

# **CITY OF DUNCAN, OKLAHOMA**



## **ANNUAL FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT**

**AS OF AND FOR THE FISCAL YEAR  
ENDED DECEMBER 31, 2017**

**THE CITY OF DUNCAN, OKLAHOMA**

**Annual Financial Statements  
And Independent Auditor's Report**

**As of and For the Fiscal Year Ended  
December 31, 2017**

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**TABLE OF CONTENTS**

	<b>Page</b>
<b>Independent Auditor's Report on Financial Statements.....</b>	<b>1-3</b>
<b>Management's Discussion and Analysis.....</b>	<b>5-15</b>
<b>The Basic Financial Statements:</b>	
<b>Government-Wide Financial Statements:</b>	
Statement of Net Position .....	18
Statement of Activities .....	19
<b>Governmental Funds Financial Statements:</b>	
Balance Sheet .....	21
Statement of Revenues, Expenditures, and Changes in Fund Balances.....	22
Reconciliation of Governmental Fund and Government-Wide Financial Statements.....	23-24
<b>Proprietary Funds Financial Statements:</b>	
Statement of Net Position.....	26
Statement of Revenues, Expenses, and Changes in Net Position.....	27
Statement of Cash Flows.....	28
<b>Fiduciary Funds Financial Statements:</b>	
Statement of Net Position.....	30
Pension Trust Fund Statement of Changes in Plan Net Position.....	31
<b>Combining Discretely Presented Component Units Financial Statements:</b>	
Statement of Net Position.....	33
Statement of Changes in Net Position.....	34
<b>Footnotes to the Basic Financial Statements .....</b>	<b>35-80</b>
<b>Required Supplementary Information:</b>	
<b>Budgetary Comparison Information</b>	
Budgetary Comparison Schedule (Budgetary Basis) – General Fund.....	82
Budgetary Comparison Schedule (Budgetary Basis) – DEDTA.....	83
Footnotes to Budgetary Comparison Schedule.....	83-84
<b>Pension and Other Employee Benefit Plans Information</b>	
Pension Fund Schedule of Change in Net Pension Liability and Related Ratios.....	85

**CITY OF DUNCAN, OKLAHOMA**  
**TABLE OF CONTENTS**  
**As of and for the Year Ended December 31, 2017**

---

Pension Fund Schedule of City’s Contributions –Last Ten Years.....	86
Pension Fund Schedule of Investment Returns.....	87
Schedule of City’s Proportionate Share of Net Pension Liability – Police Pension System.....	88
Schedule of City Contributions – Police Pension System .....	88
Schedule of City’s Proportionate Share of Net Pension Liability – Firefighter’s Pension System .....	89
Schedule of City Contributions – Firefighter’s Pension System .....	89
Schedule of Changes in Total OPEB Liability and Related Ratios – OPEB.....	90

**Supplementary Information:**

Combining Balance Sheet – General Fund Accounts.....	92
Combining Schedule of Revenues, Expenditures and Changes in Fund Balance – General Fund Accounts .....	93
Combining Balance Sheet - Non-Major Governmental Funds.....	94-95
Combining Statement of Revenues, Expenditures and Changes in Fund Balance - Non-Major Governmental Funds.....	96-97
Combining Schedule of Net Position – Duncan Public Utility Authority - Enterprise Fund Accounts.....	98
Combining Schedule of Revenues, Expenses and Changes in Net Position– Duncan Public Utility Authority – Enterprise Fund Accounts .....	99
Combining Schedule of Cash Flows –Duncan Public Utility Authority – Enterprise Fund Accounts.....	100
Combining Statement of Net Position – Internal Service Funds.....	101
Combining Statement of Revenues, Expenses and Changes in Net Position– Internal Service Funds.....	102
Combining Statement of Cash Flows – Internal Service Funds .....	103
Combining Statement of Fiduciary Net Position – Pension Trust Funds.....	104
Combining Statement of Changes in Net Plan Position – Pension Trust Funds.....	105
Debt Service Coverage Schedule.....	106

**CITY OF DUNCAN, OKLAHOMA**  
**TABLE OF CONTENTS**  
**As of and for the Year Ended December 31, 2017**

---

**Internal Control and Compliance over Financial Reporting**

Independent Auditor's Report on Internal Control and Compliance.....	109-110
Schedule of Findings and Responses.....	111-115

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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, 2017, 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 99.9%, 99.9% 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, 2017, 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 explained in Note G to the financial statements, the City adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, which restated beginning net position and other postemployment benefits liability of the governmental activities, business-type activities, and the Enid Municipal Authority fund, a major fund. Our opinions are 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 pension and other post-employment benefit schedules and the general fund and other major special revenue funds budgetary comparison schedules, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We 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, the schedule of debt service requirements, 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. These statements and schedules have 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. 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 April 18, 2019, 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  
April 18, 2019

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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, 2017. Please read it in conjunction with the City's financial statements, which follow this section.

### **FINANCIAL HIGHLIGHTS**

- For the fiscal year ended December 31, 2017, the City's total net position increased by \$14,600,014 or (32.03%) from the prior year.
- In the City's governmental activities, program expenses exceeded program revenues by \$6,981,599, and the governmental activities total net position increased by \$12,328,891 for the fiscal year.
- In the City's business-type activities, such as utilities, program revenues exceeded program expenses by \$4,990,812. The business-type activities total net position increased by \$2,271,123 for the fiscal year.
- At December 31, 2017, the General Fund reported an unassigned fund balance deficit of \$1,282,848, representing a decrease in the size of the prior year unassigned fund balance deficit by \$1,740,155, or 58.0%.
- At December 31, 2017, the Worker's Compensation Internal Service Fund reported a deficit net position of \$1,540,682, and total Internal Service Funds reported a deficit of \$1,536,707.
- For budgetary reporting purposes, the General Fund reported revenues above estimates of \$375,997 or 3.46%, while expenditures were under the final appropriations by \$1,163,383 or 7.32%.

### **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, three 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 Public Utilities Authority (DPUA)** – 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.

**Duncan Enhancement Trust Authority (DETA)** – public trust that finances and promotes beautification and aesthetic enhancement of the appearance of the City.

