



CITY OF
DUNCAN, OKLAHOMA

ANNUAL FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORTS

AS OF AND FOR THE FISCAL YEAR
ENDED DECEMBER 31, 2012

THE CITY OF DUNCAN, OKLAHOMA

Annual Financial Statements
And Independent Auditor's Report

As of and For the Fiscal Year Ended
December 31, 2012

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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, 2012, 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 represents 97% of the total assets and 99% 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.

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:

Opinion Unit	Financial Statement	Type of Opinion
Governmental Activities	Statement of Net Position	Unmodified
	Statement of Activities	Unmodified
Business-Type Activities	Statement of Net Position	Qualified
	Statement of Activities	Unmodified
General Fund	Balance Sheet	Unmodified
	Statement of Revenues, Expenditures and Changes in Fund Balances	Unmodified
Special Revenue Fund	Balance Sheet	Unmodified
	Statement of Revenues, Expenditures and Changes in Fund Balances	Unmodified
Capital Improvement Fund	Balance Sheet	Unmodified
	Statement of Revenues, Expenditures and Changes in Fund Balances	Unmodified
Enterprise Fund	Statement of Net Position	Qualified
	Statement of Revenues, Expenses and Changes in Net Position	Unmodified
Enterprise Fund	Statement of Cash Flows	Unmodified
Aggregate Remaining Fund Information	Balance Sheet/Statement of Net Position	Unmodified
	Statement of Revenues, Expenditures/ Expenses and Changes in Fund Balance/Net Position	Unmodified
	Statement of Cash Flows	Unmodified
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 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, 2012, 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, 2012, and the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

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, 2012, and the respective changes in financial position for the year then ended, 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, 2012 net position to adjust Net Position/Fund Balance in the government-wide financial statements and governmental funds and proprietary funds financial statements. Our opinion has not been modified for this matter.

General Fund Deficit Fund Balance

As discussed in Note IV.F to the financial statements, at December 31, 2012, the City's General Fund has a deficit fund balance of \$4,934,263. In addition, General Fund expenditures exceeded appropriations at the legal level of control in the aggregate by \$1,451,446 for the year ended December 31, 2012. 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.

Except as described in the following paragraph, in our opinion, the combining and individual nonmajor fund financial statements and other supplementary schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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.

Other Reporting Required By Government Auditing

In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 2015, 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
January 30, 2015

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BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE

CITY OF DUNCAN, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended December 31, 2012

Statement of Net Position – December 31, 2012

	Governmental Activities	Business-type Activities	Total	Component Units
ASSETS				
Cash and cash equivalents	\$ 10,400,226	\$ 2,991,042	\$ 13,391,268	\$ 154,666
Investments	3,965,979	10,928,019	14,893,998	204,491
Interest receivable	-	-	-	43
Accounts receivable, net of allowance	682,827	3,346,951	4,029,778	-
Internal balances	(4,863,074)	4,863,074	-	-
Due from other governmental agencies	2,003,573	39,100	2,042,673	-
Capital assets:				
Land and construction in progress	1,457,537	2,313,354	3,770,891	-
Other capital assets, net of depreciation	54,609,665	65,704,341	120,314,006	601,886
Total Assets	<u>68,256,733</u>	<u>90,185,881</u>	<u>158,442,614</u>	<u>961,086</u>
LIABILITIES				
Accounts payable and accrued expenses	895,107	2,098,954	2,994,061	-
Accrued interest payable	18,797	469,571	488,368	-
Claims payable	1,091,692	-	1,091,692	-
Unearned income	-	1,268,238	1,268,238	-
Long-term liabilities				
Due within one year	1,447,027	2,745,240	4,192,267	-
Due in more than one year	10,749,903	50,186,719	60,936,622	-
Total liabilities	<u>14,202,526</u>	<u>56,768,722</u>	<u>70,971,248</u>	<u>-</u>
NET POSITION				
Net investment in capital assets	50,107,633	18,575,457	68,683,090	601,886
Restricted for:				
Debt service	92,120	8,930,621	9,022,741	-
Public safety	185,675	-	185,675	-
Capital projects	5,662,466	-	5,662,466	-
Economic development	9,361,761	-	9,361,761	-
Other	674,832	-	674,832	1,380
Unrestricted (deficit)	(12,030,280)	5,911,081	(6,119,199)	357,820
Total net position	<u>\$ 54,054,207</u>	<u>\$ 33,417,159</u>	<u>\$ 87,471,366</u>	<u>\$ 961,086</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, 2012

Statement of Activities – Year Ended December 31, 2012

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenue</u>			<u>Net (Expense) Revenue and Changes in Net Position</u>			<u>Component Units</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>				
Primary government								
Governmental Activities								
General government	\$ 4,612,394	\$ 13,371	\$ 182,716	\$ 6,000	\$ (4,410,307)	\$ -	\$ (4,410,307)	\$ -
Public safety	10,078,000	731,616	883,783	4,000	(8,458,601)	-	(8,458,601)	-
Streets	4,052,520	-	218,620	-	(3,833,900)	-	(3,833,900)	-
Culture and recreation	1,611,199	47,550	41,653	-	(1,521,996)	-	(1,521,996)	-
Cemetery	336,722	102,310	40	-	(234,372)	-	(234,372)	-
Community development	813,711	82,443	17,200	-	(714,068)	-	(714,068)	-
Economic development	770,971	-	26,670	-	(744,301)	-	(744,301)	-
Interest on long-term debt	279,577	-	-	-	(279,577)	-	(279,577)	-
Total governmental activities	22,555,094	977,290	1,370,682	10,000	(20,197,122)	-	(20,197,122)	-
Business-type activities:								
Water	7,150,954	6,565,947	100	670,543	-	85,636	85,636	-
Wastewater	2,500,655	2,167,805	-	-	-	(332,850)	(332,850)	-
Sanitation	3,614,720	2,978,025	-	-	-	(636,695)	(636,695)	-
Electric	15,137,978	17,106,417	-	-	-	1,968,439	1,968,439	-
Airport	280,389	28,400	-	-	-	(251,989)	(251,989)	-
Lake	568,889	147,023	-	-	-	(421,866)	(421,866)	-
Total business-type activities	29,253,585	28,993,617	100	670,543	-	410,675	410,675	-
Total primary government	\$ 51,808,679	\$ 29,970,907	\$ 1,370,782	\$ 680,543	\$ (20,197,122)	410,675	(19,786,447)	
Component Unit								
Industrial Development	\$ 7,312	\$ 8,096	\$ -	\$ -				784
Health and welfare	-	61	-	-				61
Total component units	\$ 7,312	\$ 8,157	\$ -	\$ -				845
General revenues:								
Taxes:								
Sales and use taxes					15,500,372	-	15,500,372	-
Franchise taxes and public service taxes					661,424	-	661,424	-
Hotel/motel taxes					325,402	-	325,402	-
Other					336,284	-	336,284	-
Unrestricted investment earnings					166,759	623,634	790,393	-
Miscellaneous					29,279	475,074	504,353	-
Transfers					458,335	(458,335)	-	-
Total general revenues and transfers					17,477,855	640,373	18,118,228	-
Change in net position					(2,719,267)	1,051,048	(1,668,219)	845
Net position - beginning, restated					56,773,474	32,366,111	89,139,585	960,241
Net position - ending					\$ 54,054,207	\$ 33,417,159	\$ 87,471,366	\$ 961,086

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, 2012

BASIC FINANCIAL STATEMENTS – GOVERNMENTAL FUNDS

CITY OF DUNCAN, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended December 31, 2012

Balance Sheet – Governmental Funds – December 31, 2012

	<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>
ASSETS					
Cash and cash equivalents	\$ 45,935	\$ 5,127,295	\$ 3,701,966	\$ 1,085,139	\$ 9,960,335
Investments	-	3,965,979	-	-	3,965,979
Receivable from other governments	1,373,845	268,487	536,974	129,675	2,308,981
Due from other funds	321,417	-	1,686,015	45,129	2,052,561
Taxes receivable, net	179,944	-	-	-	179,944
Court fines receivable, net	138,144	-	-	-	138,144
Other receivables	15,549	-	-	612	16,161
Total assets	<u>\$ 2,074,834</u>	<u>9,361,761</u>	<u>\$ 5,924,955</u>	<u>\$ 1,260,555</u>	<u>\$ 18,622,105</u>
LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 201,348	-	\$ 262,489	\$ 16,388	\$ 480,225
Accrued payroll payable	401,504	-	-	-	401,504
Due to other funds	6,365,256	-	-	227,211	6,592,467
Due to bondholders	600	-	-	-	600
Payable to other governments	145	-	-	-	145
Total liabilities	<u>6,968,853</u>	<u>-</u>	<u>262,489</u>	<u>243,599</u>	<u>7,474,941</u>
DEFERRED INFLOWS OF RESOURCES					
Deferred revenue	<u>40,244</u>	<u>-</u>	<u>-</u>	<u>45,532</u>	<u>85,776</u>
Fund balances:					
Restricted	-	9,361,761	5,662,466	971,424	15,995,651
Unassigned (deficit)	<u>(4,934,263)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(4,934,263)</u>
Total fund balances	<u>(4,934,263)</u>	<u>9,361,761</u>	<u>5,662,466</u>	<u>971,424</u>	<u>11,061,388</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 2,074,834</u>	<u>\$ 9,361,761</u>	<u>\$ 5,924,955</u>	<u>\$ 1,260,555</u>	<u>\$ 18,622,105</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, 2012

Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances –Year Ended December 31, 2012

	<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>
REVENUES					
Taxes	\$ 10,263,915	2,039,293	\$ 4,078,587	\$ 336,284	\$ 16,718,079
Intergovernmental	1,102,745	-	4,000	290,691	1,397,436
Licenses and permits	102,579	-	-	-	102,579
Charges for services	165,846	-	-	12,813	178,659
Fees and fines	680,210	-	-	-	680,210
Investment earnings	(10,373)	137,587	39,511	34	166,759
Miscellaneous	59,276	-	8,209	49,760	117,245
Total revenues	<u>12,364,198</u>	<u>2,176,880</u>	<u>4,130,307</u>	<u>689,582</u>	<u>19,360,967</u>
EXPENDITURES					
Current:					
General government	3,676,016	-	13,768	300	3,690,084
Community Development	664,171	-	-	-	664,171
Public safety	8,402,837	-	-	15,849	8,418,686
Highways and streets	905,046	-	-	-	905,046
Health	301,597	-	-	-	301,597
Culture and recreation	1,161,622	-	-	20,853	1,182,475
Streets	-	-	-	205,857	205,857
Economic development	-	39,087	-	-	39,087
Capital Outlay	-	-	2,946,646	74,083	3,020,729
Debt Service:					
Principal	30,275	-	248,032	1,091,480	1,369,787
Interest and other charges	2,807	-	18,784	270,470	292,061
Total expenditures	<u>15,144,371</u>	<u>39,087</u>	<u>3,227,230</u>	<u>1,678,892</u>	<u>20,089,580</u>
Excess (deficiency) of revenues over expenditures	<u>(2,780,173)</u>	<u>2,137,793</u>	<u>903,077</u>	<u>(989,310)</u>	<u>(728,613)</u>
OTHER FINANCING SOURCES (USES)					
Proceeds from capital leases	-	-	23,283	-	23,283
Transfer from component unit	-	26,670	-	-	26,670
Transfer to component unit	-	(586,000)	-	-	(586,000)
Transfers in	250,590	-	1,037,043	1,321,840	2,609,473
Transfers out	(1,102,070)	-	(28,172)	(223,207)	(1,353,449)
Total other financing sources and uses	<u>(851,480)</u>	<u>(559,330)</u>	<u>1,032,154</u>	<u>1,098,633</u>	<u>719,977</u>
Net change in fund balances	(3,631,653)	1,578,463	1,935,231	109,323	(8,636)
Fund balances (deficit) - beginning, restated	(1,302,610)	7,783,298	3,727,235	862,101	11,070,024
Fund balances (deficit) - ending	<u>\$ (4,934,263)</u>	<u>\$ 9,361,761</u>	<u>\$ 5,662,466</u>	<u>\$ 971,424</u>	<u>\$ 11,061,388</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, 2012

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position

Total fund balance, governmental funds	\$ 11,061,388
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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.	56,067,202
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Certain long-term assets are not available to pay for current fund liabilities and, therefore, are deferred in the funds.	85,776
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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	(18,797)
Net pension obligations	(2,073,208)
Other post employment benefits	(2,855,258)
Accrued compensated absences	(1,308,895)
Note payable	(5,345,000)
Capital leases payable	(614,569)

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	(944,432)
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Net Position of Governmental Activities in the Statement of Net Position	<u>\$ 54,054,207</u>
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The accompanying notes are an integral part of these financial statements.

