Years					
			On Demand	Less Than One	1 - 5	6 - 10	11-20	20+
Demand accounts	\$ 6,328,068	n/a	\$ 6,328,068	\$ -	\$ -	\$ -	\$ -	\$ -
Cash on hand	2,148		2,148	-	-	-	-	-
Government money markets	1,035,987	AAA	1,035,987	-	-	-	-	-
Money Markets	6,951,625	AAA	6,951,625	-	-	-	-	-
US Agency	3,184,143	AA+	-	-	16,841	2,045,143	242,766	879,393
Mutual funds fixed income	247,457	n/a	-	-	145,404	-	-	102,053
Sub-total	17,749,428		<u>\$ 14,317,828</u>	<u>\$ -</u>	<u>\$ 162,245</u>	<u>\$ 2,045,143</u>	<u>\$ 242,766</u>	<u>\$ 981,446</u>
Mutual Funds:								
Equity	1,657,726							
Common trust fund fixed	1,685,554							
Common trust fund equity	840,178							
Annuities	6,925,379							
	<u>\$ 28,858,265</u>							
Reconciliation to Statement of Net Assets:								
Cash and cash equivalents	\$ 14,003,820							
Investments	10,108,426							
Pension cash and cash equivalents	133,863							
Pension investments	4,430,916							
Agency fund cash and cash equivalents	181,240							
	<u>\$ 28,858,265</u>							

The City has adopted an investment policy for the general city accounts, Duncan Public Utilities Authority, the City Retirement Fund and the Duncan Economic Development Trust Authority.

**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 market value, at least to a level 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

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direct obligation of the State of Oklahoma or its' agencies, county or school districts. At December 31, 2011 the City's deposits were fully insured.

*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. 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.

The City complied with this policy in all material respects.

*Investment Credit Risk.* The City of Duncan's policy limits investments to those items allowed in State Statutes: a) 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. At December 31, the city held annuity contracts as investments that may not comply with the above restrictions.

*Concentration of Investment Credit Risk.* Exposure to concentration of credit risk is considered to exist when investments in any one issuer represent a significant percent of total investments of the City (any over 5% are disclosed). Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools and other pooled investments are excluded from this consideration. The city had 24% of their investments in annuity contracts.

#### **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:

<b>Class</b>	<b>Target Percent</b>	<b>December 2011 Percent</b>
Equities	45-65%	49%
Small Cap Equities	Up to 25%	0%
International Equities	Up to 15%	6%
Fixed Income	35%-55%	42%
Cash and equivalents	0% to 5%	3%

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At December 31, 2011, the City had complied with the investment policies as defined above.

**COMPONENT UNIT:**

The DIA was not exposed to custodial credit risk at June 30, 2011. The \$344,699 of cash and cash equivalents was invested in cash deposits and interest-bearing certificate of deposit 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 June 30, 2011. The \$25,033 of cash and cash equivalents was invested 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.

**B. Receivables**

Receivables as of December 31, 2011, for the City of Duncan's governmental funds, including the applicable allowances for uncollectible accounts are as follows:

	Accounts Receivable	Less: Allowance for Uncollectible Accounts	Net Accounts Receivable
Governmental Activities:			
Taxes	\$ 162,031	\$ -	\$ 162,031
Due from other governments	2,539,403	-	2,539,403
Court fines	418,409	(292,886)	125,523
Other	1,113,051	-	1,113,051
Total Governmental Activities	<u>\$ 4,232,894</u>	<u>\$ (292,886)</u>	<u>\$ 3,940,008</u>
Reconciliation to Statement of Net Position:			
Accounts receivable, net			\$ 1,400,605
Due from other governmental agencies			2,539,403
Total			<u>\$ 3,940,008</u>
Business-Type Activities:			
Utilities	<u>\$ 3,376,948</u>	<u>\$ (284,806)</u>	<u>\$ 3,092,142</u>

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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 Cash and Cash Equivalents	Noncurrent		Total
		Cash and Cash Equivalents	Investments	
Due to Depositors	\$ 789,726	\$ -	\$ -	\$ 789,726
Trustee Accounts:				
2009B Revenue Note Construction Account	141,738	-	-	141,738
2009B Revenue Note Debt Service Account	145,709	-	-	145,709
OWRB 2002A Debt Service Account	63,662	-	-	63,662
OWRB 2002B Debt Service Reserve	123,301	-	-	123,301
OWRB 2002A Reserve Account	-	497,805	-	497,805
Waurika Debt Service	1,282,576	-	7,353,607	8,636,183
Total Restricted Assets	<u>\$ 2,546,712</u>	<u>\$ 497,805</u>	<u>\$ 7,353,607</u>	<u>\$ 10,398,124</u>

**D. Capital Assets**

The following is a summary of changes in capital assets during fiscal year 2011 for the primary government:

**PRIMARY GOVERNMENT:**

	Restated, Balance at January 1, 2011	Additions	Disposals	Balance at December 31, 2011
<b><i>Governmental activities:</i></b>				
Capital assets not being depreciated:				
Land	\$ 963,519	\$ 466	\$ -	\$ 963,985
Construction in progress	236,365	11,420		247,785
Total capital assets not being depreciated	<u>1,199,884</u>	<u>11,886</u>	<u>-</u>	<u>1,211,770</u>
Other capital assets:				
Buildings	20,284,650	873,157		21,157,807
Machinery, furniture and equipment	9,686,083	2,074,919		11,761,002
Infrastructure	106,452,740	298,782		106,751,522
Total other capital assets at historical cost	<u>136,423,473</u>	<u>3,246,858</u>	<u>-</u>	<u>139,670,331</u>
Less accumulated depreciation for:				
Buildings	6,735,239	731,871		7,467,110
Machinery, furniture and equipment	7,539,670	698,113		8,237,783
Infrastructure	61,649,020	4,634,846		66,283,866
Total accumulated depreciation	<u>75,923,929</u>	<u>6,064,830</u>	<u>-</u>	<u>81,988,759</u>
Other capital assets, net	<u>60,499,544</u>	<u>(2,817,972)</u>	<u>-</u>	<u>57,681,572</u>
Governmental activities capital assets, net	<u>\$ 61,699,428</u>	<u>\$ (2,806,086)</u>	<u>\$ -</u>	<u>\$ 58,893,342</u>

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***Business-type activities:***

Capital assets not being depreciated:

Land	\$ 245,944	\$ -	\$ -	\$ 245,944
Construction in progress	14,378,303	1,461,305	7,613,292	8,226,316
Total capital assets not being depreciated	<u>14,624,247</u>	<u>1,461,305</u>	<u>7,613,292</u>	<u>8,472,260</u>

Other capital assets:

Buildings	18,622,916	466,278	-	19,089,194
Machinery, furniture and equipment	6,146,928	3,141	-	6,150,069
Utility property	80,829,505	7,838,413	-	88,667,918
Water rights	18,785,708	-	-	18,785,708
Total other capital assets at historical cost	<u>124,385,057</u>	<u>8,307,832</u>	<u>-</u>	<u>132,692,889</u>

Less accumulated depreciation for:

Buildings	5,606,881	738,630	-	6,345,511
Machinery, furniture and equipment	4,368,765	553,820	-	4,922,585
Utility property	45,678,558	3,192,132	-	48,870,690
Water rights	8,856,028	706,329	-	9,562,357
Total accumulated depreciation	<u>64,510,232</u>	<u>5,190,911</u>	<u>-</u>	<u>69,701,143</u>
Other capital assets, net	<u>59,874,825</u>	<u>3,116,921</u>	<u>-</u>	<u>62,991,746</u>
Business-type activities capital assets, net	<u>\$ 74,499,072</u>	<u>\$ 4,578,226</u>	<u>\$ 7,613,292</u>	<u>\$ 71,464,006</u>

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

**Governmental Activities:**

General government	\$ 133,798
Culture and recreation	323,169
Community development	17,622
Economic development	166,792
Cemetery	36,578
Public safety	468,792
Streets	4,918,079
	<u>\$ 6,064,830</u>

**Business-Type Activities:**

Water	\$2,533,230
Wastewater	1,044,953
Sanitation	381,516
Electric	866,019
Lake	120,154
Airport	244,239
	<u>\$5,190,111</u>

**E. Long-term debt**

Long-term liabilities of the City of Duncan as of December 31, 2011, are summarized as follows:

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**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 Works Authority collects a pledged sales tax to pay the note. Final payment due June 1, 2017. Proceeds were used for street improvements.	\$ 6,405,000
Current portion	\$ 1,060,000
Noncurrent portion	5,345,000
	<u>\$ 6,405,000</u>

**Capital Leases Payable:**

\$11,569 capital lease agreement for the purchase of three computers, payable to Dell Financial Services in monthly installments of \$353, including interest at 6.250%, with final payment due September 2014.	\$ 10,631
\$3,987 capital lease agreement for the purchase of three computers and printer, payable to Dell Financial Services in monthly installments of \$122, including interest at 6.250%, with final payment due September 2014.	3,664
\$377,763 capital lease agreement for the purchase of 18 police vehicles, payable to Ford Motor Credit in annual installments of \$125,921 including interest at 5.70%, with final payment due September 2012.	119,130
\$659,944 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.	514,400
\$48,740 capital lease agreement for the purchase of 17 police video cameras payable to First Bank & Trust Co. in annual installments of \$16,068 including interest at 2.850%, with final payment due April 2013	30,848
\$5,644 capital lease agreement for the purchase of 4 laptop computers, payable to Dell Financial Services in monthly installments of \$182, including interest at 10.0%, with final payment due January 2014.	4,388
\$56,345 capital lease agreement for the purchase of 76 computers, payable to First Bank & Trust in annual installments of \$19,864, including interest at 2.850%, with final payment due December 2014.	56,344
\$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.	151,068
\$106,743 capital lease agreement for the purchase of 9 copiers, payable to Delage Landen Public Finance in monthly installments of \$2,449, including interest at 4.810%, with final payment due February 2012.	4,869
\$6,264 capital lease agreement for the purchase of one copiers, payable to Delage Landen Public Finance in monthly installments of \$122, including interest at 4.810%, with final payment due June 2013.	2,090
\$12,354 capital lease agreement for the purchase of one copier, payable to Delage Landen Public Finance in monthly installments of \$237, including interest at 4.810%, with final payment due April 2013.	3,640

**Total Capital Leases**

	<u>\$ 901,072</u>
Current portion	\$ 324,693
Noncurrent portion	576,379
	<u>\$ 901,072</u>

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**Compensated Absences:**

Accrued compensated absences. The general fund typically has been used to liquidate this liability.

