

CITY OF DUNCAN, OKLAHOMA



ANNUAL FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

AS OF AND FOR THE FISCAL YEAR
ENDED DECEMBER 31, 2015

THE CITY OF DUNCAN, OKLAHOMA

Annual Financial Statements
And Independent Auditor's Report

As of and For the Fiscal Year Ended
December 31, 2015

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Independent Auditor's Report

RSM US LLP

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, 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, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Duncan Industrial Authority and Duncan Area Economic Development Foundation, Inc., discretely presented component units of the City, which represent 99.8%, 99.8% and 99.9%, respectively, of the assets, net position, and revenues of the aggregate discretely presented component units. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Duncan Industrial Authority and Duncan Area Economic Development Foundation, Inc. are based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of Duncan Area Economic Development Foundation, Inc. were audited by other auditors and were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Duncan, Oklahoma, as of December 31, 2015, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note II.G. to the basic financial statements, in 2015 the City adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, GASB Statement No. 71, *Pension Transition of Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68*, and GASB Statement No. 82, *Pension Issues – An Amendment of GASB Statements No. 67, 68 and 73*. The City recorded the cumulative effect of adopting these GASB Statements as an adjustment of net position as of January 1, 2015. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison information, other post-employment benefits (OPEB) schedules, and pension plan schedules, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual nonmajor fund financial statements, and the other schedules, as presented in the Supplementary Information section of the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit procedures performed and the report of the other auditors, the combining and individual nonmajor fund financial statements and other schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2017, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City's internal control over financial reporting and compliance.

RSM US LLP

Oklahoma City, Oklahoma
February 27, 2017

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Management's Discussion and Analysis

Our discussion and analysis of the City of Duncan's financial performance provides an overview of the City's financial activities for the fiscal year ended December 31, 2015. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- For the fiscal year ended December 31, 2015, the City's total net position decreased by \$5,275,702 or (9.02%) from the prior year.
- In the City's governmental activities, program expenses exceeded program revenues by \$23,975,770, and the governmental activities total net position decreased by \$3,372,066 for the fiscal year due to general revenues and transfers from the business-type activities.
- In the City's business-type activities, such as utilities, program revenues exceeded program expenses by \$1,299,189. However, the business-type activities total net position decreased by \$1,903,636 for the fiscal year due to transfers to governmental activities.
- At December 31, 2015, the General Fund reported an unassigned fund balance deficit of \$3,967,707.
- At December 31, 2015, the Worker's Compensation Internal Service Fund reported a deficit net position of \$1,491,974.
- For budgetary reporting purposes, the General Fund reported revenues over estimates of \$622,733 or 5.54%, while expenditures were under the final appropriations by \$244,568 or 1.57%.
- Beginning net position was restated for the effects of the implementation of GASB Statements 68 and 71 related to pension plan reporting.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

About the City

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

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

The City's Financial Reporting Entity

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

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

Primary Government:

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

Blended Component Units:

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

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

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

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

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

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

Using This Annual Report

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

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

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

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

Reporting the City as a Whole

The Statement of Net Position and the Statement of Activities

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

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

As mentioned above, in the Statement of Net Position and the Statement of Activities, we divide the City into three kinds of activities:

- **Governmental activities** -- Most of the City's basic services are reported here, including the police, fire, general administration, streets, and parks. Sales taxes, franchise fees, fines, and state and federal grants finance most of these activities.
- **Business-type activities** -- The City charges a fee to customers to help cover all or most of the cost of certain services it provides. The City's water, wastewater, electric, airport, lake and sanitation activities are reported here.
- **Discretely-presented component units** -- Accounts for various activities related to industrial development and hospital development.

Reporting the City's Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds – not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, the City Council establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants and other money.

Governmental funds - Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic service it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. The differences of results in the Governmental Fund financial statements to those in the Government-Wide financial statements are explained in a reconciliation following each Governmental fund financial statement.

Proprietary funds - When the City charges customers for the services it provides – whether to outside customers or to other units of the City – these services are generally reported in proprietary funds. Proprietary funds are reported in the same way in that all activities are reported in the Statement of Net Position, the Statement of Revenues, Expenses and Changes in Fund Net Position and Statement of Cash Flows. In fact, the City's enterprise funds are essentially the same as the business-type activities that the city reports in the government-wide statements but provide more detail and additional information, such as cash flows.

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

CITY OF DUNCAN, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended December 31, 2015

A FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Position

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$53,239,048 at the close of the most recent fiscal year.

NET POSITION (In Thousands)									
	Governmental Activities		% Inc. (Dec.)	Business-Type Activities		% Inc. (Dec.)	Total		% Inc. (Dec.)
	2015	Restated, 2014		2015	Restated, 2014		2015	Restated, 2014	
Current assets	\$ 15,037	\$ 17,846	-16%	\$ 19,925	\$ 19,299	3%	\$ 34,962	\$ 37,145	-6%
Capital assets, net	47,400	50,099	-5%	59,610	62,499	-5%	107,010	112,598	-5%
Deferred outflows	2,452	1,000	145%	920	654	41%	3,372	1,654	104%
Total assets and deferred outflows	64,889	68,945	-6%	80,455	82,452	-2%	145,344	151,397	-4%
Current liabilities	3,658	3,405	7%	4,866	5,077	-4%	8,524	8,482	0%
Non-current liabilities	27,657	28,434	-3%	53,639	53,522	0%	81,296	81,956	-1%
Deferred inflows	2,285	2,445	-7%	-	-	0%	2,285	2,445	-7%
Total liabilities and deferred inflows	33,600	34,284	-2%	58,505	58,599	0%	92,105	92,883	-1%
Net position									
Net investment capital assets	45,476	46,690	-3%	15,395	18,428	-16%	60,871	65,118	-7%
Restricted	17,836	21,147	-16%	7,544	8,182	-8%	25,380	29,329	-13%
Unrestricted (deficit)	(32,023)	(33,176)	-3%	(989)	(2,757)	-64%	(33,012)	(35,933)	-8%
Total net position	\$ 31,289	\$ 34,661	-10%	\$ 21,950	\$ 23,853	-8%	\$ 53,239	\$ 58,514	-9%

The largest portion of the City's net position reflects its net investment capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that are still outstanding. For 2015, the net investment in capital assets amounted to \$60,871,165. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

A major portion of the City's net position, \$25,379,987 also represents resources that are subject to external restrictions on how they may be used.

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

Governmental Activities:

Current assets – Decrease of \$2.8 million (16%) due to an decrease in restricted cash and investments related to sales tax for capital improvements and economic development.

Deferred outflows – Increase of \$1.5 million (145%) due to the change in deferred outflow related to the pension liability for the fire, police and single employer defined benefit plans.

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Business-type Activities:

Unrestricted net position (deficit) – Decrease of \$1.2 million (3%) due to a decrease in the amount invested in capital assets due to depreciation and the reduction in debt.

Changes in Net Position

For the year ended December 31, 2015, net position of the primary government changed as follows:

TABLE 2
CHANGES IN NET POSITION (In Thousands)

	Governmental Activities		% Inc. (Dec.)	Business-Type Activities		% Inc. (Dec.)	Total		% Inc. (Dec.)
	<u>2015</u>	<u>Restated, 2014</u>		<u>2015</u>	<u>Restated, 2014</u>		<u>2015</u>	<u>Restated, 2014</u>	
Revenues									
Charges for service	\$ 1,319	\$ 1,504	-12%	\$ 30,886	\$ 30,590	1%	\$ 32,205	\$ 32,094	0%
Operating grants and contributions	1,408	1,431	-2%	23	-	-	1,431	1,431	0%
Capital grants and contributions	15	-	-	85	74	15%	100	74	35%
Taxes	16,548	17,675	-6%	-	-	-	16,548	17,675	-6%
Intergovernmental revenue	501	526	-5%	-	-	-	501	526	-5%
Investment income	(26)	633	104%	69	1,468	95%	43	2,101	-98%
Miscellaneous	42	62	-32%	217	141	54%	259	203	28%
Total revenues	<u>19,807</u>	<u>21,831</u>	<u>-9%</u>	<u>31,280</u>	<u>32,273</u>	<u>-3%</u>	<u>51,087</u>	<u>54,104</u>	<u>-6%</u>
Expenses									
General government	4,088	3,513	16%	-	-	-	4,088	3,513	16%
Public safety	9,671	10,566	-8%	-	-	-	9,671	10,566	-8%
Streets	3,894	3,901	0%	-	-	-	3,894	3,901	0%
Culture and recreation	1,736	1,494	16%	-	-	-	1,736	1,494	16%
Cemetery	405	431	-6%	-	-	-	405	431	-6%
Community development	831	834	0%	-	-	-	831	834	0%
Economic development	5,913	1,312	351%	-	-	-	5,913	1,312	351%
Interest on long-term debt	128	210	-39%	-	-	-	128	210	-39%
Water	-	-	-	8,983	4,906	83%	8,983	4,906	83%
Wastewater	-	-	-	2,062	2,112	-2%	2,062	2,112	-2%
Sanitation	-	-	-	3,999	4,153	-4%	3,999	4,153	-4%
Electric	-	-	-	13,852	15,745	-12%	13,852	15,745	-12%
Airport	-	-	-	263	269	-2%	263	269	-2%
Lake	-	-	-	535	481	11%	535	481	11%
Total expenses	<u>26,668</u>	<u>22,261</u>	<u>20%</u>	<u>29,694</u>	<u>27,666</u>	<u>7%</u>	<u>56,360</u>	<u>49,927</u>	<u>-13%</u>
Excess (deficiency) before transfers	(6,861)	(430)	1495%	1,586	4,607	-66%	(5,273)	4,177	-226%
Transfers	3,489	3,848	-9%	(3,489)	(3,848)	-9%	-	-	
Change in net position	<u>(3,372)</u>	<u>3,418</u>	<u>-199%</u>	<u>(1,903)</u>	<u>759</u>	<u>-351%</u>	<u>(5,273)</u>	<u>4,177</u>	<u>-226%</u>
Beginning net position, restated	<u>34,661</u>	<u>31,243</u>	<u>11%</u>	<u>23,853</u>	<u>23,094</u>	<u>3%</u>	<u>58,514</u>	<u>54,337</u>	<u>8%</u>
Ending net position	<u>\$ 31,289</u>	<u>\$ 34,661</u>	<u>-10%</u>	<u>\$ 21,950</u>	<u>\$ 23,853</u>	<u>-8%</u>	<u>\$ 53,241</u>	<u>\$ 58,514</u>	<u>-9%</u>

Explanations of significant changes in Table 2 are as follows:

Governmental Activities:

Interest on investments – Decrease of \$.7 million (104%) due to capital losses on investments.

Economic Development – Increase of \$4.1 million (351%) due to \$2.1 million for industrial building 3, \$.2 million R2D Project, \$2.9 million industrial incentives, \$.6 million DAEDF operating cost.

Business-Type Activities:

Interest on investments – Decrease of \$1.4 million (95%) due to capital losses on investments.

Water operations – Increase of \$4.1 million (83%) due to an increase in operational cost due to the new debt of \$3,080,000 being expensed for the maintenance, removal at Waurka Lake; the end of drought; and an increase in the monthly operational fees paid to the Waurika Master Conservancy District.

Governmental Activities

To aid in the understanding of the Statement of Activities some additional explanation is given. Of particular interest is the format that is significantly different than a typical Statement of Revenues, Expenses, and Changes in Fund Balance. Expenses are listed in the first column with revenues from that particular program reported to the right. The result is a Net (Expense)/Revenue. The reason for this kind of format is to highlight the relative financial burden of each of the functions on the City's taxpayers. It also identifies how much each function draws from the general revenues or if it is self-financing through fees and grants or contributions. All other governmental revenues are reported as general. It is important to note all taxes are classified as general revenue even if restricted for a specific purpose.

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

	Total Expense of Services		% Inc. (Dec.)	Net Revenue (Expense) of Services		% Inc. (Dec.)
	<u>2015</u>	Restated, <u>2014</u>		<u>2015</u>	Restated, <u>2014</u>	
General government	\$ 4,088	\$ 3,513	16%	(\$3,934)	\$ (3,601)	9%
Public safety	9,671	10,566	-8%	(7,614)	(8,280)	-8%
Streets	3,894	3,901	0%	(3,634)	(3,643)	0%
Culture, parks and recreation	1,736	1,494	16%	(1,640)	(1,433)	14%
Cemetery	405	431	-6%	(320)	(334)	-4%
Community development	831	834	0%	(757)	(756)	0%
Economic development	5,913	1,312	351%	(5,899)	(1,303)	353%
Interest on long-term debt	128	210	39%	(128)	(210)	-39%
Total	<u>\$ 26,668</u>	<u>\$ 22,261</u>	20%	<u>(\$23,926)</u>	<u>\$ (19,560)</u>	22%

For the year ended December 31, 2015 total expenses for governmental activities amounted to \$26.6 million which was an increase from the restated prior year of 19%. See Table 2 above for explanations of changes.

Business-type Activities

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

	Total Expense of Services		% Inc. Dec.	Net Revenue (Expense) of Services		% Inc. Dec.
	<u>2015</u>	Restated, <u>2014</u>		<u>2015</u>	Restated, <u>2014</u>	
Water	\$ 8,983	\$ 4,906	83%	\$ (3,305)	\$ 644	-613%
Wastewater	2,062	2,112	-2%	268	(82)	-427%
Sanitation	3,999	4,153	-4%	(395)	(501)	-21%
Electric	13,852	15,745	-12%	5,266	3,465	52%
Airport	263	269	-2%	(139)	(208)	-33%
Lake	535	481	11%	(395)	(348)	14%
Total	<u>\$ 29,694</u>	<u>\$ 27,666</u>	7%	<u>\$ 1,300</u>	<u>\$ 2,970</u>	-56%

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

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

- Total business-type activities reported net operating revenues of \$1,299,189 for the year ended December 31, 2015.
- Wastewater and electric were the only utilities that revenues exceeded operational costs.

A FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As the City completed its 2015 fiscal year, the governmental funds reported a combined total fund balance of \$13.5 million, or a 16.5% decrease of \$2,670,976, mainly due to a decrease in tax revenue of \$1.2 million, a decrease in investment income due to loss on investments of \$.6 million, and an increase in economic development expenditures for incentives of \$2.3 million.

The enterprise funds reported combined total net position of \$22.2 million, or a 7.9% decrease from 2014, mainly related to an increase in water operation costs related to the \$3,080,000 OWRB Note, end of the drought and an increase in Waurika Master Conservancy District monthly operation costs.

General Fund Budgetary Highlights

For budgetary reporting purposes, the General Fund reported revenues over estimates of \$622,733 or 5.54%, while expenditures were under the final appropriations by \$244,568 or 1.57%.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of December 31, 2015, the City had \$107 million invested in capital assets, net of depreciation, including police and fire equipment, buildings, park facilities, electrical infrastructure, water lines and sewer lines, along with other capital (See table below). This represents a net decrease of \$5.6 million or 5% compared to last year.

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

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	*		*		*	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Land	\$ 1,209	\$ 1,209	\$ 359	\$ 359	1,568	\$ 1,568
Buildings	11,671	12,387	10,213	10,699	21,884	23,086
Machinery, furniture and equipment	2,667	2,940	1,034	1,166	3,701	4,106
Infrastructure	31,741	33,369	39,194	41,639	70,935	75,008
Water rights	-	-	8,153	8,386	8,153	8,386
Construction in progress	112	194	657	249	769	443
Totals	<u>\$ 47,400</u>	<u>\$ 50,099</u>	<u>\$ 59,610</u>	<u>\$ 62,498</u>	<u>\$ 107,010</u>	<u>\$ 112,597</u>

* Prior year amounts were restated for MD&A purposes

CITY OF DUNCAN, OKLAHOMA
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This year's more significant capital asset additions included:

Lake Humphrey Pump Station Project	\$102,600
(28) SCBAs	\$177,648
Street Improvements – FY 2015	\$631,029
Highway 7 Crossing	\$244,744
2 nd Street Industrial Access Project	\$149,678
John Deere Tractor	\$46,648
Electric Service Center Improvements	\$81,242
Airport Projects	\$110,527

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

Long- Term Debt

At year-end, the City had \$48.9 in long-term debt outstanding which represents a \$1.4 million or 2.8% decrease from the prior year. The City's changes in long-term debt by type of debt are as follows:

TABLE 6
Long-Term Debt
(In Thousands)

	<u>Governmental</u> <u>Activities</u>		<u>Business-Type</u> <u>Activities</u>		<u>Total</u>		<u>Total</u> <u>Percentage</u> <u>Change</u>
		*		*		*	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2014-2015</u>
Notes payable	\$ 1,895	\$ 3,095	\$ 44,214	\$ 44,071	\$ 46,109	\$ 47,166	-2.2%
Capital leases	29	314	-	-	29	314	-90.8%
Meter deposits	-	-	1,130	1,166	1,130	1,166	-3.1%
Accrued compensated absences	1,391	1,446	291	289	1,682	1,735	-3.1%
Totals	<u>\$ 3,315</u>	<u>\$ 4,855</u>	<u>\$ 45,635</u>	<u>\$ 45,526</u>	<u>\$ 48,950</u>	<u>\$ 50,381</u>	-2.8%

* Prior year amounts were restated for MD&A purposes

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

Economic Factors and Next Year's Budget

The City of Duncan and Stephens County are heavily reliant on the oil industry. The county is number two in oil production and number eight in natural gas production in the state, according to Rep. Dennis Johnson (R-Duncan), in an article dated October 22, 2015, Duncan Banner.

With the previous severe draught plaguing the city in 2014 and the decline of the oil industry; the City of Duncan has continued to have financial struggles. Haliburton, an oil services company, the largest employer in the county, started layoffs in October of 2015. With the continued low oil prices, a bounce-back of the local economy does not appear to be on the horizon.

Sales tax is the largest source of revenue for cities in Oklahoma. The decline in sales tax for the first 7 months of 2016, in the amount of \$370,099 or a decrease over prior year of 4.4%, is disappointing.

However, the city has taken actions to cut cost and minimize future liability risk. The 2016 budget message states that reduced staffing levels thru attrition will continue. The city has taken steps to reduce the pension liability by creating a defined contribution plan for all employees hired after, March 12, 2015. The existing defined benefit plan had modifications which froze all employees' salary as of the March 15, 2015 date.

The city has disclosed that debt service requirements in excess of \$5.7 million for 2016 budget are a major concern. The city restructured the 2009 and 2009A debt in 2016 in an effort to minimize the financial impact on operational needs.

With the ever-increasing cost of health care, the city made a decision to move away from a self-insured plan and has contracted with OPEH&W for a fully insured plan. This move was to reduce risk to the City and is anticipated to have an annual savings in 2016 of \$75,000.

The City Council continues to monitor and address the financial concerns of the City. The City staff continues to work closely with the financial advisors and auditors to provide an understanding and clarity of the various issues in which the City currently faces. It is with hope that the changes taking place will ultimately place the city in a positive financial condition.