CITY OF DUNCAN, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended December 31, 2012

**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of
Governmental Funds to the Statement of Activities - Year Ended December 31, 2012**

Net change in fund balances - total governmental funds: \$ (8,636)

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	1,573,509
Depreciation expense	(4,399,649)

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	(10,144)
----------------------------	----------

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

Decrease in accrued compensated absences	17,457
Increase in other post employment benefits	(1,448,707)
Decrease in net pension obligation	455,300
Change in note payable	1,060,000
Capital lease proceeds	(23,283)
Change in capital leases payable	309,787

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	3,727
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Internal service fund activity is reported as a proprietary fund in fund financial
statements, but certain net revenues are reported in governmental activities on the
Statement of Activities:

Total change in net position of governmental activities -internal service funds	(248,628)
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Change in net position of governmental activities	<u><u>\$ (2,719,267)</u></u>
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The accompanying notes are an integral part of these financial statements.

CITY OF DUNCAN, OKLAHOMA
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BASIC FINANCIAL STATEMENTS - PROPRIETARY FUNDS

CITY OF DUNCAN, OKLAHOMA
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Proprietary Funds Statement of Net Position –December 31, 2012

	Duncan Public Utilities Authority Enterprise Fund	Internal Service Fund
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,158,018	\$ 439,891
Investments	1,885,772	-
Restricted:		
Cash and cash equivalents	1,833,024	-
Due from other funds	5,201,650	24,421
Accounts receivable, net	3,307,011	-
Receivables from other governments	39,100	-
Other receivables	39,940	12,775
Annuities receivable	-	30,395
Total current assets	<u>13,464,515</u>	<u>507,482</u>
Non-current assets:		
Restricted:		
Investments	9,042,247	-
Capital assets:		
Land and construction in progress	2,313,354	-
Other capital assets, net of accumulated depreciation	<u>65,704,341</u>	<u>-</u>
Total non-current assets	<u>77,059,942</u>	<u>-</u>
Total assets	<u>90,524,457</u>	<u>507,482</u>
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	1,913,228	12,633
Salaries payable	116,964	-
Accrued interest payable	469,571	-
Due to other funds	101,307	584,858
Payable to other governments	68,762	-
Unearned revenue	1,268,238	-
Deposits subject to refund	111,308	-
Compensated absences	31,437	-
Claims and judgments	-	1,091,692
Bonds payable	<u>2,602,495</u>	<u>-</u>
Total current liabilities	<u>6,683,310</u>	<u>1,689,183</u>
Non-current liabilities:		
Compensated absences, net of current portion	282,938	-
Deposits subject to refund, net of current portion	1,065,614	-
Net pension obligation	1,539,494	-
Other post employment benefits	458,930	-
Notes payable, net of current portion	<u>46,839,743</u>	<u>-</u>
Total non-current liabilities	<u>50,186,719</u>	<u>-</u>
Total liabilities	<u>56,870,029</u>	<u>1,689,183</u>
NET POSITION		
Net investment in capital assets	18,575,457	-
Restricted for debt service	8,930,621	-
Unrestricted (deficit)	<u>6,148,350</u>	<u>(1,181,701)</u>
Total net position	<u>\$ 33,654,428</u>	<u>\$ (1,181,701)</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

\$ (237,269)

Total net position per Government-Wide financial statements

\$ 33,417,159

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

CITY OF DUNCAN, OKLAHOMA
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Proprietary Funds Statement of Revenues, Expenses, and Changes in Net Position –Year Ended December 31, 2012

	Duncan Public Utilities Authority Enterprise Fund	Internal Service Fund
REVENUES		
Water	\$ 6,395,160	\$ -
Electric	17,037,902	-
Sewer	2,184,405	-
Sanitation	2,978,025	-
Lake	147,023	-
Airport	28,400	-
Charges for services	-	2,681,303
Miscellaneous	301,963	103,056
Total operating revenues	<u>29,072,878</u>	<u>2,784,359</u>
OPERATING EXPENSES		
General government	864,449	266,255
Water	2,704,028	-
Wastewater	1,080,048	-
Sanitation	2,877,154	-
Electric	14,060,617	-
Lake	372,070	-
Airport	35,598	-
Claims expense	-	2,883,592
Depreciation	4,777,161	-
Total operating expenses	<u>26,771,125</u>	<u>3,149,847</u>
Operating income (loss)	<u>2,301,753</u>	<u>(365,488)</u>
NON-OPERATING REVENUES (EXPENSES)		
Interest and investment revenue	623,634	(6,010)
Miscellaneous revenue	1,117,822	21,759
Gain on capital asset disposal	27,646	-
Debt issuance cost	(115,400)	-
Interest expense	(2,076,153)	-
Total non-operating revenue (expenses)	<u>(422,451)</u>	<u>15,749</u>
Income (loss) before transfers	<u>1,879,302</u>	<u>(349,739)</u>
Transfers in	558,786	-
Transfers out	(1,261,109)	(24,820)
Change in net position	<u>1,176,979</u>	<u>(374,559)</u>
Total net position (deficit) - beginning, restated	32,477,449	(807,142)
Total net position (deficit) - ending	<u>\$ 33,654,428</u>	<u>\$ (1,181,701)</u>
Change in net position per above	\$ 1,176,979	
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	(125,931)	
Change in Business-Type Activities in Net Postion per Government-Wide Financial Statements	<u>\$ 1,051,048</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, 2012

	Duncan Public Utilities Authority	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 31,742,508	\$ 2,880,344
Payments to suppliers and employees	(20,387,112)	(310,393)
Claims and judgments paid	-	(3,319,150)
Receipts of customer meter deposits	349,266	-
Refunds of customer meter deposits	(317,760)	-
Interfund receipts	1,386,794	-
Interfund payments	(5,854,703)	732,446
Net cash provided by (used in) operating activities	6,918,993	(16,753)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers from other funds	7,411	-
Transfers to other funds	(1,261,109)	(24,820)
Net cash provided by (used in) noncapital financing activities	(1,253,698)	(24,820)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	(779,978)	-
Proceeds from debt	7,747,208	-
Note issuance cost paid	(115,400)	-
Principal paid on debt	(10,092,791)	-
Interest and fiscal agent fees paid on debt	(2,149,312)	-
Net cash provided by (used in) capital and related financing activities	(5,390,273)	-
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(3,548,260)	6,177
Interest and dividends	623,634	(6,010)
Net cash provided by investing activities	(2,924,626)	167
Net increase (decrease) in cash and cash equivalents	(2,649,604)	(41,406)
Balances - beginning of year	5,640,646	481,297
Balances - end of year	\$ 2,991,042	\$ 439,891
Reconciliation to Statement of Net Position:		
Cash and cash equivalents	\$ 1,158,018	439,891
Restricted cash and cash equivalents - current	1,833,024	-
Total cash and cash equivalents, end of year	\$ 2,991,042	\$ 439,891
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:		
Operating income (loss)	\$ 2,301,753	(365,488)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation expense	4,777,161	-
Miscellaneous revenue	1,117,822	21,759
Change in assets and liabilities:		
Due from other funds	-	147,588
Due to other funds	(5,414,843)	584,858
Accounts receivable	(250,649)	-
Due from other governments	538,394	-
Other receivable	(4,175)	74,226
Accounts payable	526,897	(12,161)
Accrued payroll payable	41,974	-
Deposits subject to refund	31,506	-
Claims and judgments liability	946,934	(467,535)
Net pension obligation	775,189	-
Other post employment benefits	237,657	-
Accrued compensated absences	25,135	-
Unearned revenue	1,268,238	-
Net cash provided by operating activities	\$ 6,918,993	\$ (16,753)
Noncash activities:		
Asset contributed by others	\$ 551,375	\$ -
	\$ 551,375	\$ -

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

CITY OF DUNCAN, OKLAHOMA
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BASIC FINANCIAL STATEMENTS – FIDUCIARY FUNDS

CITY OF DUNCAN, OKLAHOMA
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Fiduciary Funds Statement of Net Position –December 31, 2012

	City Employees Retirement Trust Fund	Deposit and Refund - Agency Fund
ASSETS		
Cash and cash equivalents	\$ 203,708	\$ 54,563
Investments, at market value:		
Mutual funds	2,103,133	-
Common trust funds	2,682,467	-
Other receivable	-	25,782
Total assets	<u>\$ 4,989,308</u>	<u>\$ 80,345</u>
LIABILITIES		
Refunds payable and others	-	\$ 80,345
Total liabilities	<u>-</u>	<u>\$ 80,345</u>
NET POSITION		
Held in trust for pension benefits	<u>\$ 4,989,308</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, 2012

	City Employees Retirement Trust Fund
ADDITIONS	
Contributions:	
Employer	1,235,749
Plan Members	353,724
Total contributions	<u>1,589,473</u>
Investment earnings:	
Net increase in fair value of investments	343,146
Interest	106,261
Total net investment earnings	<u>449,407</u>
Total additions	<u>2,038,880</u>
DEDUCTIONS	
Benefits paid to participants or beneficiaries	1,512,194
Refunds of contributions	81,811
Administrative	20,346
Total deductions	<u>1,614,351</u>
Change in net position held in trust for employees' pension benefits	424,529
Net position - beginning	<u>4,564,779</u>
Net position - ending	<u><u>\$ 4,989,308</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, 2012