#### **Discretely Presented Component Units:**

**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 and economic 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, 2017**

*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 and deferred outflows exceeded liabilities and deferred inflows by \$60,183,082 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.)
	2017	Restated, 2016		2017	Restated, 2016		2017	Restated, 2016	
Current assets	\$ 19,600	\$ 16,167	21%	\$ 23,050	\$ 20,916	10%	\$ 42,650	\$ 37,083	15%
Capital assets, net	43,074	44,336	-3%	55,746	57,791	-4%	98,820	102,127	-3%
Deferred outflows	2,940	3,732	-21%	6,156	1,158	432%	9,096	4,890	86%
<b>Total assets and deferred outflows</b>	<b>65,614</b>	<b>64,235</b>	<b>2%</b>	<b>84,952</b>	<b>79,865</b>	<b>6%</b>	<b>150,566</b>	<b>144,100</b>	<b>4%</b>
Current liabilities	2,209	2,149	3%	7,574	6,208	22%	9,783	8,357	17%
Non-current liabilities	21,600	37,391	-42%	52,694	51,779	2%	74,294	89,170	-17%
Deferred inflows	5,555	774	618%	751	216	248%	6,306	990	537%
<b>Total liabilities and deferred inflows</b>	<b>29,364</b>	<b>40,314</b>	<b>-27%</b>	<b>61,019</b>	<b>58,203</b>	<b>5%</b>	<b>90,383</b>	<b>98,517</b>	<b>-8%</b>
Net position									
Net investment in capital assets	41,825	45,514	-8%	17,331	16,441	5%	59,156	61,955	-5%
Restricted	19,374	18,978	2%	7,266	7,486	-3%	26,640	26,464	1%
Unrestricted (deficit)	(24,949)	(40,571)	-39%	(664)	(2,265)	-71%	(25,613)	(42,836)	-40%
<b>Total net position</b>	<b>\$ 36,250</b>	<b>\$ 23,921</b>	<b>52%</b>	<b>\$ 23,933</b>	<b>\$ 21,662</b>	<b>10%</b>	<b>\$ 60,183</b>	<b>\$ 45,583</b>	<b>32%</b>

The largest portion of the City's net position reflects its net investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that are still outstanding. For 2017, the net investment in capital assets amounted to \$59,156,418. 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, \$26,640,577 also represents resources that are subject to external restrictions on how they may be used.

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

*Governmental Activities:*

Current assets – Increase of \$3.43 million (21%) due to an increase in taxes receivable and a slight increase in cash and cash equivalents.

Deferred outflows – Decrease of \$0.8 million (21%) due to the change in deferred outflow related to the pension liability for the fire, police and single employer defined benefit plans.

Non-current liabilities – Decrease of \$15.8 million (42%) due to the recording of the total OPEB liability with the early implementation of GASB Statement 75 and the issuance of new capital leases.



**CITY OF DUNCAN, OKLAHOMA**  
**ANNUAL FINANCIAL REPORT**  
**As of and for the Year Ended December 31, 2017**

Deferred inflows – Increase of \$4.8 million (618%) due to the change in deferred inflow related to the pension liability for the fire, police and single employer defined benefit plans and the recording of deferred inflows related to the total OPEB liability.

*Business-type Activities:*

Deferred outflows – Increase of \$5.0 million (432%) due to the change in deferred outflow related to the pension liability for the fire, police and single employer defined benefit plans and the deferred outflow related to the total OPEB liability.

Current liabilities – Increase of \$1.4 million (22%) due to an increase in accounts payable and the current portion of long-term debt.

**Changes in Net Position**

For the year ended December 31, 2017, net position of the primary government changed as follows:

**TABLE 2**  
**CHANGES IN NET POSITION (In Thousands)**

	<b>Governmental Activities</b>		<b>% Inc. (Dec.)</b>	<b>Business-Type Activities</b>		<b>% Inc. (Dec.)</b>	<b>Total</b>		<b>% Inc. (Dec.)</b>
	<u>2017</u>	<u>2016</u>		<u>2017</u>	<u>2016</u>		<u>2017</u>	<u>2016</u>	
<b>Revenues</b>									
Charges for service	\$ 1,278	\$ 1,288	-1%	\$ 31,098	\$ 30,626	2%	\$ 32,376	\$ 31,914	1%
Operating grants and contributions	1,625	1,398	16%	271	-	-	1,896	1,398	36%
Capital grants and contributions	121	207	-42%	549	972	-44%	670	1,179	-43%
Taxes	15,361	15,852	-3%	-	-	-	15,361	15,852	-3%
Intergovernmental revenue	460	447	3%	-	-	-	460	447	3%
Investment income	206	217	5%	431	438	2%	637	655	-3%
Miscellaneous	39	58	-33%	93	208	-55%	132	266	-50%
<b>Total revenues</b>	<u>19,090</u>	<u>19,467</u>	-2%	<u>32,442</u>	<u>32,244</u>	1%	<u>51,532</u>	<u>51,711</u>	0%
<b>Expenses</b>									
General government	1,495	3,309	-55%	-	-	-	1,495	3,309	-55%
Public safety	4,545	10,670	-57%	-	-	-	4,545	10,670	-57%
Streets	2,686	3,808	-29%	-	-	-	2,686	3,808	-29%
Culture and recreation	330	1,610	-80%	-	-	-	330	1,610	-80%
Cemetery	(128)	357	-136%	-	-	-	(128)	357	-136%
Community development	121	635	-81%	-	-	-	121	635	-81%
Economic development	938	2,018	-54%	-	-	-	938	2,018	-54%
Interest on long-term debt	18	69	-74%	-	-	-	18	69	-74%
Water	-	-	-	5,934	5,647	5%	5,934	5,647	5%
Wastewater	-	-	-	2,058	2,121	-3%	2,058	2,121	-3%
Sanitation	-	-	-	4,019	4,213	-5%	4,019	4,213	-5%
Electric	-	-	-	14,438	14,189	2%	14,438	14,189	2%
Airport	-	-	-	310	278	12%	310	278	12%
Lake	-	-	-	168	452	-63%	168	452	-63%
<b>Total expenses</b>	<u>10,005</u>	<u>22,476</u>	-55%	<u>26,927</u>	<u>26,900</u>	0%	<u>36,932</u>	<u>49,376</u>	25%
Excess (deficiency) before transfers	9,085	(3,009)	402%	5,515	5,344	3%	14,600	2,335	525%
Transfers	3,244	2,925	11%	(3,244)	(2,925)	11%	-	-	
<b>Change in net position</b>	<u>12,329</u>	<u>(84)</u>	14733%	<u>2,271</u>	<u>2,419</u>	-6%	<u>14,600</u>	<u>2,335</u>	525%
<b>Beginning net position, restated</b>	<u>23,921</u>	<u>24,005</u>	0%	<u>21,662</u>	<u>19,243</u>	13%	<u>45,583</u>	<u>43,248</u>	5%
<b>Ending net position</b>	<u>\$ 36,250</u>	<u>\$ 23,921</u>	52%	<u>\$ 23,933</u>	<u>\$ 21,662</u>	10%	<u>\$ 60,183</u>	<u>\$ 45,583</u>	32%