Contacting the City's Financial Management

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

City of Duncan
PO Box 969
Duncan OK 73534

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BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE

CITY OF DUNCAN, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended December 31, 2015

Statement of Net Position – December 31, 2015

	Governmental Activities	Business-type Activities	Total	Aggregate Discretely Presented Component Units
ASSETS				
Cash and cash equivalents	\$ 15,209,777	\$ 300,967	\$ 15,510,744	\$ 2,079,489
Investments	2,543,939	1,139,689	3,683,628	-
Interest receivable	-	-	-	6,842
Accounts receivable, net of allowance	629,213	3,746,118	4,375,331	45,380
Other receivable	-	-	-	11,064
Internal balances	(4,930,964)	4,930,964	-	-
Due from other governmental agencies	1,585,157	68,886	1,654,043	-
Inventories	-	730,177	730,177	915,817
Other assets	-	-	-	120,564
Prepaid items	-	-	-	5,000
Cash and cash equivalents, restricted	-	2,541,324	2,541,324	-
Investments, restricted	-	6,466,791	6,466,791	3,615,770
Capital assets:				
Land and construction in progress	1,321,466	1,015,578	2,337,044	3,503,806
Other capital assets, net of depreciation	46,078,341	58,593,991	104,672,332	8,576,619
Total assets	62,436,929	79,534,485	141,971,414	18,880,351
DEFERRED OUTFLOW OF RESOURCES				
Deferred amounts related to pensions	2,451,625	919,625	3,371,250	-
LIABILITIES				
Accounts payable and accrued expenses	1,068,495	1,269,349	2,337,844	364,913
Accrued interest payable	6,664	277,155	283,819	6,243
Claims payable	1,164,077	-	1,164,077	-
Unearned income	-	124,980	124,980	-
Long-term liabilities				
Due within one year	1,418,283	3,194,268	4,612,551	378,568
Due in more than one year	27,657,343	53,638,610	81,295,953	2,175,469
Total liabilities	31,314,862	58,504,362	89,819,224	2,925,193
DEFERRED INFLOW OF RESOURCES				
Deferred amounts related to pensions	2,284,392	-	2,284,392	-
NET POSITION				
Net investment in capital assets	45,475,603	15,395,562	60,871,165	10,442,205
Restricted for:				
Debt service	110,422	7,543,943	7,654,365	-
Public safety	331,853	-	331,853	-
Capital projects	9,175,612	-	9,175,612	-
Economic development	7,525,619	-	7,525,619	-
Other	692,538	-	692,538	3,615,552
Unrestricted (deficit)	(32,022,347)	(989,757)	(33,012,104)	1,897,401
Total net position	\$ 31,289,300	\$ 21,949,748	\$ 53,239,048	\$ 15,955,158

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, 2015

Statement of Activities – Year Ended December 31, 2015

Functions/Programs Primary government	Program Revenue				Net (Expense) Revenue and Changes in Net Position			Aggregate Discretely Presented Component Units
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	Component Units
Governmental activities:								
General government	\$ 4,088,033	\$ 154,507	\$ -	\$ -	\$ (3,933,526)	\$ -	\$ (3,933,526)	\$ -
Public safety	9,671,398	961,825	1,088,023	7,340	(7,614,210)	-	(7,614,210)	-
Streets	3,894,410	-	260,356	-	(3,634,054)	-	(3,634,054)	-
Culture and recreation	1,735,763	43,056	45,244	7,431	(1,640,032)	-	(1,640,032)	-
Health	405,289	83,696	-	-	(319,593)	-	(319,593)	-
Community development	831,143	74,279	-	-	(756,864)	-	(756,864)	-
Economic development - payment to component unit	5,913,552	-	14,148	-	(5,899,404)	-	(5,899,404)	-
Interest on long-term debt	128,087	-	-	-	(128,087)	-	(128,087)	-
Total governmental activities	26,667,675	1,319,363	1,407,771	14,771	(23,925,770)	-	(23,925,770)	-
Business-type activities:								
Water	8,983,150	5,678,214	-	-	-	(3,304,936)	(3,304,936)	-
Wastewater	2,061,536	2,329,480	-	-	-	267,944	267,944	-
Sanitation	3,999,081	3,603,645	-	-	-	(395,436)	(395,436)	-
Electric	13,851,758	19,095,126	23,023	-	-	5,266,391	5,266,391	-
Airport	263,204	39,436	-	84,464	-	(139,304)	(139,304)	-
Lake	535,097	139,627	-	-	-	(395,470)	(395,470)	-
Total business-type activities	29,693,826	30,885,528	23,023	84,464	-	1,299,189	1,299,189	-
Total primary government	\$ 56,361,501	\$ 32,204,891	\$ 1,430,794	\$ 99,235	\$ (23,925,770)	1,299,189	(22,626,581)	-
Component Unit								
Industrial Development	\$ 35,192	\$ 18,335	\$ 22,270	\$ -				5,413
Economic Development	899,771	5,998,680	4,851	-				5,103,760
Health and Welfare	-	50	-	-				50
Total component units	\$ 934,963	\$ 6,017,065	\$ 27,121	\$ -				\$ 5,109,223
General revenues:								
Taxes:								
Sales and use taxes					15,552,437	-	15,552,437	-
Franchise taxes and public service taxes					577,250	-	577,250	-
Hotel/motel taxes					418,450	-	418,450	-
Property tax					171	-	171	-
Other					500,395	-	500,395	-
Unrestricted investment earnings					(26,322)	68,718	42,396	-
Miscellaneous					42,367	217,413	259,780	-
Transfers					3,488,956	(3,488,956)	-	-
Total general revenues and transfers					20,533,704	(3,202,825)	17,330,879	-
Change in net position					(3,372,066)	(1,903,636)	(5,275,702)	5,109,223
Net position - beginning, restated					34,661,366	23,853,384	58,514,750	10,845,935
Net position - ending					\$ 31,289,300	\$ 21,949,748	\$ 53,239,048	\$ 15,955,158

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, 2015

BASIC FINANCIAL STATEMENTS – GOVERNMENTAL FUNDS

CITY OF DUNCAN, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended December 31, 2015

Balance Sheet – Governmental Funds – December 31, 2015

	<u>General Fund</u>	<u>Special Revenue Duncan Economic Development Trust Authority (DEDTA)</u>	<u>Capital Project Capital Improvement Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and cash equivalents	\$ 49,693	\$ 5,684,821	\$ 7,584,402	\$ 1,528,997	\$ 14,847,913
Investments	-	1,836,617	707,322	-	2,543,939
Receivable from other governments	1,060,746	217,552	435,104	121,122	1,834,524
Due from other funds	277,823	-	250,985	1,080	529,888
Advance from other funds	-	-	83,927	-	83,927
Taxes receivable, net	143,702	-	-	-	143,702
Court fines receivable, net	205,714	-	-	-	205,714
Other receivables	15,083	-	-	563	15,646
Total assets	<u>\$ 1,752,761</u>	<u>\$ 7,738,990</u>	<u>\$ 9,061,740</u>	<u>\$ 1,651,762</u>	<u>\$ 20,205,253</u>
LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 84,891	\$ 213,371	\$ 177,296	\$ 12,039	\$ 487,597
Accrued payroll payable	492,859	-	-	-	492,859
Due to other funds	536,837	-	73,578	432,211	1,042,626
Advance to other funds	4,534,072	-	-	-	4,534,072
Due to bondholders	600	-	-	-	600
Payable to other governments	4,224	-	-	-	4,224
Total liabilities	<u>5,653,483</u>	<u>213,371</u>	<u>250,874</u>	<u>444,250</u>	<u>6,561,978</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue	<u>66,985</u>	<u>-</u>	<u>-</u>	<u>63,662</u>	<u>130,647</u>
Fund balances:					
Nonspendable	-	-	83,927	-	83,927
Restricted	-	7,525,619	8,726,939	1,134,813	17,387,371
Unassigned (deficit)	(3,967,707)	-	-	9,037	(3,958,670)
Total fund balances	<u>(3,967,707)</u>	<u>7,525,619</u>	<u>8,810,866</u>	<u>1,143,850</u>	<u>13,512,628</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 1,752,761</u>	<u>\$ 7,738,990</u>	<u>\$ 9,061,740</u>	<u>\$ 1,651,762</u>	<u>\$ 20,205,253</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, 2015

Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances –Year Ended December 31, 2015

		<u>Special Revenue</u>	<u>Capital Project</u>		
	<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	\$ 10,308,280	\$ 2,042,404	\$ 4,084,807	\$ 325,356	\$ 16,760,847
Intergovernmental	1,373,634	-	-	275,400	1,649,034
Licenses and permits	81,176	-	-	-	81,176
Charges for services	222,088	-	-	10,382	232,470
Fees and fines	994,253	-	-	-	994,253
Investment earnings	2,620	(35,006)	6,023	41	(26,322)
Miscellaneous	114,951	14,148	30	38,735	167,864
Total revenues	<u>13,097,002</u>	<u>2,021,546</u>	<u>4,090,860</u>	<u>649,914</u>	<u>19,859,322</u>
EXPENDITURES					
Current:					
General government	3,830,162	-	5,352	-	3,835,514
Community development	837,781	-	-	-	837,781
Public safety	9,661,191	-	-	27,306	9,688,497
Highways and streets	883,186	-	-	250,672	1,133,858
Health	375,178	-	-	-	375,178
Culture and recreation	1,288,269	-	-	32,516	1,320,785
Economic development	-	3,544,975	-	-	3,544,975
Capital outlay	-	2,443,302	1,917,599	60,256	4,421,157
Debt Service:					
Principal	-	-	251,370	1,233,206	1,484,576
Interest and other charges	-	-	7,194	125,113	132,307
Total expenditures	<u>16,875,767</u>	<u>5,988,277</u>	<u>2,181,515</u>	<u>1,729,069</u>	<u>26,774,628</u>
Excess (deficiency) of revenues over expenditures	<u>(3,778,765)</u>	<u>(3,966,731)</u>	<u>1,909,345</u>	<u>(1,079,155)</u>	<u>(6,915,306)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	6,954,555	-	-	1,320,675	8,275,230
Transfers out	(2,246,644)	-	(1,568,526)	(215,730)	(4,030,900)
Total other financing sources and uses	<u>4,707,911</u>	<u>-</u>	<u>(1,568,526)</u>	<u>1,104,945</u>	<u>4,244,330</u>
Net change in fund balances	929,146	(3,966,731)	340,819	25,790	(2,670,976)
Fund balances (deficit) - beginning	(4,896,853)	11,492,350	8,470,047	1,118,060	16,183,604
Fund balances (deficit) - ending	<u>\$ (3,967,707)</u>	<u>\$ 7,525,619</u>	<u>\$ 8,810,866</u>	<u>\$ 1,143,850</u>	<u>\$ 13,512,628</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, 2015

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position – December 31, 2015

Total fund balance, governmental funds	\$	13,512,628
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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.		47,399,807
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Certain outflows and inflows are not expenses or revenues in the current period, and therefore are not reported in the funds:

Pension related deferred outflows		2,451,625
Pension related deferred inflows		(2,284,392)

Certain assets are not available to pay for current fund liabilities and therefore are deferred in flows in the funds:

Net unavailable revenues		130,647
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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		(6,664)
Net pension liability		(20,863,982)
Net OPEB obligations		(4,896,645)
Accrued compensated absences		(1,390,795)
Note payable		(1,895,000)
Capital leases payable		(29,204)

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

Internal service fund net position (deficit)		(838,725)
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Net Position of Governmental Activities in the Statement of Net Position	<u>\$</u>	<u>31,289,300</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, 2015

**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit) of
Governmental Funds to the Statement of Activities - Year Ended December 31, 2015**

Net change in fund balances - total governmental funds: \$ (2,670,976)

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	1,153,548
Depreciation expense	(3,851,732)
Loss on disposal capital asset	(634)

In the Statement of Activities, the cost of pension benefits earned net of employee
contributions is reported as an element of pension expense. The fund financial
statements report pension contributions as expenditures. 1,013,243

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

Change in unavailable revenue	(21,182)
-------------------------------	----------

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	55,222
Increase in net OPEB obligation	(517,249)
Payments on note payable	1,200,000
Payments on capital leases payable	284,576

Some expenses reported in the statement of activities do not require the use of current
financial resources and these are not reported as expenditures in governmental funds:

Change in accrued interest payable	4,220
------------------------------------	-------

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	(21,102)
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Change in net position of governmental activities	<u>\$ (3,372,066)</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, 2015

BASIC FINANCIAL STATEMENTS - PROPRIETARY FUNDS

CITY OF DUNCAN, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended December 31, 2015

Proprietary Funds Statement of Net Position –December 31, 2015

	Duncan Public Utilities Authority Enterprise Fund	Internal Service Fund
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 300,967	\$ 361,864
Investments	1,139,689	-
Restricted:		
Cash and cash equivalents	2,541,324	-
Due from other funds	813,479	493,460
Accounts receivable, net	3,704,133	-
Receivables from other governments	68,886	-
Other receivables	41,985	-
Inventories	730,177	-
Annuities receivable	-	14,784
Total current assets	<u>9,340,640</u>	<u>870,108</u>
Non-current assets:		
Advance from other funds	4,450,145	-
Restricted:		
Investments	6,466,791	-
Capital assets:		
Land and construction in progress	1,015,578	-
Other capital assets, net of accumulated depreciation	<u>58,593,991</u>	<u>-</u>
Total non-current assets	<u>70,526,505</u>	<u>-</u>
Total assets	<u>79,867,145</u>	<u>870,108</u>
DEFERRED OUTFLOW OF RESOURCES		
Deferred amounts related to pension	<u>919,625</u>	<u>-</u>
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	1,116,371	83,215
Salaries payable	127,030	-
Accrued interest payable	277,155	-
Due to other funds	96,447	697,754
Payable to other governments	25,948	-
Unearned revenue	124,980	-
Deposits subject to refund	107,563	-
Compensated absences	29,082	-
Claims and judgments	-	1,164,077
Notes payable	<u>3,057,623</u>	<u>-</u>
Total current liabilities	<u>4,962,199</u>	<u>1,945,046</u>
Non-current liabilities:		
Compensated absences, net of current portion	261,741	-
Deposits subject to refund, net of current portion	1,022,288	-
Net pension liability	10,404,383	-
Net OPEB obligation	793,814	-
Notes payable, net of current portion	<u>41,156,384</u>	<u>-</u>
Total non-current liabilities	<u>53,638,610</u>	<u>-</u>
Total liabilities	<u>58,600,809</u>	<u>1,945,046</u>
NET POSITION		
Net investment in capital assets	15,395,562	-
Restricted for debt service	7,543,943	-
Unrestricted (deficit)	<u>(753,544)</u>	<u>(1,074,938)</u>
Total net position	<u>\$ 22,185,961</u>	<u>\$ (1,074,938)</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

\$ (236,213)

Total net position per Government-Wide financial statements

\$ 21,949,748

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, 2015

Proprietary Funds Statement of Revenues, Expenses, and Changes in Net Position –Year Ended December 31, 2015

	Duncan Public Utilities Authority Enterprise Fund	Internal Service Fund
REVENUES		
Water	\$ 5,463,593	\$ -
Electric	18,984,707	-
Wastewater	2,329,480	-
Sanitation	3,603,645	-
Lake	139,627	-
Airport	39,436	-
Charges for services	-	2,825,105
Miscellaneous	325,040	48,575
Total operating revenues	<u>30,885,528</u>	<u>2,873,680</u>
OPERATING EXPENSES		
General government	702,359	182,008
Water	5,721,048	-
Wastewater	1,038,956	-
Sanitation	3,472,327	-
Electric	13,531,072	-
Lake	393,757	-
Airport	36,060	-
Claims expense	-	2,734,540
Depreciation	3,644,820	-
Total operating expenses	<u>28,540,399</u>	<u>2,916,548</u>
Operating income	<u>2,345,129</u>	<u>(42,868)</u>
NON-OPERATING REVENUES (EXPENSES)		
Interest and investment revenue	68,718	79
Miscellaneous revenue	213,563	13,045
Gain on capital asset disposal	3,850	-
Operating grants and contributions	23,023	-
Capital grants and contributions	84,464	-
Interest expense	(1,144,785)	-
Total non-operating revenue (expenses)	<u>(751,167)</u>	<u>13,124</u>
Income before transfers	<u>1,593,962</u>	<u>(29,744)</u>
Capital contributions from governmental activities	755,374	-
Transfers in	3,815,170	-
Transfers out	(8,059,500)	-
Change in net position	<u>(1,894,994)</u>	<u>(29,744)</u>
Total net position - beginning, restated	24,080,955	(1,045,194)
Total net position - ending	<u>\$ 22,185,961</u>	<u>\$ (1,074,938)</u>
Change in net position per above	\$ (1,894,994)	
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	(8,642)	
Change in Business-Type Activities in Net Postion per Government-Wide Financial Statements	<u>\$ (1,903,636)</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, 2015

Proprietary Funds Statement of Cash Flows – Year Ended December 31, 2015

	Duncan Public Utilities Authority	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 31,227,350	\$ 2,877,904
Payments to suppliers and employees	(25,252,146)	(168,557)
Claims and judgments paid	-	(2,780,339)
Receipts of customer meter deposits	378,160	-
Refunds of customer meter deposits	(414,459)	-
Interfund receipts	1,149,012	242,956
Interfund payments	(2,181,281)	139,694
Net cash provided by operating activities	4,906,636	311,658
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Miscellaneous revenue	-	13,045
Transfers from other funds	3,815,170	-
Transfers to other funds	(8,059,500)	-
Net cash provided by (used in) noncapital financing activities	(4,244,330)	13,045
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	(260)	-
Proceeds of capital grants	3,850	-
Proceeds from debt	3,080,000	-
Principal paid on debt	(2,936,544)	-
Interest and fiscal agent fees paid on debt	(1,249,746)	-
Net cash used in capital and related financing activities	(1,102,700)	-
CASH FLOWS FROM INVESTING ACTIVITIES		
Sales of investments	722,017	-
Interest and dividends	68,718	79
Net cash provided by investing activities	790,735	79
Net increase in cash and cash equivalents	350,341	324,782
Balances - beginning of year	2,491,950	37,082
Balances - end of year	\$ 2,842,291	\$ 361,864
Reconciliation to Statement of Net Position:		
Cash and cash equivalents	\$ 300,967	\$ 361,864
Restricted cash and cash equivalents - current	2,541,324	-
Total cash and cash equivalents, end of year	\$ 2,842,291	\$ 361,864
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 2,345,129	\$ (42,868)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	3,644,820	-
Miscellaneous revenue	213,563	-
Grant revenue	107,487	-
Change in assets and liabilities:		
Due from other funds	(1,663,862)	150,512
Accounts receivable	51,838	-
Due from other governments	(43,244)	232,138
Other receivable	12,178	-
Inventory	5,646	-
Deferred outflows pension	(265,152)	-
Accounts payable	(215,361)	4,224
Accrued payroll payable	(14,338)	-
Deposits subject to refund	(36,299)	-
Due to other funds	631,593	12,365
Due to other governments	(62,471)	-
Net OPEB obligations	84,854	-
Accrued compensated absences	2,149	(44,713)
Net pension liability	108,106	-
Net cash provided by operating activities	\$ 4,906,636	\$ 311,658
Noncash activities:		
Assets transferred from other funds	755,374	-
	\$ 755,374	\$ -

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, 2015

BASIC FINANCIAL STATEMENTS – FIDUCIARY FUNDS

CITY OF DUNCAN, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended December 31, 2015

Fiduciary Funds Statement of Net Position –December 31, 2015

	City Employees Retirement Trust Funds	Deposit and Refund - Agency Fund
ASSETS		
Cash and cash equivalents	\$ 445,694	\$ 105,231
Investments, at market value:		
Common trust funds	1,757,312	-
Mutual fund equity	1,954,748	-
Mutual fund fixed income	3,623,472	-
Accrued interest receivable	260	-
Total assets	<u>\$ 7,781,486</u>	<u>\$ 105,231</u>
LIABILITIES		
Refunds payable and others	\$ -	\$ 99,301
Other accrued expenses	-	5,930
Total liabilities	<u>\$ -</u>	<u>\$ 105,231</u>
NET POSITION		
Restricted for employees' pension benefits held in trust	<u>\$ 7,781,486</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, 2015

Fiduciary Funds Statement of Changes in Plan Net Position – Year Ended December 31, 2015

	City Employees Retirement Trust Funds
ADDITIONS	
Contributions:	
Employer	\$ 1,931,286
Plan Members	375,472
Total contributions	<u>2,306,758</u>
Investment earnings:	
Net increase (decrease) in fair value of investments	(360,843)
Interest and dividends	279,949
Total net investment earnings	<u>(80,894)</u>
Total additions	<u>2,225,864</u>
DEDUCTIONS	
Benefits paid to participants or beneficiaries	1,584,493
Refunds of contributions	1,186
Administrative	30,734
Total deductions	<u>1,616,413</u>
Change in net position held in trust for employees' pension benefits	609,451
Net position held in trust for employees' pension benefits - beginning	<u>7,172,035</u>
Net position held in trust for employees' pension benefits- ending	<u><u>\$ 7,781,486</u></u>

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

CITY OF DUNCAN, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended December 31, 2015