	\$ 1,326,353
Current portion	\$ 132,635
Noncurrent portion	1,193,718
	<u>\$ 1,326,353</u>

**Business-type Activities**

**Notes payable:**

\$12,068,282 note payable to the Waurika Lake Master Conservancy District, 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.

\$ 8,233,514

\$9,318,240 note payable to the Waurika Lake Master Conservancy District, 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.

8,994,484

\$3,606,378 note payable to the Oklahoma Water Resources Board, 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.

1,983,508

\$6,140,000 note payable to the Oklahoma Water Resources Board, payable semi-annually interest at a variable rate, final payment due October 1, 2022. The note is secured by pledged revenues of the DPUA. Debt was issued for wastewater system improvements.

3,880,000

\$7,635,000 note payable to the Oklahoma Water Resources Board, payable semi-annually with interest at 3.00% and an administrative fee of 0.5%, final payment due September 15, 2026. The note is secured by pledged revenues of the DPUA. Debt was issued for water system improvements.

5,586,474

\$7,755,000 note payable to the Oklahoma Water Resources Board, payable semi-annually with interest at 3.20% and an administrative fee of 0.5%, final payment due March 15, 2029. The note is secured by pledged revenues of the DPUA. Debt was issued for water system improvements.

6,613,343

\$4,130,000 note payable to the Oklahoma Water Resources Board, 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.

3,464,034

\$11,245,000 note payable to the Oklahoma Water Resources Board, 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.

8,795,200

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\$4,620,000 Series 2009 Utility System Revenue Note, payable to Bank of America semi-annually with interest at 5.15%, final payment due March 1, 2025. The note is secured by pledged revenues of the DPUA. Debt was issued for the Honeywell meter project. 4,215,000

\$340,000 note payable to the Oklahoma Water Resources Board, payable semi-annually with interest at 1.73% 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 wastewater treatment plant improvements. 22,264

Total notes payable	\$ 51,787,821
Current portion	\$ 2,571,002
Noncurrent portion	49,216,819
	\$ 51,787,821

**Compensated Absences:**

Accrued compensated absences. The Duncan Public Works Authority typically has been used to liquidate this liability. \$ 289,241

Current portion	\$ 28,921
Noncurrent portion	260,320
	\$ 289,241

Long-term liability transactions for the year ended December 31, 2011 and changes therein were as follows:

Type of Debt	Restated, Balance January 1, 2011	Additions	Deductions	Balance December 31, 2011	Due Within One Year
<b>Governmental Activities:</b>					
Notes payable	\$ 7,415,000	\$ -	\$ 1,010,000	\$ 6,405,000	\$ 1,060,000
Capital leases payable	308,416	778,343	185,687	901,072	324,693
Accrued compensated absences	1,085,139	241,214	-	1,326,353	132,635
Total Governmental Activities	\$ 8,808,555	\$ 1,019,557	\$ 1,195,687	\$ 8,632,425	\$ 1,517,328
				1,406,551	
				2,528,508	
				\$ 12,567,484	
<b>Business-Type Activities:</b>					
Notes Payable	\$ 52,664,868	\$ 1,773,425	\$ 2,650,472	\$ 51,787,821	\$ 2,571,002
Meter deposits	758,063	415,327	326,681	846,709	84,671
Accrued compensated absences	251,958	37,283	-	289,241	28,921
Total Business-Type Activities	53,674,889	2,226,035	2,977,153	\$ 52,923,771	2,684,594
				221,273	
				764,305	
				\$ 53,909,349	



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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
2012	\$ 1,060,000	\$ 259,213	\$ 324,693	\$ 39,944
2013	1,100,000	214,060	201,336	26,554
2014	1,150,000	167,113	184,030	12,700
2015	1,200,000	118,055	161,806	6,459
2016	1,250,000	66,888	29,207	796
2017	645,000	13,610	-	-
	<u>\$ 6,405,000</u>	<u>\$ 838,939</u>	<u>\$ 901,072</u>	<u>\$ 86,453</u>

Fiscal Year Ending June 30	Business-Type Activities	
	Notes Payable	
	Principal	Interest
2012	\$ 2,571,002	\$ 1,767,001
2013	2,381,629	1,623,486
2014	2,560,506	1,525,057
2015	2,734,733	2,246,430
2016	2,817,674	1,351,163
2017-2021	20,733,232	5,132,733
2022-2026	9,885,889	2,533,995
2027-2031	6,051,932	1,086,746
2032-2036	2,051,224	282,200
	<u>\$ 51,787,821</u>	<u>\$ 17,548,811</u>

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**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 \$7,243,937. Pledged sales taxes received in the current year were \$1,325,412. Debt service payments of \$1,325,413 for the current fiscal year were 100 % of pledged sales tax.

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, \$6,140,000 of the 2002B 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, \$4,620,000 of the 2009B Series Utility Revenue Note, and \$340,000 of the 2009C Series OWRB Note Payable. Proceeds from the notes provided financing for utility system capital assets. The notes are payable through 2022, 2022, 2026, 2029, 2030, 2030, 2025, and 2030, respectively. The total principal and interest payable for the remainder of the life of these notes is \$43,759,554. The notes are payable from the above-mentioned utility revenues. The debt service payments on the notes this year were \$3,165,654 which was 10.9% of pledged utility revenues of \$28,883,451.

**F. Interfund receivables, payables, and transfers**

The composition of interfund balances as of December 31, 2011 is as follows:

Receivable Fund	Payable Fund	Amount	Nature of Interfund Balance
* General	Library grants	\$ 4,004	Revenue posted to incorrect fund
* General	* DPUA	74,381	Revenue posted to incorrect fund
* General	* DPUA	23,917	Negative cash
Internal service	* General	172,009	Negative cash
Street and alley	* General	12,369	Revenue posted to incorrect fund
* Capital Improvement Fund	* General	1,417,532	Negative cash
* Capital Improvement Fund	* DPUA	7,100	Revenue posted to incorrect fund
CDBG	* General	341,018	Negative cash
* DPUA	* General	737,832	Negative cash
		<u>\$ 2,790,162</u>	

**Reconciliation to Fund Financial Statements:**

	Due From	Due to	Net Interfund Balances
Governmental Funds	\$ 1,880,321	\$ 2,684,764	\$ (804,443)
Proprietary Funds	737,832	105,398	632,434
Internal Service Funds	172,009	-	172,009
	<u>\$ 2,790,162</u>	<u>\$ 2,790,162</u>	<u>\$ -</u>

Reconciliation of Statement of Net Position:

Net Internal Balances	\$ 632,434
Internal Service Fund Activity reported in Business-type Activities	(111,338)
Net Internal Balances	<u>\$ 521,096</u>

\* Denotes major fund.

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A summary of interfund transfers for the fiscal year ended December 31, 2011 is as follows:

<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>	<u>Purpose of Transfer</u>
Library	* General	\$ 6,373	B Expense reimbursement
911 Telephone	* General	210,000	B Budgeted operational transfer
* DPUA	* General	2,357,700	Budgeted operational transfer
Library	* Capital Improvement Fund	64,821	B Expense reimbursement
* DPUA	* Capital Improvement Fund	1,155,313	Capital projects
* DPUA	* Capital Improvement Fund	1,773,425	Loan proceeds
* DPUA	* General	5,175	Budgeted operational transfer
* General	DPUA Debt Service	1,325,413	A Pledged sales tax
* Capital Improvement Fund	* DPUA	2,149,997	Capital assets
Total		<u>\$ 9,048,217</u>	

**Reconciliation to Fund Financial Statements:**

	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Net Transfers</u>
Governmental Funds	\$ 6,898,220	\$ (3,756,604)	\$ 3,141,616
Proprietary Funds	2,149,997	(5,291,613)	(3,141,616)
	<u>\$ 9,048,217</u>	<u>\$ (9,048,217)</u>	<u>\$ -</u>

\* Denotes major fund.

Sum A	Non Major transfer in	\$ 1,325,413
Sum B	Non Major transfer out	\$ 281,194

**Net Position/Fund Equity**

*Government-Wide and Proprietary Fund Financial Statements*

It is the City's policy to first use restricted net position prior to the use of unrestricted net position when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

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
<b>Governmental Activities:</b>		
Cemetery Fund	Statutory requirements	\$ 124,923
Street and Alley Fund	Statutory requirements	194,305
E911 Fund	Statutory requirements	52,054
		<u>\$ 371,282</u>
 CDBG Fund	 External sources	 \$ 341,018
Police grantsw and seizures	External sources	67,601
First responder	External sources	5,146
DARE	External sources	1,004
Stimulus grant	External sources	1,516
Economic Development Fund	External sources	7,887,043
Capital Projects Fund	External sources	4,009,190
Debt Service Fund	External sources	88,922
		<u>\$ 12,401,440</u>
Total Governmental Restricted		<u><u>\$ 12,772,722</u></u>
 Reconciliation to Statement of Net Position:		
Restricted for:		
Debt service		\$ 88,922
Public Safety		125,805
Capital projects		4,009,190
Economic development		7,887,043
Other		661,762
Total Governmental Restricted		<u><u>\$ 12,772,722</u></u>
 <b>Business Type Activities:</b>		
Debt Service Reserves	Enabling legislation	<u><u>\$ 9,519,873</u></u>

*Governmental Fund Financial Statements:*

Governmental fund equity is classified as fund balance. Fund balance is further classified as nonspendable, restricted, committed, assigned and unassigned.