	Duncan Industrial Authority	Duncan Hospital Authority	TOTALS
<u>ASSETS</u>			
Current Assets:			
Cash and cash equivalents	\$ 128,192	\$ 25,094	\$ 153,286
Cash and cash equivalents, restricted	1,380	-	1,380
Investments	204,491	-	204,491
Receivables:			
Interest Receivable	43	-	43
Total current assets	<u>334,106</u>	<u>25,094</u>	<u>359,200</u>
Noncurrent Assets:			
Land available for development	601,886	-	601,886
Total noncurrent assets	<u>601,886</u>	<u>-</u>	<u>601,886</u>
Total Assets	<u>935,992</u>	<u>25,094</u>	<u>961,086</u>
<u>NET POSITION</u>			
Net investment in capital assets	601,886	-	601,886
Restricted	1,380	-	1,380
Unrestricted	<u>332,726</u>	<u>25,094</u>	<u>357,820</u>
Total Net Position	<u>\$ 935,992</u>	<u>\$ 25,094</u>	<u>\$ 961,086</u>

CITY OF DUNCAN, OKLAHOMA
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Component Units Combining Statement of Activities - Year Ended December 31, 2012

	Duncan Industrial Authority	Duncan Hospital Authority	TOTALS
Operating Revenues:			
Rentals	\$ 6,610	\$ -	\$ 6,610
Total Operating Revenues	<u>6,610</u>	<u>-</u>	<u>6,610</u>
Operating Expenses:			
Economic development	7,312	-	7,312
Total Operating Expenses	<u>7,312</u>	<u>-</u>	<u>7,312</u>
Operating Income (Loss)	(702)	-	(702)
Non-Operating Revenues (Expenses):			
Investment income	1,486	61	1,547
Net non-operating revenues (expenses)	<u>1,486</u>	<u>61</u>	<u>1,547</u>
Change in Net Position	784	61	845
Net Position, beginning of year, restated	<u>935,208</u>	<u>25,033</u>	<u>960,241</u>
Net Position, end of year	<u><u>\$ 935,992</u></u>	<u><u>\$ 25,094</u></u>	<u><u>\$ 961,086</u></u>

I. Organization

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

II. Summary of significant accounting policies

A. Reporting entity

The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the City's operations. The City's financial statements include 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 provide financing for physical plant facilities, improvements, equipment, and medical services for the purpose of providing or improving health care within the City of Duncan. The governing body is appointed by the City Council. Any issuance of debt requires a two-thirds approval of the City Council. The 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 \$2,863,309 in FY 2012 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 Director of Emergency Management of Stephens county. The city did not pay the SCPSCA any funds in FY 2012.

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 accounts: 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 and unemployment claims 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 court 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 (city manager) 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, 2012, 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*, in fiscal year 2011 - 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*, in fiscal year 2011. 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*, in fiscal year 2011. 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*, in fiscal year 2011. 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

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financial statement elements, which are distinct from assets and liabilities. The city has chosen to early implement.

- The City also implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, in fiscal year 2011. 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.

III. Detailed notes on all funds

A. Deposits and investments – The City held the following deposits/investments at December 31, 2012:

PRIMARY GOVERNMENT:

Type	Fair Value	Credit Rating	Maturities in Years					
			On Demand	Less Than One	1 - 5	6 - 10	11-20	20+
Demand accounts	\$ 7,306,835	n/a	\$ 7,306,835	\$ -	\$ -	\$ -	\$ -	\$ -
Cash on hand	2,211		2,211	-	-	-	-	-
Government money markets	567,022	AAAAm	567,022	-	-	-	-	-
Money Markets	197,400	AAAAm	197,400	-	-	-	-	-
US Agency	7,414,526	AA+	-	-	6,276,388	-	-	1,138,138
Mutual funds fixed income	5,952,274	n/a	5,952,274	-	-	-	-	-
Sub-total	21,440,268		\$ 14,025,742	\$ -	\$ 6,276,388	\$ -	\$ -	\$ 1,138,138
Mutual Funds:								
Equity	1,726,959							
Common trust fund fixed	1,657,603							
Common trust fund equity	1,024,864							
Annuities	7,479,443							
	<u>\$ 33,329,137</u>							
Reconciliation to Statement of Net Position:								
Cash and cash equivalents	\$ 13,391,268							
Investments	14,893,998							
Pension cash and cash equivalents	203,708							
Pension investments	4,785,600							
Agency fund cash and cash equivalents	54,563							
	<u>\$ 33,329,137</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 direct obligation of the State of Oklahoma or its' agencies, county or school districts. At December 31, 2012 the City's deposits were fully insured.

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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, 2012, 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 49% 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:

Class	Target Percent	December 2012 Percent
Equities	45-65%	36%
Small Cap Equities	Up to 25%	14%
International Equities	Up to 15%	5%
Fixed Income	35%-55%	41%
Cash and equivalents	0% to 5%	4%

At December 31, 2012, the City investments in equities was below the target amount of 45%.

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COMPONENT UNIT:

The DIA was not exposed to custodial credit risk at June 30, 2012. The \$129,572 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, 2012. The \$25,094 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, 2012, for the City of Duncan's governmental and business-type activities, including the applicable allowances for uncollectible accounts are as follows:

	Accounts Receivable	Less: Allowance for Uncollectible Accounts	Net Accounts Receivable
Governmental Activities:			
Taxes	\$ 179,944	\$ -	\$ 179,944
Due from other governments	2,308,981	-	2,308,981
Court fines	460,480	(322,336)	138,144
Other	59,331	-	59,331
Total Governmental Activities	<u>\$ 3,008,736</u>	<u>\$ (322,336)</u>	<u>\$ 2,686,400</u>
Reconciliation to Statement of Net Position:			
Accounts receivable, net			\$ 682,827
Due from other governmental agencies			<u>2,003,573</u>
Total			<u>\$ 2,686,400</u>
Business-Type Activities:			
Utilities	<u>\$ 3,974,764</u>	<u>\$ (627,813)</u>	<u>\$ 3,346,951</u>

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.

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<u>Type of Restricted Assets</u>	Current	Noncurrent	Total
	Cash and Cash Equivalents	Investments	
Due to Depositors	\$ 814,357	\$ -	\$ 814,357
Trustee Accounts:			
2009A Debt Service Account	158,828	-	158,828
OWRB 2002A Debt Service Account	63,833	-	63,833
2012 Note Interest Account	2,715	-	2,715
2012 Note Revenue Account	230,729	-	230,729
Waurika Debt Service	562,562	9,042,247	9,604,809
Total Restricted Assets	<u>\$ 1,833,024</u>	<u>\$ 9,042,247</u>	<u>\$ 10,875,271</u>

D. Capital Assets

The following is a summary of changes in capital assets during fiscal year 2012 for the primary government:

PRIMARY GOVERNMENT:

	Restated, Balance at January 1, 2012	Additions	Disposals	Balance at December 31, 2012
<i>Governmental activities:</i>				
Capital assets not being depreciated:				
Land	\$ 963,985	\$ -	\$ -	\$ 963,985
Construction in progress	247,785	1,239,117	993,350	493,552
Total capital assets not being depreciated	<u>1,211,770</u>	<u>1,239,117</u>	<u>993,350</u>	<u>1,457,537</u>
Other capital assets:				
Buildings	21,157,807	162,382		21,320,189
Machinery, furniture and equipment	11,761,002	338,573	40,722	12,058,853
Infrastructure	91,751,494	826,787		92,578,281
Total other capital assets at historical cost	<u>124,670,303</u>	<u>1,327,742</u>	<u>40,722</u>	<u>125,957,323</u>
Less accumulated depreciation for:				
Buildings	7,467,110	760,363	-	8,227,473
Machinery, furniture and equipment	8,237,783	837,216	40,722	9,034,277
Infrastructure	51,283,838	2,802,070	-	54,085,908
Total accumulated depreciation	<u>66,988,731</u>	<u>4,399,649</u>	<u>40,722</u>	<u>71,347,658</u>
Other capital assets, net	<u>57,681,572</u>	<u>(3,071,907)</u>	<u>-</u>	<u>54,609,665</u>
Governmental activities capital assets, net	<u>\$ 58,893,342</u>	<u>\$ (1,832,790)</u>	<u>\$ 993,350</u>	<u>\$ 56,067,202</u>

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Business-type activities:

Capital assets not being depreciated:

Land	\$ 245,944	\$ 78,633	\$ -	\$ 324,577
Construction in progress	8,226,316	906,292	7,143,831	1,988,777
Total capital assets not being depreciated	<u>8,472,260</u>	<u>984,925</u>	<u>7,143,831</u>	<u>2,313,354</u>

Other capital assets:

Buildings	19,089,194	78,633	-	19,167,827
Machinery, furniture and equipment	6,166,191	251,170	-	6,417,361
Utility property	88,667,918	7,143,831	-	95,811,749
Water rights	18,785,708	-	-	18,785,708
Total other capital assets at historical cost	<u>132,709,011</u>	<u>7,473,634</u>	<u>-</u>	<u>140,182,645</u>

Less accumulated depreciation for:

Buildings	6,345,511	720,757	-	7,066,268
Machinery, furniture and equipment	4,922,585	473,166	-	5,395,751
Utility property	48,870,690	3,212,215	-	52,082,905
Water rights	9,562,357	371,023	-	9,933,380
Total accumulated depreciation	<u>69,701,143</u>	<u>4,777,161</u>	<u>-</u>	<u>74,478,304</u>

Other capital assets, net	<u>63,007,868</u>	<u>2,696,473</u>	<u>-</u>	<u>65,704,341</u>
Business-type activities capital assets, net	<u>\$ 71,480,128</u>	<u>\$ 3,681,398</u>	<u>\$ 7,143,831</u>	<u>\$ 68,017,695</u>

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

Governmental Activities:

General government	\$ 190,725
Culture and recreation	362,638
Community development	17,258
Economic development	145,884
Cemetery	33,294
Public safety	538,511
Streets	3,111,339
	<u>\$ 4,399,649</u>

Business-Type Activities:

Water	\$2,420,592
Wastewater	996,950
Sanitation	365,889
Electric	623,526
Lake	125,413
Airport	244,791

\$4,777,161

E. Long-term debt

Long-term liabilities of the City of Duncan as of December 31, 2012, 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.	\$ 5,345,000
Current portion	\$ 1,100,000
Noncurrent portion	4,245,000
	<u>\$ 5,345,000</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.	\$ 6,982
\$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.	2,406
\$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.	400,705
\$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	15,640
\$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.	2,569
\$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.	38,091
\$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.	123,238
\$23,283 capital lease agreement for the purchase of 2012 Chevrolet 1500, payable to First Bank and Trust Co. in annual installments of \$12,143, including interest at 2.0%, with final payment due February 2014.	23,283
\$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.	719
\$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.	936
Total Capital Leases	<u>\$ 614,569</u>
Current portion	\$ 213,297
Noncurrent portion	401,272
	<u>\$ 614,569</u>

Compensated Absences:

Accrued compensated absences. The general fund typically has been used to liquidate this liability.	<u>\$ 1,308,895</u>
Current portion	\$ 133,730
Noncurrent portion	1,175,165
	<u>\$ 1,308,895</u>

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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. \$ 7,858,169

\$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. 8,737,820

\$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. 1,803,189

\$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. 5,299,110

\$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. 6,388,489

\$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. 3,507,723

\$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. 8,457,738

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

Total notes payable \$ 49,442,238

Current portion \$ 2,602,495
Noncurrent portion 46,839,743
\$ 49,442,238

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Compensated Absences:

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

	\$ 314,375
Current portion	\$ 31,437
Noncurrent portion	282,938
	<u>\$ 314,375</u>

Long-term liability transactions for the year ended December 31, 2012 and changes therein were as follows:

<u>Type of Debt</u>	<u>Restated, Balance January 1, 2012</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31, 2012</u>	<u>Due Within One Year</u>
Governmental Activities:					
Notes payable	\$ 6,405,000	\$ -	\$ 1,060,000	\$ 5,345,000	\$ 1,100,000
Capital leases payable	901,072	23,283	309,786	614,569	213,297
Accrued compensated absences	1,326,353	-	17,458	1,308,895	133,730
Total Governmental Activities	<u>\$ 8,632,425</u>	<u>\$ 23,283</u>	<u>\$ 1,387,244</u>	<u>\$ 7,268,464</u>	<u>\$ 1,447,027</u>
				2,855,258	
				2,073,208	
				<u>\$ 12,196,930</u>	
Business-Type Activities:					
Notes Payable	\$ 51,787,821	\$ 7,747,208	\$ 10,092,791	\$ 49,442,238	\$ 2,602,495
Meter deposits	1,145,416	349,266	317,760	1,176,922	111,308
Accrued compensated absences	289,241	25,134	-	314,375	31,437
Total Business-Type Activities	<u>53,222,478</u>	<u>8,121,608</u>	<u>10,410,551</u>	<u>\$ 50,933,535</u>	<u>2,745,240</u>
				458,930	
				1,539,494	
				<u>\$ 52,931,959</u>	

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

Fiscal Year Ending December 31,	Governmental Activities			
	Notes Payable		Capital Leases	
	Principal	Interest	Principal	Interest
2013	\$ 1,100,000	\$ 214,060	\$ 213,297	\$ 20,404
2014	1,150,000	167,113	195,835	13,036
2015	1,200,000	118,055	176,710	6,459
2016	1,250,000	66,888	28,727	796
2017	645,000	13,610	-	-
	<u>\$ 5,345,000</u>	<u>\$ 579,726</u>	<u>\$ 614,569</u>	<u>\$ 40,695</u>

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Fiscal Year Ending June 30	Business-Type Activities	
	Notes Payable	
	Principal	Interest
2013	\$ 2,602,495	\$ 1,489,067
2014	2,709,778	1,362,555
2015	2,835,257	1,292,545
2016	2,912,577	1,223,803
2017	3,194,900	1,150,756
2018-2022	16,890,558	4,437,116
2023-2027	10,576,742	2,529,200
2028-2032	6,165,370	922,749
2033-2036	1,554,561	172,012
	<u>\$ 49,442,238</u>	<u>\$ 14,579,803</u>

Pledge of Future Revenues

Sales Tax Pledge - The City has fifty-five hundredths of a one penny tax (or .55%) of future sales tax revenues to repay \$10,000,000 of Series 2007 Sales Tax Revenue Note. Proceeds from the notes provided financing for street capital assets. The note is payable from pledged sales tax revenues. The note is payable through fiscal year 2017. The total principal and interest payable for the remainder of the life of this note is \$5,924,726. Pledged sales taxes received in the current year were \$1,321,713. Debt service payments of \$1,321,713 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, \$340,000 of the 2009C Series OWRB Note Payable, and \$7,390,000 of the 2012 Utility Revenue Note. Proceeds from the notes provided financing for utility system capital assets. The notes are payable through 2022, 2022, 2026, 2029, 2030, 2030, 2025, 2030, and 2021, respectively. The total principal and interest payable for the remainder of the life of these notes is \$39,722,981. The notes are payable from the above-mentioned utility revenues. The debt service payments on the notes this year were \$10,829,671 which was 3% of pledged utility revenues of \$28,635,131.

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F. Interfund receivables, payables, and transfers

The composition of interfund balances as of December 31, 2012 is as follows:

Receivable Fund	Payable Fund	Amount	Nature of Interfund Balance
* General	Library grants	\$ 4,003	Revenue posted to incorrect fund
* General	E911 Dispatch	223,207	E911 landline fees
* General	* DPUA	21,853	Revenue posted to incorrect fund
* General	* DPUA	72,354	Negative cash
Internal service - Insurance	Internal service - Self Ins.	24,421	Negative cash
Street and alley	* General	12,369	Revenue posted to incorrect fund
* Capital Improvement Fund	* General	1,678,915	Negative cash
* Capital Improvement Fund	* DPUA	7,100	Revenue posted to incorrect fund
CDBG	* General	32,760	Negative cash
* DPUA	Internal service	560,437	Negative cash
* DPUA	* General	300,000	Revenue posted to incorrect fund
* DPUA	* General	4,341,213	Negative cash
		<u>\$ 7,278,632</u>	

Reconciliation to Fund Financial Statements:

	Due From	Due to	Net Interfund Balances
Governmental Funds	\$ 2,052,561	\$ 6,592,467	\$ (4,539,906)
Proprietary Funds	5,201,650	101,307	5,100,343
Internal Service Funds	24,421	584,858	(560,437)
	<u>\$ 7,278,632</u>	<u>\$ 7,278,632</u>	<u>\$ -</u>

Reconciliation of Statement of Net Position:

Net Internal Balances	\$ 5,100,343
Internal Service Fund Activity reported in Business-type Activities	(237,269)
Net Internal Balances	<u>\$ 4,863,074</u>

* Denotes major fund.

A summary of interfund transfers for the fiscal year ended December 31, 2012 is as follows:

Transfer From	Transfer To	Amount	Purpose of Transfer
911 Telephone	* General	\$ 223,207	Budgeted operational transfer
* DPUA	* Capital Improvement Fund	538,394	Capital projects
* DPUA	* Capital Improvement Fund	498,649	Loan proceeds
* DPUA	* General	4,296	Debt payments
* DPUA	DPUA Debt Service	219,770	A Pledged sales tax
* General	DPUA Debt Service	1,101,380	A Pledged sales tax
* General	Cemetery	690	A Expense reimbursement
* Capital Improvement Fund	* DPUA	558,786	Capital contributions
* Capital Improvement Fund	* General	23,087	Budgeted operational transfer
Total		<u>\$ 3,168,259</u>	

Reconciliation to Fund Financial Statements:

	Transfers In	Transfers Out	Net Transfers
Governmental Funds	\$ 2,609,473	\$ (1,353,449)	\$ 1,256,024
Proprietary Funds	558,786	(1,261,109)	(702,323)
	<u>\$ 3,168,259</u>	<u>\$ (2,614,558)</u>	<u>\$ 553,701</u>

* Denotes major fund.

Sum A	Non Major transfer in	\$ 1,321,840
Sum B	Non Major transfer out	\$ 223,207

Reconciliation to Statement of Activities:

Net transfers	\$ 1,256,024
Transfer of capital assets to business-type activities	(553,701)
Transfer of operational cost to business-type activities	(243,998)
Transfers - internal activity	<u>\$ 458,325</u>

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G. 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:

Fund	Restricted By	Amount
Governmental Activities:		
Cemetery Fund	Statutory requirements	\$ 140,957
Street and Alley Fund	Statutory requirements	166,345
E911 Fund	Statutory requirements	68,619
		<u>\$ 375,921</u>
CDBG Fund	External sources	\$ 358,218
Police grants and seizures	External sources	109,918
First responder	External sources	6,134
Library grants	External sources	7,796
DARE	External sources	1,004
Stimulus grant	External sources	1,516
Economic Development Fund	External sources	9,361,761
Capital Projects Fund	External sources	5,662,466
Debt Service Fund	External sources	92,120
		<u>\$ 15,600,933</u>
Total Governmental Restricted		<u><u>\$ 15,976,854</u></u>
Reconciliation to Statement of Net Position:		
Restricted for:		
Debt service		\$ 92,120
Public Safety		185,675
Capital projects		5,662,466
Economic development		9,361,761
Other		674,832
Total Governmental Restricted		<u><u>\$ 15,976,854</u></u>
Business Type Activities:		
Debt Service Reserves	Enabling legislation	<u><u>\$ 8,930,621</u></u>

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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.

	General Fund	DEDTA	Capital Improvement Fund	Other Governmental Funds	Total
Fund Balance:					
Restricted for:					
Street improvements	\$ -	\$ -	\$ -	\$ 166,345	\$ 166,345
911 dispatch	-	-	-	68,619	68,619
First responder program	-	-	-	6,134	6,134
Debt service	-	-	-	110,917	110,917
Capital improvements	-	-	5,662,466	-	5,662,466
Stimulus grant	-	-	-	1,516	1,516
Cemetery improvements	-	-	-	140,957	140,957
Police	-	-	-	110,922	110,922
CDBG programs	-	-	-	358,218	358,218
Culture and recreation	-	-	-	7,796	7,796
Economic development	-	9,361,761	-	-	9,361,761
Sub-total restricted	<u>-</u>	<u>9,361,761</u>	<u>5,662,466</u>	<u>971,424</u>	<u>15,995,651</u>
Unassigned (deficit)	(4,934,263)	-	-	-	(4,934,263)
TOTAL FUND BALANCE	<u><u>\$ (4,934,263)</u></u>	<u><u>\$ 9,361,761</u></u>	<u><u>\$ 5,662,466</u></u>	<u><u>\$ 971,424</u></u>	<u><u>\$ 11,061,388</u></u>

Prior Year Restatement:

Beginning fund balance/net position of the governmental funds, proprietary funds and the governmental activities and business-type activities were restated as follows:

	General Fund	DEDTA	Capital Improvement	Non-Major Governmental	Governmental Activities	Enterprise Funds	Business- Type Activities
Beginning net position as previously reported	\$ (820,296)	\$ 7,887,043	\$ 3,934,725	\$ 847,913	\$ 57,552,835	\$ 32,773,756	\$ 32,662,418
Overstated due from other governments	(482,314)	(103,745)	(207,490)	14,188	(779,361)	-	-
Understated meter deposit liability	-	-	-	-	-	(298,722)	(298,722)
Understated cash	-	-	-	-	-	2,415	2,415
Beginning net position as restated	<u><u>\$ (1,302,610)</u></u>	<u><u>\$ 7,783,298</u></u>	<u><u>\$ 3,727,235</u></u>	<u><u>\$ 862,101</u></u>	<u><u>\$ 56,773,474</u></u>	<u><u>\$ 32,477,449</u></u>	<u><u>\$ 32,366,111</u></u>

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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 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 2012, the actuarially expected City contribution in the form of net age adjustment was \$613,785 to the Plan. Plan members receiving benefits contributed \$146,858 of the total premiums, through their payment of the full carrier determined premium in FY 2012.