Explanations of significant changes in Table 2 are as follows:

In governmental and business-type activities most expense functions show a decrease in expense due to recording the current year OPEB expense under GASB Statement 75. The current year expense was a negative (a decrease to expense) of \$10,336,758 allocated among all functions. This decrease to expense was caused by the recognition of a change in plan provisions related to retiree insurance under GASB 75. Beginning July 1, 2017 and each July 1 thereafter, retirees will pay the cost of any premium increases annually to their health plan coverage. In addition, they will pay an additional 10% of the current premium cost until the retiree is paying 100% of the premium cost.

### **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.

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

	<b>Total Expense of Services</b>		<b>% Inc. (Dec.)</b>	<b>Net Revenue (Expense) of Services</b>		<b>% Inc. (Dec.)</b>
	<u>2017</u>	<u>2016</u>		<u>2017</u>	<u>2016</u>	
General government	\$ 1,495	\$ 3,309	-55%	(\$1,412)	\$ (3,261)	-57%
Public safety	4,545	10,670	-57%	(2,057)	(8,392)	-75%
Streets	2,686	3,808	-29%	(2,481)	(3,561)	-30%
Culture, parks and recreation	330	1,610	-80%	(259)	(1,498)	-83%
Cemetery	(128)	357	-136%	215	(268)	-180%
Community development	121	635	-81%	(38)	(541)	-93%
Economic development	938	2,018	-54%	(932)	(1,993)	-53%
Interest on long-term debt	18	69	74%	(18)	(69)	-74%
<b>Total</b>	<u>\$ 10,005</u>	<u>\$ 22,476</u>	-55%	<u>(\$6,982)</u>	<u>\$ (19,583)</u>	-64%

For the year ended December 31, 2017 total expenses for governmental activities amounted to \$10 million which was a decrease from the prior year of 55%. See Table 2 above for explanations of changes.

**Business-type Activities**

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

	<b>Total Expense of Services</b>		<b>% Inc. Dec.</b>	<b>Net Revenue (Expense) of Services</b>		<b>% Inc. Dec.</b>
	<u>2017</u>	<u>2016</u>		<u>2017</u>	<u>2016</u>	
Water	\$ 5,934	\$ 5,647	5%	\$ 1,170	\$ 74	1481%
Wastewater	2,058	2,121	-3%	291	480	-39%
Sanitation	4,019	4,213	-5%	(422)	(619)	-32%
Electric	14,438	14,189	2%	3,810	4,566	-17%
Airport	310	278	12%	167	505	-67%
Lake	168	452	-63%	(25)	(308)	-92%
<b>Total</b>	<u>\$ 26,927</u>	<u>\$ 26,900</u>	0%	<u>\$ 4,991</u>	<u>\$ 4,698</u>	6%

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 an increase in net position of \$2,271,123 for the year ended December 31, 2017.
- Water, wastewater, airport and electric utilities revenues exceeded operational costs.

***A FINANCIAL ANALYSIS OF THE CITY'S FUNDS***

As the City completed its 2017 fiscal year, the governmental funds reported a combined total fund balance of \$18.1 million, or a 14.3% increase of \$2,266,271, mainly due to an issuance of long-term debt totaling \$1,159,041.

The enterprise funds reported combined total net position of \$24.3 million, or a 8.66% increase from 2016, mainly related to a decrease in expense due to the change in plan provisions related to OPEB expenses under GASB Statement 75.

**General Fund Budgetary Highlights**

For budgetary reporting purposes, the General Fund reported revenues above estimates of \$375,997 or 3.46%, while expenditures were under the final appropriations by \$1,163,383 or 7.32%.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of December 31, 2017, the City had \$99 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 \$3.3 million or 3.2% compared to last year.

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

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Land	\$ 1,219	\$ 1,209	\$ 376	\$ 359	1,595	\$ 1,568
Buildings	10,614	11,168	10,332	10,380	20,946	21,548
Machinery, furniture and equipment	3,456	2,647	1,405	1,074	4,861	3,721
Infrastructure	26,838	29,299	35,048	37,365	61,886	66,664
Water rights	-	-	7,688	7,921	7,688	7,921
Construction in progress	947	17	898	693	1,845	710
<b>Totals</b>	<u>\$ 43,074</u>	<u>\$ 44,340</u>	<u>\$ 55,747</u>	<u>\$ 57,792</u>	<u>\$ 98,821</u>	<u>\$ 102,132</u>

This year's more significant capital asset additions included:

Water improvements	\$204,536
Lake improvement	\$182,081
Airport Projects	\$624,194

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 \$44.2 in long-term debt outstanding which represents a \$1.8 million or 4.0% decrease from the prior year. The City's changes in long-term debt by type of debt are as follows:

**CITY OF DUNCAN, OKLAHOMA**  
**ANNUAL FINANCIAL REPORT**  
**As of and for the Year Ended December 31, 2017**

**TABLE 6**  
**Long-Term Debt**  
**(In Thousands)**

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>		<b>Total Percentage Change</b>
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017-2016</u>
Notes payable	\$ 200	\$ 645	\$ 38,707	\$ 41,349	\$ 38,907	\$ 41,994	-7.4%
Debt premium	-	-	665	-	665	-	100.0%
Capital leases	1,048	177	-	-	1,048	177	492.1%
Meter deposits	-	-	1,088	1,071	1,088	1,071	1.6%
Accrued compensated absences	1,262	1,415	238	234	1,500	1,649	-9.0%
Claims liability	943	1,107	-	-	943	1,107	-14.8%
<b>Totals</b>	<u>\$ 3,453</u>	<u>\$ 3,344</u>	<u>\$ 40,698</u>	<u>\$ 42,654</u>	<u>\$ 44,151</u>	<u>\$ 45,998</u>	-4.0%

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 economy for Duncan continues to improve in 2018 with local businesses continuing to seek workforce to fill the growing business opportunities. This change is a drastic adjustment from previous years when the community was still caught in a downturn of the energy sector. Recovery from this past downturn has been slow but steady. For Oklahoma, the job growth trend has been several months ahead of the Duncan recovery.