It is the City's policy to first use restricted fund balance prior to the use of the unrestricted fund balance when an expense is incurred for purposes for which both restricted and unrestricted fund balance are available. The City's policy for the use of fund balance amounts require that restricted amounts would be reduced first, followed by committed amounts and then assigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

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

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	General Fund	DEDTA	Capital Improvement Fund	Other Governmental Funds	Total
Fund Balance:					
Restricted for:					
Street improvements	\$ -	\$ -	\$ -	\$ 148,926	\$ 148,926
911 dispatch	-	-	-	52,054	52,054
First responder program	-	-	-	5,146	5,146
Debt service	-	-	-	111,446	111,446
Capital improvements	-	-	3,934,725	-	3,934,725
Stimulus grant	-	-	-	1,516	1,516
Cemetery improvements	-	-	-	124,923	124,923
Police	-	-	-	68,605	68,605
CDBG programs	-	-	-	341,018	341,018
Economic development	-	7,887,043	-	-	7,887,043
Sub-total restricted	-	7,887,043	3,934,725	853,634	12,675,402
Assigned for:					
Culture and recreation programs	13,747	-	-	-	13,747
General government programs	4,395	-	-	-	4,395
Public Safety	649	-	-	-	649
Sub-total assigned	18,791	-	-	-	18,791
Unassigned (deficit)	(839,087)	-	-	(5,721)	(844,808)
TOTAL FUND BALANCE	<u>\$ (820,296)</u>	<u>\$ 7,887,043</u>	<u>\$ 3,934,725</u>	<u>\$ 847,913</u>	<u>\$ 11,849,385</u>

*Prior Year Restatement:*

Beginning net position of the proprietary funds and the business-type activities were restated as follows:

	General Fund	DEDTA	Capital Improvement	Non-Major Governmental	Governmental Activities	Pension Trust Fund	Enterprise And Business- Type Activities	Internal Service
Beginning net position as previously reported	\$ 1,302,923	\$ 10,574,294	\$ 1,209,377	\$ 732,927	\$ 53,541,774	\$ 4,386,929	\$ 29,859,162	\$ (802,626)
Under (over) stated cash	15,490	438,311	142,210	583	596,594	-	(1,122,913)	29,104
Under (over) stated investments	-	(463,662)	-	-	(463,662)	801,558	(935,983)	-
Understated annuity receivable	-	-	-	-	-	-	-	10,742
Overstated annuity payable	-	-	-	-	-	-	-	38,572
Understated accounts payable and accrued liabilities	(18,313)	-	-	(298)	(18,611)	-	(70,489)	-
Understated due to other funds	-	-	-	-	-	-	45,000	-
Overstatement of inventory	-	-	-	-	-	-	(45,361)	-
Overstatement of accounts receivable	-	-	-	(13,084)	(13,084)	-	(612,986)	-
Change in accounting principle	-	-	-	-	-	-	(1,032,389)	-
Understated capital assets	-	-	-	-	6,276,799	-	12,144,221	-
Understated capital leases	-	-	-	-	(308,417)	-	-	-
Understated net pension obligation	-	-	-	-	(2,126,121)	-	(642,674)	-
Accounts combined with General Fund	2,894	-	-	(2,894)	-	-	-	-
Change in fund type - DEDTA	-	-	-	-	6,542,456	-	(10,574,294)	-
Change in fund type - DEDTA - capital assets	-	(4,006,487)	-	-	4,173,279	-	-	-
Move debt to governmental activities	-	-	-	110,842	(7,330,234)	-	7,330,234	-
Internal service fund not reported in governmental activities	-	-	-	-	(698,857)	-	-	-
Beginning net position as restated	<u>\$ 1,302,994</u>	<u>\$ 6,542,456</u>	<u>\$ 1,351,587</u>	<u>\$ 828,076</u>	<u>\$ 60,171,916</u>	<u>\$ 5,188,487</u>	<u>\$ 34,341,528</u>	<u>\$ (724,208)</u>

## H. 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 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

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available for each of the lifetimes of retirees and their spouses. Authority to establish and amend benefit provisions rests with the City Council. Benefits are paid from general operating assets of the City.

*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 2011, the actuarially expected City contribution in the form of net age adjustment was \$579,160 to the Plan. Plan members receiving benefits contributed \$165,503 of the total premiums, through their payment of the full carrier determined premium in FY 2011.

*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, 2011:

Normal cost	\$1,131,665
Amortization of Actuarial Accrued Liability (AAL)	990,436
Annual Required Contribution (with Interest)	2,122,101
Interest on Net OPEB Obligation	84,884
Adjustment to the ARC	-
Annual OPEB cost (expense)	2,206,985
Employer Contributions of FY 11	(579,160)
Net OPEB obligation—beginning of year	-
Net OPEB obligation—end of year	<u>\$1,627,825</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
12/31/2011	\$2,206,985	26.2%	\$1,627,825

Three years of information was not available. January 1, 2011 was the first OPEB actuarial valuation.

*Funded Status and Funding Progress.* As of December 31, 2011, the most recent actuarial valuation date, the Plan was not funded. The actuarial accrued liability (AAL) for benefits was \$17.8 million, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$17.8 million. The covered payroll (annual payroll of active employees covered by the plan) was \$8.4 million, and the ratio of the UAAL to the covered payroll was 210.83 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, 2011, actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4.0 percent investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the Plan at the valuation date, and 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, 2011, was thirty years. As of the date of this valuation, there are no plan assets. Retiree premiums are paid as they come due from general operating assets of the City.

#### **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 processor process claims and establish reserves. The City has a stop-loss policy which covers individual claims in excess of \$400,000, per occurrence.
- 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 \$930,000.
- 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, changes in the claims liability for the City from June 30, 2010 to December 31, 2011, are as follows:

**CLAIMS LIABILITY ANALYSIS**

	<b>Health</b>	<b>Worker's Comp</b>	<b>Total</b>
Claims liability, June 30, 2010	\$ 169,937	\$ 686,403	\$ 856,340
Claims and changes in estimates	1,085,441	440,554	1,525,995
Claims payments	<u>(1,082,061)</u>	<u>(13,606)</u>	<u>(1,095,667)</u>
Claims liability, December 31, 2010	173,317	1,113,351	1,286,668
Claims and changes in estimates	3,321,693	946,459	4,268,152
Claims payments	<u>(3,059,300)</u>	<u>(936,293)</u>	<u>(3,995,593)</u>
Claims liability, December 31, 2011	<u><u>\$ 435,710</u></u>	<u><u>\$ 1,123,517</u></u>	<u><u>\$ 1,559,227</u></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**

The city has entered into long-term annuity contracts totaling \$362,598 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 claim to be satisfied, therefore, the liability has been removed from the balance sheet.



**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. The State of Oklahoma is responsible for any funding deficiencies. Additionally, for other City employees not covered by the other plans, the City of Duncan maintains the City of Duncan Employee Retirement Plan, an single employer defined benefit pension plan.

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. 63<sup>rd</sup> 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, 2011, for employees and employer were \$163,533 and \$275,489, respectively, on covered payroll of \$2,119,147. The state made on-behalf payments for the police pension system of \$209,796. 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>
June 30, 2010	\$286,567	\$286,567
December 31, 2010 (6 months)	\$128,448	\$128,448
December 31, 2011	\$275,489	\$275,489

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.

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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 OFPRS for the year ended December 31, 2011, for employees and employer were \$154,295 and \$254,284, respectively, on covered payroll of \$1,956,028. The state made on-behalf payments for the fire pension system of \$481,183. 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:

<u>Fiscal year</u>	<u>Required</u>	<u>Contributed</u>
June 30, 2010	\$287,208	\$287,208
December 31, 2010 (6 months)	\$125,663	\$125,663
December 31, 2011	\$254,284	\$254,284

City of Duncan Employee Retirement Plan (the Plan)

Plan Description – The City maintains a defined benefit retirement plan, the City of Duncan Employee Retirement Plan (the Plan), which covers employees not covered by other plans. All regular, full-time City employees not covered by other plans are required to participate in the Plan and temporary employees with 12 months of employment with the city. Benefits vest after ten with full vesting after twenty years of service years of service. Employees, 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 compensation is defined as the average last 60 months of compensation paid. Employees hired after November 1, 1994, the monthly benefit is 2.5% of the highest 60 months average compensation multiplied by the number of years of credited service not to exceed 30 years.

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.

An employee is eligible for an early retirement benefit once he has attained age 55 and has completed five years of service. 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 participant who has completed eleven year of credited service will have a 10% vested interest in the Plan. This interest will increase to 100% after 20 years of credited service. A death benefit is payable

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

**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, 2010. 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 aggregate entry age normal cost method. Unfunded actuarial accrued liabilities are being amortized as a level percentage of payroll over a open period of forty years.

Significant actuarial assumptions used for the Plan are as follows:

Rate of return on investments	7% compounded annually
Projected salary increases	4% average
Inflation rate	3% per annum
Post-retirement benefits increases method	Entry age normal cost
Mortality rates – before and after retirement	1994 Mortality Table with projected mortality improvement

For the year ended December 31, 2011, employees were required to contribute 8% of annual compensation while the City contributed 10%, of annual compensation. City contributions are based upon the plan document and not the actuarial determined amounts. Contributions to the Plan for the year ended December 31, 2011, for employees and employer were \$366,321 and \$457,912, respectively. In addition, the city made a lump sum payment to the plan of \$397,781. For the year ended December 31, 2011, the City's covered payroll was \$4,579,013. 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>
2009	\$ 1,768,611	64.4%	\$ 2,183,990
2010	1,795,874	67.4%	2,768,795
2011	1,735,087	69.8%	3,292,813

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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 contributiond (ARC)	\$ 1,735,087
Interest on NPO	-
ARC Adjustment	-
Annual pension cost for 2011 plan year	<u>\$ 1,735,087</u>
Actual contributions made	<u>(1,211,069)</u>
Increase/(decrease) in net pension obligation	524,018
Beginning of year net pension obligation	<u>2,768,795</u>
End of year net pension obligation	<u><u>\$ 3,292,813</u></u>

The governmental fund used to liquidate the net pension obligation is the general fund.

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

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
1/1/2008	\$ 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	16,481,519	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%

City of Duncan Defined Contribution Plan (the New Plan)

Plan Description – The City has also provided a defined contribution plan and trust known as the City of Duncan “New Plan” Defined Contribution Plan under Section 401(a) of the IRS Code. The Plan is administered City. The defined contribution plan is 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. Separately 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.