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, 2012:

Normal cost	\$1,690,154
Amortization of Actuarial Accrued Liability (AAL)	639,018
Annual Required Contribution (with Interest)	<u>2,329,172</u>
Interest on Net OPEB Obligation	65,113
Adjustment to the ARC	<u>(94,137)</u>
Annual OPEB cost (expense)	2,300,148
Employer Contributions of FY 12	(613,785)
Net OPEB obligation—beginning of year	<u>1,627,825</u>
Net OPEB obligation—end of year	<u><u>\$3,314,188</u></u>

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

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2011	\$2,206,985	26.2%	\$1,627,825
12/31/2012	\$2,300,148	26.7%	\$3,314,188

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, 2013, the most recent actuarial valuation date, the Plan was not funded. The actuarial accrued liability (AAL) for benefits was \$19.1 million, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$19.1 million. The covered payroll (annual payroll of active employees covered by the plan) was \$8.7 million, and the ratio of the UAAL to the covered payroll was 219.62 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

In the January 1, 2013, actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included 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, 2013, was twenty-nine. 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.

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- 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.

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, 2011 to December 31, 2012, are as follows:

CLAIMS LIABILITY ANALYSIS

	Health	Worker's Comp	Total
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	435,710	1,123,517	1,559,227
Claims and changes in estimates	2,711,818	142,904	2,854,722
Claims payments	<u>(2,838,960)</u>	<u>(483,297)</u>	<u>(3,322,257)</u>
Claims liability, December 31, 2012	<u><u>\$ 308,568</u></u>	<u><u>\$ 783,124</u></u>	<u><u>\$ 1,091,692</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 for Workers Compensation Claims

The city has entered into long-term annuity contracts totaling \$359,010 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. 63rd Street, Suite 305, Oklahoma City, Oklahoma 73116-7335, or by calling (405) 840-3555.

Funding Policy – Plan members are required to contribute 8.0% of their annual covered salary, and the City of Duncan contributes 13.0% of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by the state legislature. Contributions to the OPPRS for the year ended December 31, 2012, for employees and employer were \$175,383 and \$284,000, respectively, on covered payroll of \$2,160,031. The state made on-behalf payments for the police pension system of \$240,833. These on-behalf payments were recognized as both revenue and expenditures in the current fiscal year.

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

<u>Fiscal year</u>	<u>Required</u>	<u>Contributed</u>
December 31, 2010 (6 months)	\$128,448	\$128,448
December 31, 2011	\$275,489	\$275,489
December 31, 2012	\$284,000	\$284,000

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Oklahoma State Firefighters' Pension and Retirement System (OFPRS)

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

Funding Policy – Plan members are required to contribute 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, 2012, for employees and employer were \$172,649 and \$280,555, respectively, on covered payroll of \$2,157,492. The state made on-behalf payments for the fire pension system of \$573,893. 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>
December 31, 2010 (6 months)	\$125,663	\$125,663
December 31, 2011	\$254,284	\$254,284
December 31, 2012	\$280,555	\$280,555

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.

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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 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, 2012, for employees and employer were \$350,401 and \$440,861, respectively. In addition, the city made a lump sum payment to the plan of \$1,148,612. For the year ended December 31, 2012, the City's covered payroll was \$4,408,614. Covered payroll refers to all compensation paid by the City of Duncan to active employees covered by the Plan on which contributions are based.

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

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2010	\$ 1,795,874	67.4%	\$ 2,768,795
2011	1,735,087	69.8%	3,292,813
2012	1,909,362	83.2%	3,612,702

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)	\$ 1,909,362
Interest on NPO	-
ARC Adjustment	-
Annual pension cost for 2012 plan year	\$ 1,909,362
Actual contributions made	(1,589,473)
Increase/(decrease) in net pension obligation	319,889
Beginning of year net pension obligation	3,292,813
End of year net pension obligation	<u>\$ 3,612,702</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:

Actuarial Valuation Date	Value of Assets Available for Benefits	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Percentage Funded	Annual Covered Payroll	Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll
1/1/2010	\$ 5,192,451	\$ 21,168,352	\$ 15,975,901	24.5%	\$ 4,254,695	375.5%
1/1/2011	5,187,615	22,425,310	17,237,695	23.1%	4,384,280	393.2%
1/1/2012	4,563,752	22,721,821	18,158,069	20.1%	4,235,881	428.7%

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.

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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 2012 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, 2012, for employees and employer were \$29,838 and \$34,453, respectively, on a covered payroll of \$344,530.

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, 2012, were \$30,884 and \$41,438, 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. 67, *Financial Reporting for Pension Plans-and amendment of GASB Statement No. 25*. GASB 67 addresses accounting and financial report for the activities of pension plans that are administered through trusts. This statement is effective for financial statements for fiscal years beginning after June 15, 2013.

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

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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.

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

E. Subsequent Event

- 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 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 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. 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 -	\$1,316,665
General Fund – Streets	48,650
General Fund – Health	10,725
General Fund – Culture and recreation	75,406

State law prohibits negative fund balance. The General Fund had negative fund balance at December 31, 2012, of \$4,934,263.

REQUIRED SUPPLEMENTARY INFORMATION

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Budgetary Comparison Schedules – General Fund - (Budgetary Basis) – Year Ended December 31, 2012

	Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 9,221,452	\$ 9,221,452	\$ 10,263,915	\$ 1,042,463
Licenses and permits	61,737	61,737	82,443	20,706
Intergovernmental	95,000	95,000	528,852	433,852
Charges for services	88,825	88,825	165,846	77,021
Fees and fines	636,700	711,700	680,210	(31,490)
Investment earnings	-	-	(10,373)	(10,373)
Miscellaneous	90,621	95,680	59,173	(36,507)
Total revenues	<u>10,194,335</u>	<u>10,274,394</u>	<u>11,770,066</u>	<u>1,495,672</u>
EXPENDITURES				
Departmental:				
General government	2,463,832	2,359,351	3,676,016	(1,316,665)
Community development	656,917	668,063	664,171	3,892
Public Safety	7,797,859	7,910,843	7,794,838	116,005
Streets	851,831	856,396	905,046	(48,650)
Health	289,912	290,872	301,597	(10,725)
Culture and recreation	1,096,469	1,106,774	1,182,180	(75,406)
Total Expenditures	<u>13,156,820</u>	<u>13,192,299</u>	<u>14,523,848</u>	<u>(1,331,549)</u>
Excess (deficiency) of revenues over expenditures	<u>(2,962,485)</u>	<u>(2,917,905)</u>	<u>(2,753,782)</u>	<u>164,123</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	4,282,452	4,282,452	250,590	(4,031,862)
Transfers out	(1,319,214)	(2,007,989)	(1,102,070)	905,919
Total other financing sources and uses	<u>2,963,238</u>	<u>2,274,463</u>	<u>(851,480)</u>	<u>(3,125,943)</u>
Net change in fund balances	753	(643,442)	(3,605,262)	(2,961,820)
Fund balances (deficit) - beginning	688,023	688,023	(1,320,050)	(2,008,073)
Fund balances (deficit) - ending	<u>\$ 688,776</u>	<u>\$ 44,581</u>	<u>\$ (4,925,312)</u>	<u>\$ (4,969,893)</u>

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Budgetary Comparison Schedules – DEDTA Major Special Revenue Fund - (Budgetary Basis) – Year Ended December 31, 2012

	Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,858,437	\$ 1,858,437	\$ 2,039,293	\$ 180,856
Investment earnings	-	-	137,587	137,587
Total revenues	<u>1,858,437</u>	<u>1,858,437</u>	<u>2,176,880</u>	<u>318,443</u>
EXPENDITURES				
Departmental:				
Economic Development	<u>100</u>	<u>100</u>	<u>39,087</u>	<u>(38,987)</u>
Total Expenditures	<u>100</u>	<u>100</u>	<u>39,087</u>	<u>(38,987)</u>
Excess (deficiency) of revenues over expenditures	<u>1,858,337</u>	<u>1,858,337</u>	<u>2,137,793</u>	<u>279,456</u>
OTHER FINANCING SOURCES (USES)				
Transfers in - component unit	-	-	26,670	26,670
Transfers out - component unit	<u>(586,000)</u>	<u>(586,000.00)</u>	<u>(586,000)</u>	<u>-</u>
Total other financing sources and uses	<u>(586,000)</u>	<u>(586,000)</u>	<u>(559,330)</u>	<u>26,670</u>
Net change in fund balances	1,272,337	1,272,337	1,578,463	306,126
Fund balances - beginning	<u>7,783,298</u>	<u>7,783,298</u>	<u>7,783,293</u>	<u>(5)</u>
Fund balances - ending	<u>\$ 9,055,635</u>	<u>\$ 9,055,635</u>	<u>\$ 9,361,756</u>	<u>\$ 306,121</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 -	\$1,316,665
General Fund – Streets	48,650
General Fund – Health	10,725
General Fund – Culture and recreation	75,406

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	\$ 12,020,656
Total expenses - budgetary basis	(15,625,918)
Change in fund balance - budgetary basis	(3,605,262)
Add change in fund balance of sub-accounts combined for reporting purposes:	
Police Uniform Allowance	(4,802)
Fire Uniform Allowance	(29,303)
Communication Trust	100
Hunting and Fishing	7,614
Change in fund balance - GAAP basis	<u>\$ (3,631,653)</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
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%
1/1/2011	5,187,615	22,425,310	17,237,695	23.1%	4,384,280	393.2%
1/1/2012	4,563,752	22,721,821	18,158,069	20.1%	4,235,881	428.7%

Schedule of Employer Contributions

Fiscal Year	Annual Required Contributions	Percentage Contributed
2010	\$ 1,795,874	67.4%
2011	1,735,087	69.8%
2012	1,909,362	83.2%

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

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, 2012

	General Fund	Police Uniform Allowance	Fire Uniform Allowance	Police Reserve	Communication Trust	Police Firing Range	Hunting and Fishing	Total General Fund
ASSETS								
Cash and cash equivalents	\$ 17,864	\$ -	\$ -	\$ 598	\$ 4,495	\$ 34	\$ 22,944	\$ 45,935
Receivable from other governments	1,373,845	-	-	-	-	-	-	1,373,845
Due from other funds	321,417	-	-	-	-	-	-	321,417
Taxes receivable, net	179,944	-	-	-	-	-	-	179,944
Court fines receivable, net	138,144	-	-	-	-	-	-	138,144
Other receivables	15,549	-	-	-	-	-	-	15,549
Total assets	<u>2,046,763</u>	<u>-</u>	<u>-</u>	<u>598</u>	<u>4,495</u>	<u>34</u>	<u>22,944</u>	<u>2,074,834</u>
LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES								
Liabilities:								
Accounts payable	197,686	199	2,480	-	-	-	983	201,348
Accrued payroll payable	401,504	-	-	-	-	-	-	401,504
Due to other funds	6,332,496	4,586	28,174	-	-	-	-	6,365,256
Due to bondholders	-	-	-	-	-	-	600	600
Payable to other governments	145	-	-	-	-	-	-	145
Total liabilities	<u>6,931,831</u>	<u>4,785</u>	<u>30,654</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,583</u>	<u>6,968,853</u>
Deferred inflows of resources:								
Deferred revenue	40,244	-	-	-	-	-	-	40,244
Fund balances:								
Assigned	-	-	-	-	-	-	-	-
Unassigned (deficit)	(4,925,312)	(4,785)	(30,654)	598	4,495	34	21,361	(4,934,263)
Total fund balances	<u>(4,925,312)</u>	<u>(4,785)</u>	<u>(30,654)</u>	<u>598</u>	<u>4,495</u>	<u>34</u>	<u>21,361</u>	<u>(4,934,263)</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 2,046,763</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 598</u>	<u>\$ 4,495</u>	<u>\$ 34</u>	<u>\$ 22,944</u>	<u>\$ 2,074,834</u>