The sales tax collection for 2018 was \$14 million. For 2019 the City budgeted \$14 million of sales tax revenue and is on target to meet projections.

Sale tax collections are one of the sources of revenue to support the City of Duncan core government functions. The chart below shows sale taxes for Duncan and Stephens County unemployment rate. The source for this information is from the Oklahoma Tax Commission monthly collections report and final annual report from each year from the Oklahoma Employment Securities Commission. It is equally important to look at the historical oil prices and drilling activity to gauge the wide swings in manufacturing products for the oil and gas industry.

<b>Year</b>	<b>Annual Sale Tax</b>	<b>Stephens County Unemployment Rate</b>	<b>End of year Oil Prices</b>	<b>End of year Rig Count</b>
2011	\$13,065,145	5.3%	\$93.21	2007
2012	\$14,046,199	4.4%	\$90.72	1763
2013	\$14,130,286	5.0%	\$94.25	1757
2014	\$15,295,481	3.3%	\$87.07	1840
2015	\$14,734,521	6.5%	\$42.53	698
2016	\$13,747,370	8.6%	\$34.13	658
2017	\$13,095,207	6.5%	\$44.40	927
Nov 2018	\$12,885,944	3.6%	\$51.15	1075

With the tightness in workforce, wages will continue to increase according to national standards and cost of living indexes. We should see those ranges near 3% growth. Meanwhile, mergers and job growth came from Cameron Measurement Systems/Schlumberger, Wilco/NOV, OTex/C&J Energy Services and Family Dollar/Dollar Tree. Other opportunities for growth were created by Halliburton, Duncan Regional Hospital, Dream Team Prosthetics, Duncan Machine Products, Rightway, Elk Crossing and Duncan Recycling and Refining.

The City of Duncan constructed the 2018 and 2019 Budgets using conservative estimates for revenues and has still been able to make great improvements to city assets and much needed repairs and maintenance. The financial outlook of the City has been improved.

#### **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, 2017**

**Statement of Net Position – December 31, 2017**

	Governmental Activities	Business-type Activities	Total	Aggregate Discretely Presented Component Units
<b>ASSETS</b>				
Cash and cash equivalents	\$ 16,252,685	\$ 5,559,016	\$ 21,811,701	\$ 2,476,473
Investments	3,013,667	-	3,013,667	3,677,399
Interest receivable	-	-	-	6,372
Accounts receivable, net of allowance	506,918	4,320,396	4,827,314	10,850
Other receivable	-	-	-	2,294
Internal balances	(2,552,323)	2,552,323	-	-
Due from other governmental agencies	2,379,587	151,785	2,531,372	-
Inventories	-	1,028,909	1,028,909	890,807
Other assets	-	16	16	119,890
Prepaid items	-	-	-	26,249
Cash and cash equivalents, restricted	-	2,368,660	2,368,660	-
Investments, restricted	-	7,068,720	7,068,720	-
Capital assets:				
Land and construction in progress	2,166,195	1,273,274	3,439,469	-
Other capital assets, net of depreciation	40,907,533	54,473,087	95,380,620	11,776,482
Total assets	<u>62,674,262</u>	<u>78,796,186</u>	<u>141,470,448</u>	<u>18,986,816</u>
<b>DEFERRED OUTFLOW OF RESOURCES</b>				
Deferred amounts related to pensions	2,452,560	5,062,442	7,515,002	-
Deferred amounts related to OPEB	487,527	137,507	625,034	-
Deferred amounts on refunding	-	956,145	956,145	-
Total deferred outflows	<u>2,940,087</u>	<u>6,156,094</u>	<u>9,096,181</u>	<u>-</u>
<b>LIABILITIES</b>				
Accounts payable and accrued expenses	1,250,865	2,259,846	3,510,711	38,561
Accrued interest payable	5,152	227,549	232,701	4,334
Unearned income	-	-	-	66,331
Long-term liabilities				
Due within one year	953,094	5,086,670	6,039,764	427,378
Due in more than one year	21,599,978	52,694,173	74,294,151	1,342,948
Total liabilities	<u>23,809,089</u>	<u>60,268,238</u>	<u>84,077,327</u>	<u>1,879,552</u>
<b>DEFERRED INFLOW OF RESOURCES</b>				
Deferred amounts related to pensions	5,194,721	649,215	5,843,936	-
Deferred amounts related to OPEB	360,583	101,701	462,284	-
Total deferred inflows	<u>5,555,304</u>	<u>750,916</u>	<u>6,306,220</u>	<u>-</u>
<b>NET POSITION</b>				
Net investment in capital assets	41,825,399	17,331,019	59,156,418	11,776,482
Restricted for:				
Debt service	-	7,266,491	7,266,491	-
Public safety	298,211	-	298,211	-
Capital projects	10,534,002	-	10,534,002	-
Economic development	8,065,572	-	8,065,572	-
Other	476,301	-	476,301	5,742,241
Unrestricted (deficit)	(24,949,529)	(664,384)	(25,613,913)	(411,459)
Total net position	<u>\$ 36,249,956</u>	<u>\$ 23,933,126</u>	<u>\$ 60,183,082</u>	<u>\$ 17,107,264</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, 2017**