Funding Policy – Benefits depend solely on amounts contributed to the Plan plus investment earnings. Employees are eligible to participate upon thirty year 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 2011 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 Commission. Contributions to the Plan for the year ended December 31, 2011, for employees and employer were \$35,972 and \$44,964, respectively, on a covered payroll of \$449,447.

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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, 2011, were \$29,763 and \$39,464, respectively. Separately audited financial statements are not available.

**D. New Accounting Pronouncements**

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

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 2013, and the City has not yet determined the impact that implementation of GASB No. 68 will have on its net position. The Statement is effective for fiscal years ended June 30, 2015.

Statement No. 69, *Government Combinations and Disposals of Government Operations* – GASB No. 69 was issued in January 2013, and establishes accounting and financial reporting standards related to government combinations and disposals of government operations. Government combinations can include a variety of transactions, including mergers, acquisition, and transfers of operations. A disposal of a government's operations results in the removal of specific activities of a government. The requirement of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis.

Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees* – GASB No. 70 required a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The government is required to report the guaranteed obligation until it is legally released as an obligor, and when it is legally released, it should recognize revenue as a result of this release. The provisions of this Statement are effective for reporting periods beginning after June 15, 2013. Earlier application is encouraged. Except for certain disclosure requirements which may be applied prospectively, the provisions of this Statement are required to be applied retroactively. The City has not yet evaluated the effects that GASB No. 70 will have on its financial statements.

**E. Subsequent Event**

- The DPUA approved an Agreement between the Duncan Public Utilities Authority and OMI, Inc. effective January 1, 2012. The agreement has a three (3) year term, renewable for a six (6)

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month period at the end of the term. The proposed total annual fee for the first year is \$622,364, which includes an annual Base Fee of \$526,899, an annual amount of \$40,000 for the Repairs Budget, and development and administration of Industrial Pretreatment Permits (IPP) by OMI at an annual cost of \$55,465. The annual contract fees would be increased by 2% each year of the three (3) year term. The total annual fee in 2013 would be \$634,011 and the total annual fee in 2014 would be \$645,891.

- In December 2012, the Duncan Public Utilities Authority (the “Authority”) issued its Utility System Revenue Note, series 2012 (the “note”) in the aggregate principal amount of \$7,390,000 with interest at 2.35%. The note matures September 2021. Proceeds will be used to refinance the 2002B OWRB note payable and the Series 2009B Utility System Revenue Note.
- In January 2013, the City Council approved the purchase of 2 Ford Police Interceptor Utility vehicles for \$52,210, and the purchase of 6 Ford Police Interceptor Sedans and 2 Ford F150 Ext Cab 4WD pickups for \$191,434. The total amount for the 10 patrol units is \$243,664, and they will be financed in 3 annual payments of \$83,551.00 to First Bank and Trust on a Governmental Lease Purchase.
- In September 2013, the DPUA approved amending the OWRB 2005 and the OWRB 2007 notes for the purpose of achieving interest savings. The OWRB 2005 note lowered the interest rate from 3.50% to 3.25% on the remaining balance of \$5,150,564. The OWRB 2007 note lowered the interest rate from 3.70% to 3.60% on the outstanding balance of \$6,245,910. The notes shall mature on March 15, 2021 and September 15, 2021, respectively.
- The City Council approved the lease purchase of several vehicles in the amount of \$189,834 in February 2014.
- In April 2014, the citizens approved to extend the half cent sales to for economic development for the creation of additional jobs for five years. The extended tax, to become effective in July 2014, will be used one quarter of one percent for infrastructure and one quarter of one percent for economic development in accordance with the contract with the Duncan Economic Development Trust.

#### **F. Material 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 – General Government - \$2,185,491

State law prohibits negative fund balance. The General Fund had negative fund balance at December 31, 2011, of \$820,296.

**REQUIRED SUPPLEMENTARY INFORMATION**

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**Budgetary Comparison Schedules – General Fund - (Budgetary Basis) – Year Ended December 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts,</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Budgetary Basis</u>	<u>Final Budget -</u>
				<u>Positive (Negative)</u>
<b>REVENUES</b>				
Taxes	\$ 8,857,051	\$ 8,863,104	\$ 9,688,549	\$ 825,445
Licenses and permits	72,200	69,352	77,265	7,913
Intergovernmental	112,605	125,127	112,574	(12,553)
Charges for services	143,300	118,240	140,754	22,514
Fees and fines	642,675	637,471	795,279	157,808
Investment earnings	1,800	-	1,209	1,209
Miscellaneous	49,925	57,113	184,223	127,110
Total revenues	<u>9,879,556</u>	<u>9,870,407</u>	<u>10,999,853</u>	<u>1,129,446</u>
<b>EXPENDITURES</b>				
Departmental:				
General government	2,723,629	2,699,223	4,884,714	(2,185,491)
Community development	604,087	571,435	549,709	21,726
Public Safety	7,257,602	7,487,008	6,912,401	574,607
Streets	889,193	886,849	750,596	136,253
Health	281,574	278,244	268,468	9,776
Culture and recreation	1,104,957	1,084,674	993,911	90,763
Total Expenditures	<u>12,861,042</u>	<u>13,007,433</u>	<u>14,359,799</u>	<u>(1,352,366)</u>
Excess (deficiency) of revenues over expenditures	<u>(2,981,486)</u>	<u>(3,137,026)</u>	<u>(3,359,946)</u>	<u>(222,920)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	4,487,857	5,303,081	2,574,073	(2,729,008)
Transfers out	(2,306,371)	(2,306,371)	(1,351,963)	954,408
Interaccount transfer out	-	-	(26,550)	(26,550)
Total other financing sources and uses	<u>2,181,486</u>	<u>2,996,710</u>	<u>1,195,560</u>	<u>(1,801,150)</u>
Net change in fund balances	(800,000)	(140,316)	(2,164,386)	(2,024,070)
Fund balances - beginning	800,000	800,000	1,300,100	500,100
Fund balances (deficit) - ending	<u>\$ -</u>	<u>\$ 659,684</u>	<u>\$ (864,286)</u>	<u>\$ (1,523,970)</u>



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**Budgetary Comparison Schedules – DEDTA Major Special Revenue Fund - (Budgetary Basis) – Year Ended December 31, 2011**

	<b>Budgeted Amounts</b>		<b>Actual Amounts, Budgetary Basis</b>	<b>Variance with Final Budget - Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Taxes	\$ 1,774,406	\$ 1,774,406	\$ 1,950,614	\$ 176,208
Investment earnings	-	-	21,463	21,463
Total revenues	<u>1,774,406</u>	<u>1,774,406</u>	<u>1,972,077</u>	<u>197,671</u>
<b>EXPENDITURES</b>				
Departmental:				
Economic Development	589,756	757,756	698,881	58,875
Total Expenditures	<u>589,756</u>	<u>757,756</u>	<u>698,881</u>	<u>58,875</u>
Excess (deficiency) of revenues over expenditures	<u>1,184,650</u>	<u>1,016,650</u>	<u>1,273,196</u>	<u>256,546</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	71,391	71,391
Transfers out	-	-	-	-
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>71,391</u>	<u>71,391</u>
Net change in fund balances	1,184,650	1,016,650	1,344,587	327,937
Fund balances - beginning	-	-	6,542,456	6,542,456
Fund balances - ending	<u>\$ 1,184,650</u>	<u>\$ 1,016,650</u>	<u>\$ 7,887,043</u>	<u>\$ 6,870,393</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 June 1, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 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 July 1, the budget is legally enacted through the passage of a resolution by the City Council.
- d. Subsequent to City Council enactment, the adopted budget is filed with the office of the State Auditor and Inspector.

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:

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General Fund – General Government - \$2,185,491

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 accrual basis of accounting.

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

	General Fund
Total revenue - budgetary basis	\$ 13,573,926
Total expenses - budgetary basis	(15,711,762)
Change in fund balance - budgetary basis	(2,137,836)
Add change in fund balance of sub-funds combined for reporting purposes:	
Police Uniform Allowance	197
Fire Uniform Allowance	2
Hunting and Fishing	14,347
Change in fund balance - GAAP basis	<u>\$ (2,123,290)</u>

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
7/1/2001	\$ 5,299,673	\$ 16,579,975	\$ 11,280,302	32.0%	\$ 2,542,060	443.7%
7/1/2002	4,566,997	17,107,665	12,540,668	26.7%	2,876,541	436.0%
1/1/2003	4,095,074	17,633,692	13,538,618	23.2%	2,774,131	488.0%
1/1/2004	4,934,314	17,903,637	12,969,323	27.6%	3,097,513	418.7%
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%

**Schedule of Employer Contributions**

Fiscal Year	Annual Required Contributions	Percentage Contributed
2009	\$ 1,768,611	64.4%
2010	1,795,874	67.4%
2011	1,735,087	69.8%

**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.

### **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
Actuarial accrued liability - AAL (a)	\$17,811,723
Actuarial value of plan assets (b)	-
Unfunded actuarial accrued liability – UAAL (funding excess) (a) – (b)	\$17,811,723
Funded ratio (b)/(a)	-
Covered payroll (c)	\$8,448,341
UAAL (funding excess) as a % of covered payroll [UAAL/(c)]	210.83%

January 1, 2011 was the first OPEB actuarial valuation. Three years of trend information was not available.