BASIC FINANCIAL STATEMENTS – DISCRETELY PRESENTED COMPONENT UNITS

CITY OF DUNCAN, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended December 31, 2015

Component Units Combining Statement of Net Position –December 31, 2015

	Duncan Industrial Authority	Duncan Hospital Authority	Duncan Area Economic Development Foundation	TOTALS
<u>ASSETS</u>				
Current Assets:				
Cash and cash equivalents	\$ 135,512	\$ 25,242	\$ 1,918,735	\$ 2,079,489
Investments	206,487	-	3,409,283	3,615,770
Receivables:				
Accounts receivable	-	-	45,380	45,380
Interest receivable	35	-	6,807	6,842
Other	10,000	-	1,064	11,064
Cash and cash equivalents, restricted	1,380	-	119,184	120,564
Prepaid building lease	-	-	5,000	5,000
Total current assets	353,414	25,242	5,505,453	5,884,109
Noncurrent Assets:				
Capital Assets:				
Nondepreciable	-	-	3,503,806	3,503,806
Depreciable, net of accumulated depreciation	-	-	8,576,619	8,576,619
Land available for development	600,277	-	315,540	915,817
Total noncurrent assets	600,277	-	12,395,965	12,996,242
Total Assets	\$ 953,691	\$ 25,242	\$ 17,901,418	\$ 18,880,351
<u>LIABILITIES</u>				
Current Liabilities:				
Accounts payable and accrued liabilities	\$ -	\$ -	\$ 353,213	\$ 353,213
Wages payable	-	-	11,700	11,700
Interest payable	-	-	6,243	6,243
Real estate mortgage loan	-	-	378,568	378,568
Total Current Liabilities	-	-	749,724	749,724
Noncurrent Liabilities:				
Real estate mortgage loan	-	-	2,175,469	2,175,469
Total Noncurrent Liabilities	-	-	2,175,469	2,175,469
Total Liabilities	-	-	2,925,193	2,925,193
<u>NET POSITION</u>				
Net investment in capital assets	600,277	-	9,841,928	10,442,205
Restricted	1,380	-	3,614,172	3,615,552
Unrestricted	352,034	25,242	1,520,125	1,897,401
Total Net Position	\$ 953,691	\$ 25,242	\$ 14,976,225	\$ 15,955,158

CITY OF DUNCAN, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended December 31, 2015

Component Units Combining Statement of Activities - Year Ended December 31, 2015

	Duncan Industrial Authority	Duncan Hospital Authority	Duncan Area Economic Development Foundation	TOTALS
Operating Revenues:				
Contributions	\$ -	\$ -	\$ 5,789,020	\$ 5,789,020
Rentals	17,435	-	155,831	173,266
Total Operating Revenues	<u>17,435</u>	<u>-</u>	<u>5,944,851</u>	<u>5,962,286</u>
Operating Expenses:				
Economic development	35,192	-	899,771	934,963
Total Operating Expenses	<u>35,192</u>	<u>-</u>	<u>899,771</u>	<u>934,963</u>
Operating Income (Loss)	(17,757)	-	5,045,080	5,027,323
Non-Operating Revenues:				
Investment income	900	50	53,829	54,779
Miscellaneous income	22,270	-	4,851	27,121
Net non-operating revenues	<u>23,170</u>	<u>50</u>	<u>58,680</u>	<u>81,900</u>
Change in Net Position	5,413	50	5,103,760	5,109,223
Net Position, beginning of year	<u>948,278</u>	<u>25,192</u>	<u>9,872,465</u>	<u>10,845,935</u>
Net Position, end of year	<u>\$ 953,691</u>	<u>\$ 25,242</u>	<u>\$ 14,976,225</u>	<u>\$ 15,955,158</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 also include three discretely presented component units, which are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the City.

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

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

Separate, stand-alone financial statements are not 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 issues separate, stand-alone financial statements, which are available by contacting that entity at Box 1468, Duncan, OK 73534. The DIA fiscal year end is June 30, and this information included herein for DIA is as of and for the fiscal year ended June 30, 2015.

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

Duncan Area Economic Development Foundation (the “DAEDF”) was created as a non-profit corporation December 19, 1954 to promote industry development and job creation within the City and surrounding area. It is a legally separate, tax-exempt component unit of the City. The DAEDF receives the majority of its resources through a sales tax allocation from the City and these resources are restricted to directly benefit the constituents of the City, or the City itself. Because these restricted resources held by the DAEDF can only be used by, or for the benefit of the City or the City’s constituents, the DAEDF is considered a component unit of the City and its financial statements are discretely presented in the City’s financial statements. The DAEDF issues separate, stand-alone financial statements, which are available by contacting that entity at Box 1051, Duncan, OK 73534. DAEDF’s fiscal year-end is December 31.

Each of these components, with the exception of the DAEDF (which is a non-profit organization), listed above are Public Trusts established pursuant to Title 60 of the Oklahoma State law. Public Trusts (Authorities) have no taxing power. The Authorities are generally created to finance City services through issuance of revenue bonds or other non-general obligation debt and to enable the City Council to delegate certain functions to the governing body (Trustees) of the Authority. In accordance with the state law, the City Council must approve, by two-thirds vote, all debt obligations of these public trusts prior to incurring the obligation. The Authorities generally retain title to assets which are acquired or constructed with Authority debt or other Authority generated resources. In addition, the City has leased certain existing assets from the Authorities on a long-term basis. The City, as beneficiary of the Public Trusts, receives title to any residual assets when a Public Trust is dissolved.

Jointly Governed Organizations

The City, in conjunction with the cities of Marlow and Comanche, has created the South Central Oklahoma Environmental Authority (SCOEA). The SCOEA’s Board is composed of three trustees one appointed by each governing body. The City paid the SCOEA \$3,472,327 in FY 2015 for sanitation services.

B. Government-wide and fund financial statements

The Government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied and budgeted. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period.

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

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

The City reports the following fund types:

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

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

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

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

Proprietary funds include both enterprise funds and internal service funds. Enterprise funds are used to account for business-type activities provided to the general public. Internal service funds

are used to account for business-type activities provided and charged to other funds or entities within the reporting entity.

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

The funds of the financial reporting entity are described below:

The City reports the following major governmental funds:

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

The City reports the following major proprietary fund:

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

The City reports the following internal service funds:

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

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

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

The City reports two fiduciary funds:

- City Employees Retirement Trust Fund accounts for assets and changes therein of the City's single employer defined benefit plan for non-uniform personnel hired before March 2015, and the defined contribution plan for certain long-term city employees.
- Deposit and Refund Agency Fund accounts for deposits held on behalf of others.

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

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

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

1. Deposits and investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less at the date of acquisition. Trust account investments 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, mutual funds and common stock (in the employee retirement fund only). Although classified as investments for purposes of the statement of cash flows, certificates of deposit are considered deposits and are reported at cost, while all other investments are reported at fair value which is determined by quoted market prices.

2. Receivable and payable

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

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

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

3. Restricted assets

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

4. Inventories

Inventories in governmental funds normally consist of minimal amounts of expendable supplies held for consumption. The costs of such inventories are recorded as expenditures when purchased rather than when consumed. Inventories in proprietary funds consist of transformers, electrical supplies and other materials held for utility installation. The items are recorded at cost when purchased and transferred to capital assets when used if the item is an improvement that extends the life of the asset, or they are expensed.

5. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and the proprietary fund statement of net position. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 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.

Interest incurred during the construction phase of capital assets of enterprise funds is included as part of the capitalized value of the assets constructed. During the year ended December 31, 2015, no interest was capitalized as such amounts were not significant.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Property, plant, and equipment of the primary government, as well as the component units, are depreciated using the straight-line method over the following estimated useful lives:

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

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

6. Compensated absences

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

his/her accrued sick leave. The General Fund is used to liquidate compensated absences in the governmental activities.

Vacation pay is accrued when earned and sick leave is recorded when vested in the government-wide and proprietary fund financial statements. In governmental funds, these amounts are recorded when they are due and payable.

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 issuance costs are expensed when incurred.

8. Deferred Outflow/Inflows of Resources

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

9. Fund equity

Government-Wide and Proprietary Fund Financial Statements:

Net Position is displayed in three components:

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

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

Governmental Fund Financial Statements:

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

- a. Nonspendable – includes amounts that cannot be spent because they are either (1) not in spendable form or (2) legally or contractually required to be maintained intact.
- b. Restricted – consists of fund balance with constraints placed on the use of resources either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or (2) laws through constitutional provisions or enabling legislation.
- c. Committed – includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the City’s highest level of decision-making authority. The City’s highest level of decision-making authority is made by ordinance, while the DEDTA’s highest level of decision-making authority is by resolution.
- d. Assigned – includes amounts that are constrained by the City’s intent to be used for specific purposes but are neither restricted nor committed. Assignments of fund balance may be made by city council action, motion or resolution, or by management decision when the city council has authorized management (city manager) to make the decision. Assignments for transfers and interest income for governmental funds are made through the budgetary process.
- e. Unassigned – represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes within the general fund. At December 31, 2015, the City’s General fund and Ad Valorem Sinking Fund are reporting deficits in the unassigned classification.

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

E. Revenues, Expenditures, and Expenses

1. Sales Tax

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

- Two (2) cents recorded in the General Fund for general operations. Fifty-five one hundredths (.55) of one cent is then transferred from the General Fund to the DPUA as pledged revenue for the 2007 Sales Tax Revenue Note, in accordance with the pledged sales tax agreement.
- One (1) cent recorded in the Capital Improvement Fund as restricted by the voters for capital improvement or for debt service payments on capital projects.

- One-half (.50) cent recorded in the Duncan Economic Development Trust Authority (DEDTA) as restricted by the voters for economic development (.25) and capital improvements (.25).

2. Property Tax

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

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

Property taxes levied by the City are billed and collected by the County Treasurer's Office and remitted to the City in the month following collection. Property taxes are levied normally in October and are due in equal installments on December 31 and March 31. Property taxes unpaid for the fiscal year are considered delinquent the following October. Property taxes levied, but not collected during the year or within 60 days of the year-end are reported as deferred inflows of resources.

For the year ended December 31, 2015, the City's did not assess 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 grants.
- Cemetery – cemetery opening and closings, lot sales, and monument fees.
- Culture and Recreation – park and recreation fees, library fines and fees, donations, swimming pool fees, lake permits and fees, donations and federal and state capital and operating grants.
- Community Development – license and permits.
- Economic Development – reimbursements and fees.

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

4. Expenditures/Expenses

In the government-wide statement of activities, expenses, including depreciation of capital assets, are reported by function or activity. In the governmental fund financial statements, expenditures are reported by function, capital outlay, and debt service. In proprietary fund financial statements, expenses are reported by activity. Fiduciary funds report 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. 68, *Accounting and Financial Reporting for Pensions, an Amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for contributions Made Subsequent to the Measurement Date*, which required the recognition of assets, deferred outflow, liabilities, and deferred inflows related the city's participation in the fire and police cost-sharing defined benefit pension plans, and the City single-employer defined benefit plan for non-uniform personnel.

In connection with the implementation of GASB Statement No. 68, the City also implemented GASB Statement No. 82, *Pension Issues – An Amendment of GASB Statements No. 67, 68 and No. 73*. This statement addressed implementation issues related to the aforementioned statements, specifically, (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. Implementation was done concurrently with the implementation of GASB Statement No. 68.

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III. Detailed notes on All Funds

A. Deposits and investments – The City held the following deposits/investments at December 31, 2015:

PRIMARY GOVERNMENT:

Schedule of Deposits and Investments by Type

			Maturities in Years					
Type	Fair Value	Credit Rating	On Demand	Less Than One	1 - 5	6 - 10	11-20	20+
Government money markets	\$ 707,286	AAA	707,286	-	-	-	-	-
Money Markets	726,662	n/a	726,662	-	-	-	-	-
US Agency (GNMA)	10,239,302	AA+	-	-	1,577,607	-	-	8,661,695
Mutual funds fixed income	9,458,343	not rated	9,458,343	-	-	-	-	-
Sub-total	21,131,593		\$ 10,892,291	\$ -	\$ 1,577,607	\$ -	\$ -	\$ 8,661,695
Demand accounts	\$ 11,243,015							
Cash on hand	2,276							
Mutual Funds:								
Equity	1,954,748							
Common trust fund equity	1,757,311							
	\$ 36,088,943							
Reconciliation to Statement of Net Position:								
Cash and cash equivalents	\$ 15,510,744							
Cash and cash equivalents restricted	2,541,324							
Investments	3,683,628							
Investments, restricted	6,466,791							
Pension cash and cash equivalents	445,694							
Pension investments	7,335,532							
Agency fund cash and cash equivalents	105,231							
	\$ 36,088,944							

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

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of bank failure, the City's deposits may not be returned to it. The City's policy as it relates to custodial credit risk is to secure its uninsured deposits with collateral, valued at no more than a market value of 102% of the uninsured deposits. The City's policy limits acceptable collateral to U.S. Treasury bills, notes or bonds; Government National Mortgage Association obligations; Student Loan Marketing Association obligations, Federal National Mortgage Association obligations; Federal Home Loan Mortgage Corporation obligations; Small business Association obligations; Federal Farm Credit Bank obligations; Federal Land Bank obligations; Federal Home Loan Bank obligations; and insured or direct obligations of the State of Oklahoma or its' agencies, counties or school districts. At December 31, 2015, the City's deposits were fully insured.

Exposure to custodial credit risk related to investments exists when the City holds investments that are uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name. At December 31, 2015, the City had no investments that are exposed to custodial credit risk.

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

Investment Credit Risk. Credit risk is the risk that an issuer or other counterparty to a debt investment will not fulfill its obligations. The City's investments are subject to credit risk as shown in the table above. The City of Duncan's policy limits investments to those items allowed in State Statutes: a) obligations of the U.S. Government, its agencies or instrumentalities, and the State of Oklahoma and certain mortgage insured federal debt; b) certificates of deposit or savings accounts that are either insured or secured with acceptable collateral; c) negotiable certificates of deposit, prime bankers acceptances, prime commercial paper and repurchase agreements with certain limitations; d) county, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes or public trusts whose beneficiary is a county, municipality or school district; and e) government money market funds regulated by the SEC.

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

PENSION PLAN INVESTMENTS:

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

Asset allocation guidelines for the Plan are as follows:

Class	Target Percent	December 2015 Percent
Equities	45-65%	30%
Small Cap Equities	Up to 25%	17%
International Equities	Up to 15%	3%
Fixed Income	35%-55%	44%
Cash and equivalents	0% to 5%	6%

Concentration of Investment Credit Risk. Exposure to concentration of credit risk is considered to exist when investments in any one issuer represent a significant percent of total investments of the City (any over 5% are disclosed). Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools and other pooled investments are excluded from this consideration. All investments of the plan are in common trust funds, money markets or cash at December 31, 2015.

Rate of return – For the year ended December 31, 2015, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was (1.12) percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

COMPONENT UNITS:

The DIA was not exposed to custodial credit risk at December 31, 2015. The \$135,512 of cash and cash equivalents was held in cash deposits and interest-bearing certificate of deposits fully insured by Federal Depository Insurance (FDIC) or direct obligations of the U.S. government. The DIA does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

The DHA was not exposed to custodial credit risk at December 31, 2015. The \$25,242 of cash and cash equivalents was held in cash deposits fully insured by Federal Depository Insurance (FDIC) or direct obligations of the U.S. government. The DHA does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

The DAEDF total demand deposits and certificates of deposit in banks were \$1,245,519 of which \$1,191,974 were covered by FDIC insurance. The deposits are placed with quality financial institutions and management believes the risk of loss is minimal. Other cash and cash equivalents consist of \$1,858,337 placed in US Treasury funds backed by short-term US government securities. In addition, DAEDF held \$844,560 of Federal Farm Credit Bonds bearing interest at 2.35% with maturity in 2022; \$568,642 of Federal Home Loan Bank Bonds bearing interest at from 1.25% to 1.50%; and certificates of deposit with interest from .25% to .85% with maturities from April 2016 to May 2017.

B. Receivables

Receivables as of December 31, 2015, for the City of Duncan's governmental and business-type activities, including the applicable allowances for uncollectible accounts are as follows:

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	Accounts Receivable	Less: Allowance for Uncollectible Accounts	Net Accounts Receivable
Governmental Activities:			
Taxes	\$ 393,069	\$ -	\$ 393,069
Court fines	685,713	(479,999)	205,714
Other	30,430	-	30,430
Total Governmental Activities	<u>\$ 1,109,212</u>	<u>\$ (479,999)</u>	<u>\$ 629,213</u>
Business-Type Activities:			
Utilities	<u>\$ 3,857,176</u>	<u>\$ (111,058)</u>	<u>\$ 3,746,118</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.

<u>Type of Restricted Assets</u>	Current Cash and Cash Equivalents	Noncurrent Investments	Total
Due to Depositors	\$ 1,497,944	\$ -	\$ 1,497,944
Trustee Accounts:			
2009A Debt Service Account	158,873	-	158,873
2009A SRF	67,081	-	67,081
OWRB 2002A Debt Service Account	63,029	-	63,029
2012 Note Revenue Account	307,880	-	307,880
Waurika Debt Service	446,517	6,466,791	6,913,308
Total Restricted Assets	<u>\$ 2,541,324</u>	<u>\$ 6,466,791</u>	<u>\$ 9,008,115</u>

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

D. Capital Assets

The following is a summary of changes in capital assets during fiscal year 2015 for the primary government:

PRIMARY GOVERNMENT:

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	Balance at January 1, 2015	Additions	Deductions	Balance at December 31, 2015
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 1,209,125	\$ -	\$ -	\$ 1,209,125
Construction in progress	193,557	724,792	806,008	112,341
Total capital assets not being depreciated	<u>1,402,682</u>	<u>724,792</u>	<u>806,008</u>	<u>1,321,466</u>
Capital assets being depreciated:				
Buildings	22,138,411	21,447	-	22,159,858
Machinery, furniture and equipment	12,899,973	407,309	54,240	13,253,042
Infrastructure	92,578,281	806,008	-	93,384,289
Total other capital assets at historical cost	<u>127,616,665</u>	<u>1,234,764</u>	<u>54,240</u>	<u>128,797,189</u>
Less accumulated depreciation for:				
Buildings	9,751,665	737,471	-	10,489,136
Machinery, furniture and equipment	9,959,786	679,838	53,606	10,586,018
Infrastructure	59,209,271	2,434,423	-	61,643,694
Total accumulated depreciation	<u>78,920,722</u>	<u>3,851,732</u>	<u>53,606</u>	<u>82,718,848</u>
Capital assets being depreciated, net	<u>48,695,943</u>	<u>(2,616,968)</u>	<u>634</u>	<u>46,078,341</u>
Governmental activities capital assets, net	<u>\$ 50,098,625</u>	<u>\$ (1,892,176)</u>	<u>\$ 806,642</u>	<u>\$ 47,399,807</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 358,676	\$ -	\$ -	\$ 358,676
Construction in progress	249,096	552,202	144,396	656,902
Total capital assets not being depreciated	<u>607,772</u>	<u>552,202</u>	<u>144,396</u>	<u>1,015,578</u>
Capital assets being depreciated:				
Buildings	19,184,756	202,168	-	19,386,924
Machinery, furniture and equipment	7,038,758	43,864	-	7,082,622
Utility property	98,951,082	101,536	-	99,052,618
Water rights	18,785,708	-	-	18,785,708
Total other capital assets at historical cost	<u>143,960,304</u>	<u>347,568</u>	<u>-</u>	<u>144,307,872</u>
Less accumulated depreciation for:				
Buildings	8,485,508	688,680	-	9,174,188
Machinery, furniture and equipment	5,872,925	175,795	-	6,048,720
Utility property	57,311,596	2,547,129	-	59,858,725
Water rights	10,399,292	232,956	-	10,632,248
Total accumulated depreciation	<u>82,069,321</u>	<u>3,644,560</u>	<u>-</u>	<u>85,713,881</u>
Capital assets being depreciated, net	<u>61,890,983</u>	<u>(3,296,992)</u>	<u>-</u>	<u>58,593,991</u>
Business-type activities capital assets, net	<u>\$ 62,498,755</u>	<u>\$ (2,744,790)</u>	<u>\$ 144,396</u>	<u>\$ 59,609,569</u>

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

Governmental Activities:

General government	\$ 214,295
Culture and recreation	304,137
Community development	12,714
Economic development	145,884
Public safety	432,264
Streets	2,742,438
	<u>\$ 3,851,732</u>

Business-Type Activities:

Water	\$ 1,817,580
Wastewater	899,825
Sanitation	286,288
Electric	320,167
Lake	93,556
Airport	227,144
	<u>\$ 3,644,560</u>

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DAEDF capital assets were as follows:

Duncan Area Economic Development Foundation:	Balance, December 31, 2015
Capital assets, not being depreciated:	
Construction in progress	\$ 3,503,806
Total capital assets, not being depreciated	<u>3,503,806</u>
Capital assets, being depreciated:	
Buildings and improvements	\$ 11,539,890
Equipment	118,600
Total capital assets, being depreciated	<u>11,658,490</u>
Less accumulated depreciation	(3,081,871)
Total capital assets, being depreciated, net	<u>8,576,619</u>
Governmental activities capital assets, net	<u><u>\$ 12,080,425</u></u>

E. Long-term liabilities

Long-term liabilities of the City of Duncan as of December 31, 2015, are summarized as follows:

Governmental Activities

Notes Payable:

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

\$ 1,895,000

Capital Leases Payable:

\$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.