**Statement of Activities – Year Ended December 31, 2017**

<b>Functions/Programs</b>	<b>Expenses</b>	<b>Program Revenue</b>			<b>Net (Expense) Revenue and Changes in Net Position</b>			<b>Aggregate Discretely Presented Component Units</b>
		<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>	<b>Component Units</b>
<b>Primary government</b>								
Governmental activities:								
General government	\$ 1,494,903	\$ 15,759	\$ -	\$ 67,231	\$ (1,411,913)	\$ -	\$ (1,411,913)	\$ -
Public safety	4,545,408	1,042,135	1,392,910	53,703	(2,056,660)	-	(2,056,660)	-
Highways and streets	2,685,728	-	204,793	-	(2,480,935)	-	(2,480,935)	-
Culture and recreation	329,661	49,055	21,528	-	(259,078)	-	(259,078)	-
Health	(127,701)	87,501	-	-	215,202	-	215,202	-
Community development	121,421	83,631	-	-	(37,790)	-	(37,790)	-
Economic development	938,321	-	5,842	-	(932,479)	-	(932,479)	-
Interest on long-term debt	17,946	-	-	-	(17,946)	-	(17,946)	-
Total governmental activities	<u>10,005,687</u>	<u>1,278,081</u>	<u>1,625,073</u>	<u>120,934</u>	<u>(6,981,599)</u>	<u>-</u>	<u>(6,981,599)</u>	<u>-</u>
Business-type activities:								
Water	5,933,985	6,752,548	231,943	119,980	-	1,170,486	1,170,486	-
Wastewater	2,057,849	2,347,870	-	654	-	290,675	290,675	-
Sanitation	4,019,190	3,596,882	-	-	-	(422,308)	(422,308)	-
Electric	14,438,153	18,208,629	39,374	-	-	3,809,850	3,809,850	-
Airport	309,591	48,861	-	427,762	-	167,032	167,032	-
Lake	168,045	143,122	-	-	-	(24,923)	(24,923)	-
Total business-type activities	<u>26,926,813</u>	<u>31,097,912</u>	<u>271,317</u>	<u>548,396</u>	<u>-</u>	<u>4,990,812</u>	<u>4,990,812</u>	<u>-</u>
Total primary government	<u>\$ 36,932,500</u>	<u>\$ 32,375,993</u>	<u>\$ 1,896,390</u>	<u>\$ 669,330</u>	<u>\$ (6,981,599)</u>	<u>4,990,812</u>	<u>(1,990,787)</u>	
<b>Component Unit</b>								
Industrial Development	\$ 13,301	\$ 9,076	\$ -	\$ -				(4,225)
Economic Development	900,950	845,864	8,504	-				(46,582)
Health and Welfare	-	51	-	-				51
Total component units	<u>\$ 914,251</u>	<u>\$ 854,991</u>	<u>\$ 8,504</u>	<u>\$ -</u>				<u>(50,756)</u>
<b>General revenues:</b>								
Taxes:								
Sales and use taxes					14,430,235	-	14,430,235	-
Franchise taxes and public service taxes					539,435	-	539,435	-
Hotel/motel taxes					391,626	-	391,626	-
Intergovernmental					459,973	-	459,973	-
Unrestricted investment earnings					205,753	430,964	636,717	-
Miscellaneous					39,475	93,340	132,815	-
Transfers					3,243,993	(3,243,993)	-	-
Total general revenues and transfers					<u>19,310,490</u>	<u>(2,719,689)</u>	<u>16,590,801</u>	<u>-</u>
Change in net position					12,328,891	2,271,123	14,600,014	(50,756)
Net position - beginning, restated					23,921,065	21,662,003	45,583,068	17,158,020
Net position - ending					<u>\$ 36,249,956</u>	<u>\$ 23,933,126</u>	<u>\$ 60,183,082</u>	<u>\$ 17,107,264</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, 2017**

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**BASIC FINANCIAL STATEMENTS – GOVERNMENTAL FUNDS**

**CITY OF DUNCAN, OKLAHOMA**  
**ANNUAL FINANCIAL REPORT**  
As of and for the Year Ended December 31, 2017

**Balance Sheet – Governmental Funds – December 31, 2017**

	<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>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 98,078	\$ 5,799,341	\$ 9,233,033	\$ 727,450	\$ 15,857,902
Investments	-	2,118,470	895,197	-	3,013,667
Receivable from other governments	1,548,390	258,464	516,930	55,803	2,379,587
Due from other funds	-	-	109,526	-	109,526
Taxes receivable, net	134,636	-	-	-	134,636
Court fines receivable, net	280,748	-	-	-	280,748
Other receivables	38,391	-	41,746	456	80,593
Total assets	<u>\$ 2,100,243</u>	<u>\$ 8,176,275</u>	<u>\$ 10,796,432</u>	<u>\$ 783,709</u>	<u>\$ 21,856,659</u>
<b>LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES</b>					
Liabilities:					
Accounts payable	\$ 340,854	\$ 7,484	\$ 262,430	\$ 2,890	\$ 613,658
Accrued payroll payable	628,577	-	-	-	628,577
Due to other funds	-	109,526	-	-	109,526
Advance to other funds	1,929,418	-	-	-	1,929,418
Due to bondholders	600	-	-	-	600
Total liabilities	<u>2,899,449</u>	<u>117,010</u>	<u>262,430</u>	<u>2,890</u>	<u>3,281,779</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Unavailable revenue	<u>483,642</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>483,642</u>
Fund balances:					
Restricted	-	8,059,265	10,534,002	780,819	19,374,086
Unassigned (deficit)	(1,282,848)	-	-	-	(1,282,848)
Total fund balances	<u>(1,282,848)</u>	<u>8,059,265</u>	<u>10,534,002</u>	<u>780,819</u>	<u>18,091,238</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 2,100,243</u>	<u>\$ 8,176,275</u>	<u>\$ 10,796,432</u>	<u>\$ 783,709</u>	<u>\$ 21,856,659</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, 2017

**Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances –Year Ended December 31, 2017**

		<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>
<b>REVENUES</b>					
Taxes	\$ 9,597,473	\$ 1,881,566	\$ 3,763,133	\$ 303,892	\$ 15,546,064
Intergovernmental	1,367,776	-	-	252,640	1,620,416
Licenses and permits	104,532	-	-	-	104,532
Charges for services	182,364	-	-	10,527	192,891
Fees and fines	830,902	-	-	-	830,902
Investment earnings	2,415	113,931	89,059	348	205,753
Miscellaneous	127,899	5,842	112,751	77,325	323,817
Total revenues	<u>12,213,361</u>	<u>2,001,339</u>	<u>3,964,943</u>	<u>644,732</u>	<u>18,824,375</u>
<b>EXPENDITURES</b>					
Current:					
General government	2,999,593	-	4,160	6,679	3,010,432
Community development	611,898	-	-	-	611,898
Public safety	9,985,667	-	-	29,329	10,014,996
Highways and streets	752,100	-	-	227,622	979,722
Health	297,089	-	-	-	297,089
Culture and recreation	1,179,448	-	-	17,226	1,196,674
Economic development	-	777,904	-	-	777,904
Capital outlay	-	810,359	3,347,846	188,223	4,346,428
Debt Service:					
Principal	-	-	87,522	645,000	732,522
Interest and other charges	-	-	3,567	14,867	18,434
Total expenditures	<u>15,825,795</u>	<u>1,588,263</u>	<u>3,443,095</u>	<u>1,128,946</u>	<u>21,986,099</u>
Excess (deficiency) of revenues over expenditures	<u>(3,612,434)</u>	<u>413,076</u>	<u>521,848</u>	<u>(484,214)</u>	<u>(3,161,724)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Proceeds from long-term debt	-	200,000	959,041	-	1,159,041
Transfers in	6,358,990	14,240	277,281	680,266	7,330,777
Transfers out	(1,006,401)	(277,281)	(1,278,060)	(500,081)	(3,061,823)
Total other financing sources and uses	<u>5,352,589</u>	<u>(63,041)</u>	<u>(41,738)</u>	<u>180,185</u>	<u>5,427,995</u>
Net change in fund balances	1,740,155	350,035	480,110	(304,029)	2,266,271
Fund balances (deficit) - beginning	(3,023,003)	7,709,230	10,053,892	1,084,848	15,824,967
Fund balances (deficit) - ending	<u>\$ (1,282,848)</u>	<u>\$ 8,059,265</u>	<u>\$ 10,534,002</u>	<u>\$ 780,819</u>	<u>\$ 18,091,238</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, 2017**