**SUPPLEMENTARY INFORMATION**

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**Combining Balance Sheet – General Fund Accounts – December 31, 2011**

	General Fund	Police Uniform Allowance	Fire Uniform Allowance	Police Reserve	Communication Trust	Police Firing Range	Hunting and Fishing	Total General Fund
<b>ASSETS</b>								
Cash and cash equivalents	\$ 29,244	\$ 680	\$ -	\$ 598	\$ 4,395	\$ 34	\$ 14,610	\$ 49,561
Investments	10,665	-	-	-	-	-	-	10,665
Receivable from other governments	1,728,653	-	-	-	-	-	-	1,728,653
Due from other funds	102,302	-	-	-	-	-	-	102,302
Interaccount due from other funds	22	-	-	-	-	-	-	22
Taxes receivable, net	162,031	-	-	-	-	-	-	162,031
Court fines receivable, net	125,523	-	-	-	-	-	-	125,523
Other receivables	178,863	-	-	-	-	-	-	178,863
Total assets	<u>2,337,303</u>	<u>680</u>	<u>-</u>	<u>598</u>	<u>4,395</u>	<u>34</u>	<u>14,610</u>	<u>2,357,620</u>
<b>LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES</b>								
Liabilities:								
Accounts payable	160,041	663	1,329	-	-	-	263	162,296
Accrued payroll payable	277,507	-	-	-	-	-	-	277,507
Due to other funds	2,680,760	-	-	-	-	-	-	2,680,760
Interaccount due to other funds	-	-	22	-	-	-	-	22
Due to bondholders	-	-	-	-	-	-	600	600
Payable to other governments	6,190	-	-	-	-	-	-	6,190
Total liabilities	<u>3,124,498</u>	<u>663</u>	<u>1,351</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>863</u>	<u>3,127,375</u>
Deferred inflows of resources:								
Deferred revenue	50,541	-	-	-	-	-	-	50,541
Fund balances:								
Assigned	-	17	-	598	4,395	34	13,747	18,791
Unassigned (deficit)	(837,736)	-	(1,351)	-	-	-	-	(839,087)
Total fund balances	<u>(837,736)</u>	<u>17</u>	<u>(1,351)</u>	<u>598</u>	<u>4,395</u>	<u>34</u>	<u>13,747</u>	<u>(820,296)</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 2,337,303</u>	<u>\$ 680</u>	<u>\$ -</u>	<u>\$ 598</u>	<u>\$ 4,395</u>	<u>\$ 34</u>	<u>\$ 14,610</u>	<u>\$ 2,357,620</u>

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**Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances – General Fund Accounts  
– December 31, 2011**

	<b>General Fund</b>	<b>Police Uniform Allowance</b>	<b>Fire Uniform Allowance</b>	<b>Police Reserve</b>	<b>Communication Trust</b>	<b>Police Firing Range</b>	<b>Hunting and Fishing</b>	<b>Total General Fund</b>
<b>REVENUES</b>								
Taxes	\$ 9,688,549	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,688,549
Intergovernmental	803,552	-	-	-	-	-	-	803,552
Licenses and permits	77,265	-	-	-	-	-	17,033	94,298
Charges for services	140,754	-	-	-	-	-	-	140,754
Fees and fines	795,279	-	-	-	-	-	-	795,279
Investment earnings	1,209	-	-	-	-	-	-	1,209
Miscellaneous	184,223	-	-	-	-	-	-	184,223
Total revenues	<u>11,690,831</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,033</u>	<u>11,707,864</u>
<b>EXPENDITURES</b>								
Current:								
General government	4,813,257	-	-	-	-	-	-	4,813,257
Community Development	549,709	-	-	-	-	-	-	549,709
Public Safety	7,603,379	5,253	21,098	-	-	-	-	7,629,730
Highways and Streets	750,596	-	-	-	-	-	-	750,596
Health	268,468	-	-	-	-	-	-	268,468
Culture and recreation	993,911	-	-	-	-	-	7,861	1,001,772
Debt Service:								
Principal	68,500	-	-	-	-	-	-	68,500
Interest and other charges	2,957	-	-	-	-	-	-	2,957
Total expenditures	<u>15,050,777</u>	<u>5,253</u>	<u>21,098</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,861</u>	<u>15,084,989</u>
Excess (deficiency) of revenues over expenditures	<u>(3,359,946)</u>	<u>(5,253)</u>	<u>(21,098)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,172</u>	<u>(3,377,125)</u>
<b>OTHER FINANCING SOURCES (USES)</b>								
Transfers in - interaccount	-	5,450	21,100	-	-	-	-	26,550
Transfers out - interaccount	(26,550)	-	-	-	-	-	-	(26,550)
Transfers in	2,574,073	-	-	-	-	-	5,175	2,579,248
Transfers out	(1,325,413)	-	-	-	-	-	-	(1,325,413)
Total other financing sources and uses	<u>1,222,110</u>	<u>5,450</u>	<u>21,100</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,175</u>	<u>1,253,835</u>
Net change in fund balances	(2,137,836)	197	2	-	-	-	14,347	(2,123,290)
Fund balances (deficits) - beginning, restated	1,300,100	(180)	(1,353)	598	4,395	34	(600)	1,302,994
Fund balances (deficits) - ending	<u>\$ (837,736)</u>	<u>\$ 17</u>	<u>\$ (1,351)</u>	<u>\$ 598</u>	<u>\$ 4,395</u>	<u>\$ 34</u>	<u>\$ 13,747</u>	<u>\$ (820,296)</u>

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**Combining Balance Sheet – Nonmajor Governmental Funds – December 31, 2011**

	Street and Alley Fund	Cemetery Care	Library Gifts and Grants	CDBG	E911 Dispatch	DPUA Debt Service Fund
<b>ASSETS</b>						
Cash and cash equivalents	\$ 131,675	\$ 124,923	\$ -	\$ -	\$ 12,457	\$ 111,446
Receivable from other governments	56,901	-	-	-	-	-
Due from other funds	12,369	-	-	341,018	-	-
Other receivables	-	-	-	-	39,597	-
Total assets	<u>200,945</u>	<u>124,923</u>	<u>-</u>	<u>341,018</u>	<u>52,054</u>	<u>111,446</u>
<b>LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES</b>						
Liabilities:						
Accounts payable and accrued liabilities	6,640	-	1,717	-	-	-
Due to other funds	-	-	4,004	-	-	-
Total liabilities	<u>6,640</u>	<u>-</u>	<u>5,721</u>	<u>-</u>	<u>-</u>	<u>-</u>
Deferred inflows of resources:						
Deferred revenue	<u>45,379</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances:						
Restricted	148,926	124,923	-	341,018	52,054	111,446
Unassigned (deficit)	-	-	(5,721)	-	-	-
Total fund balances	<u>148,926</u>	<u>124,923</u>	<u>(5,721)</u>	<u>341,018</u>	<u>52,054</u>	<u>111,446</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 200,945</u>	<u>\$ 124,923</u>	<u>\$ -</u>	<u>\$ 341,018</u>	<u>\$ 52,054</u>	<u>\$ 111,446</u>

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**Combining Balance Sheet – Nonmajor Governmental Funds – December 31, 2011, continued**

	<b>Police Grants and Seizures</b>	<b>First Responder Program</b>	<b>DARE</b>	<b>Stimulus Grant</b>	<b>Total Other Governmental Funds</b>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 67,601	\$ 5,146	\$ 1,004	\$ 1,516	\$ 455,768
Receivable from other governments	-	-	-	-	56,901
Due from other funds	-	-	-	-	353,387
Other receivables	-	-	-	-	39,597
Total assets	<u>67,601</u>	<u>5,146</u>	<u>1,004</u>	<u>1,516</u>	<u>905,653</u>
<b>LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES</b>					
Liabilities:					
Accounts payable and accrued liabilities	-	-	-	-	8,357
Due to other funds	-	-	-	-	4,004
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,361</u>
Deferred inflows of resources:					
Deferred revenue	-	-	-	-	45,379
Fund balances:					
Restricted	67,601	5,146	1,004	1,516	853,634
Unassigned (deficit)	-	-	-	-	(5,721)
Total fund balances	<u>67,601</u>	<u>5,146</u>	<u>1,004</u>	<u>1,516</u>	<u>847,913</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 67,601</u>	<u>\$ 5,146</u>	<u>\$ 1,004</u>	<u>\$ 1,516</u>	<u>\$ 905,653</u>

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**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds – December 31, 2011**

	Street and Alley Fund	Cemetery Care	Library Gifts and Grants	CDBG	E911 Dispatch	DPUA Debt Service Fund
<b>REVENUES</b>						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 326,169	\$ -
Intergovernmental	202,412	-	21,597	-	-	-
Charges for services	-	11,399	-	-	-	-
Investment earnings	-	-	-	-	-	37
Miscellaneous	-	2,176	2,499	-	-	-
Total revenues	<u>202,412</u>	<u>13,575</u>	<u>24,096</u>	<u>-</u>	<u>326,169</u>	<u>37</u>
<b>EXPENDITURES</b>						
Current:						
Public safety	-	-	-	-	8,273	-
Streets	143,164	-	-	-	-	-
Culture and recreation	-	-	18,185	-	-	-
Debt Service						
Principal	-	-	-	-	4,481	1,010,000
Interest and other charges	-	-	-	-	1,519	314,846
Capital Outlay	-	-	12,503	4,000	293,340	-
Total Expenditures	<u>143,164</u>	<u>-</u>	<u>30,688</u>	<u>4,000</u>	<u>307,613</u>	<u>1,324,846</u>
Excess (deficiency) of revenues over expenditures	<u>59,248</u>	<u>13,575</u>	<u>(6,592)</u>	<u>(4,000)</u>	<u>18,556</u>	<u>(1,324,809)</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Proceeds from capital leases	-	-	-	-	155,551	-
Transfers in	-	-	-	-	-	1,325,413
Transfers out	-	-	(71,194)	-	(210,000)	-
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>(71,194)</u>	<u>-</u>	<u>(54,449)</u>	<u>1,325,413</u>
Net change in fund balances	59,248	13,575	(77,786)	(4,000)	(35,893)	604
Fund balances - beginning, restated	89,678	111,348	72,065	345,018	87,947	110,842
Fund balances (deficit) - ending	<u>\$ 148,926</u>	<u>\$ 124,923</u>	<u>\$ (5,721)</u>	<u>\$ 341,018</u>	<u>\$ 52,054</u>	<u>\$ 111,446</u>

(continued)

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**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor  
Governmental Funds – December 31, 2011, continued**