\$ 29,204

Compensated Absences:

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

\$ 1,390,795

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Business-type Activities

Notes payable:

\$12,068,282 note payable to the Waurika Lake Master Conservancy District, issued January 10, 1978, payable in monthly installments of \$55,060, including principal and interest at 3.463%, final payment due June 30, 2030. The note is secured by pledged revenues of the DPUA and a one percent sales tax restricted for debt retirement. Debt was issued for the city's use of water rights. \$ 6,652,330

\$9,318,240 note payable to the Waurika Lake Master Conservancy District, issued November 1, 2010, payable in monthly variable amounts, final payment due October 1, 2035. The note is secured by pledged water revenues of the DPUA. Debt was issued for the city's use of water rights. 7,826,251

\$3,080,000 note payable to the Waurika Master Conservancy District, issued May 26, 2015, payable in monthly variable amounts, final payment due October 1, 2040. The note is secured by pledged water revenues of the DPUA. Debt was issued for the city's use of water system improvements. 3,049,494

\$3,606,378 note payable to the Oklahoma Water Resources Board, issued September 12, 2002, payable semi-annually with interest at 0.0%, the DPUA pays a 0.5% administrative fee, final payment due August 15, 2022. The note is secured by pledged revenues of the DPUA. Debt was issued for wastewater system improvements. 1,262,232

\$7,635,000 note payable to the Oklahoma Water Resources Board, originally issued September 28, 2005 and amended September 12, 2013, payable semi-annually with interest at 2.75% and an administrative fee of 0.5%, final payment due March 15, 2021. The note is secured by pledged revenues of the DPUA. Debt was issued for water system improvements. 4,375,000

\$7,755,000 note payable to the Oklahoma Water Resources Board, originally issued September 26, 2007 and amended September 12, 2013, payable semi-annually with interest at 3.10% and an administrative fee of 0.5%, final payment due September 15, 2021. The note is secured by pledged revenues of the DPUA. Debt was issued for water system improvements. 5,471,000

\$4,130,000 note payable to the Oklahoma Water Resources Board, issued March 17, 2009, payable semi-annually with interest at 3.13%, and an administrative fee of 0.5%, final payment due September 15, 2030. The note is secured by pledged revenues of the DPUA. Debt was issued for a construction of a new water tower. 3,070,526

\$11,245,000 note payable to the Oklahoma Water Resources Board, issued August 26, 2009, payable semi-annually with interest at 2.79% and an administrative fee of 0.5%, final payment due September 15, 2030. The note is secured by pledged revenues of the DPUA. Debt was issued to upgrade pump stations and install automated meters. 7,373,174

\$7,390,000 Series 2012 Utility System Revenue Note, issued October 12, 2012, payable to BancFirst semi-annually with interest at 2.350%, final payment due September 2021. The note is secured by pledged revenues of the DPUA. Debt was issued for the refunding of the 2002B and 2009 Notes. 5,134,000

Total notes payable \$ 44,214,007

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Compensated Absences:

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

\$ 290,823

Long-term liability transactions for the year ended December 31, 2015 and changes therein were as follows:

<u>Type of Debt</u>	<u>Balance January 1, 2015</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31, 2015</u>	<u>Due Within One Year</u>
Governmental Activities:					
Notes payable	\$ 3,095,000	\$ -	\$ 1,200,000	\$ 1,895,000	\$ 1,250,000
Capital leases payable	313,780	-	284,576	29,204	29,204
Accrued compensated absences	1,446,017	-	55,222	1,390,795	139,079
Total Governmental Activities	<u>\$ 4,854,797</u>	<u>\$ -</u>	<u>\$ 1,539,798</u>	<u>\$ 3,314,999</u>	<u>\$ 1,418,283</u>
			Add: OPEB obligation	4,896,645	
			Add: Pension Liability	20,863,982	
				<u>\$ 29,075,626</u>	
Business-Type Activities:					
Notes Payable	\$ 44,070,551	\$ 3,080,000	\$ 2,936,544	\$ 44,214,007	\$ 3,057,623
Meter deposits	1,166,150	378,160	414,459	1,129,851	107,563
Accrued compensated absences	288,674	2,149	-	290,823	29,082
Total Business-Type Activities	<u>\$ 45,525,375</u>	<u>\$ 3,460,309</u>	<u>\$ 3,351,003</u>	<u>\$ 45,634,681</u>	<u>\$ 3,194,268</u>
			Add: OPEB obligation	793,814	
			Add: Pension Liability	10,404,383	
				<u>\$ 56,832,878</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
2016	1,250,000	66,888	29,204	796
2017	645,000	13,610	-	-
	<u>\$ 1,895,000</u>	<u>\$ 80,498</u>	<u>\$ 29,204</u>	<u>\$ 796</u>

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Fiscal Year Ending December 31,	Business-Type Activities	
	Notes Payable	
	Principal	Interest
2016	3,057,623	1,299,237
2017	3,587,621	1,225,274
2018	4,574,807	1,133,482
2019	4,705,491	1,018,460
2020	4,840,124	906,470
2021-2025	11,214,503	3,243,732
2026-2030	8,422,120	1,725,486
2031-2035	3,003,172	646,919
2036	808,546	75,111
	<u>\$ 44,214,007</u>	<u>\$ 11,274,171</u>

DAEDF has a mortgage loan payable to finance expansion of a commercial property; permanent financing of the construction project was completed in November 2009 in the amount of \$4,500,000. The loan requires monthly payments of \$42,842 including interest at 5.508 percent until maturity on October 15, 2021. The loan is secured by commercial real estate with a net book value of \$5,708,570. Total interest paid during 2015 was \$148,436. The current loan balance is \$2,914,529. Future debt service requirements are as follows:

Fiscal Year Ending December 31,	DAEDF Component Unit	
	Notes Payable	
	Principal	Interest
2016	\$ 378,273	\$ 131,215
2017	399,955	109,828
2018	422,566	87,234
2019	446,419	63,364
2020	471,638	38,145
2021	435,186	11,596
	<u>\$ 2,554,037</u>	<u>\$ 441,382</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 \$1,975,498. Pledged sales taxes in the current year were \$2,246,644. Debt service payment of \$1,318,054 for the current fiscal year was 58.7% of pledged sales tax.

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Utility Revenues Pledge – The City has also pledged future gross water, wastewater, electric and garbage revenues to repay \$3,606,378 of the 2002A Series OWRB Note Payable, \$7,635,000 of the 2005 Series OWRB Note Payable, \$7,755,000 of the 2007 Series OWRB Note Payable, \$4,130,000 of the 2009 Series OWRB Note Payable, \$11,245,000 of the 2009A series OWRB Note Payable, and \$7,390,000 of the 2012 Utility Revenue Note. Proceeds from the notes provided financing for utility system capital assets. The notes are payable through 2022, 2026, 2029, 2030, 2030, and 2021, respectively. The total principal and interest payable for the remainder of the life of these notes is \$30,395,119. The notes are payable from the above-mentioned utility revenues. The debt service payments on the notes this year were \$2,960,345 which was 9.7% of pledged utility revenues of \$30,529,974.

Water Revenues Pledge - The City has also pledged future gross water revenues to repay \$9,318,240 of Waurika Master Conservancy District Debt. Proceeds from the note provided water rights. The note is payable through 2035. The total principal and interest payable for the remainder of the life of the note is \$12,025,974. The note is payable from the above-mentioned utility revenues. The debt service payments on the note this year were \$615,924 which was 10.8% of pledged utility revenues of \$5,678,214.

F. Interfund receivables, payables, and transfers

The composition of interfund balances as of December 31, 2015 is as follows:

Receivable Fund	Payable Fund	Amount	Nature of Interfund Balance
* General	Library grants	\$ 4,004	Revenue posted to incorrect fund
* General	E911 Dispatch	180,052	E911 landline fees
* General	* DPUA	93,767	Revenue posted to incorrect fund
Internal service - Insurance	Internal service - workers comp	493,460	Negative pooled cash
* Capital Improvement Fund	* General	83,927	Negative pooled cash
* Capital Improvement Fund	* General	150	Revenue posted to incorrect fund
* Capital Improvement Fund	Airport	2,680	Project funding
* Capital Improvement Fund	E911 Dispatch	248,155	Project funding
E911 Dispatch	* General	1,080	Negative pooled cash
* DPUA	Internal service - workers comp	204,294	Negative pooled cash
* DPUA	General	535,607	Negative pooled cash
* DPUA	* Capital Improvement Fund	42,706	Revenue posted to incorrect fund
* DPUA	* Capital Improvement Fund	30,872	Cover payroll
* DPUA	* General	4,150,145	Negative pooled cash
* DPUA	* General	300,000	Revenue posted to incorrect fund
		<u>\$ 6,370,899</u>	

Reconciliation to Fund Financial Statements:

	Advance/Due From	Advance/Due to	Net Interfund Balances
Governmental Funds	\$ 613,815	\$ 5,576,698	\$ (4,962,883)
Proprietary Funds	5,263,624	96,447	5,167,177
Internal Service Funds	493,460	697,754	(204,294)
	<u>\$ 6,370,899</u>	<u>\$ 6,370,899</u>	<u>\$ -</u>

Reconciliation of Statement of Net Position:

Net Internal Balances	\$ 5,167,177
Internal Service Fund Activity reported in Business-type Activities	(236,213)
Net Internal Balances - Government Wide	<u>\$ 4,930,964</u>

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A summary of interfund transfers for the fiscal year ended December 31, 2015 is as follows:

<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>	<u>Purpose of Transfer</u>
911 Telephone	* General	\$ 215,730 B	Budgeted operational transfer
* DPUA	* General	2,246,644	Pledged sales tax
* DPUA	* General	4,492,181	Budgeted operational transfer
* DPUA	DPUA Debt Service	1,320,675 A	Pledged sales tax
* General	* DPUA	2,246,644	Pledged sales tax
* Capital Improvement Fund	* DPUA	755,374	Capital contributions
* Capital Improvement Fund	* DPUA	1,568,526	Debt payments
Total		<u>\$ 12,845,774</u>	

Reconciliation to Fund Financial Statements:

	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Net Transfers</u>
Governmental Funds	\$ 8,275,230	\$ (4,030,900)	\$ 4,244,330
Proprietary Funds	3,815,170	(8,059,500)	(4,244,330)
	<u>\$ 12,090,400</u>	<u>\$ (12,090,400)</u>	<u>\$ -</u>

* Denotes major fund.

Reconciliation to Statement of Activities:

Net transfers governmental activities	\$ 4,244,330
Transfer of capital assets to business-type activities	(755,374)
Transfers - internal activity	<u>\$ 3,488,956</u>

G. Net Position

Government-Wide and Proprietary Fund Financial Statements

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

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Fund	Restricted By	Amount
Governmental Activities:		
Cemetery Fund	Statutory requirements	\$ 178,553
Street and Alley Fund	Statutory requirements	173,692
E911 Fund	Statutory requirements	166,172
		<u>\$ 518,417</u>
CDBG Fund	External sources	\$ 340,293
Police grants and seizures	External sources	155,050
First responder	External sources	10,631
Economic Development Fund	External sources	7,525,619
Capital Projects Fund	External sources	9,175,612
Debt Service Fund	External sources	110,422
		<u>\$ 17,317,627</u>
Total Governmental Restricted		<u>\$ 17,836,044</u>
Reconciliation to Statement of Net Position:		
Restricted for:		
Debt service		\$ 110,422
Public Safety		331,853
Capital projects		9,175,612
Economic development		7,525,619
Other		692,538
Total Governmental Restricted		<u>\$ 17,836,044</u>
Business Type Activities:		
Debt Service Reserves	External sources	<u>\$ 7,543,943</u>

Governmental Fund Financial Statements:

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:					
Nonspendable:					
Advances	\$ -	\$ -	\$ 83,927	\$ -	\$ 83,927
	<u>-</u>	<u>-</u>	<u>83,927</u>	<u>-</u>	<u>83,927</u>
Restricted for:					
Street improvements	\$ -	\$ -	\$ -	\$ 173,692	\$ 173,692
Cemetery improvements	-	-	-	178,553	178,553
CDBG programs	-	-	-	340,293	340,293
E911 dispatch	-	-	-	166,172	166,172
Debt service	-	-	-	110,422	110,422
Police	-	-	-	155,050	155,050
First responder program	-	-	-	10,631	10,631
Economic development	-	7,525,619	-	-	7,525,619
Capital improvements	-	-	8,726,939	-	8,726,939
Sub-total restricted	<u>-</u>	<u>7,525,619</u>	<u>8,726,939</u>	<u>1,134,813</u>	<u>17,387,371</u>
Unassigned (deficit)	(3,967,707)	-	-	9,037	(3,958,670)
TOTAL FUND BALANCE	<u>\$ (3,967,707)</u>	<u>\$ 7,525,619</u>	<u>\$ 8,810,866</u>	<u>\$ 1,143,850</u>	<u>\$ 13,512,628</u>

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Prior Year Restatement:

Beginning net position of the governmental activities, business-type activities, and the enterprise fund activities were restated as follows:

	Governmental Activities	Business- Type Activities	Enterprise] Funds
Beginning net position as previously reported	\$ 54,038,380	\$ 31,637,265	\$ 31,864,836
Reversal of net pension obligation due to GASB 67 and 68	2,332,978	1,857,923	1,857,923
Implementation of GASB Statements 68 & 71, requiring balances to be restated for activity related to net pension liabilities and pension related deferred outflows and deferred inflows	(21,709,992)	(9,641,804)	(9,641,804)
Beginning net position as restated	<u>\$ 34,661,366</u>	<u>\$ 23,853,384</u>	<u>\$ 24,080,955</u>

H. Postemployment Healthcare Plan

Plan Description. The City sponsors Medical insurance to qualifying retirees and their dependents. Coverage is provided through fully-insured arrangements that collectively operate as a substantive single-employer defined benefit plan. Qualifying retirees are those employees who are eligible for immediate disability or retirement benefits under the Oklahoma Police Pension and Retirement System, Oklahoma Firefighter's Pension and Retirement System, or the City of Duncan Employees Retirement System. Retirees may continue coverage with the City by paying the carrier premium rate. Coverage is available until the age of 65 for retirees. Authority to establish and amend benefit provisions rests with the City Council. Benefits are paid from general operating assets of the City. The plan does not issue separate financial statements.

Funding Policy. The contribution requirements of plan members and the City are established by the City Council. Annual health insurance premium amounts are established by the third party insurance provider. The required contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2015, the actuarially expected City contribution in the form of net age adjustment was \$488,984 to the Plan. Plan members receiving benefits contributed \$143,830 of the total premiums, through their payment of the full carrier determined premium in FY 2015.

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, 2015:

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Normal cost	\$ 662,986
Amortization of Actuarial Accrued Liability (AAL)	667,094
Annual Required Contribution (with Interest)	1,330,080
Interest on Net OPEB Obligation	181,541
Adjustment to the ARC	(420,532)
Annual OPEB cost (expense)	1,091,089
Employer Contributions of FY 15	(488,986)
Net OPEB obligation—beginning of year	5,088,356
Net OPEB obligation—end of year	<u>\$5,690,459</u>

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

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2013	\$1,268,742	30%	\$4,201,273
12/31/2014	\$1,321,602	36%	\$5,088,356
12/31/2015	\$1,091,089	41%	\$5,690,459

Funded Status and Funding Progress. As of January 1, 2015, the most recent actuarial valuation date, the Plan was not funded. The actuarial accrued liability (AAL) for benefits was \$11.1 million, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$11.1 million. The covered payroll (annual payroll of active employees covered by the plan) was \$9.2 million, and the ratio of the UAAL to the covered payroll was 121 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, 2015, actuarial valuation, the Entry Age Normal actuarial cost method was used. The actuarial assumptions included an annual healthcare cost trend rate of 9.0 percent initially, reduced by decrements to an ultimate rate of 4.87 percent after fifty years. Discount rate assumed is 3.6%. The UAAL is being amortized over 30 years based on a level dollar method. The remaining amortization period at January 1, 2015, was twenty-six. As of the date of this valuation, there are no plan assets.

IV. Other Information

A. Risk management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The City has insurance for the major risks such as property and general liability, and is self-insured for workers' compensation and employee health.

- General Liability – Covered through purchased insurance.
- Physical Property – Covered through purchase insurance with a \$1,000 deductible.
- Workers Compensation – self-insured using a third party administrator that process claims and establish reserves. The City has a stop-loss policy which covers individual claims in excess of \$600,000, per occurrence. The maximum indemnity limit is \$2,000,000.
- Employee's Group Medical – Self-insured using a third party processor to process medical claims. The city also has a stop loss policy which covers individual claims in excess of \$75,000.
- Judgments against the City may be paid by a property tax assessment over a three-year period. Claims have not exceeded coverage in the past three years.

Claims Liability Analysis

The claims liabilities related to the above noted risk of loss that is retained is determined in accordance with Generally Accepted Accounting Principles, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. For the internal service self-insurance workers' compensation fund and health claims fund, changes in the claims liability for the City from December 31, 2013 to December 31, 2015, are as follows:

CLAIMS LIABILITY ANALYSIS

	Health	Worker's Comp	Total
Claims liability, December 31, 2013	\$ 201,069	\$ 813,398	\$ 1,014,467
Claims and changes in estimates	2,790,296	614,669	3,404,965
Claims payments	<u>(2,858,339)</u>	<u>(352,303)</u>	<u>(3,210,642)</u>
Claims liability, December 31, 2014	133,026	1,075,764	1,208,790
Claims and changes in estimates	2,455,253	276,331	2,731,584
Claims payments	<u>(2,311,708)</u>	<u>(464,589)</u>	<u>(2,776,297)</u>
Claims liability, December 31, 2015	<u><u>\$ 276,571</u></u>	<u><u>\$ 887,506</u></u>	<u><u>\$ 1,164,077</u></u>

The liability of \$1,164,077 is all current.

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

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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.

DAEDF

As of December 31, 2015, DAEDF has committed a total of \$538,277 for industry incentives, \$650,000 for water infrastructure, and \$1,000,097 industrial building.