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**Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position – December 31, 2017**

Total fund balance, governmental funds	\$	18,091,238
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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 the fund financial statements, but are reported in the governmental activities of the Statement of Net Position.		43,073,728
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Certain outflows and inflows are a consumption of or acquisition of resources applicable to a future period, and therefore are not reported in the funds:		
Pension related deferred outflows		2,452,560
Pension related deferred inflows		(5,194,721)
OPEB related deferred outflows		487,527
OPEB related deferred inflows		(360,583)

Certain assets are not available to pay for current fund liabilities and therefore are deferred inflows in the funds:		
Unavailable revenues		483,642

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		(5,152)
Net pension liability		(14,475,547)
Total OPEB liability		(4,623,549)
Accrued compensated absences		(1,262,783)
Note payable		(200,000)
Capital leases payable		(1,048,329)

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)		(1,168,075)

Net Position of Governmental Activities in the Statement of Net Position	\$	<u><u>36,249,956</u></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, 2017**

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**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities - Year Ended December 31, 2017**

Net change in fund balances - total governmental funds: \$ 2,266,271

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	2,730,780
Depreciation expense	(3,992,982)

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

2,451,139

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

Change in unavailable revenue	376,458
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Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position:

Decrease in accrued compensated absences	151,770
Decrease in total OPEB liability	8,240,448
Payments on note payable	645,000
Note proceeds	(200,000)
Capital lease proceeds	(959,041)
Payments on capital leases payable	87,522

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	488
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Internal service fund activity is reported as a proprietary fund in fund financial statements, but certain net revenues are reported in governmental activities on the Statement of Activities:

Total change in net position of governmental activities, net of amount allocated to business type activities -internal service funds	531,038
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Change in net position of governmental activities	<u><u>\$ 12,328,891</u></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, 2017**

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**BASIC FINANCIAL STATEMENTS - PROPRIETARY FUNDS**



**CITY OF DUNCAN, OKLAHOMA**  
**ANNUAL FINANCIAL REPORT**  
As of and for the Year Ended December 31, 2017

**Proprietary Funds Statement of Net Position –December 31, 2017**

	<b>Duncan Public Utilities Authority Enterprise Fund</b>	<b>Internal Service Fund</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 5,559,016	\$ 394,783
Restricted:		
Cash and cash equivalents	2,368,660	-
Due from other funds	991,537	-
Accounts receivable, net	4,277,405	-
Receivables from other governments	151,785	-
Other receivables	42,991	-
Inventories	1,028,909	-
Prepaid items	16	-
Annuities receivable	-	10,941
Total current assets	<u>14,420,319</u>	<u>405,724</u>
Non-current assets:		
Advance to other funds	1,929,418	-
Restricted:		
Investments	7,068,720	-
Capital assets:		
Land and construction in progress	1,273,274	-
Other capital assets, net of accumulated depreciation	54,473,087	-
Total non-current assets	<u>64,744,499</u>	<u>-</u>
Total assets	<u>79,164,818</u>	<u>405,724</u>
<b>DEFERRED OUTFLOW OF RESOURCES</b>		
Deferred amounts related to pension	5,062,442	-
Deferred amounts on refunding	956,145	-
Deferred amounts related to OPEB	137,507	-
	<u>6,156,094</u>	<u>-</u>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable and accrued liabilities	2,113,870	8,030
Salaries payable	117,412	-
Accrued interest payable	227,549	-
Payable to other governments	28,564	-
Deposits subject to refund	1,087,942	-
Compensated absences	20,956	-
Claims and judgments	-	377,146
Notes payable	3,977,772	-
Total current liabilities	<u>7,574,065</u>	<u>385,176</u>
Non-current liabilities:		
Advance from other funds	-	991,537
Compensated absences, net of current portion	217,491	-
Claims and judgments, net of current portion	-	565,718
Net pension liability	15,778,889	-
Total OPEB liability	1,304,078	-
Notes payable, net of current portion	35,393,715	-
Total non-current liabilities	<u>52,694,173</u>	<u>1,557,255</u>
Total liabilities	<u>60,268,238</u>	<u>1,942,431</u>
<b>DEFERRED INFLOW OF RESOURCES</b>		
Deferred amounts related to pension	649,215	-
Deferred amounts related to OPEB	101,701	-
	<u>750,916</u>	<u>-</u>
<b>NET POSITION</b>		
Net investment in capital assets	17,331,019	-
Restricted for debt service	7,266,491	-
Unrestricted (deficit)	(295,752)	(1,536,707)
Total net position	<u>\$ 24,301,758</u>	<u>\$ (1,536,707)</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		
	\$ (368,632)	
Total net position per Government-Wide financial statements	<u>\$ 23,933,126</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, 2017