	<b>Police Grants and Seizures</b>	<b>First Responder Program</b>	<b>DARE</b>	<b>Stimulus Grant</b>	<b>Total Other Governmental Funds</b>
<b>REVENUES</b>					
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 326,169
Intergovernmental	19,759	-	-	-	243,768
Charges for services	-	-	-	-	11,399
Investment earnings	-	-	-	-	37
Miscellaneous	72,994	-	-	-	77,669
Total revenues	<u>92,753</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>659,042</u>
<b>EXPENDITURES</b>					
Current:					
Police	-	-	-	-	8,273
Streets	-	-	-	-	143,164
Parks and recreation	-	-	-	-	18,185
Debt Service					
Principal	-	-	-	-	1,014,481
Interest and other charges	-	-	-	-	316,365
Capital Outlay	28,664	-	-	-	338,507
Total Expenditures	<u>28,664</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,838,975</u>
Excess (deficiency) of revenues over expenditures	<u>64,089</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,179,933)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Proceeds from capital leases	-	-	-	-	155,551
Transfers in	-	-	-	-	1,325,413
Transfers out	-	-	-	-	(281,194)
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,199,770</u>
Net change in fund balances	64,089	-	-	-	19,837
Fund balances - beginning, restated	3,512	5,146	1,004	1,516	828,076
Fund balances - ending	<u>\$ 67,601</u>	<u>\$ 5,146</u>	<u>\$ 1,004</u>	<u>\$ 1,516</u>	<u>\$ 847,913</u>

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**Combining Schedule of Net Position – Duncan Public Utilities Authority – December 31, 2011**

	Enterprise Fund Accounts								
	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	\$ 691,557	\$ 1,902,157	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,593,714
Restricted:									
Cash and cash equivalents	474,410	-	-	1,282,576	-	789,726	-	-	2,546,712
Due from other funds	-	300,000	-	390,000	-	-	47,832	-	737,832
Accounts receivable, net	1,358,402	1,693,565	4,395	-	-	15	-	-	3,056,377
Receivables from other governments	-	39,100	538,394	-	-	-	-	-	577,494
Other receivables	5,619	11,557	-	-	18,589	-	-	-	35,765
Total current assets	2,529,988	3,946,379	542,789	1,672,576	18,589	789,741	47,832	-	9,547,894
Non-current assets:									
Restricted:									
Cash and cash equivalents	497,805	-	-	-	-	-	-	-	497,805
Investments	-	-	-	7,353,607	-	-	-	-	7,353,607
Capital assets:									
Land and construction in progress	8,111,496	7,100	100,544	-	-	-	-	253,120	8,472,260
Other capital assets, net of accumulated depreciation	56,876,515	3,341,061	2,774,170	-	-	-	-	-	62,991,746
Total non-current assets	65,485,816	3,348,161	2,874,714	7,353,607	-	-	-	253,120	79,315,418
Total assets	68,015,804	7,294,540	3,417,503	9,026,183	18,589	789,741	47,832	253,120	88,863,312
LIABILITIES									
Current liabilities:									
Accounts payable and accrued liabilities	548,875	850,304	815	-	-	-	-	257	1,400,251
Salaries payable	38,363	30,654	-	-	-	-	-	5,973	74,990
Accrued interest payable	544,727	-	-	-	-	-	-	-	544,727
Due to other funds	72,353	-	2,504	-	2,028	-	-	28,513	105,398
Payable to other governments	-	54,842	-	-	-	-	-	-	54,842
Deposits subject to refund	-	5,697	-	-	-	78,974	-	-	84,671
Compensated absences	15,733	12,506	-	-	-	-	-	682	28,921
Bonds payable	2,571,002	-	-	-	-	-	-	-	2,571,002
Total current liabilities	3,791,053	954,003	3,319	-	2,028	78,974	-	35,425	4,864,802
Non-current liabilities:									
Compensated absences, net of current portion	141,626	112,556	-	-	-	-	-	6,137	260,319
Deposits subject to refund	-	51,271	-	-	-	710,767	-	-	762,038
OPEB obligation	99,080	122,193	-	-	-	-	-	-	221,273
Net pension obligation	355,254	355,417	-	-	-	-	-	53,634	764,305
Notes payable, net of current portion	49,216,819	-	-	-	-	-	-	-	49,216,819
Total non-current liabilities	49,812,779	641,437	-	-	-	710,767	-	59,771	51,224,754
Total liabilities	53,603,832	1,595,440	3,319	-	2,028	789,741	-	95,196	56,089,556
NET POSITION									
Net investment in capital assets	13,341,928	3,348,161	2,874,714	-	-	-	-	253,120	19,817,923
Restricted for debt service	285,750	-	-	9,026,183	-	-	-	-	9,311,933
Unrestricted (deficit)	784,294	2,350,939	539,470	-	16,561	-	47,832	(95,196)	3,643,900
Total net position	\$ 14,411,972	\$ 5,699,100	\$ 3,414,184	\$ 9,026,183	\$ 16,561	\$ -	\$ 47,832	\$ 157,924	\$ 32,773,756

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**Combining Schedule of Revenues, Expenses, and Changes in Net Position – Duncan Public Utilities Authority – Year Ended December 31, 2011**

	Enterprise Fund Accounts								
	DPUA - Other Utilities	DPUA - Electric	DPUA Airport	DPUA Sinking - Waurika	Redeposit Cash	Meter Deposit	Waterline Improvement	DPUA Sewer Replacement	Total
REVENUES									
Water	\$ 7,043,385	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 280	\$ 7,043,665
Electric	-	16,573,388	-	-	-	-	-	-	16,573,388
Sewer	2,320,099	-	-	-	-	-	-	-	2,320,099
Sanitation	2,936,003	-	-	-	-	-	-	-	2,936,003
Lake	162,423	-	-	-	-	-	-	-	162,423
Airport	-	-	\$ 22,535	-	-	-	-	-	22,535
Miscellaneous	242,267	68,515	-	-	-	-	-	-	310,782
Total operating revenues	12,704,177	16,641,903	22,535	-	-	-	-	280	29,368,895
OPERATING EXPENSES									
General government	985,120	-	-	-	-	-	-	-	985,120
Water	2,342,056	-	-	96,301	-	-	-	-	2,438,357
Wastewater	768,453	-	-	-	-	-	-	279,687	1,048,140
Sanitation	2,808,985	-	-	-	-	-	-	-	2,808,985
Electric	-	14,351,460	-	-	-	-	-	-	14,351,460
Lake	330,488	-	-	-	-	-	-	-	330,488
Airport	-	-	38,407	-	-	-	-	-	38,407
Depreciation	4,057,258	866,019	244,239	-	-	-	-	22,595	5,190,111
Total operating expenses	11,292,360	15,217,479	282,646	96,301	-	-	-	302,282	27,191,068
Operating income (loss)	1,411,817	1,424,424	(260,111)	(96,301)	-	-	-	(302,002)	2,177,827
NON-OPERATING REVENUES (EXPENSES)									
Interest and investment revenue	185	10,391	-	1,129,708	-	-	-	-	1,140,284
Miscellaneous revenue	66,661	60,919	-	-	-	-	-	-	127,580
Gain on capital asset disposal	-	41,971	-	-	-	-	-	-	41,971
Capital grants and contributions	-	-	42,178	-	-	-	-	-	42,178
Interest expense	(1,955,996)	-	-	-	-	-	-	-	(1,955,996)
Total non-operating revenue (expenses)	(1,889,150)	113,281	42,178	1,129,708	-	-	-	-	(603,983)
Income (loss) before transfers	(477,333)	1,537,705	(217,933)	1,033,407	-	-	-	(302,002)	1,573,844
Transfers in - interaccount	660,722	-	16,625	-	-	-	-	245,000	922,347
Transfers out - interaccount	(261,625)	-	-	(660,722)	-	-	-	-	(922,347)
Transfers in	1,986,599	163,398	-	-	-	-	-	-	2,149,997
Transfers out	(3,464,447)	(1,827,166)	-	-	-	-	-	-	(5,291,613)
Change in net position	(1,556,084)	(126,063)	(201,308)	372,685	-	-	-	(57,002)	(1,567,772)
Total net position - beginning, restated	15,968,056	5,825,163	3,615,492	8,653,498	16,561	-	47,832	214,926	34,341,528
Total net position - ending	\$ 14,411,972	\$ 5,699,100	\$ 3,414,184	\$ 9,026,183	\$ 16,561	\$ -	\$ 47,832	\$ 157,924	\$ 32,773,756

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**Combining Schedule of Cash Flows – Duncan Public Utilities Authority – Year Ended December 31, 2011**