Outstanding Contracts

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

Fund/Project	Balance Remaining at December 31, 2015
Clear Creek Pump Station	\$ 17,121
Street Improvements	76,975
Elder Substation	19,324
Runway improvements	345,055
Runway lighting	33,100

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

C. Employee retirement systems and pensions plans

The City of Duncan participates in the Oklahoma State Police Pension and Retirement System and the Oklahoma State Firefighters' Pension and Retirement System, both of which are cost-sharing multiple-employer defined benefit pension plans administered by the State of Oklahoma. Copies of the State of Oklahoma sponsored multiple-employer plans and a schedule of funding progress is available, for each

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from the respective Plan. Additionally, for City employees not covered by these plans, the City of Duncan maintains the City of Duncan Employee Retirement Plan, a single employer defined benefit pension plan, and also a defined contribution plan designated as the Employee Retirement System of City of Duncan, Oklahoma, Defined Contribution Plan. A summary of all the amounts recorded in the City's financial statements for the plans is as follows:

	Governmental Activities
Net Pension Liability	
Police Pension System	\$ 33,115
Firefighter's Pension System	8,747,637
Single Employer Plan	22,487,613
Total Net Pension Liability	<u>\$ 31,268,365</u>
Deferred Outflows of Resources	
Police Pension System	\$ 737,057
Firefighter's Pension System	646,555
Single Employer Plan	1,987,638
Total Deferred Outflows of Resources	<u>\$ 3,371,250</u>
Deferred Inflows of Resources	
Police Pension System	\$ 915,588
Firefighter's Pension System	1,368,804
Single Employer Plan	-
Total Deferred Inflows of Resources	<u>\$ 2,284,392</u>

Oklahoma State Police Pension and Retirement System (OPPRS)

Plan description - The City of Duncan, as the employer, participates in the Oklahoma Police Pension and Retirement Plan—a cost-sharing multiple-employer defined benefit pension plan administered by the Oklahoma Police Pension and Retirement System (OPPRS). Title 11 of the Oklahoma State Statutes, through the Oklahoma Legislature, grants the authority to establish and amend the benefit terms to the OPPRS. OPPRS issues a publicly available financial report that can be obtained at www.ok.gov/OPPRS.

Benefits provided - OPPRS provides retirement, disability, and death benefits to members of the plan. The normal retirement date under the Plan is the date upon which the participant completes 20 years of credited service, regardless of age. Participants become vested upon completing 10 years of credited service as a contributing participant of the Plan. No vesting occurs prior to completing 10 years of credited service. Participants' contributions are refundable, without interest, upon termination prior to normal retirement. Participants who have completed 10 years of credited service may elect a vested benefit in lieu of having their accumulated contributions refunded. If the vested benefit is elected, the participant is entitled to a monthly retirement benefit commencing on the date the participant reaches 50 years of age or the date the participant would have had 20 years of credited service had employment continued uninterrupted, whichever is later.

Monthly retirement benefits are calculated at 2.5% of the final average salary (defined as the average paid base salary of the officer over the highest 30 consecutive months of the last 60 months of credited

service) multiplied by the years of credited service, with a maximum of 30 years of credited service considered.

Monthly benefits for participants due to permanent disability incurred in the line of duty are 2.5% of the participants' final average salary multiplied by 20 years. This disability benefit is reduced by stated percentages for partial disability based on the percentage of impairment. After 10 years of credited service, participants who retire due to disability incurred from any cause are eligible for a monthly benefit based on 2.5% of their final average salary multiplied by the years of service. This disability benefit is also reduced by stated percentages for partial disability based on the percentage of impairment. Effective July 1, 1998, once a disability benefit is granted to a participant, that participant is no longer allowed to apply for an increase in the dollar amount of the benefit at a subsequent date.

Survivor's benefits are payable in full to the participant's beneficiary upon the death of a retired participant. The beneficiary of any active participant killed in the line of duty is entitled to a pension benefit.

Contributions - The contributions requirements of the Plan are at an established rate determined by Oklahoma Statute and are not based on actuarial calculations. Employees are required to contribute 8% percent of their annual pay. Participating cities are required to contribute 13% of the employees' annual pay. Contributions to the pension plan from the City were \$288,707. The State of Oklahoma also made on-behalf contributions to OPPRS in the amount of \$286,393 during the current fiscal year and this is reported as both expense and revenue in the General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance. In the government-wide Statement of Activities, revenue is recognized for the state's on-behalf contributions on an accrual basis of \$288,238. These on-behalf payments did not meet the criteria of a special funding situation.

Net Pension Liability, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At December 31, 2015, the City reported a liability of \$33,115 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015. The City's proportion of the net pension liability was based on the City's contributions received by the pension plan relative to the total contributions received by pension plan for all participating employers as of June 30, 2015. Based upon this information, the City's proportion was 0.8122%.

For the year ended December 31, 2015, the City recognized pension expense of \$121,552. At December 31, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 593,415	\$ -
Net difference between projected and actual earnings on pension plan investments	-	915,589
City contributions subsequent to the measurement date	143,642	-
Total	<u>\$ 737,057</u>	<u>\$ 915,589</u>

Deferred outflows of resources related to pensions totaling \$143,642 resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Deferred outflows of resources are being amortized over a closed period equal to the average of the expected service lives of all employees as of the beginning of the measurement period, which was 5.77 years and 5.83 years as of June 30, 2015 and 2014, respectively. The deferred inflows relates to the difference between expected and actual investment earnings and is being amortized over a closed 5-year period as of the beginning of each measurement period. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:

2016	\$ (137,766)
2017	(137,766)
2018	(137,766)
2019	106,838
2020	(15,714)
	<u>\$ (322,174)</u>

Actuarial Assumptions- The total pension liability was determined by an actuarial valuation as of July 1, 2015, using the following actuarial assumptions, applied to all prior periods included in the measurement:

Inflation:	3%
Salary increases:	4.5% to 17% average, including inflation
Investment rate of return:	7.5% net of pension plan investment expense
Mortality rates:	Active employees (pre-retirement) RP-2000 Blue Collar Healthy Combined table with age set back 4 years with fully generational improvement using Scale AA. Active employees (post-retirement) and nondisabled pensioners: RP-2000 Blue Collar Healthy Combined table with fully generational improvement using scale AA.

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Disabled pensioners: RP-2000 Blue Collar Healthy
Combined table with age set forward 4 years with fully
generational improvement using Scale AA.

The actuarial assumptions used in the July 1, 2015, valuation were based on the results of an actuarial experience study for the period July 1, 2007, to June 30, 2012.

The long-term expected rate of return on pension plan investments was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015, are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed income	2.24%
Domestic equity	4.87%
International equity	7.68%
Real estate	5.47%
Private equity	5.80%
Commodities	2.96%

The current allocation policy is that approximately 60% of assets in equity instruments, including public equity, long-short hedge, venture capital, and private equity strategies; approximately 25% of assets in fixed income to include investment grade bonds, high yield and non-dollar denominated bonds, convertible bonds, and low volatility hedge fund strategies; and 15% of assets in real assets to include real estate, commodities, and other strategies.

Discount Rate-The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, determined by State statutes. Projected cash flows also assume the State of Oklahoma will continue contributing 14% of the insurance premium, as established by statute. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate-The following presents the net pension liability (asset) of the employers calculated using the discount rate of 7.5%, as well as what the Plan's net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower (6.5%) or 1-percentage-point higher (8.5%) than the current rate:

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	1% Decrease 6.5%	Current Discount Rate 7.5%	1% Increase 8.5%
Employers' net pension liability (asset)	1,989,818	33,116	(1,616,521)

Pension plan fiduciary net position - Detailed information about the pension plan's fiduciary net position is available in the separately issued financial report of the OPPRS; which can be located at www.ok.gov/OPPRS.

Oklahoma State Firefighters' Pension and Retirement System (OFPRS)

Firefighters' Plan:

Plan description - The City of Duncan, as the employer, participates in the Firefighters Pension & retirement—a cost-sharing multiple-employer defined benefit pension plan administered by the Oklahoma Firefighters Pension & Retirement System (OFPRS). Title 11 of the Oklahoma State Statutes grants the authority to establish and amend the benefit terms to the OFPRS. OFPRS issues a publicly available financial report that can be obtained at www.ok.gov/fprs.

Benefits provided - OFPRS provides retirement, disability, and death benefits to members of the plan. Benefits for members hired prior to November 1, 2013 are determined as 2.5 percent of the employee's final average compensation times the employee's years of service and have reached the age of 50 or have completed 20 years of service, whichever is later. For volunteer firefighters, the monthly pension benefit for normal retirement is \$150.60 per month. Benefits vest with 10 years or more of service.

Benefits for members hired after November 1, 2013 are determined as 2.5 percent of the employee's final average compensation times the employee's years of service and have reached the age of 50 or have completed 22 years of service, whichever is later. For volunteer firefighters, the monthly pension benefit for normal retirement is \$165.66 per month. Benefits vest with 11 years or more of service.

All firefighters are eligible for immediate disability benefits. For paid firefighters, the disability in-the-line-of-duty benefit for firefighters with less than 20 years of service is equal to 50% of final average monthly compensation, based on the most recent 30 months of service. For firefighters with over 20 years of service, a disability in-the-line-of-duty is calculated based on 2.5% of final average monthly compensation, based on the most recent 30 months, per year of service, with a maximum of 30 years of service. For disabilities not-in-the-line-of-duty, the benefit is limited to only those with less than 20 years of service and is 50% of final average monthly compensation, based on the most recent 60-month salary as opposed to 30 months. For volunteer firefighters, the not-in-line-of-duty disability is also limited to only those with less than 20 years of service and is \$7.53 per year of service. For volunteer firefighters, the in-line-of-duty pension is \$150.60 with less than 20 years of service, or \$7.53 per year of service, with a maximum of 30 years.

A \$5,000 lump sum death benefit is payable to the qualified spouse or designated recipient upon the participant's death. The \$5,000 death benefit does not apply to members electing the vested benefit.

Contributions - The contributions requirements of the Plan are at an established rate determine by Oklahoma Statute and are not based on actuarial calculations. Employees are required to contribute 9% percent of their annual pay. Participating cities are required to contribute 14% of the employees'

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annual pay. Contributions to the pension plan from the City were \$319,069. The State of Oklahoma also made on-behalf contributions to OFPRS in the amount of \$785,256 during the current fiscal year and this is reported as both expense and revenue in the General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance. In the government-wide Statement of Activities, revenue is recognized for the state's on-behalf contributions on an accrual basis of \$751,924. These on-behalf payments did not meet the criteria of a special funding situation.

Net Pension Liability, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At December 31, 2015, the City reported a liability of \$8,747,637 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015. The City's proportion of the net pension liability was based on the City's contributions received by the pension plan relative to the total contributions received by pension plan for all participating employers as of June 30, 2015. Based upon this information, the City's proportion was 0.8242%.

For the year ended December 31, 2015, the City recognized pension expense of \$667,667. At December 31, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 172,826	\$ -
Net difference between projected and actual earnings on pension plan investments	310,108	962,182
Changes in proportion and differences between City contributions and proportionate share of contributions	-	406,622
City contributions subsequent to the measurement date	163,621	-
Total	<u>\$ 646,555</u>	<u>\$ 1,368,804</u>

Deferred outflows of resources related to pensions totaling \$163,621 resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Deferred outflows of resources are being amortized over a closed period equal to the average of the expected service lives of all employees as of the beginning of the measurement period, which was 6.31 years and 6.37 years as of June 30, 2015 and 2014, respectively. The deferred inflows relates to the difference between expected and actual investment earnings and is being amortized over a closed 5-year period as of the beginning of each measurement period. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

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Year ended June 30:

2016	\$ (277,743)
2017	(277,743)
2018	(277,743)
2019	42,984
2020	(66,475)
2021	(22,876)
	<u>\$ (879,596)</u>

Actuarial Assumptions-The total pension liability was determined by an actuarial valuation as of July 1, 2015, using the following actuarial assumptions, applied to all prior periods included in the measurement:

Inflation:	3%
Salary increases:	4.5% to 17% average, including inflation
Investment rate of return:	7.5% net of pension plan investment expense
Mortality rates:	Active employees (pre-retirement) RP-2000 Blue Collar Healthy Combined table with age set back 4 years with fully generational improvement using Scale AA. Active employees (post-retirement) and nondisabled pensioners: RP-2000 Blue Collar Healthy Combined table with fully generational improvement using scale AA. Disabled pensioners: RP-2000 Blue Collar Healthy Combined table with age set forward 4 years with fully generational improvement using Scale AA.

The actuarial assumptions used in the July 1, 2015, valuation were based on the results of an actuarial experience study for the period July 1, 2007 to June 30, 2012.

The long-term expected rate of return on pension plan investments was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015, are summarized in the following table:

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<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed income	20%	5.13%
Domestic equity	37%	8.02%
International equity	20%	9.94%
Real estate	10%	7.47%
Other assets	13%	6.25%

The current allocation policy is that approximately 60% of assets in equity instruments, including public equity, long-short hedge, venture capital, and private equity strategies; approximately 25% of assets in fixed income to include investment grade bonds, high yield and non-dollar denominated bonds, convertible bonds, and low volatility hedge fund strategies; and 15% of assets in real assets to include real estate, commodities, and other strategies.

Discount Rate-The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, determined by State statutes. Projected cash flows also assume the State of Oklahoma will continue contributing 14% of the insurance premium, as established by statute. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate-The following presents the net pension liability of the employer calculated using the discount rate of 7.5%, as well as what the Plan's net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5%) or 1-percentage-point higher (8.5%) than the current rate:

	<u>1% Decrease 6.5%</u>	<u>Current Discount Rate 7.5%</u>	<u>1% Increase 8.5%</u>
Employer's net pension liability	\$11,358,527	\$ 8,747,637	\$ 6,558,774

Pension plan fiduciary net position - Detailed information about the pension plan's fiduciary net position is available in the separately issued financial report of the OFPRS; which can be located at www.ok.gov/OFPRS.

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

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

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

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

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

Employees who have reached the maximum accrual rate may choose to freeze their accrued benefit and have future contributions made to a defined contribution account. See additional information at the section “City of Duncan Employee Retirement Plan on Defined Contribution Plan”.

Effective March 12, 2015 the plan is closed to new participants. Employees hired after that date participate in a defined contribution plan administered by the Oklahoma Municipal Retirement Fund. Effective for 2015 and later years, pay for purposes of the retirement plan is limited to no more than the annual rate of pay as of March 1, 2015.

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

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

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

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Plan Membership -

Non-vested active members	70
Partially vested active member	29
Vested active members	<u>14</u>
Total active members	113
Inactive members/beneficiaries receiving benefits	95
Inactive plan members not yet receiving benefits	<u>4</u>
Total Members	212

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

Measurement Dates - The net pension liability, changes in net pension liability and other information presented below as it pertains to the Plan is as of the actuarial valuation date of December 31, 2015, the end of the Plan’s fiscal year. GASB Statement No. 67 requires that the Plan use a measurement date as of the end of the Plan’s fiscal year. The net pension liability, changes in net pension liability and other information presented below as it pertains to the amounts recorded in the City’s government-wide and proprietary funds financial statements is as of the December 31, 2014 actuarial valuation date. As permitted by GASB Statement No. 68, the City elected to adopt the beginning of the fiscal year for purposes measuring the net pension liability, deferred inflows and outflows of resources and pension expense recorded in the government-wide and proprietary funds financial statements.

Changes in Net Pension Liability – As stated above, the total pension liability recognized by the City was determined based on an actuarial valuation performed as of December 31, 2014, which is the measurement date elected by the City for purposes of recognizing the net pension liability, deferred inflows and outflows of resources related to pensions, and pension expense. There were no changes in actuarial assumptions that affected the measurement of the total pension liability. As discussed above, effective in 2015, the plan is closed to new participants and salaries for purposes of computing retirement plan benefits was frozen to the annual rate of pay as of March 1, 2015.

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City of Net Pension Liability - December 31, 2014 Measurement Date

	Total Pension Liability	Plan Net Position	Net Pension Liability
Balances at beginning of year, January 1, 2014	\$ 28,321,561	\$ 6,067,606	\$ 22,253,955
Charges for year:			
Service cost	819,768	-	819,768
Interest expense	1,507,327	-	1,507,327
Contributions - employer	-	1,436,483	(1,436,483)
Contributions - employee	-	368,322	(368,322)
Net investment income	-	342,804	(342,804)
Benefit payments, including refunds of member contributions	(1,585,149)	(1,585,149)	-
Plan administrative expenses	-	(54,172)	54,172
Net changes	\$ 741,946	\$ 508,288	\$ 233,658
Balances at end of year, December 31, 2014	\$ 29,063,507	\$ 6,575,894	\$ 22,487,613

City of Net Pension Liability - December 31, 2015 Measurement Date

	Total Pension Liability	Plan Net Position	Net Pension Liability
Balances at beginning of year, January 1, 2015	\$ 29,063,507	\$ 6,575,894	\$ 22,487,613
Charges for year:			
Service cost	553,112	-	553,112
Interest expense	1,573,160	-	1,573,160
Contributions - employer	-	1,880,420	(1,880,420)
Contributions - employee	-	334,780	(334,780)
Net investment income (loss)	-	(76,239)	76,239
Changes of benefit terms	(1,104,023)	-	(1,104,023)
Difference between actual and expected experience	(483,444)	-	(483,444)
Changes in assumptions	-	-	-
Benefit payments, including refunds of member contributions	(1,585,679)	(1,585,679)	-
Plan administrative expenses	-	(29,434)	29,434
Net changes	\$ (1,046,874)	\$ 523,848	\$ (1,570,722)
Balances at end of year, December 31, 2015	\$ 28,016,633	\$ 7,099,742	\$ 20,916,891

The City reported \$311,366 in pension expense for the year ended December 31, 2015. At December 31, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ 69,157	-
City contributions subsequent to the measurement date	1,918,481	-
Total	\$ 1,987,638	\$ -

The \$1,918,481 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension

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liability in the year ended December 31, 2016. Other amounts reported as deferred outflows of resources or deferred inflows of resources related to pensions will be recognized in pension expense over a closed five-year period as follows:

Year ended December 31:		
2016	\$	17,289
2017		17,289
2018		17,289
2019		17,290
	\$	<u>69,157</u>

Actuarial Assumptions – Unless stated otherwise, the assumptions described below are as of the actuarial valuation date of December 31, 2014 and December 31, 2015:

Investment rate of return -	7%
Projected salary increases -	4% (0% after 2015)
Inflation -	3%
Mortality -	RP 2000 Fully Projected

Actuarial Method - GASB 67 requires the use of the Entry Age Normal Cost Method. Under the *Entry Age Normal Cost Method* the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the earnings (or service) of the individual between entry age and assumed exit ages. The portion of this actuarial present value allocated to a valuation year is called the normal cost. The portion of this actuarial present value not provided for at a valuation date by the actuarial present value of future normal costs is called the actuarial accrued liability. It is equal to the theoretical asset accumulation had the plan always been in effect, all actuarial assumptions were perfectly met and the employer contributed the normal cost each year.

Rate of Return on Investments – The long-term expected rate of return on pension plan investments (7%) was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentages and by adding expected inflation (3.0%) and deducting investment-related expenses. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of December 31, 2015 are summarized in the following table:

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Asset Class	Target Allcoation	Real Return
Large cap stocks S&P 500	30%	5.10%
Mid/small cap stocks Russell 2000	20%	5.90%
International stocks MSCI EAFE	4%	4.80%
Bonds Barclays US	40%	2.50%
Multi-sector bonds	4%	3.50%
Real Estate	0%	4.80%
Cash equivalents 3 month Treasury	2%	0.00%

Money-Weighted Rate of Return on Investments – For the year ended December 31, 2015, the annual money-weighted rate of return on investments, net of investment expense, was -1.64%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate - The discount rate used to measure the total pension liability was a blended rate of 5.5 percent. This was based on the expected rate of return of pension plan investments of 7.0% and the municipal bond rate of 3.56%. The discount rate includes no allowance for administrative expenses, which are expensed separately. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be 8 percent of pay and that City contributions will be 10 percent of pay with additional supplementary contributions from the City under the established funding policy. By making additional contributions of \$1.2 million per year for twenty years there is a depletion date in year 24 within the 40 year projection period. The actuary assumes these supplemental contributions. Supplemental contributions of about \$1.2 million have been made in recent years.