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**Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances – General Fund Accounts
– December 31, 2012**

	General Fund	Police Uniform Allowance	Fire Uniform Allowance	Police Reserve	Communication Trust	Police Firing Range	Hunting and Fishing	Total General Fund
REVENUES								
Taxes	\$ 10,263,915	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,263,915
Intergovernmental	1,102,745	-	-	-	-	-	-	1,102,745
Licenses and permits	82,443	-	-	-	-	-	20,136	102,579
Charges for services	165,846	-	-	-	-	-	-	165,846
Fees and fines	680,210	-	-	-	-	-	-	680,210
Investment earnings	(10,373)	-	-	-	-	-	-	(10,373)
Miscellaneous	59,174	1	-	-	100	-	1	59,276
Total revenues	<u>12,343,960</u>	<u>1</u>	<u>-</u>	<u>-</u>	<u>100</u>	<u>-</u>	<u>20,137</u>	<u>12,364,198</u>
EXPENDITURES								
Current:								
General government	3,676,016	-	-	-	-	-	-	3,676,016
Community Development	664,171	-	-	-	-	-	-	664,171
Public Safety	8,368,731	4,803	29,303	-	-	-	-	8,402,837
Highways and Streets	905,046	-	-	-	-	-	-	905,046
Health	301,597	-	-	-	-	-	-	301,597
Culture and recreation	1,149,099	-	-	-	-	-	12,523	1,161,622
Debt Service:								
Principal	30,275	-	-	-	-	-	-	30,275
Interest and other charges	2,807	-	-	-	-	-	-	2,807
Total expenditures	<u>15,097,742</u>	<u>4,803</u>	<u>29,303</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,523</u>	<u>15,144,371</u>
Excess (deficiency) of revenues over expenditures	<u>(2,753,782)</u>	<u>(4,802)</u>	<u>(29,303)</u>	<u>-</u>	<u>100</u>	<u>-</u>	<u>7,614</u>	<u>(2,780,173)</u>
OTHER FINANCING SOURCES (USES)								
Transfers in	250,590	-	-	-	-	-	-	250,590
Transfers out	(1,102,070)	-	-	-	-	-	-	(1,102,070)
Total other financing sources and uses	<u>(851,480)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(851,480)</u>
Net change in fund balances	(3,605,262)	(4,802)	(29,303)	-	100	-	7,614	(3,631,653)
Fund balances (deficits) - beginning, restated	(1,320,050)	17	(1,351)	598	4,395	34	13,747	(1,302,610)
Fund balances (deficits) - ending	<u>\$ (4,925,312)</u>	<u>\$ (4,785)</u>	<u>\$ (30,654)</u>	<u>\$ 598</u>	<u>\$ 4,495</u>	<u>\$ 34</u>	<u>\$ 21,361</u>	<u>\$ (4,934,263)</u>

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Combining Balance Sheet – Nonmajor Governmental Funds – December 31, 2012

	Street and Alley Fund	Cemetery Care	Library Gifts and Grants	CDBG	E911 Dispatch	DPUA Debt Service Fund
ASSETS						
Cash and cash equivalents	\$ 133,407	\$ 140,345	\$ 12,728	\$ 308,258	\$ 264,489	\$ 110,917
Receivable from other governments	71,472	-	-	17,200	36,921	-
Due from other funds	12,369	-	-	32,760	-	-
Other receivables	-	612	-	-	-	-
Total assets	<u>217,248</u>	<u>140,957</u>	<u>12,728</u>	<u>358,218</u>	<u>301,410</u>	<u>110,917</u>
LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES						
Liabilities:						
Accounts payable and accrued liabilities	5,371	-	928	-	9,584	-
Due to other funds	-	-	4,004	-	223,207	-
Total liabilities	<u>5,371</u>	<u>-</u>	<u>4,932</u>	<u>-</u>	<u>232,791</u>	<u>-</u>
Deferred inflows of resources:						
Deferred revenue	<u>45,532</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances:						
Restricted	<u>166,345</u>	<u>140,957</u>	<u>7,796</u>	<u>358,218</u>	<u>68,619</u>	<u>110,917</u>
Total fund balances	<u>166,345</u>	<u>140,957</u>	<u>7,796</u>	<u>358,218</u>	<u>68,619</u>	<u>110,917</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 217,248</u>	<u>\$ 140,957</u>	<u>\$ 12,728</u>	<u>\$ 358,218</u>	<u>\$ 301,410</u>	<u>\$ 110,917</u>

continued

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Combining Balance Sheet – Nonmajor Governmental Funds – December 31, 2012, continued

	Police Grants and Seizures	First Responder Program	DARE	Stimulus Grant	Total Other Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 106,341	\$ 6,134	\$ 1,004	\$ 1,516	\$ 1,085,139
Receivable from other governments	4,082	-	-	-	129,675
Due from other funds	-	-	-	-	45,129
Other receivables	-	-	-	-	612
Total assets	<u>110,423</u>	<u>6,134</u>	<u>1,004</u>	<u>1,516</u>	<u>1,260,555</u>
LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued liabilities	505	-	-	-	16,388
Due to other funds	-	-	-	-	227,211
Total liabilities	<u>505</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>243,599</u>
Deferred inflows of resources:					
Deferred revenue	-	-	-	-	45,532
Fund balances:					
Restricted	109,918	6,134	1,004	1,516	971,424
Total fund balances	<u>109,918</u>	<u>6,134</u>	<u>1,004</u>	<u>1,516</u>	<u>971,424</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 110,423</u>	<u>\$ 6,134</u>	<u>\$ 1,004</u>	<u>\$ 1,516</u>	<u>\$ 1,260,555</u>

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Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds – December 31, 2012

	Street and Alley Fund	Cemetery Care	Library Gifts and Grants	CDBG	E911 Dispatch	DPUA Debt Service Fund
REVENUES						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 336,284	\$ -
Intergovernmental	209,088	-	40,820	17,200	-	-
Charges for services	-	12,813	-	-	-	-
Investment earnings	-	-	-	-	-	34
Miscellaneous	-	2,831	833	-	1	-
Total revenues	<u>209,088</u>	<u>15,644</u>	<u>41,653</u>	<u>17,200</u>	<u>336,285</u>	<u>34</u>
EXPENDITURES						
Current:						
Public safety	-	-	-	-	15,849	-
Streets	205,857	-	-	-	-	-
Culture and recreation	-	-	20,853	-	-	-
General government	-	300	-	-	-	-
Debt Service						
Principal	-	-	-	-	31,480	1,060,000
Interest and other charges	-	-	-	-	8,757	261,713
Capital Outlay	-	-	7,283	-	40,427	-
Total Expenditures	<u>205,857</u>	<u>300</u>	<u>28,136</u>	<u>-</u>	<u>96,513</u>	<u>1,321,713</u>
Excess (deficiency) of revenues over expenditures	<u>3,231</u>	<u>15,344</u>	<u>13,517</u>	<u>17,200</u>	<u>239,772</u>	<u>(1,321,679)</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	-	690	-	-	-	1,321,150
Transfers out	-	-	-	-	(223,207)	-
Total other financing sources and uses	<u>-</u>	<u>690</u>	<u>-</u>	<u>-</u>	<u>(223,207)</u>	<u>1,321,150</u>
Net change in fund balances	3,231	16,034	13,517	17,200	16,565	(529)
Fund balances (deficit) - beginning, restated	163,114	124,923	(5,721)	341,018	52,054	111,446
Fund balances (deficit) - ending	<u>\$ 166,345</u>	<u>\$ 140,957</u>	<u>\$ 7,796</u>	<u>\$ 358,218</u>	<u>\$ 68,619</u>	<u>\$ 110,917</u>

(continued)

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**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor
Governmental Funds – December 31, 2012, continued**

	Police Grants and Seizures	First Responder Program	DARE	Stimulus Grant	Total Other Governmental Funds
REVENUES					
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 336,284
Intergovernmental	23,583	-	-	-	290,691
Charges for services	-	-	-	-	12,813
Investment earnings	-	-	-	-	34
Miscellaneous	45,107	988	-	-	49,760
Total revenues	<u>68,690</u>	<u>988</u>	<u>-</u>	<u>-</u>	<u>689,582</u>
EXPENDITURES					
Current:					
Police	-	-	-	-	15,849
Streets	-	-	-	-	205,857
Parks and recreation	-	-	-	-	20,853
Culture and recreation	-	-	-	-	300
Debt Service					
Principal	-	-	-	-	1,091,480
Interest and other charges	-	-	-	-	270,470
Capital Outlay	26,373	-	-	-	74,083
Total Expenditures	<u>26,373</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,678,892</u>
Excess (deficiency) of revenues over expenditures	<u>42,317</u>	<u>988</u>	<u>-</u>	<u>-</u>	<u>(989,310)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	-	-	1,321,840
Transfers out	-	-	-	-	(223,207)
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,098,633</u>
Net change in fund balances	42,317	988	-	-	109,323
Fund balances (deficit) - beginning, restated	67,601	5,146	1,004	1,516	862,101
Fund balances (deficit) - ending	<u>\$ 109,918</u>	<u>\$ 6,134</u>	<u>\$ 1,004</u>	<u>\$ 1,516</u>	<u>\$ 971,424</u>

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Combining Schedule of Net Position – Duncan Public Utilities Authority – December 31, 2012