	Enterprise Fund Accounts								Total
	DPUA - Other Utilities	DPUA - Electric	DPUA Airport	DPUA Sinking - Waurika	Redeposit Cash	Meter Deposit	Waterline Improvement	DPUA Sewer Replacement	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>									
Receipts from customers	\$ 13,181,804	\$ 17,620,129	\$ 23,529	\$ -	\$ (2,028)	\$ (15)	\$ 1,808	\$ 280	\$ 30,825,507
Payments to suppliers and employees	(7,167,260)	(14,240,626)	(42,658)	(96,301)	-	-	(1,808)	(266,959)	(21,815,612)
Receipts of customer meter deposits	-	2,521	-	-	-	412,806	-	-	415,327
Refunds of customer meter deposits	-	-	-	-	-	(326,681)	-	-	(326,681)
Interfund receipts	72,353	-	2,504	-	2,028	-	-	28,513	105,398
Interfund payments	-	(300,000)	-	(390,000)	-	-	(47,832)	-	(737,832)
Net cash provided by (used in) operating activities	6,086,897	3,082,024	(16,625)	(486,301)	-	86,110	(47,832)	(238,166)	8,466,107
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>									
Transfers from other funds - interaccount	660,722	-	16,625	-	-	-	-	245,000	922,347
Transfers to other funds interaccount	(261,625)	-	-	(660,722)	-	-	-	-	(922,347)
Transfers from other funds	1,986,599	163,398	-	-	-	-	-	-	2,149,997
Transfers to other funds	(3,464,447)	(1,827,166)	-	-	-	-	-	-	(5,291,613)
Net cash provided by (used in) noncapital financing activities	(1,078,751)	(1,663,768)	16,625	(660,722)	-	-	-	245,000	(3,141,616)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>									
Purchases of capital assets	(1,986,601)	(167,625)	-	-	-	-	-	(6,834)	(2,161,060)
Proceeds of capital grants	-	-	-	-	-	-	-	-	-
Proceeds from debt	1,773,425	-	-	-	-	-	-	-	1,773,425
Principal paid on debt	(2,650,471)	-	-	-	-	-	-	-	(2,650,471)
Interest and fiscal agent fees paid on debt	(1,902,085)	-	-	-	-	-	-	-	(1,902,085)
Net cash provided by (used in) capital and related financing activities	(4,765,732)	(167,625)	-	-	-	-	-	(6,834)	(4,940,191)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>									
Sale of investments	-	638,720	-	865,311	-	-	-	-	1,504,031
Interest and dividends	181	10,391	-	1,129,708	-	-	-	-	1,140,280
Net cash provided by investing activities	181	649,111	-	1,995,019	-	-	-	-	2,644,311
Net increase (decrease) in cash and cash equivalents	242,595	1,899,742	-	847,996	-	86,110	(47,832)	-	3,028,611
Balances - beginning of year	1,421,177	2,415	-	434,580	-	703,616	47,832	-	2,609,620
Balances - end of year	\$ 1,663,772	\$ 1,902,157	\$ -	\$ 1,282,576	\$ -	\$ 789,726	\$ -	\$ -	\$ 5,638,231
<b>Reconciliation to Statement of Net Position:</b>									
Cash and cash equivalents	\$ 691,557	\$ 1,902,157	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,593,714
Restricted cash and cash equivalents - current	474,410	-	-	1,282,576	-	789,726	-	-	2,546,712
Restricted cash and cash equivalents - noncurrent	497,805	-	-	-	-	-	-	-	497,805
Total cash and cash equivalents, end of year	\$ 1,663,772	\$ 1,902,157	\$ -	\$ 1,282,576	\$ -	\$ 789,726	\$ -	\$ -	\$ 5,638,231
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>									
Operating income (loss)	\$ 1,411,817	\$ 1,424,424	\$ (260,111)	\$ (96,301)	\$ -	\$ -	\$ -	\$ (302,002)	\$ 2,177,827
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:									
Depreciation expense	4,057,258	866,019	244,239	-	-	-	-	22,595	5,190,111
Miscellaneous revenue	66,661	102,890	42,178	-	-	-	-	-	211,729
Change in assets and liabilities:									
Due to other funds	-	(300,000)	-	(390,000)	-	-	-	-	(690,000)
Accounts receivable	406,200	875,647	994	-	(2,028)	(15)	1,808	-	1,282,606
Due from other governments	-	-	(42,178)	-	-	-	(47,832)	-	(90,010)
Other receivable	4,766	(311)	-	-	-	-	-	-	4,455
Accounts payable	(117,599)	927	(4,251)	-	-	-	(1,808)	210	(122,521)
Accrued payroll payable	623	(23,712)	-	-	-	-	-	708	(22,381)
Deposits subject to refund	-	2,521	-	-	-	86,125	-	-	88,646
Due to other funds	72,353	-	2,504	-	2,028	-	-	28,513	105,398
Net pension obligation	56,535	56,698	-	-	-	-	-	8,535	121,768
Other post employment benefits	99,080	122,193	-	-	-	-	-	-	221,273
Accrued compensated absences	29,203	(45,272)	-	-	-	-	-	3,275	(12,794)
Net cash provided by (used in) operating activities	\$ 6,086,897	\$ 3,082,024	\$ (16,625)	\$ (486,301)	\$ -	\$ 86,110	\$ (47,832)	\$ (238,166)	\$ 8,466,107

**CITY OF DUNCAN, OKLAHOMA**  
**ANNUAL FINANCIAL REPORT**  
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**Combining Statement of Net Position – Internal Service Funds – December 31, 2011**

	<u>Self Insurance Fund</u>	<u>Employee Insurance</u>	<u>Worker's Comp</u>	<u>Total</u>
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 4,367	\$ 455,784	\$ 21,146	\$ 481,297
Investments	-	-	6,177	6,177
Due from other funds	-	146,547	25,462	172,009
Other receivables	-	85,716	-	85,716
Annuities receivable	-	-	31,680	31,680
Total current assets	<u>4,367</u>	<u>688,047</u>	<u>84,465</u>	<u>776,879</u>
Total assets	<u>4,367</u>	<u>688,047</u>	<u>84,465</u>	<u>776,879</u>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable and accrued liabilities	9,058	14,786	950	24,794
Claims and judgments, net of current portion	-	435,710	1,123,517	1,559,227
Total non-current liabilities	-	435,710	1,123,517	1,559,227
Total liabilities	<u>9,058</u>	<u>450,496</u>	<u>1,124,467</u>	<u>1,584,021</u>
<b>NET POSITION</b>				
Unrestricted (deficit)	(4,691)	237,551	(1,040,002)	(807,142)
Total net position	<u>\$ (4,691)</u>	<u>\$ 237,551</u>	<u>\$ (1,040,002)</u>	<u>\$ (807,142)</u>

**CITY OF DUNCAN, OKLAHOMA**  
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**Combining Statement of Revenues, Expenses, and Changes in Net Position – Internal Service Funds – Year Ended December 31, 2011**

	<u>Self Insurance Fund</u>	<u>Employee Insurance</u>	<u>Worker's Comp</u>	<u>Total</u>
<b>REVENUES</b>				
Charges for services	\$ -	\$ 3,348,626	\$ 521,250	\$ 3,869,876
Miscellaneous	8,406	457,889	-	466,295
Total operating revenues	<u>8,406</u>	<u>3,806,515</u>	<u>521,250</u>	<u>4,336,171</u>
<b>OPERATING EXPENSES</b>				
General government	-	151,536	-	151,536
Claims expense	13,097	3,321,693	946,459	4,281,249
Total operating expenses	<u>13,097</u>	<u>3,473,229</u>	<u>946,459</u>	<u>4,432,785</u>
Operating income (loss)	<u>(4,691)</u>	<u>333,286</u>	<u>(425,209)</u>	<u>(96,614)</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>				
Interest and investment revenue	-	-	535	535
Miscellaneous revenue	-	-	13,145	13,145
Total non-operating revenue (expenses)	<u>-</u>	<u>-</u>	<u>13,680</u>	<u>13,680</u>
Change in net position	(4,691)	333,286	(411,529)	(82,934)
Total net position (deficit) - beginning, restated	-	(95,735)	(628,473)	(724,208)
Total net position (deficit) - ending	<u>\$ (4,691)</u>	<u>\$ 237,551</u>	<u>\$ (1,040,002)</u>	<u>\$ (807,142)</u>



**CITY OF DUNCAN, OKLAHOMA  
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**Combining Statement of Cash Flows – Internal Service Funds – Year Ended December 31, 2011**

	Self Insurance Fund	Employee Insurance	Worker's Comp	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers	\$ 8,406	\$ 3,720,799	\$ 569,663	\$ 4,298,868
Payments to suppliers and employees	(4,039)	(136,750)	-	(140,789)
Claims and judgments paid	-	(3,059,300)	(541,237)	(3,600,537)
Interfund payments	-	(146,547)	(25,462)	(172,009)
Net cash provided by operating activities	<u>4,367</u>	<u>378,202</u>	<u>2,964</u>	<u>385,533</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Purchase of investments	-	-	4,361	4,361
Interest and dividends	-	-	535	535
Net cash provided by investing activities	<u>-</u>	<u>-</u>	<u>4,896</u>	<u>4,896</u>
Net increase in cash and cash equivalents	4,367	378,202	7,860	390,429
Balances - beginning of year	<u>-</u>	<u>77,582</u>	<u>13,286</u>	<u>90,868</u>
Balances - end of year	<u>\$ 4,367</u>	<u>\$ 455,784</u>	<u>\$ 21,146</u>	<u>\$ 481,297</u>
<b>Reconciliation to Statement of Net Position:</b>				
Cash and cash equivalents	\$ 4,367	\$ 455,784	\$ 21,146	\$ 481,297
Total cash and cash equivalents, end of year	<u>\$ 4,367</u>	<u>\$ 455,784</u>	<u>\$ 21,146</u>	<u>\$ 481,297</u>
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>				
Operating income (loss)	\$ (4,691)	\$ 333,286	\$ (425,209)	\$ (96,614)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Miscellaneous revenue	-	-	13,145	13,145
Change in assets and liabilities:				
Due to other funds	-	(146,547)	(25,462)	(172,009)
Other receivable	-	(85,716)	-	(85,716)
Annuities receivable	-	-	35,268	35,268
Accounts payable	9,058	14,786	(3,180)	20,664
Claims and judgments liability	-	262,393	408,402	670,795
Net cash provided by operating activities	<u>\$ 4,367</u>	<u>\$ 378,202</u>	<u>\$ 2,964</u>	<u>\$ 385,533</u>

**CITY OF DUNCAN, OKLAHOMA  
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**Debt Service Coverage Schedule – Year Ended December 31, 2011**

<b>DEBT SERVICE COVERAGE:</b>	<b>OWRB Series 2002A, 2002B, 2005, 2007, 2009, 2009A, 2009C Promissory Notes</b>	<b>2009 Utility Revenue Note</b>
<b>GROSS REVENUE AVAILABLE:</b>		
Charges for services (water, electric, garbage and wastewater)	\$ 28,872,875	\$ 28,872,875
Investment income	10,576	10,576
Total Gross Revenue Available	<u>28,883,451</u>	<u>28,883,451</u>
<b>OPERATING EXPENSES:</b>		
Total Operating Expenses (excludes depreciation and amortization)	<u>21,256,074</u>	<u>21,256,074</u>
Net Revenue Available for Debt Service	<u>7,627,377</u>	<u>7,627,377</u>
Maximum Annual Remaining Debt Service on all OWRB Obligations Payable From		
Revenues of the System	\$ 3,832,000	\$ -
Current Annual Debt Service	<u>-</u>	<u>4,433,782</u>
	<u>\$ 3,832,000</u>	<u>\$ 4,433,782</u>
Computed Coverage	<u>199%</u>	<u>172%</u>
Coverage Requirement	<u>125%</u>	<u>125%</u>

**INTERNAL CONTROL AND COMPLIANCE INFORMATION**

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**Independent Auditors' Report on**  
**Internal Control Over Financial Reporting and on**  
**Compliance and Other Matters Based on an Audit of Financial**  
**Statements Performed in Accordance with Government Auditing Standards**

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, 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, 2011, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated July 30, 2014. Our report includes a reference to other auditors who audited the financial statements of Duncan Industrial Authority., a discretely presented component unit 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's auditors' testing of internal control over financial reporting or compliance and other matters that are reported separately by those auditors.