Sensitivity of the net pension liability to changes in the discount rate – The following presents the net pension liability of the Plan, calculated using the discount rate of 5.50 percent, as well as what the Plan's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.5 percent) or 1-percentage-point higher (6.5 percent) than the current rate:

	1% Decrease - 4.5%	Current Discount Rate - 5.5%	1% Increase - 6.5%
City Net Pension Liability - December 31, 2014 Measurement Date	\$ 25,936,347	\$ 22,487,613	\$ 19,748,744
Plan Net Pension Liability - December 31, 2015 Measurement Date	\$ 24,217,429	\$ 20,916,891	\$ 18,229,943

The components of the net pension liability of the City and the Plan at December 31, 2015, were as follows:

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	City - Primary Government Financial Statements	Pension Plan
Total Pension Liability	\$ 29,063,507	\$ 28,016,633
Plan Fiduciary Net Position	6,575,894	7,099,742
Net Pension Liability	<u>\$ 22,487,613</u>	<u>\$ 20,916,891</u>
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	<u>22.63%</u>	<u>25.34%</u>

Pension Fund Contingency - For the single-employer pension plan to remain solvent, the actuary has determined that the City must continue to make the annual contribution amount required by ordinance of 8% of covered wages for employees and 10% for employer. In addition, the employer must make additional contributions of \$1.2 million in year two (FY 2016) and contributions for the next eighteen year of approximately \$1.2 million per year.

City of Duncan Employee Retirement Plan - Defined Contribution Plan

Plan Description – As part of the City’s retirement system, 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 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. Separate audited financial statements are not available.

The New Plan is administered by a five member Board of city employees. The City Council must approve changes to the plan. Benefits depend solely on amounts contributed to the Plan plus investment earnings. At December 31, 2015, there were seven (7) participants in the New Plan. The assets of the New Plan are held in trust for the benefit of the participants and are included in the Fiduciary Funds financial statements. At December 31, 2015, total assets held in trust were \$681,744.

Funding Policy – Benefits depend solely on amounts contributed to the Plan plus investment earnings. Employees are eligible to participate upon thirty years of employment, and must make a mandatory minimum pre-tax contribution of 8%. By City ordinance, the City, as the employer, is required to make contributions to the Plan, based on an amount equal to the city contributions that would have been made under the Defined Benefit Plan. City contributions for fiscal year 2015 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, 2015, by employees and employer were \$53,812 and \$63,988, respectively, on a covered payroll of \$771,133.

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City of Duncan Defined Contribution Plan Administered by OkMRF (the Plan)

Plan Description – Effective March 2015, the City began providing a defined contribution plan and trust known as the City of Duncan Plan “the Plan” in the form of The Oklahoma Municipal Retirement Master Defined Contribution Plan (OkMRF). OkMRF operations are supervised by a nine-member Board of Trustees elected by the participating municipalities. The defined contribution plan is available to all full-time employees hired after March 12, 2015 except those participating in state police or fire programs. At December 31, 2015, there were twenty (20) participants in the Plan.

Funding Policy – Benefits depend solely on amounts contributed to the Plan plus investment earnings. Employees must make a mandatory minimum pre-tax contribution of 5%. By City ordinance, the City, as employer, is required to make contributions to the plan based upon employee contributions under the pick-up option, at a current rate of 5% of covered payroll. The City’s contributions for each employee (and interest allocated to the employee’s account) are vested at 50% after 5 years of service, 10% thereafter until fully vested after 10 years of service. The authority to establish and amend the provisions of the Plan rests with the City Council. Contributions to the Plan for the year ended December 31, 2015, for employees and employer were \$13,120 and \$13,122, respectively, on a covered payroll of \$262,476. Employer and employee contributions are held in trust by OkMRF.

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, 2015, were \$46,467 and \$37,651, respectively. Separate audited financial statements are not available.

D. DAEDF Operating Lease

In 2003, DAEDF leased an industrial building to a private company for twelve years with monthly rental payments of \$14,215. On November 1, 2009 a major expansion of the facilities was completed and the original lease was replaced with a new agreement providing for monthly rental payments of \$60,459 for an initial term of fifteen years and option for another five years. Total lease payments received on this property during 2015 were \$725,508; future minimum lease payments are \$6,348,654.

The Foundation receives other rental income from various tenants in exchange for office, manufacturing and warehouse space in connection with its business incubator program, Duncan Center for Business Development. Rents received in the incubator and industrial lease program were \$191,205 during 2015.

Total lease revenues from all properties for 2015 was \$916,713. Real estate lease revenue presented in the statement of activities is reflected net of direct expense in the amount of \$760,882, for a net return of \$155,831. Cost and carrying amount of property held for leasing as of December 31, 2015:

Building and land (cost)	\$11,538,891
Accumulated depreciation	<u>(2,991,969)</u>
Net book value	<u>\$ 8,546,922</u>

Future minimum lease payments on lease agreements in existence at December 31, 2015 are approximately \$970,124 for 2016, \$807,408 for 2017, \$763,308 for 2018, and \$725,508 annually through 2024.

E. Subsequent Event –

The city began purchasing commercial insurance for the employee's health insurance benefit in January 2016. They will continue to pay self-insurance claims incurred prior to December 31, 2015.

In July 2016, the DPUA amended the OWRB Series 2009 loan agreement in the aggregate amount of \$2,992,751 by restructuring the note to reduce the interest rate from 3.630% to 2.76%, inclusive of an administrative fee of 0.5%.

In July 2016, the DPUA amended the OWRB Series 2009A loan agreement in the aggregate amount of \$7,181,401 by restructuring the note to reduce the interest rate from 3.290% to 2.403%, inclusive of an administrative fee of 0.5%.

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 – Community development - \$2,292

State law prohibits deficit fund balance in governmental funds. The General Fund had deficit fund balance at December 31, 2015, of \$3,967,707.

G. New Accounting Pronouncements –

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

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

nonemployer contributing entities for pensions that are not within the scope of Statement 68 are effective for financial statements for fiscal years beginning after June 15, 2016, and the requirements of this Statement that address financial reporting for assets accumulated for purposes of providing those pensions are effective for fiscal years beginning after June 15, 2015. The requirements of this Statement for pension plans that are within the scope of Statement 67 or for pensions that are within the scope of Statement 68 are effective for fiscal years beginning after June 15, 2015.

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

Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* – GASB No., 75 was issued in June 2015, and addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For a defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed. This Statement is effective for fiscal years beginning after June 15, 2017. This Statement will require the City to record the entire amount of its unfunded OPEB obligation in its financial statements.

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

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

GASB Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans* – GASB 78 was issued in December 2015, and amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers, and (3) has no predominant state or local governmental employer.

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015. The City has not yet determined the impact that implementation of GASB 78 will have on its net position.

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

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

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

GASB Statement No. 83, *Certain Asset Retirement Obligations*, issued December 2016, will be effective for the City beginning with its fiscal year ending June 30, 2019. Under Statement No. 83, a government that has legal obligations to perform future asset retirement activities related to its tangible capital assets is required to recognize a liability and a corresponding deferred outflow of resources. The Statement identifies the circumstances that trigger the recognition of these transactions. The Statement also requires the measurement of an asset retirement obligation to be based on the best estimate of the current value of outlays expected to be incurred while the deferred outflow of resources associated with the asset retirement obligation will be measured at the amount of the corresponding liability upon initial measurement and generally recognized as an expense during the reporting periods that the asset provides service. The Statement requires disclosures including a general description of the asset retirement obligation and associated tangible capital assets; the source of the obligation to retire the assets; the methods and assumptions used to measure the liability; and other relevant information.

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GASB Statement 84, *Fiduciary Activities*, issued January 2017, will be effective for the City for the City beginning with its fiscal year ending June 30, 2019. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The City has not yet determined the impact that implementation of GASB 80 will have on its net position.

REQUIRED SUPPLEMENTARY INFORMATION

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Budgetary Comparison Schedules – General Fund - (Budgetary Basis) – Year Ended December 31, 2015

	<u>Budgeted Amounts</u>		<u>Actual Amounts,</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Budgetary Basis</u>	<u>Final Budget</u>
REVENUES				
Taxes	\$ 9,948,505	\$ 9,948,505	\$ 10,308,280	\$ 359,775
Licenses and permits	82,570	82,570	67,502	(15,068)
Intergovernmental	100,000	100,000	301,985	201,985
Charges for services	81,000	81,000	222,088	141,088
Fees and fines	833,420	833,420	850,423	17,003
Investment earnings	20	20	2,620	2,600
Miscellaneous	198,490	198,490	113,840	(84,650)
Total revenues	<u>11,244,005</u>	<u>11,244,005</u>	<u>11,866,738</u>	<u>622,733</u>
EXPENDITURES				
Departmental:				
General government	3,322,533	3,457,093	3,425,557	31,536
Community development	843,624	835,489	837,781	(2,292)
Public safety	8,708,066	8,662,766	8,549,872	112,894
Highways and streets	974,342	949,587	883,186	66,401
Health	405,413	387,413	375,178	12,235
Culture and recreation	1,348,863	1,296,993	1,273,199	23,794
Total expenditures	<u>15,602,841</u>	<u>15,589,341</u>	<u>15,344,773</u>	<u>244,568</u>
Excess (deficiency) of revenues over expenditures	<u>(4,358,836)</u>	<u>(4,345,336)</u>	<u>(3,478,035)</u>	<u>867,301</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	4,407,911	4,707,911	6,954,555	2,246,644
Transfers out	<u>(49,075)</u>	<u>(1,369,075)</u>	<u>(2,275,719)</u>	<u>(906,644)</u>
Total other financing sources and uses	<u>4,358,836</u>	<u>3,338,836</u>	<u>4,678,836</u>	<u>1,340,000</u>
Net change in fund balances	-	(1,006,500)	1,200,801	2,207,301
Fund balances - beginning	-	-	(4,572,930)	(4,572,930)
Fund balances - ending	<u>\$ -</u>	<u>\$ (1,006,500)</u>	<u>\$ (3,372,129)</u>	<u>\$ (2,365,629)</u>

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Budgetary Comparison Schedules – DEDTA Major Special Revenue Fund - (Budgetary Basis) – Year Ended December 31, 2015

	Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 2,000,000	\$ 2,000,000	\$ 2,042,404	\$ 42,404
Investment earnings	30,000	30,000	(35,006)	(65,006)
Miscellaneous	-	-	14,148	14,148
Total revenues	<u>2,030,000</u>	<u>2,030,000</u>	<u>2,021,546</u>	<u>(8,454)</u>
EXPENDITURES				
Departmental:				
Economic development	<u>2,956,851</u>	<u>8,989,218</u>	<u>5,988,277</u>	<u>3,000,941</u>
Total expenditures	<u>2,956,851</u>	<u>8,989,218</u>	<u>5,988,277</u>	<u>3,000,941</u>
Excess (deficiency) of revenues over expenditures	<u>(926,851)</u>	<u>(6,959,218)</u>	<u>(3,966,731)</u>	<u>2,992,487</u>
OTHER FINANCING SOURCES (USES)				
Transfers in - component unit	<u>926,851</u>	<u>926,851</u>	<u>-</u>	<u>(926,851)</u>
Total other financing sources and uses	<u>926,851</u>	<u>926,851</u>	<u>-</u>	<u>(926,851)</u>
Net change in fund balances	-	(6,032,367)	(3,966,731)	2,065,636
Fund balances - beginning	<u>6,033,000</u>	<u>6,033,000</u>	<u>11,492,350</u>	<u>5,459,350</u>
Fund balances - ending	<u>\$ 6,033,000</u>	<u>\$ 633</u>	<u>\$ 7,525,619</u>	<u>\$ 7,524,986</u>

Footnotes to Budgetary Comparison Schedule:

Budget Law

The City prepares its annual operating budget under the provisions of the Oklahoma Municipal Budget Act of 1979 (the "Budget Act"). In accordance with those provisions, the following process is used to adopt the annual budget:

- a. Prior to December 1, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted at regular Council meetings to obtain taxpayer comments. Public hearings are held no later than 15 days prior to the beginning of the budget year.
- c. Subsequent to the public hearings but no later than seven days prior to January 1, the budget is legally enacted through the passage of a resolution by the City Council.
- d. Subsequent to City Council enactment, the adopted budget is filed with the office of the State Auditor and Inspector.

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

General Fund – Community development - \$2,292

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

In accordance with Title 60 of the Oklahoma State Statutes, the Duncan Public Utilities Authority, the Duncan Economic Development Trust Authority, the Duncan Industrial Authority and the Duncan Hospital Authority are required to prepare an annual budget and submit a copy to the city as beneficiary. However, there are no further requirements such as form of budget, approval of the budget or definition of a legal spending limit.

Budgetary Accounting

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

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

	General Fund
Total revenue - budgetary basis	\$ 18,821,293
Total expenses - budgetary basis	<u>(17,620,492)</u>
Change in fund balance - budgetary basis	1,200,801
Add change in fund balance of sub-accounts combined for reporting purposes:	
Police Uniform Allowance	(10,493)
Fire Uniform Allowance	(102)
Hunting and Fishing	(285)
Retiree Insurance	<u>(260,775)</u>
Change in fund balance - GAAP basis	<u><u>\$ 929,146</u></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 re-appropriated 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 CHANGES IN THE CITY'S NET PENSION LIABILITY AND RELATED RATIOS

	Year Ended December 31, 2014	Year Ended December 31, 2015
Total pension liability		
Service cost	\$ 819,768	\$ 553,112
Interest	1,537,164	1,572,614
Changes of benefit terms	-	(1,104,023)
Difference between expected and actual experience	-	(483,444)
Changes of assumptions	-	-
Benefit payments, including refunds of member contributions	(1,576,141)	(1,585,670)
Net change in total pension liability	\$ 780,791	\$ (1,047,411)
Total pension liability - beginning	28,321,561	29,102,352
Total pension liability - ending (a)	\$ 29,102,352	\$ 28,054,941
 Plan fiduciary net position		
Contributions - employer	\$ 1,442,614	\$ 1,918,481
Contributions - members	360,374	334,780
Net investment income	346,093	(113,974)
Benefit payments, including refunds of member contributions	(1,576,141)	(1,585,670)
Administrative expense	(25,806)	(30,305)
Other	-	-
Net change in plan fiduciary net position	547,134	523,312
 Plan fiduciary net position - beginning	6,067,606	6,614,740
Plan fiduciary net position - ending (b)	\$ 6,614,740	\$ 7,138,052
 City's net pension liability - ending (a-b)	\$ 22,487,612	\$ 20,916,891
 Plan fiduciary net position as a percentage of the total pension liability	22.73%	25.44%
 Covered-employee payroll	\$ 4,261,764	\$ 4,046,479
City's net pension liability as a percentage of covered employee payroll	527.66%	516.92%

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

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

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Actuarially determined contribution	\$ 1,326,214	\$ 1,477,104	\$ 1,580,051	\$ 1,555,638	\$ 1,384,412	\$ 1,414,968	\$ 1,419,508	\$ 1,430,829	\$ 1,274,430	\$ 1,173,222
Contributions in relation to the actuarially determined contribution	1,918,481	1,442,614	1,446,929	1,235,749	940,566	830,164	790,564	956,434	1,106,170	932,649
Contribution deficiency (excess)	\$ (592,267)	\$ 34,490	\$ 133,122	\$ 319,889	\$ 443,846	\$ 584,804	\$ 628,944	\$ 474,395	\$ 168,260	\$ 240,573
Covered-employee payroll	\$ 4,046,479	\$ 4,046,479	\$ 4,261,764	\$ 4,440,377	\$ 4,235,881	\$ 4,384,280	\$ 4,254,695	\$ 4,209,380	\$ 3,789,364	\$ 3,434,880
Contributions as a percentage of covered-employee payroll	47.4%	35.7%	34.0%	27.8%	22.2%	18.9%	18.6%	22.7%	29.2%	27.2%

Notes to Schedule:

Valuation Date

Actuarially determined contribution rates are calculated as of January 1, one year prior to the end of the fiscal year in which

December 31, 2015

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age Normal - percentage of pay basis
Amortization method	Level dollar
Remaining amortization period	40 years rolling (funding)
Asset valuation method	Market Value
Inflation	3.0%
Salary increases	4.0%
Investment rate of return	7.0% (before admin expenses)
Retirement age	Oklahoma municipal experience

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SCHEDULE OF INVESTMENT RETURNS

Last Ten Fiscal Years

Year Ended	Annual money-weighted rate of return, net of investment expense
2015	-1.64%
2014	5.61%
2013	16.94%
2012	9.87%
2011	-3.51%
2010	10.32%
2009	24.75%
2008	-19.54%
2007	3.24%

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Schedules of Required Supplementary Information
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
OKLAHOMA POLICE PENSION & RETIREMENT SYSTEM
Last 10 Fiscal Years*

	<u>2015</u>
City's proportion of the net pension liability	0.8122%
City's proportionate share of the net pension liability	\$ 33,116
City's covered-employee payroll	\$ 2,220,820
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	1.49%
Plan fiduciary net position as a percentage of the total pension liability	99.82%

*The amounts present for each fiscal year were determined as of 12/31

Notes to Schedule:

Only the current fiscal year is presented because 10-year data is not yet available.

SCHEDULE OF CITY CONTRIBUTIONS
OKLAHOMA POLICE PENSION & RETIREMENT SYSTEM
Last 10 Fiscal Years*

	<u>2015</u>
Statutorially required contribution	\$ 288,707
Contributions in relation to the statutorially required contribution	<u>288,707</u>
Contribution deficiency (excess)	<u>\$ -</u>
City's covered-employee payroll	\$ 2,220,820
Contributions as a percentage of covered-employee payroll	13.00%

Notes to Schedule:

Only the current fiscal year is presented because 10-year data is not yet available.

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Schedules of Required Supplementary Information

SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

OKLAHOMA FIREFIGHTERS PENSION & RETIREMENT SYSTEM

Last 10 Fiscal Years*

	<u>2015</u>
City's proportion of the net pension liability	0.8242%
City's proportionate share of the net pension liability	\$ 8,747,637
City's covered-employee payroll	\$ 2,282,721
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	383%
Plan fiduciary net position as a percentage of the total pension liability	68.27%

*The amounts present for each fiscal year were determined as of 12/31

Notes to Schedule:

Only the current fiscal year is presented because 10-year data is not yet available.

SCHEDULE OF CITY CONTRIBUTIONS

OKLAHOMA FIREFIGHTERS PENSION & RETIREMENT SYSTEM

Last 10 Fiscal Years*

	<u>2015</u>
Statutorially required contribution	\$ 319,270
Contributions in relation to the statutorially required contribution	<u>319,270</u>
Contribution deficiency (excess)	<u><u>\$ -</u></u>
City's covered-employee payroll	\$ 2,282,721
Contributions as a percentage of covered-employee payroll	13.99%

Notes to Schedule:

Only the current fiscal year is presented because 10-year data is not yet available.

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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:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
1/1/2011	-	\$ 17,811,723	\$ 17,811,723	-	\$ 8,448,341	211%
1/1/2013	-	\$ 11,491,909	\$ 11,491,909	-	\$ 9,121,930	126%
1/1/2015	-	\$ 11,142,335	\$ 11,142,335	-	\$ 9,212,000	121%

Notes to Schedule:

1. The following changes in actuarial assumptions occurred between the January 1, 2013 and the January 1, 2015 actuarial valuations:
 - a. The January 1, 2013 valuation assigned no pay increases, whereas the January 1, 2015, valuation assumed pay increases of 3%.
 - b. The discount rate decreased from 4.0% in the 2013 valuation to 3.6% in the 2015 valuation.
2. The following changes in actuarial assumptions occurred between the January 1, 2011 and January 1, 2013 actuarial valuations:
 - a. The total monthly insurance cost, which includes the retiree contribution, the explicit subsidy and the implicit subsidy, decreased by approximately 19%.
 - b. The number of participants assumed to be married decreased from 100% to 90%.