	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	\$ 904,900	\$ 205,222	\$ -	\$ -	\$ 64	\$ -	\$ 47,832	\$ -	\$ 1,158,018
Investments	-	1,885,772	-	-	-	-	-	-	1,885,772
Restricted:									
Cash and cash equivalents	456,105	-	-	562,562	-	814,357	-	-	1,833,024
Due from other funds	2,331,346	2,870,304	-	-	-	-	-	-	5,201,650
Due from other funds - interaccount	275,340	675,685	-	-	-	-	-	-	951,025
Accounts receivable, net	1,370,914	1,932,243	3,854	-	-	-	-	-	3,307,011
Receivables from other governments	-	39,100	-	-	-	-	-	-	39,100
Other receivables	11,014	12,304	-	-	16,622	-	-	-	39,940
Total current assets	5,349,619	7,620,630	3,854	562,562	16,686	814,357	47,832	-	14,415,540
Non-current assets:									
Restricted:									
Investments	-	-	-	9,042,247	-	-	-	-	9,042,247
Capital assets:									
Land and construction in progress	2,199,721	13,089	100,544	-	-	-	-	-	2,313,354
Other capital assets, net of accumulated depreciation	60,357,590	2,805,589	2,541,162	-	-	-	-	-	65,704,341
Total non-current assets	62,557,311	2,818,678	2,641,706	9,042,247	-	-	-	-	77,059,942
Total assets	67,906,930	10,439,308	2,645,560	9,604,809	16,686	814,357	47,832	-	91,475,482
LIABILITIES									
Current liabilities:									
Accounts payable and accrued liabilities	994,282	914,204	4,470	-	-	-	-	272	1,913,228
Salaries payable	56,070	50,597	-	-	-	-	-	10,297	116,964
Accrued interest payable	469,571	-	-	-	-	-	-	-	469,571
Due to other funds	72,794	-	-	-	-	-	-	28,513	101,307
Due to other funds - interaccount	-	-	14,963	660,722	-	-	-	275,340	951,025
Payable to other governments	-	68,762	-	-	-	-	-	-	68,762
Unearned revenue	1,268,238	-	-	-	-	-	-	-	1,268,238
Deposits subject to refund	-	-	-	-	-	111,308	-	-	111,308
Compensated absences	17,818	12,939	-	-	-	-	-	680	31,437
Bonds payable	2,602,495	-	-	-	-	-	-	-	2,602,495
Total current liabilities	5,481,268	1,046,502	19,433	660,722	-	111,308	-	315,102	7,634,335
Non-current liabilities:									
Compensated absences, net of current portion	160,361	116,456	-	-	-	-	-	6,121	282,938
Deposits subject to refund	-	63,843	-	-	-	1,001,771	-	-	1,065,614
OPEB obligation	224,667	234,263	-	-	-	-	-	-	458,930
Net pension obligation	765,062	685,201	-	-	-	-	-	89,231	1,539,494
Notes payable, net of current portion	46,839,743	-	-	-	-	-	-	-	46,839,743
Total non-current liabilities	47,989,833	1,099,763	-	-	-	1,001,771	-	95,352	50,186,719
Total liabilities	53,471,101	2,146,265	19,433	660,722	-	1,113,079	-	410,454	57,821,054
NET POSITION									
Net investment in capital assets	13,115,073	2,818,678	2,641,706	-	-	-	-	-	18,575,457
Restricted for debt service	(13,466)	-	-	8,944,087	-	-	-	-	8,930,621
Unrestricted (deficit)	1,334,222	5,474,365	(15,579)	-	16,686	(298,722)	47,832	(410,454)	6,148,350
Total net position	\$ 14,435,829	\$ 8,293,043	\$ 2,626,127	\$ 8,944,087	\$ 16,686	\$ (298,722)	\$ 47,832	\$ (410,454)	\$ 33,654,428

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Combining Schedule of Revenues, Expenses, and Changes in Net Position – Duncan Public Utilities Authority – Year Ended December 31, 2012

	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	\$ 6,395,160	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,395,160
Electric	-	17,037,902	-	-	-	-	-	-	17,037,902
Sewer	2,184,405	-	-	-	-	-	-	-	2,184,405
Sanitation	2,978,025	-	-	-	-	-	-	-	2,978,025
Lake	147,023	-	-	-	-	-	-	-	147,023
Airport	-	-	\$ 28,400	-	-	-	-	-	28,400
Miscellaneous	233,075	68,515	-	-	125	-	-	248	301,963
Total operating revenues	11,937,688	17,106,417	28,400	-	125	-	-	248	29,072,878
OPERATING EXPENSES									
General government	864,449	-	-	-	-	-	-	-	864,449
Water	2,698,659	-	-	5,369	-	-	-	-	2,704,028
Wastewater	803,542	-	-	-	-	-	-	276,506	1,080,048
Sanitation	2,877,154	-	-	-	-	-	-	-	2,877,154
Electric	-	14,060,617	-	-	-	-	-	-	14,060,617
Lake	372,070	-	-	-	-	-	-	-	372,070
Airport	-	-	35,598	-	-	-	-	-	35,598
Depreciation	3,908,844	623,526	244,791	-	-	-	-	-	4,777,161
Total operating expenses	11,524,718	14,684,143	280,389	5,369	-	-	-	276,506	26,771,125
Operating income (loss)	412,970	2,422,274	(251,989)	(5,369)	125	-	-	(276,258)	2,301,753
NON-OPERATING REVENUES (EXPENSES)									
Interest and investment revenue	93	39,546	-	583,995	-	-	-	-	623,634
Miscellaneous revenue	1,073,178	44,644	-	-	-	-	-	-	1,117,822
Gain on capital asset disposal	-	27,646	-	-	-	-	-	-	27,646
Debt issuance cost	(115,400)	-	-	-	-	-	-	-	(115,400)
Interest expense	(2,076,153)	-	-	-	-	-	-	-	(2,076,153)
Total non-operating revenue (expenses)	(1,118,282)	111,836	-	583,995	-	-	-	-	(422,451)
Income (loss) before transfers	(705,312)	2,534,110	(251,989)	578,626	125	-	-	(276,258)	1,879,302
Transfers in - interaccount	952,842	170	-	-	-	-	-	-	953,012
Transfers out - interaccount	(170)	-	-	(660,722)	-	-	-	(292,120)	(953,012)
Transfers in	497,103	59,357	2,326	-	-	-	-	-	558,786
Transfers out	(720,606)	(2,109)	(538,394)	-	-	-	-	-	(1,261,109)
Change in net position	23,857	2,591,528	(788,057)	(82,096)	125	-	-	(568,378)	1,176,979
Total net position - beginning, restated	14,411,972	5,701,515	3,414,184	9,026,183	16,561	(298,722)	47,832	157,924	32,477,449
Total net position - ending	\$ 14,435,829	\$ 8,293,043	\$ 2,626,127	\$ 8,944,087	\$ 16,686	\$ (298,722)	\$ 47,832	\$ (410,454)	\$ 33,654,428

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Combining Schedule of Cash Flows – Duncan Public Utilities Authority – Year Ended December 31, 2012

	Enterprise Fund Accounts								Total
	DPUA - Other Utilities	DPUA - Electric	DPUA Airport	DPUA Sinking - Waurika	Redeposit Cash	Meter Deposit	Waterline Improvement	DPUA Sewer Replacement	
CASH FLOWS FROM OPERATING ACTIVITIES									
Receipts from customers	\$ 14,261,197	\$ 16,911,636	\$ 567,335	\$ -	\$ 2,092	\$ -	\$ -	\$ 248	\$ 31,742,508
Payments to suppliers and employees	(6,596,545)	(13,516,667)	(31,943)	(5,369)	-	-	-	(236,588)	(20,387,112)
Receipts of customer meter deposits	-	6,875	-	-	-	342,391	-	-	349,266
Refunds of customer meter deposits	-	-	-	-	-	(317,760)	-	-	(317,760)
Interfund receipts	441	-	12,459	1,050,722	-	-	47,832	275,340	1,386,794
Interfund payments	(2,606,686)	(3,245,989)	-	-	(2,028)	-	-	-	(5,854,703)
Net cash provided by operating activities	5,058,407	155,855	547,851	1,045,353	64	24,631	47,832	39,000	6,918,993
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES									
Transfers from other funds - interaccount	699,722	170	-	-	-	-	-	-	699,892
Transfers to other funds interaccount	(170)	-	-	(660,722)	-	-	-	(39,000)	(699,892)
Transfers from other funds	3,066	2,019	2,326	-	-	-	-	-	7,411
Transfers to other funds	(720,606)	(2,109)	(538,394)	-	-	-	-	-	(1,261,109)
Net cash provided by (used in) noncapital financing activities	(17,988)	80	(536,068)	(660,722)	-	-	-	(39,000)	(1,253,698)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES									
Purchases of capital assets	(732,984)	(35,211)	(11,783)	-	-	-	-	-	(779,978)
Proceeds from debt	7,747,208	-	-	-	-	-	-	-	7,747,208
Note issuance cost paid	(115,400)	-	-	-	-	-	-	-	(115,400)
Principal paid on debt	(10,092,791)	-	-	-	-	-	-	-	(10,092,791)
Interest and fiscal agent fees paid on debt	(2,149,312)	-	-	-	-	-	-	-	(2,149,312)
Net cash provided by (used in) capital and related financing activities	(5,343,279)	(35,211)	(11,783)	-	-	-	-	-	(5,390,273)
CASH FLOWS FROM INVESTING ACTIVITIES									
Purchase of investments	-	(1,859,620)	-	(1,688,640)	-	-	-	-	(3,548,260)
Interest and dividends	93	39,546	-	583,995	-	-	-	-	623,634
Net cash provided by (used in) investing activities	93	(1,820,074)	-	(1,104,645)	-	-	-	-	(2,924,626)
Net increase (decrease) in cash and cash equivalents	(302,767)	(1,699,350)	-	(720,014)	64	24,631	47,832	-	(2,649,604)
Balances - beginning of year, restated	1,663,772	1,904,572	-	1,282,576	-	789,726	-	-	5,640,646
Balances - end of year	\$ 1,361,005	\$ 205,222	\$ -	\$ 562,562	\$ 64	\$ 814,357	\$ 47,832	\$ -	\$ 2,991,042
Reconciliation to Statement of Net Position:									
Cash and cash equivalents	\$ 904,900	\$ 205,222	\$ -	\$ -	\$ 64	\$ -	\$ 47,832	\$ -	\$ 1,158,018
Restricted cash and cash equivalents - current	456,105	-	-	562,562	-	814,357	-	-	1,833,024
Total cash and cash equivalents, end of year	\$ 1,361,005	\$ 205,222	\$ -	\$ 562,562	\$ 64	\$ 814,357	\$ 47,832	\$ -	\$ 2,991,042
Reconciliation of operating income (loss) to net cash provided by operating activities:									
Operating income (loss)	\$ 412,970	\$ 2,422,274	\$ (251,989)	\$ (5,369)	\$ 125	\$ -	\$ -	\$ (276,258)	\$ 2,301,753
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:									
Depreciation expense	3,908,844	623,526	244,791	-	-	-	-	-	4,777,161
Miscellaneous revenue	1,073,178	44,644	-	-	-	-	-	-	1,117,822
Change in assets and liabilities:									
Due from other funds	(2,606,686)	(3,245,989)	-	390,000	-	-	47,832	-	(5,414,843)
Accounts receivable	(12,512)	(238,678)	541	-	-	-	-	-	(250,649)
Due from other governments	-	-	538,394	-	-	-	-	-	538,394
Other receivable	(5,395)	(747)	-	-	1,967	-	-	-	(4,175)
Accounts payable	445,407	77,820	3,655	-	-	-	-	15	526,897
Accrued payroll payable	17,707	19,943	-	-	-	-	-	4,324	41,974
Deposits subject to refund	-	6,875	-	-	-	24,631	-	-	31,506
Due to other funds	441	-	12,459	660,722	(2,028)	-	-	275,340	946,934
Net pension obligation	409,808	329,784	-	-	-	-	-	35,597	775,189
Other post employment benefits	125,587	112,070	-	-	-	-	-	-	237,657
Accrued compensated absences	20,820	4,333	-	-	-	-	-	(18)	25,135
Deferred revenue	1,268,238	-	-	-	-	-	-	-	1,268,238
Net cash provided by operating activities	\$ 5,058,407	\$ 155,855	\$ 547,851	\$ 1,045,353	\$ 64	\$ 24,631	\$ 47,832	\$ 39,000	\$ 6,918,993
Noncash activities:									
Asset contributed by others - interaccount	\$ 253,120	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (253,120)	\$ -
Asset transferred from other funds	494,037	57,338	-	-	-	-	-	-	551,375
	\$ 747,157	\$ 57,338	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (253,120)	\$ 551,375