Our opinions were modified on the City's financial statements as follows:

- Disclaimer of opinion on the statements of activities for governmental activities and business-type activities, statements of revenues, expenditures and changes in fund balances for governmental funds, statements of revenues, expenses and changes in net position and cash flows for proprietary funds, and statement of changes in plan net position for fiduciary funds. The disclaimer is the result of numerous and significant restatements to Net Position/Fund Balances as of January 1, 2011 and we were unable to perform additional auditing procedures to determine the fairness of the beginning balances of certain assets, liabilities and net position/fund balances as of January 1, 2011.
- Adverse opinion on the aggregate discretely presented component units because of the omission of the financial data of one of the City's component units that is required to be discretely presented.
- Qualified opinion on the statements of net position of the business-type activities and the major enterprise fund because the City has not accounted for inventory in accordance with accounting principles generally accepted in the United States of America.

An unmodified opinion was issued on the City's statement of net position of governmental activities, and the balance sheets/statements of net position of the major governmental funds and the aggregate remaining fund information.

The audit report on the financial statements contained two emphasis of matter paragraphs. The first described the restatement of the City's Net Position/Fund Balances as of January 1, 2011, which resulted in a disclaimer of opinion on the financial statements as described above. The second matter describes a deficit fund balance and expenditures in excess of appropriations in the City's General Fund as of and for the year ended December 31, 2011. Our opinion was not modified for 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

*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 *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A *material weakness* is a deficiency, or 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. We consider Finding 2011-001 in the accompanying Schedule of Findings and Responses to be a material weakness.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying Schedule of Findings and Responses as Findings 2011-002 and 2011-003.

### **City'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 response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **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 results of that testing, and not to provide an opinion on the effectiveness of the City'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.

Oklahoma City, Oklahoma  
July 30, 2014

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## SCHEDULE OF FINDINGS AND RESPONSES

### CITY OF DUNCAN, OKLAHOMA

December 31, 2011

#### **Findings Required to be Reported by Government Auditing Standards**

##### **FINDING 2011-001**

Criteria: The City should maintain a system of internal controls that ensures financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") in a timely manner and that ensures the City complies with applicable laws, regulations, contracts, and grant agreements.

Condition: Numerous and significant audit adjustments were necessary to correct numerous material misstatements contained in the City's accounting records and the City has been unable to produce financial statements for the year ended December 31, 2011 in accordance with U.S. GAAP in a timely manner.

Cause: There is an overall lack of internal controls and proper management oversight to ensure the City's accounting records accurately reflect all transactions that have occurred.

Effect: The City's overall lack of internal controls and proper management oversight had the following significant effects:

- The City was unable to issue its audited financial statements for the year ended December 31, 2011 until July 31, 2014. In addition to not being of value to decision makers, financial statements that are not issued timely expose the City to potential penalties and other negative consequences such as adversely affecting the City's ability to issue debt.
- As further explained in Finding 2011-002, the City's General Fund had a deficit fund balance of \$820,296 at December 31, 2011 which is in violation of State statutes. In addition, the City's General Fund expenditures exceeded appropriations by \$2,185,491 for the year ended December 31, 2011, which is also a violation of State statutes.
- The City made numerous adjustments and restatements of net position and fund balances in 2014 prior to and during audit fieldwork to correct balances that did not properly reflect transactions of the City as of December 31, 2011 and for the year then ended. Supporting documentation sufficient to support balances on the statement of net position as of December 31, 2011 with the exception of supplies inventory was able to be provided by the City. However, the City could not sufficiently support beginning balances of certain assets, liabilities, and net position/fund balances. This resulted in a disclaimer of opinion on the statements of activities, the statements of revenues, expenditures and changes in fund balances, and cash flows where appropriate for the year ended December 31, 2011.
- The City had not properly reconciled its cash balance as of December 31, 2011 until February 2014. Not timely reconciling cash balances exposes the City to greater risk of fraud and errors.

- As explained in further detail in Finding 2011-003, the City held certain investments at December 31, 2011 that appear to be in violation of State statutes. Also, an adjustment was necessary to properly report the carrying value of these investments at December 31, 2011, which were recorded at approximately \$208,000 above their fair value at December 31, 2011 as defined by U.S. GAAP.
- The City had not performed a proper evaluation of its utilities receivable balances for collectability at December 31, 2011. Information gathered during the audit indicated that the City's allowance for bad debt balance was understated by approximately \$97,000 for which an audit adjustment was made.
- The City failed to record a receivable of approximately \$538,000 at December 31, 2011 for expenditures made during 2008, 2009, & 2011 related to a reimbursable Federal grant for which the reimbursement was not received until March 2012. An adjustment was made to properly record this receivable. Improper tracking and recording of Federal grants and awards could result in the City being out of compliance with Federal laws and regulations which could lead to loss of grant funding or other penalties.
- The total of the utilities receivable detail report provided by the City was approximately \$246,000 higher than the utilities receivable balance recorded in the general ledger. The City was unable to reconcile the total per the report to its balance per the general ledger.
- The City was unable to determine the proper balance of its supplies and utilities inventory as of December 31, 2011. The City did not perform a complete physical inventory of the supplies during the year ended December 31, 2011 or subsequently through the date of issuance of this report. Also, the tracking of the supplies inventory is performed outside the City's accounting system and a reconciliation has not been performed. The opinion on the statements of net position for the City's enterprise fund and business-type activities was modified related to this matter.
- The City's transfer accounts and interfund due to/due from balances as of December 31, 2011 were not balanced or reconciled until May 2014.
- Multiple restatements and adjustments were necessary related to the City's capital asset and related accumulated depreciation balances as of December 31, 2011. Beginning net position and net book value of capital assets was increased by approximately \$16,854,000 as a result of these restatements and adjustments.
- The City had not properly calculated the incurred but not reported portion of its liability related to worker's compensation or its postemployment healthcare plan at December 31, 2011 as required by U.S. GAAP. As a result the City's liability related to worker's compensation as of December 31, 2011 was understated by approximately \$542,000 and the City's liability related to its postemployment healthcare plan was understated by approximately \$262,000. Adjustments were made to properly report these balances.
- The City had failed to record a liability of approximately \$3,300,000 at December 31, 2011 related to a net pension obligation resulting from the City contributing less than the actuarial required contribution to its defined benefit plan. Of the \$3,300,000, approximately \$500,000 was incurred in the year ended December 31, 2011 and approximately \$2,800,000 was incurred in prior years. Beginning net position, liabilities, and expenses were adjusted to reflect these amounts.

- The City has not properly estimated and recorded a liability related to closure and postclosure care costs of its landfill as required by U.S. GAAP. No liability for this matter was recorded for the year ended December 31, 2011.
- An adjustment in the amount of approximately \$240,000 was needed in order to properly report the liability for accrued compensated absences for the year ended December 31, 2011 which was understated due to the City erroneously excluding the employer's portion of social security, Medicare taxes, and contributions to retirement plans from the liability.

Recommendation: It is our recommendation that the City ensure that an adequate system of internal controls and oversight is in place as soon as possible. The City should also hire a qualified individual as Finance Director, a position that is currently vacant, and ensure that there is sufficient supporting staff to maintain the necessary internal controls and oversight.

Views of a Responsible Official: The City had significant turnover and a lack of qualified staff within the Finance Department in late 2010 that carried over well into 2011. This turnover and lack of qualified staff caused significant delays in timely reconciliations, correction of errors, and monitoring. Although management addressed this lack of institutional knowledge by hiring several qualified staff during that timeframe, significant turnover continued to occur, which is the primary reason for the lack of timely reconciliations of financial data and the lack of timely internal and external financial reporting. However, the City is continuing its efforts to recruit, hire and retain qualified accounting individuals, in addition to using outside financial consultants, to implement daily and monthly accounting and reconciliation procedures and strengthen internal controls.

## **FINDING 2011-002**

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.

Condition: At December 31, 2011, the General Fund had a deficit fund balance of \$820,296. During the year ended December 31, 2011, General Fund expenditures exceeded appropriations by \$2,185,491.

Cause: Due to the material weakness in internal controls over financial reporting, as described in Finding 2011-01. The City did not prepare accurate or timely financial statements and had an overall lack of internal controls to monitor the expenditures of funds from the General Fund.

Effect: The City is in violation of O.S. 11-17-211.

Views of a Responsible Official: The City had significant turnover and a lack of qualified staff within the Finance Department in late 2010 that carried over well into 2011. This turnover and lack of qualified staff caused significant delays in timely reconciliations, correction of errors, and monitoring. Although management addressed this lack of institutional knowledge by hiring several qualified staff during that timeframe, significant turnover continued to occur, which is the primary reason for the lack of timely reconciliations of financial data and the lack of timely internal and external financial reporting. However, the City is continuing its efforts to recruit, hire and retain qualified accounting individuals, in addition to using outside financial consultants, to implement daily and monthly accounting and reconciliation procedures and strengthen internal controls.

## **FINDING 2011-003**

Criteria: State of Oklahoma Statute 60-175.24.A.7 authorizes trustees to:

To make such investment directly or in the form of securities of, or other interests in, any open-end or closed-end management type investment company or investment trust registered under the Investment Company Act of 1940, 15 U.S.C.A. Section 80a-1 et seq.; provided, that the portfolio of such investment company or investment trust is limited to United States Government obligations and to repurchase agreements fully collateralized by such United States Government obligations, and provided further, that any such investment company or investment trust shall take delivery of such collateral, either directly or through an authorized custodian.

Condition: At December 31, 2011, the City had investments in life insurance annuities totaling approximately \$6,925,000.

Cause: These investments were acquired prior to the current City administration being in place.

Effect: The City is in violation of O.S. 60-175.24.A.7.

Views of a Responsible Official: The above mentioned investments were purchased during a prior administration. Management has now adopted an updated investment policy outlining the investments that can be held by the City and its' Trusts. In addition, management is currently working to sell the above investments without incurring any significant losses.