SUPPLEMENTARY INFORMATION

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Combining Balance Sheet – General Fund Accounts – December 31, 2015

	<u>General Fund</u>	<u>Police Uniform Allowance</u>	<u>Fire Uniform Allowance</u>	<u>Hunting and Fishing</u>	<u>Retiree Insurance</u>	<u>Total General Fund</u>
ASSETS						
Cash and cash equivalents	\$ 24,485	\$ -	\$ -	\$ 25,208	\$ -	\$ 49,693
Receivable from other governments	1,060,746	-	-	-	-	1,060,746
Due from other funds	277,823	-	-	-	-	277,823
Taxes receivable, net	143,702	-	-	-	-	143,702
Court fines receivable, net	205,714	-	-	-	-	205,714
Other receivables	15,083	-	-	-	-	15,083
Total assets	<u>1,727,553</u>	<u>-</u>	<u>-</u>	<u>25,208</u>	<u>-</u>	<u>1,752,761</u>
LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES						
Liabilities:						
Accounts payable	84,239	-	307	345	-	84,891
Accrued payroll payable	492,859	-	-	-	-	492,859
Due to other funds	1,230	-	-	-	535,607	536,837
Advance to other funds	4,450,145	10,493	73,434	-	-	4,534,072
Due to bondholders	-	-	-	600	-	600
Payable to other governments	4,224	-	-	-	-	4,224
Total liabilities	<u>5,032,697</u>	<u>10,493</u>	<u>73,741</u>	<u>945</u>	<u>535,607</u>	<u>5,653,483</u>
Deferred inflows of resources:						
Deferred revenue	<u>66,985</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>66,985</u>
Fund balances:						
Unassigned (deficit)	<u>(3,372,129)</u>	<u>(10,493)</u>	<u>(73,741)</u>	<u>24,263</u>	<u>(535,607)</u>	<u>(3,967,707)</u>
Total fund balances	<u>(3,372,129)</u>	<u>(10,493)</u>	<u>(73,741)</u>	<u>24,263</u>	<u>(535,607)</u>	<u>(3,967,707)</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 1,727,553</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 25,208</u>	<u>\$ -</u>	<u>\$ 1,752,761</u>

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**Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances – General Fund Accounts
– December 31, 2015**

	General Fund	Police Uniform Allowance	Fire Uniform Allowance	Hunting and Fishing	Retiree Insurance	Total General Fund
REVENUES						
Taxes	\$ 10,308,280	\$ -	\$ -	\$ -	\$ -	\$ 10,308,280
Intergovernmental	1,373,634	-	-	-	-	1,373,634
Licenses and permits	67,502	-	-	13,674	-	81,176
Charges for services	222,088	-	-	-	-	222,088
Fees and fines	850,423	-	-	-	143,830	994,253
Investment earnings	2,620	-	-	-	-	2,620
Miscellaneous	113,840	-	-	1,111	-	114,951
Total revenues	<u>12,938,387</u>	<u>-</u>	<u>-</u>	<u>14,785</u>	<u>143,830</u>	<u>13,097,002</u>
EXPENDITURES						
Current:						
General government	3,425,557	-	-	-	404,605	3,830,162
Community development	837,781	-	-	-	-	837,781
Public safety	9,621,521	10,493	29,177	-	-	9,661,191
Highways and streets	883,186	-	-	-	-	883,186
Health	375,178	-	-	-	-	375,178
Culture and recreation	1,273,199	-	-	15,070	-	1,288,269
Total expenditures	<u>16,416,422</u>	<u>10,493</u>	<u>29,177</u>	<u>15,070</u>	<u>404,605</u>	<u>16,875,767</u>
Excess (deficiency) of revenues over expenditures	<u>(3,478,035)</u>	<u>(10,493)</u>	<u>(29,177)</u>	<u>(285)</u>	<u>(260,775)</u>	<u>(3,778,765)</u>
OTHER FINANCING SOURCES (USES)						
Transfers in - interaccount	-	-	29,075	-	-	29,075
Transfers out - interaccount	(29,075)	-	-	-	-	(29,075)
Transfers in	6,954,555	-	-	-	-	6,954,555
Transfers out	(2,246,644)	-	-	-	-	(2,246,644)
Total other financing sources and uses	<u>4,678,836</u>	<u>-</u>	<u>29,075</u>	<u>-</u>	<u>-</u>	<u>4,707,911</u>
Net change in fund balances	1,200,801	(10,493)	(102)	(285)	(260,775)	929,146
Fund balances - beginning	(4,572,930)	-	(73,639)	24,548	(274,832)	(4,896,853)
Fund balances - ending	<u>\$ (3,372,129)</u>	<u>\$ (10,493)</u>	<u>\$ (73,741)</u>	<u>\$ 24,263</u>	<u>\$ (535,607)</u>	<u>\$ (3,967,707)</u>

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Combining Balance Sheet – Nonmajor Governmental Funds – December 31, 2015

	Street and Alley Fund	Cemetery Care	Library Gifts and Grants	CDBG	E911 Dispatch	DPUA Debt Service Fund
ASSETS						
Cash and cash equivalents	\$ 158,793	\$ 177,990	\$ 14,273	\$ 340,293	\$ 562,180	\$ 110,422
Receivable from other governments	89,288	-	-	-	31,815	-
Due from other funds	-	-	-	-	1,080	-
Other receivables	-	563	-	-	-	-
Total assets	<u>248,081</u>	<u>178,553</u>	<u>14,273</u>	<u>340,293</u>	<u>595,075</u>	<u>110,422</u>
LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES						
Liabilities:						
Accounts payable and accrued liabilities	10,727	-	616	-	696	-
Due to other funds	-	-	4,004	-	428,207	-
Total liabilities	<u>10,727</u>	<u>-</u>	<u>4,620</u>	<u>-</u>	<u>428,903</u>	<u>-</u>
Deferred inflows of resources:						
Unavailable revenue	<u>63,662</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances:						
Restricted	173,692	178,553	-	340,293	166,172	110,422
Unassigned (deficit)	-	-	9,653	-	-	-
Total fund balances	<u>173,692</u>	<u>178,553</u>	<u>9,653</u>	<u>340,293</u>	<u>166,172</u>	<u>110,422</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 248,081</u>	<u>\$ 178,553</u>	<u>\$ 14,273</u>	<u>\$ 340,293</u>	<u>\$ 595,075</u>	<u>\$ 110,422</u>

(continued)

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Combining Balance Sheet – Nonmajor Governmental Funds – December 31, 2015, continued

	Police Grants and Seizures	First Responder Program	DPUA Sinking Fund	Ad Valorem Sinking	Total Other Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 155,050	\$ 10,631	\$ (24,850)	\$ 24,215	\$ 1,528,997
Receivable from other governments	-	-	-	19	121,122
Due from other funds	-	-	-	-	1,080
Other receivables	-	-	-	-	563
Total assets	<u>155,050</u>	<u>10,631</u>	<u>(24,850)</u>	<u>24,234</u>	<u>1,651,762</u>
LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued liabilities	-	-	-	-	12,039
Due to other funds	-	-	-	-	432,211
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>444,250</u>
Deferred inflows of resources:					
Unavailable revenue	-	-	-	-	63,662
Fund balances:					
Restricted	155,050	10,631	-	-	1,134,813
Unassigned (deficit)	-	-	(24,850)	24,234	9,037
Total fund balances	<u>155,050</u>	<u>10,631</u>	<u>(24,850)</u>	<u>24,234</u>	<u>1,143,850</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 155,050</u>	<u>\$ 10,631</u>	<u>\$ (24,850)</u>	<u>\$ 24,234</u>	<u>\$ 1,651,762</u>

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Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds – December 31, 2015

	Street and Alley Fund	Cemetery Care	Library Gifts and Grants	CDBG	E911 Dispatch	DPUA Debt Service Fund
REVENUES						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 325,185	\$ -
Intergovernmental	215,385	-	52,675	-	-	-
Charges for services	-	10,382	-	-	-	-
Investment earnings	-	-	-	-	-	41
Miscellaneous	-	2,961	-	-	-	-
Total revenues	<u>215,385</u>	<u>13,343</u>	<u>52,675</u>	<u>-</u>	<u>325,185</u>	<u>41</u>
EXPENDITURES						
Current:						
Public safety	-	-	-	-	27,306	-
Highways and streets	250,672	-	-	-	-	-
Culture and recreation	-	-	32,516	-	-	-
Debt Service:						
Principal	-	-	-	-	33,206	1,200,000
Interest and other charges	-	-	-	-	2,794	120,554
Capital outlay	-	-	-	-	32,119	-
Total expenditures	<u>250,672</u>	<u>-</u>	<u>32,516</u>	<u>-</u>	<u>95,425</u>	<u>1,320,554</u>
Excess (deficiency) of revenues over expenditures	<u>(35,287)</u>	<u>13,343</u>	<u>20,159</u>	<u>-</u>	<u>229,760</u>	<u>(1,320,513)</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	-	-	-	-	-	1,320,675
Transfers out	-	-	-	-	(215,730)	-
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(215,730)</u>	<u>1,320,675</u>
Net change in fund balances	(35,287)	13,343	20,159	-	14,030	162
Fund balances - beginning	208,979	165,210	(10,506)	340,293	152,142	110,260
Fund balances - ending	<u>\$ 173,692</u>	<u>\$ 178,553</u>	<u>\$ 9,653</u>	<u>\$ 340,293</u>	<u>\$ 166,172</u>	<u>\$ 110,422</u>

(continued)

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**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor
Governmental Funds – December 31, 2015, continued**

	Police Grants and Seizures	First Responder Program	DPUA Sinking Fund	Ad Valorem Sinking	Total Other Governmental Funds
REVENUES					
Taxes	\$ -	\$ -	\$ -	\$ 171	\$ 325,356
Intergovernmental	7,340	-	-	-	275,400
Charges for services	-	-	-	-	10,382
Investment earnings	-	-	-	-	41
Miscellaneous	35,180	594	-	-	38,735
Total revenues	<u>42,520</u>	<u>594</u>	<u>-</u>	<u>171</u>	<u>649,914</u>
EXPENDITURES					
Current:					
Public safety	-	-	-	-	27,306
Streets	-	-	-	-	250,672
Culture and recreation	-	-	-	-	32,516
Debt Service:					
Principal	-	-	-	-	1,233,206
Interest and other charges	-	-	-	1,765	125,113
Capital outlay	28,137	-	-	-	60,256
Total expenditures	<u>28,137</u>	<u>-</u>	<u>-</u>	<u>1,765</u>	<u>1,729,069</u>
Excess (deficiency) of revenues over expenditures	<u>14,383</u>	<u>594</u>	<u>-</u>	<u>(1,594)</u>	<u>(1,079,155)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	-	-	1,320,675
Transfers out	-	-	-	-	(215,730)
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,104,945</u>
Net change in fund balances	14,383	594	-	(1,594)	25,790
Fund balances - beginning	140,667	10,037	(24,850)	25,828	1,118,060
Fund balances - ending	<u>\$ 155,050</u>	<u>\$ 10,631</u>	<u>\$ (24,850)</u>	<u>\$ 24,234</u>	<u>\$ 1,143,850</u>

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Combining Schedule of Net Position – Duncan Public Utilities Authority – December 31, 2015

	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	\$ 121,473	\$ 105,846	\$ 25,816	\$ -	\$ -	\$ -	\$ 47,832	\$ -	\$ 300,967
Investments	-	1,139,689	-	-	-	-	-	-	1,139,689
Restricted:									
Cash and cash equivalents	596,863	-	-	446,517	-	1,497,944	-	-	2,541,324
Due from other funds - interaccount	780,645	30,872	-	1,962	-	-	-	-	813,479
Accounts receivable, net	4,593	720,097	-	308,965	-	297,786	-	-	1,331,441
Receivables from other governments	1,493,829	2,205,682	4,622	-	-	-	-	-	3,704,133
Other receivables	-	1,792	67,094	-	-	-	-	-	68,886
Inventories	18,407	1,398	-	-	21,580	-	-	-	41,985
Total current assets	3,015,810	4,936,153	97,532	757,444	21,580	1,795,730	47,832	-	10,672,081
Non-current assets:									
Advance from other funds	-	4,450,145	-	-	-	-	-	-	4,450,145
Restricted:									
Investments	-	-	-	6,466,791	-	-	-	-	6,466,791
Capital assets:									
Land and construction in progress	457,101	316,852	241,625	-	-	-	-	-	1,015,578
Other capital assets, net of accumulated depreciation	54,559,161	2,195,718	1,839,112	-	-	-	-	-	58,593,991
Total non-current assets	55,016,262	6,962,715	2,080,737	6,466,791	-	-	-	-	70,265,505
Total assets	38,032,072	11,898,868	2,178,269	7,224,235	21,580	1,795,730	47,832	-	81,198,586
DEFERRED OUTFLOW OF RESOURCES									
Deferred amounts related to pension	454,899	408,027	-	-	-	-	-	56,699	919,625
LIABILITIES									
Current liabilities:									
Accounts payable and accrued liabilities	354,503	760,505	1,354	-	-	-	-	9	1,116,371
Salaries payable	61,037	56,594	-	-	-	-	-	9,399	127,030
Accrued interest payable	277,155	-	-	-	-	-	-	-	277,155
Due to other funds	72,354	-	2,680	-	-	-	-	21,413	96,447
Due to other funds - interaccount	408,259	-	-	-	4,593	720,097	-	198,492	1,331,441
Payable to other governments	-	25,948	-	-	-	-	-	-	25,948
Unearned revenue	124,980	-	-	-	-	-	-	-	124,980
Deposits subject to refund	-	-	-	-	-	107,563	-	-	107,563
Compensated absences	16,704	11,569	-	-	-	-	-	809	29,082
Bonds payable	3,057,623	-	-	-	-	-	-	-	3,057,623
Total current liabilities	4,372,615	854,616	4,034	-	4,593	827,660	-	230,122	6,293,640
Non-current liabilities:									
Compensated absences, net of current portion	150,337	104,118	-	-	-	-	-	7,286	261,741
Deposits subject to refund	-	54,218	-	-	-	968,070	-	-	1,022,288
Net OPEB obligation	401,633	392,181	-	-	-	-	-	-	793,814
Net pension liability	51,466,602	4,616,306	-	-	-	-	-	641,475	10,404,383
Notes payable, net of current portion	41,156,384	-	-	-	-	-	-	-	41,156,384
Total non-current liabilities	46,854,956	5,166,823	-	-	-	968,070	-	648,761	53,635,610
Total liabilities	51,227,571	6,021,439	4,034	-	4,593	1,795,730	-	878,883	59,929,250
NET POSITION									
Net investment in capital assets	10,802,255	2,512,570	2,080,737	-	-	-	-	-	15,395,562
Restricted for debt service	319,708	-	-	7,224,235	-	-	-	-	7,543,943
Unrestricted (deficit)	(3,862,563)	3,772,886	93,498	-	16,987	-	47,832	(822,184)	(735,544)
Total net position	7,259,400	6,285,456	2,174,235	7,224,235	16,987	-	47,832	(822,184)	22,183,961

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Combining Schedule of Revenues, Expenses, and Changes in Net Position – Duncan Public Utilities Authority – Year Ended December 31, 2015

	Enterprise Fund Accounts								Total
	DPU/A - Other Utilities	DPU/A - Electric	DPU/A Airport	DPU/A Sinking - Waurika	Redeposit Cash	Meter Deposit	Waterline Improvement	DPU/A Sewer Replacement	
REVENUES									
Water	\$ 5,463,593	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,463,593
Electric	-	18,984,707	-	-	-	-	-	-	18,984,707
Sewer	2,329,480	-	-	-	-	-	-	-	2,329,480
Sanitation	3,603,645	-	-	-	-	-	-	-	3,603,645
Lake	139,627	-	-	-	-	-	-	-	139,627
Airport	-	-	39,436	-	-	-	-	-	39,436
Miscellaneous	214,442	110,419	-	-	51	-	-	128	325,040
Total operating revenues	11,750,787	19,095,126	39,436	-	51	-	-	128	30,885,528
OPERATING EXPENSES									
General government	702,359	-	-	-	-	-	-	-	702,359
Water	5,719,627	-	-	1,421	-	-	-	-	5,721,048
Wastewater	784,981	-	-	-	-	-	-	253,975	1,038,956
Sanitation	3,472,327	-	-	-	-	-	-	-	3,472,327
Electric	-	13,531,072	-	-	-	-	-	-	13,531,072
Lake	393,757	-	-	-	-	-	-	-	393,757
Airport	-	-	36,060	-	-	-	-	-	36,060
Depreciation	3,097,509	320,167	227,144	-	-	-	-	253,975	3,644,820
Total operating expenses	14,170,560	13,851,239	263,204	1,421	-	-	-	253,975	28,540,399
Operating income (loss)	(2,419,773)	5,243,887	(223,768)	(1,421)	51	-	-	(253,847)	2,345,129
NON-OPERATING REVENUES (EXPENSES)									
Interest and investment revenue	117	148,432	-	(80,770)	-	939	-	-	68,718
Miscellaneous revenue	159,425	54,138	-	-	-	-	-	-	213,563
Gain on capital asset disposal	-	3,850	-	-	-	-	-	-	3,850
Operating grants and contributions	-	23,023	-	-	-	-	-	-	23,023
Capital grants and contributions	-	-	84,464	-	-	-	-	-	84,464
Interest expense	(1,144,785)	-	-	-	-	-	-	-	(1,144,785)
Total non-operating revenue (expenses)	(985,243)	229,443	84,464	(80,770)	-	939	-	-	(751,167)
Income (loss) before transfers	(3,405,016)	5,473,330	(139,304)	(82,191)	51	939	-	(253,847)	1,593,962
Capital contributions from governmental activities	201,105	443,743	110,526	-	-	-	-	-	755,374
Transfers in - interaccount	660,722	-	-	-	-	297,786	-	287,832	1,246,340
Transfers out - interaccount	(585,618)	-	-	(660,722)	-	-	-	-	(1,246,340)
Transfers in	3,713,083	102,087	-	-	-	-	-	-	3,815,170
Transfers out	(3,567,319)	(4,492,181)	-	-	-	-	-	-	(8,059,500)
Change in net position	(2,983,043)	1,526,979	(28,778)	(742,913)	51	298,725	-	33,985	(1,894,994)
Total net position - beginning, restated	10,242,443	4,758,477	2,203,013	7,967,148	16,936	(298,725)	47,832	(856,169)	24,080,955
Total net position - ending	\$ 7,259,400	\$ 6,285,456	\$ 2,174,235	\$ 7,224,235	\$ 16,987	\$ -	\$ 47,832	\$ (822,184)	\$ 22,185,961

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Combining Schedule of Cash Flows – Duncan Public Utilities Authority – Year Ended December 31, 2015