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Combining Statement of Net Position – Internal Service Funds – December 31, 2012

	<u>Self Insurance Fund</u>	<u>Employee Insurance</u>	<u>Worker's Comp</u>	<u>Total</u>
ASSETS				
Current assets:				
Cash and cash equivalents	\$ -	\$ 414,630	\$ 25,261	\$ 439,891
Due from other funds	-	24,421	-	24,421
Other receivables	-	12,775	-	12,775
Annuities receivable	-	-	30,395	30,395
Total current assets	-	451,826	55,656	507,482
Total assets	-	451,826	55,656	507,482
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities	8,501	75	4,057	12,633
Due to other funds	24,421	-	560,437	584,858
Claims and judgments, net of current portion	-	308,568	783,124	1,091,692
Total non-current liabilities	-	308,568	783,124	1,091,692
Total liabilities	32,922	308,643	1,347,618	1,689,183
NET POSITION				
Unrestricted (deficit)	(32,922)	143,183	(1,291,962)	(1,181,701)
Total net position	<u>\$ (32,922)</u>	<u>\$ 143,183</u>	<u>\$ (1,291,962)</u>	<u>\$ (1,181,701)</u>

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Combining Statement of Revenues, Expenses, and Changes in Net Position – Internal Service Funds – Year Ended December 31, 2012

	<u>Self Insurance Fund</u>	<u>Employee Insurance</u>	<u>Worker's Comp</u>	<u>Total</u>
REVENUES				
Charges for services	\$ -	\$ 2,681,303	\$ -	\$ 2,681,303
Miscellaneous	25,459	77,597	-	103,056
Total operating revenues	<u>25,459</u>	<u>2,758,900</u>	<u>-</u>	<u>2,784,359</u>
OPERATING EXPENSES				
General government	-	141,450	124,805	266,255
Claims expense	28,870	2,711,818	142,904	2,883,592
Total operating expenses	<u>28,870</u>	<u>2,853,268</u>	<u>267,709</u>	<u>3,149,847</u>
Operating income (loss)	<u>(3,411)</u>	<u>(94,368)</u>	<u>(267,709)</u>	<u>(365,488)</u>
NON-OPERATING REVENUES (EXPENSES)				
Interest and investment revenue	-	-	(6,010)	(6,010)
Miscellaneous revenue	-	-	21,759	21,759
Total non-operating revenue (expenses)	<u>-</u>	<u>-</u>	<u>15,749</u>	<u>15,749</u>
Income (loss) before contributions and transfers	<u>(3,411)</u>	<u>(94,368)</u>	<u>(251,960)</u>	<u>(349,739)</u>
Transfers out	<u>(24,820)</u>	<u>-</u>	<u>-</u>	<u>(24,820)</u>
Change in net position	<u>(28,231)</u>	<u>(94,368)</u>	<u>(251,960)</u>	<u>(374,559)</u>
Total net position (deficit) - beginning	(4,691)	237,551	(1,040,002)	(807,142)
Total net position (deficit) - ending	<u>\$ (32,922)</u>	<u>\$ 143,183</u>	<u>\$ (1,291,962)</u>	<u>\$ (1,181,701)</u>

CITY OF DUNCAN, OKLAHOMA
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Combining Statement of Cash Flows – Internal Service Funds – Year Ended December 31, 2012

	Self Insurance Fund	Employee Insurance	Worker's Comp	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 25,459	\$ 2,831,841	\$ 23,044	\$ 2,880,344
Payments to suppliers and employees	(29,427)	(156,161)	(124,805)	(310,393)
Claims and judgments paid	-	(2,838,960)	(480,190)	(3,319,150)
Interfund payments	24,421	122,126	585,899	732,446
Net cash provided by (used in) operating activities	<u>20,453</u>	<u>(41,154)</u>	<u>3,948</u>	<u>(16,753)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers to other funds	(24,820)	-	-	(24,820)
Net cash provided by (used in) noncapital financing activities	<u>(24,820)</u>	<u>-</u>	<u>-</u>	<u>(24,820)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investments	-	-	6,177	6,177
Interest and dividends	-	-	(6,010)	(6,010)
Net cash provided by investing activities	<u>-</u>	<u>-</u>	<u>167</u>	<u>167</u>
Net increase (decrease) in cash and cash equivalents	(4,367)	(41,154)	4,115	(41,406)
Balances - beginning of year	<u>4,367</u>	<u>455,784</u>	<u>21,146</u>	<u>481,297</u>
Balances - end of year	<u>\$ -</u>	<u>\$ 414,630</u>	<u>\$ 25,261</u>	<u>\$ 439,891</u>
Reconciliation to Statement of Net Position:				
Cash and cash equivalents	\$ -	\$ 414,630	\$ 25,261	\$ 439,891
Total cash and cash equivalents, end of year	<u>\$ -</u>	<u>\$ 414,630</u>	<u>\$ 25,261</u>	<u>\$ 439,891</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ (3,411)	\$ (94,368)	\$ (267,709)	\$ (365,488)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Miscellaneous revenue	-	-	21,759	21,759
Change in assets and liabilities:				
Due from other funds	-	122,126	25,462	147,588
Due to other funds	24,421	-	560,437	584,858
Other receivable	-	72,941	1,285	74,226
Accounts payable	(557)	(14,711)	3,107	(12,161)
Claims and judgments liability	-	(127,142)	(340,393)	(467,535)
Net cash provided by (used in) operating activities	<u>\$ 20,453</u>	<u>\$ (41,154)</u>	<u>\$ 3,948</u>	<u>\$ (16,753)</u>

**CITY OF DUNCAN, OKLAHOMA
ANNUAL FINANCIAL REPORT
DECEMBER 31, 2012**

Debt Service Coverage Schedule – Year Ended December 31, 2012

DEBT SERVICE COVERAGE:

**OWRB Series
2002A, 2005,
2007, 2009A, 2009C
Promissory Notes**

GROSS REVENUE AVAILABLE:

Charges for services (water, electric, garbage and wastewater)	\$ 28,595,492
Investment income	39,639
	<hr/>
Total Gross Revenue Available	28,635,131
	<hr/>

OPERATING EXPENSES:

Total Operating Expenses (excludes depreciation and amortization)	21,304,421
	<hr/>

Net Revenue Available for Debt Service	7,330,710
	<hr/> <hr/>

Maximum Annual Remaining Debt Service on all OWRB Obligations Payable From

Revenues of the System	\$ 2,625,226
Current Annual Debt Service	-
	<hr/>
	\$ 2,625,226
	<hr/> <hr/>

Computed Coverage	279%
	<hr/> <hr/>

Coverage Requirement	125%
	<hr/> <hr/>

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, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 30, 2015. 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:

- 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.

We issued unmodified opinion on the financial statements of the governmental activities, major governmental funds, and the aggregate remaining fund information, and on the statements of revenues, expenses and changes in net position, and statements of cash flows of the major enterprise funds.

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, 2012. 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, 2012. Our opinions were not modified for these matters.

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 2012-001 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 2012-002 and 2012-003.

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
January 30, 2015

Cole & Reed P.C.

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SCHEDULE OF FINDINGS AND RESPONSES

CITY OF DUNCAN, OKLAHOMA

December 31, 2012

Findings Required to be Reported by Government Auditing Standards

FINDING 2012-001

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: The City was unable to produce financial statements for the year ended December 31, 2012 in accordance with U.S. GAAP in a timely manner. In addition, the City did not exercise an appropriate level of control over General Fund expenditures to ensure compliance with State of Oklahoma statutes.

Cause: During the year ended December 31, 2012, the City did not have the necessary personnel resources to maintain appropriate internal controls and processes to ensure accurate and timely financial reporting. In addition, the City did not maintain appropriate oversight of its General Fund expenditures to ensure that it was not in violation of State Statute.

Effect: The City's inability to ensure appropriate personnel resources for internal controls, processes and oversight had the following significant effects:

- The City was unable to issue its audited financial statements for the year ended December 31, 2012 until January 2015. In addition to not being of timely use 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.
- At December 31, 2012, the City's General Fund has a deficit fund balance of \$4,934,263. In addition, General Fund expenditures exceeded appropriations at the legal level of control in the aggregate by \$1,451,446 for the year ended December 31, 2012. These are violations of State of Oklahoma Statutes.
- When the City's Finance Department closed its 2012 General Ledger and accounting records in March 2014, the accounting records contained material misstatements. The City hired an outside consultant who prepared numerous and significant adjustments in order for the City's trial balances to be ready to be audited.
- The City did not properly reconcile its cash balance as of December 31, 2012 until 2014.
- As explained in further detail in Finding 2012-003, the City held certain investments at December 31, 2012 that appear to be in violation of State statutes.

Recommendation: The City's governing body and upper management should always be proactive to ensure that the City's finance staff, whether it is from the City's employees or outsourced consultants, has the appropriate personnel resources to meet the City's financial reporting obligations in a timely manner. This includes producing not only accurate and timely annual financial reports, but also monthly reports that can enable the governing body to exercise appropriate oversight of the City's financial activities in a timely manner.

Views of a Responsible Official:

Management and the Governing Body of the City addressed the lack of appropriate personnel resources in both fiscal years 2013 and 2014 by hiring additional qualified staff in the finance area, and by engaging outside consultants, to assist the City in developing an internal control structure, processes and oversight that will allow for the timely reconciliation of accounts, proper monitoring of revenues and expenditures, and the timely preparation of annual financial statements. During 2014 the city gained additional in-house expertise to reconcile cash on a timely basis, and also began reconciliation of other balance sheet accounts. In addition, the budget is being monitored on a regular basis, and budget overages and revenue shortfalls corrected.

Management has begun to trim the General Fund's overall expenditures through attrition of vacant positions, reviewing rate structures, making adjustments as needed, reducing programming costs, and reinstating operation transfers from the Authority to the City on a limited basis. In the meantime, the General Fund has funded its expenditures, in part, by creating an interfund payable with the DPUA.

FINDING 2012-002

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, 2012, the City's General Fund has a deficit fund balance of \$4,934,263. In addition, General Fund expenditures exceeded appropriations at the legal level of control in the aggregate by \$1,451,446 for the year ended December 31, 2012. These are violations of State of Oklahoma Statutes.

Cause: Due to the material weakness in internal controls over financial reporting, as described in Finding 2012-01. 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 now has adequate internal finance staff that understands the legal financial reporting requirements and is addressing the lack of oversight by now accurately reporting appropriations as required and defined in state statute. Management has also implemented procedures to monitor General Fund appropriations on a regular basis. In addition, in late 2014, management began making changes to city programs in an effort to reduce overall General Fund operational costs. Management is continuing to use the assistance of an outside financial consultant in preparing timely and accurate financial statements.

FINDING 2012-003

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, 2012, the City had investments in life insurance annuities totaling approximately \$7,479,000.

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:

During late 2012, the city began working with legal counsel to sell the unallowable investments without affecting the value. The investments were sold in May 2013 and the funds invested in accordance with state statute and city policy. In addition, the city revised the investment policy and outlines the investments that can be held by the City and its' Trust.