**Proprietary Funds Statement of Revenues, Expenses, and Changes in Net Position –Year Ended December 31, 2017**

	<b>Duncan Public Utilities Authority Enterprise Fund</b>	<b>Internal Service Fund</b>
<b>REVENUES</b>		
Water	\$ 6,557,611	\$ -
Electric	18,139,552	-
Wastewater	2,347,870	-
Sanitation	3,596,882	-
Lake	143,122	-
Airport	48,861	-
Charges for services	-	990,328
Miscellaneous	303,388	-
Total operating revenues	<u>31,137,286</u>	<u>990,328</u>
<b>OPERATING EXPENSES</b>		
General government	1,079,960	93,048
Water	2,650,262	-
Wastewater	842,487	-
Sanitation	3,393,108	-
Electric	14,388,888	-
Lake	(8,350)	-
Airport	56,717	-
Claims expense	-	260,725
Depreciation	3,685,877	-
Total operating expenses	<u>26,088,949</u>	<u>353,773</u>
Operating income	<u>5,048,337</u>	<u>636,555</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Interest and investment revenue	430,964	515
Miscellaneous revenue	445,263	29,556
Gain (loss) on capital asset disposal	(82,408)	-
Operating grants and contributions	654	-
Interest expense	(1,048,152)	-
Total non-operating revenue (expenses)	<u>(253,679)</u>	<u>30,071</u>
Income before transfers	<u>4,794,658</u>	<u>666,626</u>
Capital grants and contributions	427,762	-
Capital contributions from governmental activities	1,184,133	-
Transfers in	2,175,761	198,199
Transfers out	(6,644,978)	-
Change in net position	<u>1,937,336</u>	<u>864,825</u>
Total net position - beginning, restated	22,364,422	(2,401,532)
Total net position - ending	<u>\$ 24,301,758</u>	<u>\$ (1,536,707)</u>
Change in net position per above	\$ 1,937,336	
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	333,787	
Change in Business-Type Activities in Net Position per Government-Wide Financial Statements	<u>\$ 2,271,123</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, 2017**

**Proprietary Funds Statement of Cash Flows – Year Ended December 31, 2017**

	<b>Duncan Public Utilities Authority</b>	<b>Internal Service Funds</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 30,692,619	\$ 989,947
Payments to suppliers and employees	(21,957,130)	(98,866)
Claims and judgments paid	-	(424,476)
Receipts of customer meter deposits	331,524	-
Refunds of customer meter deposits	(314,964)	-
Interfund receipts	2,716,799	-
Interfund payments	-	(713,407)
<b>Net cash provided by (used in) operating activities</b>	<b>11,468,848</b>	<b>(246,802)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Miscellaneous revenue	325,576	29,556
Transfers from other funds	2,175,761	198,199
Transfers to other funds	(6,644,978)	-
<b>Net cash provided by (used in) noncapital financing activities</b>	<b>(4,143,641)</b>	<b>227,755</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchases of capital assets	(535,270)	-
Proceeds of capital grants	474,139	-
Proceeds from debt	6,666,600	-
Note issuance cost paid	(291,194)	-
Principal paid on debt	(9,309,545)	-
Interest and fiscal agent fees paid on debt	(1,082,017)	-
<b>Net cash provided by (used in) capital and related financing activities</b>	<b>(4,077,287)</b>	<b>-</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Sales of investments	3,891	-
Interest and dividends	216,598	515
<b>Net cash provided by (used in) investing activities</b>	<b>220,489</b>	<b>515</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>3,468,409</b>	<b>(18,532)</b>
<b>Balances - beginning of year</b>	<b>4,459,267</b>	<b>413,315</b>
<b>Balances - end of year</b>	<b>\$ 7,927,676</b>	<b>\$ 394,783</b>
<b>Reconciliation to Statement of Net Position:</b>		
Cash and cash equivalents	\$ 5,559,016	\$ 394,783
Restricted cash and cash equivalents - current	2,368,660	-
<b>Total cash and cash equivalents, end of year</b>	<b>\$ 7,927,676</b>	<b>\$ 394,783</b>
<b>Reconciliation of operating income to net cash provided by (used in) operating activities:</b>		
Operating income	\$ 5,048,337	\$ 636,555
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation expense	3,685,877	-
Gain on disposal	654	-
Change in assets and liabilities:		
Due from other funds	2,716,799	-
Accounts receivable	(443,001)	-
Due from other governments	(2,262)	(713,407)
Other receivable	(58)	-
Inventory	(438,800)	-
Deferred outflows pension	(3,904,406)	-
Deferred outflows OPEB	(137,507)	-
Prepaid items	29	-
Accounts payable	591,596	(381)
Accrued payroll payable	(23,127)	-
Deposits subject to refund	16,560	-
Due to other funds	-	(5,818)
Due to other governments	1,544	-
Total OPEB liability	(2,288,424)	-
Deferred inflows related to OPEB	101,701	-
Accrued compensated absences	3,991	(163,751)
Deferred inflows related to pension	3,632,514	-
Net pension liability	2,906,831	-
<b>Net cash provided by (used in) operating activities</b>	<b>\$ 11,468,848</b>	<b>\$ (246,802)</b>
<b>Noncash activities:</b>		
Assets transferred from other funds	1,184,133	-
	<b>\$ 1,184,133</b>	<b>\$ -</b>

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, 2017**

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**BASIC FINANCIAL STATEMENTS – FIDUCIARY FUNDS**

**CITY OF DUNCAN, OKLAHOMA**  
**ANNUAL FINANCIAL REPORT**  
**As of and for the Year Ended December 31, 2017**

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**Fiduciary Funds Statement of Net Position –December 31, 2017**

	<b>City Employees Retirement Trust Funds</b>	<b>Deposit and Refund - Agency Fund</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 208,623	\$ 93,814
Investments, at fair value:		
Common trust funds	3,203,351	-
Mutual fund equity	1,901,607	-
Mutual fund fixed income	3,921,556	-
Accrued interest receivable	2,742	-
Total assets	<u>\$ 9,237,879</u>	<u>\$ 93,814</u>
<b>LIABILITIES</b>		
Refunds payable and others	\$ -	\$ 71,454
Other accrued expenses	-	22,360
Total liabilities	<u>\$ -</u>	<u>\$ 93,814</u>
<b>NET POSITION</b>		
Restricted for employees' pension benefits held in trust	<u>\$ 9,237,879</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, 2017

**Fiduciary Funds Statement of Changes in Plan Net Position – Year Ended December 31, 2017**

	<b>City Employees Retirement Trust Funds</b>
<b>ADDITIONS</b>	
Contributions:	
Employer	\$ 847,477
Plan members	280,715
Total contributions	<u>1,128,192</u>
Investment earnings:	
Net increase in fair value of investments	884,641
Interest and dividends	189,823
Total net investment earnings	<u>1,074,464</u>
Total additions	<u>2,202,656</u>
<b>DEDUCTIONS</b>	
Benefits paid to participants or beneficiaries	1,574,305
Refunds of contributions	112,179
Administrative	62,530
Total deductions	<u>1,749,014</u>
<b>Change in net position held in trust for employees' pension benefits</b>	453,642
<b>Net position held in trust for employees' pension benefits - beginning</b>	<u>8,784,237</u>
<b>Net position held in trust for employees' pension benefits- ending</b>	<u><u>\$ 9,237,879</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, 2017**