	DPUA - Other Utilities	DPUA - Electric	DPUA Airport	DPUA Sewer Wastewater	Enterprise Fund Accounts	Meter Deposit	Waterline Improvement	DPUA Sewer Replacement	Total
					Variances	Redeposit Cash			
CASH FLOWS FROM OPERATING ACTIVITIES									
Receipts from customers	\$ 11,858,801	\$ 19,265,551	\$ 80,478	\$ -	\$ -	\$ 2,392	\$ -	\$ 128	\$ 31,227,350
Payments to suppliers and employees	(11,162,878)	(13,796,772)	(36,398)	(1,421)	-	-	-	(254,677)	(25,352,146)
Receipts of customer meter deposits	-	57,784	-	-	-	-	320,376	-	378,160
Refunds of customer meter deposits	-	(665,799)	-	-	-	-	(347,880)	-	(414,459)
Interfund receipts	853,475	-	-	-	-	-	277,273	-	1,149,012
Interfund payments	(27,643)	(1,032,315)	(18,264)	(77,190)	(2,392)	(297,786)	-	(33,283)	(2,181,281)
Net cash provided by (used in) operating activities	834,147	4,442,609	25,816	(78,611)	-	(48,017)	18,264	(287,832)	4,906,016
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES									
Transfers from other funds - interaccount	660,722	-	-	-	-	-	297,786	-	1,246,340
Transfers to other funds - interaccount	(585,618)	-	-	(660,722)	-	-	-	-	(1,246,340)
Transfers to other funds	1,177	102,087	-	-	-	-	-	-	103,264
Transfers to other funds	(3,567,319)	(4,921,811)	-	-	-	-	-	-	(8,489,130)
Net cash provided by (used in) noncapital financing activities	220,468	(4,390,044)	-	(660,722)	-	297,786	-	287,832	(4,244,330)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES									
Purchases of capital assets	(260)	-	-	-	-	-	-	-	(260)
Proceeds from sale of capital assets	3,080,000	3,850	-	-	-	-	-	-	3,083,850
Principal paid on debt	(2,936,544)	-	-	-	-	-	-	-	(2,936,544)
Interest and fiscal agent fees paid on debt	(1,286,580)	-	-	-	-	-	-	-	(1,286,580)
Net cash provided by (used in) capital and related financing activities	(1,183,384)	3,850	-	-	-	-	-	-	(1,102,500)
CASH FLOWS FROM INVESTING ACTIVITIES									
Sale (Purchase) of investments	-	(137,576)	-	859,593	-	-	-	-	722,017
Interest and dividends	117	14,832	-	(88,720)	-	929	-	-	68,718
Net cash provided by investing activities	117	10,256	-	(78,652)	-	929	-	-	790,733
Net increase in cash and cash equivalents	(51,218)	67,281	25,816	-	-	250,708	18,264	-	350,341
Balances - beginning of year	789,554	38,565	-	407,027	-	1,247,216	29,588	-	2,491,950
Balances - end of year	718,336	105,846	25,816	446,517	-	1,497,944	47,832	-	2,842,291
Reconciliation to Statement of Net Position:									
Cash and cash equivalents	\$ 121,473	\$ 105,846	\$ 25,816	\$ 446,517	\$ -	\$ -	\$ 47,832	\$ -	\$ 300,967
Receivables from customers	89,325	-	-	-	-	-	-	-	89,325
Restricted cash and cash equivalents - current	596,663	-	-	-	-	1,497,944	-	-	2,541,324
Total cash and cash equivalents, end of year	718,336	105,846	25,816	446,517	-	1,497,944	47,832	-	2,842,291
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:									
Operating income (loss)	\$ (2,419,773)	\$ 5,243,887	\$ (223,768)	\$ (1,421)	\$ 51	\$ -	\$ -	\$ (253,847)	\$ 2,345,129
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:									
Depreciation expense	3,097,509	32,017	227,144	-	-	-	-	-	3,444,820
Miscellaneous revenue	159,425	2,033	84,464	-	-	-	-	-	213,563
Grant revenue	-	-	-	-	-	-	-	-	107,487
Change in assets and liabilities:									
Due from other funds	(269,835)	(1,037,315)	-	(77,190)	-	(297,786)	18,264	-	(1,663,862)
Accounts receivable	(538,840)	105,856	(178)	-	-	-	-	-	(433,162)
Due from other governments	2,429	7,408	(43,244)	-	2,341	-	-	-	(36,160)
Inventory	-	-	-	-	-	-	-	-	12,178
Deferred outflows related to pension	(129,554)	-	-	-	-	-	-	-	5,646
Accounts payable	(30,718)	(121,465)	-	-	-	-	-	(14,133)	(205,152)
Accrued payroll payable	(24,206)	(338)	(338)	-	-	-	-	(6)	(215,361)
Deposits subject to refund	(6,828)	(6,828)	-	-	-	-	-	3,587	(14,338)
Due to other funds	408,259	(18,264)	(18,264)	-	(2,392)	(27,500)	-	-	(36,299)
Due to other governments	-	(62,471)	-	-	-	277,273	-	-	611,453
Net OPEB obligations	44,840	4,0014	-	-	-	-	-	-	84,854
Accrued compensated absences	(3,665)	2,629	-	-	-	-	-	-	2,149
Due to other funds	4,415	4,415	-	-	-	-	-	-	8,830
Net cash provided by (used in) operating activities	834,147	4,442,609	25,816	(78,611)	-	(48,017)	18,264	(287,832)	4,906,016
Noncash activities:									
Asset transferred from other funds	\$ 201,105	\$ 443,743	\$ 110,526	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 755,374
	201,105	443,743	110,526	-	-	-	-	-	755,374

CITY OF DUNCAN, OKLAHOMA
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Combining Statement of Net Position – Internal Service Funds – December 31, 2015

	<u>Self Insurance Fund</u>	<u>Employee Insurance</u>	<u>Worker's Comp</u>	<u>Total</u>
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 3,975	\$ 274,832	\$ 83,057	\$ 361,864
Due from other funds	-	493,460	-	493,460
Annuities receivable	-	-	14,784	14,784
Total current assets	<u>3,975</u>	<u>768,292</u>	<u>97,841</u>	<u>870,108</u>
Total assets	<u>3,975</u>	<u>768,292</u>	<u>97,841</u>	<u>870,108</u>
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities	-	78,660	4,555	83,215
Due to other funds	-	-	697,754	697,754
Total current liabilities	<u>-</u>	<u>78,660</u>	<u>702,309</u>	<u>780,969</u>
Non-current liabilities:				
Claims and judgments, net of current portion	-	276,571	887,506	1,164,077
Total non-current liabilities	<u>-</u>	<u>276,571</u>	<u>887,506</u>	<u>1,164,077</u>
Total liabilities	<u>-</u>	<u>355,231</u>	<u>1,589,815</u>	<u>1,945,046</u>
NET POSITION				
Unrestricted (deficit)	3,975	413,061	(1,491,974)	(1,074,938)
Total net position	<u>\$ 3,975</u>	<u>\$ 413,061</u>	<u>\$ (1,491,974)</u>	<u>\$ (1,074,938)</u>

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Combining Statement of Revenues, Expenses, and Changes in Net Position – Internal Service Funds – Year Ended December 31, 2015

	<u>Self Insurance Fund</u>	<u>Employee Insurance</u>	<u>Worker's Comp</u>	<u>Total</u>
REVENUES				
Charges for services	\$ -	\$ 2,456,355	\$ 368,750	\$ 2,825,105
Miscellaneous	18,835	29,740	-	48,575
Total operating revenues	<u>18,835</u>	<u>2,486,095</u>	<u>368,750</u>	<u>2,873,680</u>
OPERATING EXPENSES				
General government	-	92,870	89,138	182,008
Claims expense	2,956	2,455,253	276,331	2,734,540
Total operating expenses	<u>2,956</u>	<u>2,548,123</u>	<u>365,469</u>	<u>2,916,548</u>
Operating income	<u>15,879</u>	<u>(62,028)</u>	<u>3,281</u>	<u>(42,868)</u>
NON-OPERATING REVENUES (EXPENSES)				
Interest and investment revenue	-	-	79	79
Miscellaneous revenue	-	-	13,045	13,045
Total non-operating revenue (expenses)	<u>-</u>	<u>-</u>	<u>13,124</u>	<u>13,124</u>
Change in net position	15,879	(62,028)	16,405	(29,744)
Total net position - beginning	(11,904)	475,089	(1,508,379)	(1,045,194)
Total net position - ending	<u>\$ 3,975</u>	<u>\$ 413,061</u>	<u>\$ (1,491,974)</u>	<u>\$ (1,074,938)</u>

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Combining Statement of Cash Flows – Internal Service Funds – Year Ended December 31, 2015

	Self Insurance Fund	Employee Insurance	Worker's Comp	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 18,835	\$ 2,486,095	\$ 372,974	\$ 2,877,904
Payments to suppliers and employees	-	(81,925)	(86,632)	(168,557)
Claims and judgments paid	(4,042)	(2,311,708)	(464,589)	(2,780,339)
Interfund receipts	-	-	242,956	242,956
Interfund payments	(10,818)	150,512	-	139,694
Net cash provided by operating activities	<u>3,975</u>	<u>242,974</u>	<u>64,709</u>	<u>311,658</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Miscellaneous revenue	-	-	13,045	13,045
Net cash provided by noncapital financing activities	<u>-</u>	<u>-</u>	<u>13,045</u>	<u>13,045</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest and dividends	-	-	79	79
Net cash provided by investing activities	<u>-</u>	<u>-</u>	<u>79</u>	<u>79</u>
Net increase in cash and cash equivalents	3,975	242,974	77,833	324,782
Balances - beginning of year	<u>-</u>	<u>31,858</u>	<u>5,224</u>	<u>37,082</u>
Balances - end of year	<u>\$ 3,975</u>	<u>\$ 274,832</u>	<u>\$ 83,057</u>	<u>\$ 361,864</u>
Reconciliation to Statement of Net Position:				
Cash and cash equivalents	\$ 3,975	\$ 274,832	\$ 83,057	\$ 361,864
Total cash and cash equivalents, end of year	<u>\$ 3,975</u>	<u>\$ 274,832</u>	<u>\$ 83,057</u>	<u>\$ 361,864</u>
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 15,879	\$ (62,028)	\$ 3,281	\$ (42,868)
Change in assets and liabilities:				
Due from other funds	-	150,512	-	150,512
Due to other funds	(10,818)	-	242,956	232,138
Other receivable	-	-	4,224	4,224
Accounts payable	(1,086)	10,945	2,506	12,365
Claims and judgments liability	-	143,545	(188,258)	(44,713)
Net cash provided by operating activities	<u>\$ 3,975</u>	<u>\$ 242,974</u>	<u>\$ 64,709</u>	<u>\$ 311,658</u>

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Combining Statement of Net Position – Pension Trust Funds – December 31, 2015

	City Employees Retirement Trust Fund - Defined Benefit	City Employees Retirement Trust Fund - Defined Contribution	Totals
ASSETS			
Cash and cash equivalents	\$ 427,964	\$ 17,730	\$ 445,694
Investments, at market value:			
Common trust funds	1,757,312	-	1,757,312
Mutual fund equity	1,809,637	145,111	1,954,748
Mutual fund fixed	3,104,829	518,643	3,623,472
Accrued interest receivable	-	260	260
Total assets	<u>\$ 7,099,742</u>	<u>\$ 681,744</u>	<u>\$ 7,781,486</u>
LIABILITIES			
Refunds payable and others	\$ -	\$ -	\$ -
Other accrued expenses	-	-	-
Total liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
NET POSITION			
Restricted for employees' pension benefits held in trust	<u>\$ 7,099,742</u>	<u>\$ 681,744</u>	<u>\$ 7,781,486</u>

**CITY OF DUNCAN, OKLAHOMA
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Combining Statement of Changes in Plan Net Position – Pension Trust Funds – December 31, 2015

	City Employees Retirement Trust Fund	City Employees Retirement Trust Fund - Defined Contribution	Totals
ADDITIONS			
Contributions:			
Employer	\$ 1,880,420	\$ 50,866	\$ 1,931,286
Plan members	334,780	40,692	375,472
Total contributions	<u>2,215,200</u>	<u>91,558</u>	<u>2,306,758</u>
Investment earnings:			
Net increase (decrease) in fair value of investments	(340,306)	(20,537)	(360,843)
Interest and dividends	264,067	15,882	279,949
Total net investment earnings	<u>(76,239)</u>	<u>(4,655)</u>	<u>(80,894)</u>
Total additions	<u>2,138,961</u>	<u>86,903</u>	<u>2,225,864</u>
DEDUCTIONS			
Benefits paid to participants or beneficiaries	1,584,493	-	1,584,493
Refunds of contributions	1,186	-	1,186
Administrative	29,434	1,300	30,734
Total deductions	<u>1,615,113</u>	<u>1,300</u>	<u>1,616,413</u>
Change in net position held in trust for employees' pension benefits	523,848	85,603	609,451
Net position held in trust for employees' pension benefits - beginning	<u>6,575,894</u>	<u>596,141</u>	<u>7,172,035</u>
Net position held in trust for employees' pension benefits- ending	<u><u>\$ 7,099,742</u></u>	<u><u>\$ 681,744</u></u>	<u><u>\$ 7,781,486</u></u>

**CITY OF DUNCAN, OKLAHOMA
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Debt Service Coverage Schedule – Year Ended December 31, 2015

DEBT SERVICE COVERAGE:

**OWRB Series
2002A, 2005,
2007, 2009A, 2009C
2012 Promissory Notes**

GROSS REVENUE AVAILABLE:

Charges for services (water, electric, garbage and wastewater)
Investment income

\$ 30,381,425
148,549

Total Gross Revenue Available

30,529,974

OPERATING EXPENSES:

Total Operating Expenses (excludes depreciation and amortization)

24,210,366

Net Revenue Available for Debt Service

\$ 6,319,608

Maximum Annual Remaining Debt Service on all OWRB Obligations Payable From

Revenues of the System

\$ 3,328,516
\$ 3,328,516

Computed Coverage

190%

Coverage Requirement

125%

INTERNAL CONTROL AND COMPLIANCE INFORMATION

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

Independent Auditor's Report

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Duncan, Oklahoma (the City) as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 27, 2017. Our report includes a reference to other auditors who audited the financial statements of Duncan Industrial Authority and Duncan Area Economic Development Foundation, Inc., discretely presented component units of the City as described in our report on the City's financial statements. This report does not include the results of Duncan Industrial Authority auditors' testing of internal control over financial reporting or compliance and other matters that are reported separately by those auditors. The Duncan Area Economic Development Foundation, Inc. was not audited in accordance with *Government Auditing Standards*.

Our report also includes an emphasis of matter paragraph describing the adoption of new accounting standards during fiscal year ended December 31, 2015. Our opinion was not modified with respect to this matter.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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 and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as finding 2015-001 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses as finding 2015-002, 2015-003 and 2015-004 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2015-001, 2015-005 and 2015-006.

City of Duncan's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RSM US LLP

Oklahoma City, Oklahoma
February 27, 2017

FINDING 2015-001

Finding: The City budgeted a transfers from certain funds but made those transfers from funds that were not approved in the budgeting process.

Criteria: When transfers are approved to certain funds as part of the budgeting process, those transfers should be transferred from the approved funds unless a budget amendment is approved by the City Council.

Condition: The City performed the following transfer that was not approved as part of the budgeting process:

- A \$1,320,000 transfer was made from the General Fund to the Duncan Public Utilities Authority (transfer was budgeted from the Capital Improvement Fund).

Cause: The City was not performing an adequate review and comparison of the budgeted transfers to actual transfers between funds.

Effect: Adjustments were made to move the transfers to the originally budgeted funds.

Recommendation: We recommend that the City implement a review of transfers as part of their budgeting process to ensure that the transfers are approved from governmental funds.

Management Response and Corrective Action Plan:

City staff will review and balance transfers between funds as part of the budgeting process. In addition monthly financials will be reviewed to assure that all transactions correspond with appropriate council approved budget amounts.

FINDING 2015-002

Finding: The City did not perform a monthly reconciliation of retirement plan activity per trustee statements to the general ledger.

Criteria: Contributions from the City and employees should be recorded in the fiduciary funds at the time of contribution. Pension benefits should be recorded as they are paid to the beneficiaries. Interest income, dividend income, and unrealized and realized gains and losses should be recorded as they are recognizable.

Condition: The City did not have adequate procedures in place to ensure that pension plan activity for each month is accurately recorded. In 2015, the activity for the month of November was not recorded until year end, at which time only the net activity for the month was recorded. The City was not performing a monthly reconciliation to the plan's trustee statements at the end of each month nor was a reconciliation done at year end to ensure that all activity had been recorded. This resulted in plan contributions, investment income, and benefit expense all being understated at year end.

Cause: The City was not performing a reconciliation of monthly trustee bank statements to general ledger activity.

Effect: Adjustments were made to correct the Fiduciary Fund contribution revenue, benefits paid expense, and investment income reported in the November trustee bank statements.

Recommendation: We recommend that the City implement a monthly and year-end reconciliation for employee and employer contributions, plan benefit expenditures, interest and dividend income, and investments gains and losses to the plan's trustee statements and the year-end actuary reports to ensure proper recording.

Management Response and Corrective Action Plan:

City staff has reviewed this matter concerning the posting of one month's activity of November 2015. Going forward all activity has been correctly recorded and to ensure proper recording in the future, the City will do so consistently and will implement a monthly and year-end reconciliation for this information.

FINDING 2015-003

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

Criteria: Inventory should be accounted for at the lower of cost or market.

Condition: During the year, inventory balances were marked up to reflect approximately a 5% increase in the total inventory value on hand at year-end. This mark-up is not consistent with generally accepted accounting principles, which require inventory balances to be valued at their lower of cost or market.

Cause: While the City is performing a regular physical count of inventory to ensure of its existence, it is not doing a regular review of the value of the inventory to ensure it is recorded at its accurate value. Additionally, pricing is being done by individuals who are not familiar with generally accepted accounting principles related to inventory.

Effect: A potential misstatement exists as a result of this improper valuation of electric utility inventory.

Recommendation: We recommend that the City review inventory balances for potential pricing errors to ensure that the value of inventory is accurate and that incorrect values be updated. Additionally, we recommend that the valuation of inventory be done within the finance department by those familiar with the inventory costing principles established by generally accepted accounting principles.

Management Response and Corrective Action Plan:

City accounting staff will be working together with the electric department staff to implement policies and procedures regarding inventory. We will be using values at the lower of cost or market and the costing principle of "first in, first out" for the method that the inventory is used and replaced. Staff will work together for processes that both meet the needs of financial reporting and amounts that are used when items are sold to outside parties. The electric department has diligently kept a detailed inventory of items to assure the location of City assets and we are working to make sure costing principles are established.

FINDING 2015-004

Finding: The liability accrued for the health claims reserve at December 31, 2015 was insufficient.

Criteria: Losses for claims reserves should be recognized as a liability in the period in which the underlying event occurs to the point where it is considered probable that a loss has occurred and the amount of the loss can be reasonably estimated.

Condition: Claims reserves related to the health care plan were not properly reviewed at year end. They City only accrued claims with an underlying event date during December 2015, omitting claims with an underlying event date of November 30, 2015 and prior.

Cause: While the City is reviewing claims, the calculation of the claims reserve was not accurately calculated to include claims that had an underlying event date prior to November 30, 2015.

Effect: An adjustment was posted to correct health care claims reserves paid from January 1, 2016 to June 30, 2016 with an incident date prior to November 30, 2015.

Recommendation: We recommend that the City review paid claims subsequent to year end to ensure the inclusion of any claims in the reserve calculation that have underlying event dates prior to year-end.

Management Response and Corrective Action Plan:

The City will review paid claims to insure correct reserve calculations. The City is no longer self-insured for health insurance.

FINDING 2015-005

Finding: At December 31, 2015, the City of Duncan was not in compliance with certain statutory provisions dealing with deficit fund balances.

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, 2015, the following matters existed:

- The City's General Fund had a deficit fund balance of \$3,967,707.

Cause: The condition identified above was caused by incurring and paying for operating expenditures in excess of available revenues in the General Fund for a number of years up to that date, specifically the years from 2011 through 2013, and failure to take timely action on this financial and budgetary condition.

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

Management Response and Corrective Action Plan:

Management has implemented several policies and procedures to diligently work towards satisfaction of this finding and elimination of the deficit fund balance. Said balance has been reduced by \$929,146 since the 2014 report. Staff will review the budget continually to better monitor revenues and expenditures. Revenue budgets will be estimated using most conservative methods and actual receipts analyzed for trends and accurate reporting. City staff will be working together to identify cost cutting measures for the City's operations but continue efforts to provide quality services to our citizens.

FINDING 2015-006

Finding: As of December 31, 2015, the City of Duncan was not in compliance with City Ordinance No. 1116 regarding the use of restricted sales tax revenues.

Criteria: Section 2 of City Ordinance No. 1116 states the following:

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

Condition: At December 31, 2015, the following matters existed:

- The Capital Improvement Fund had an advance to the General Fund totaling \$84,077, which is an inappropriate use of the restricted revenues of that fund.

Cause: The conditions identified above were caused by incurring and paying for operating expenditures in excess of available revenues in the General Fund for a number of years, specifically the years from 2011 through 2013, and failure to take timely action on this financial and budgetary condition. The General Fund's share of the City's pooled cash was not sufficient to fund all of the General Fund's expenditures resulting in a negative cash position for the General Fund. As a result, other funds, including DPUA and the Capital Improvement Fund, helped cash flow the operating expenditures of the General Fund. After City management recorded interfund loans from available unrestricted monies, the General Fund had a remaining negative cash position. The Capital Improvement Fund, which accounts for restricted sales taxes dedicated to capital improvements, was the only Fund remaining with a sufficient cash position to loan monies to the General Fund. As a result, an interfund loan between the Capital Improvement Fund and the General Fund for \$84,077 was recorded resulting in noncompliance with the ordinances and state law applicable to the use of restricted revenues.

Effect: The City is in violation of Ordinance No. 1116.

Management Response and Corrective Action Plan:

Much the same as has been stated in Management Response and Corrective Action for Finding 2015-005, Management is working towards satisfaction of this finding as well. Elimination of the deficit fund balance in General Fund will solve the problem of needing interfund loans between General and the Capital Improvement Fund.