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

**CITY OF DUNCAN, OKLAHOMA**  
**ANNUAL FINANCIAL REPORT**  
As of and for the Year Ended December 31, 2017

**Component Units Combining Statement of Net Position –December 31, 2017**

	<b>Major Component Units</b>		<b>Nonmajor Component Unit</b>	
	<b>Duncan Area Economic Development Foundation</b>	<b>Duncan Industrial Authority</b>	<b>Duncan Hospital Authority</b>	<b>TOTALS</b>
<b><u>ASSETS</u></b>				
<b>Current Assets:</b>				
Cash and cash equivalents	\$ 2,296,690	\$ 154,465	\$ 25,318	\$ 2,476,473
Investments	3,469,206	208,193	-	3,677,399
Receivables:				
Accounts receivable	10,850	-	-	10,850
Interest receivable	6,337	35	-	6,372
Other	44	2,250	-	2,294
Cash and cash equivalents, restricted	118,510	1,380	-	119,890
Prepaid building lease	26,249	-	-	26,249
<b>Total current assets</b>	<b>5,927,886</b>	<b>366,323</b>	<b>25,318</b>	<b>6,319,527</b>
<b>Noncurrent Assets:</b>				
<b>Capital Assets:</b>				
Depreciable, net of accumulated depreciation	11,745,937	30,545	-	11,776,482
Land available for development	315,540	575,267	-	890,807
<b>Total noncurrent assets</b>	<b>12,061,477</b>	<b>605,812</b>	<b>-</b>	<b>12,667,289</b>
<b>Total Assets</b>	<b>\$ 17,989,363</b>	<b>\$ 972,135</b>	<b>\$ 25,318</b>	<b>\$ 18,986,816</b>
<b><u>LIABILITIES</u></b>				
<b>Current Liabilities:</b>				
Accounts payable and accrued liabilities	\$ 4,816	\$ 32,226	\$ -	\$ 37,042
Wages payable	1,519	-	-	1,519
Interest payable	4,334	-	-	4,334
Unearned lease revenue	66,331	-	-	66,331
Real estate mortgage loan	427,378	-	-	427,378
<b>Total Current Liabilities</b>	<b>504,378</b>	<b>32,226</b>	<b>-</b>	<b>536,604</b>
<b>Noncurrent Liabilities:</b>				
Real estate mortgage loan	1,342,948	-	-	1,342,948
<b>Total Noncurrent Liabilities</b>	<b>1,342,948</b>	<b>-</b>	<b>-</b>	<b>1,342,948</b>
<b>Total Liabilities</b>	<b>1,847,326</b>	<b>32,226</b>	<b>-</b>	<b>1,879,552</b>
<b><u>NET POSITION</u></b>				
Net investment in capital assets	11,745,937	30,545	-	11,776,482
Restricted	5,165,594	576,647	-	5,742,241
Unrestricted (deficit)	(769,494)	332,717	25,318	(411,459)
<b>Total Net Position</b>	<b>\$ 16,142,037</b>	<b>\$ 939,909</b>	<b>\$ 25,318</b>	<b>\$ 17,107,264</b>



**CITY OF DUNCAN, OKLAHOMA**  
**ANNUAL FINANCIAL REPORT**  
As of and for the Year Ended December 31, 2017

**Component Units Combining Statement of Activities - Year Ended December 31, 2017**

	<b>Major Component Units</b>		<b>Nonmajor Component</b>	
	<b>Duncan Area Economic Development Foundation</b>	<b>Duncan Industrial Authority</b>	<b>Duncan Hospital Authority</b>	<b>TOTALS</b>
<b>Operating Revenues:</b>				
Contributions	\$ 810,034	\$ -	\$ -	\$ 810,034
Rentals	-	7,590	-	7,590
<b>Total Operating Revenues</b>	<b>810,034</b>	<b>7,590</b>	<b>-</b>	<b>817,624</b>
<b>Operating Expenses:</b>				
Economic development	900,950	13,301	-	914,251
<b>Total Operating Expenses</b>	<b>900,950</b>	<b>13,301</b>	<b>-</b>	<b>914,251</b>
<b>Operating Income (Loss)</b>	<b>(90,916)</b>	<b>(5,711)</b>	<b>-</b>	<b>(96,627)</b>
<b>Non-Operating Revenues:</b>				
Investment income	35,830	1,486	51	37,367
Miscellaneous income	8,504	-	-	8,504
<b>Total non-operating revenues</b>	<b>44,334</b>	<b>1,486</b>	<b>51</b>	<b>45,871</b>
<b>Change in Net Position</b>	<b>(46,582)</b>	<b>(4,225)</b>	<b>51</b>	<b>(50,756)</b>
<b>Net Position, beginning of year</b>	<b>16,188,619</b>	<b>944,134</b>	<b>25,267</b>	<b>17,158,020</b>
<b>Net Position, end of year</b>	<b>\$ 16,142,037</b>	<b>\$ 939,909</b>	<b>\$ 25,318</b>	<b>\$ 17,107,264</b>

## 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.

Duncan Enhancement Trust Authority (DETA) was created to develop, finance, and promote the beautification and aesthetic enhancement of the appearance of the City. The current City Council serves as its entire governing body (trustees) and city management has operational responsibility of the DETA. Any issuance of debt would require a two-thirds approval of the City Council. DETA 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, 2017.

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. SCOEA was created for the purpose of providing sanitation services to the three cities. SCOEA has contracted with a third party to perform these services. The City paid the SCOEA \$3,105,136 in FY 2017 in connection with these 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 Funds are used to account 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, Hunting and Fishing and Retiree Insurance.
- 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.
- Duncan Enhancement Trust Authority account for funds restricted for city wide beautification.
- The DPUA Sinking Fund accounts for a residual deficit 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. Fair value is the price that would be received in an orderly transaction between market participants at the measurement date.

***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 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 \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition 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, 2017, 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. 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. 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. If applicable, bond premiums and discounts are deferred and amortized over the life of the bonds using a neutral method which approximates the effective interest method. Bond payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed when incurred.

In the governmental fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance cost, during the current period. The face amount of debt is reported as other financing sources. Premiums received on debt issuances are also reported as other financing sources, and discounts are reported as other financing uses. Issuance cost, whether or not withheld from the actual debt proceeds received, and principal payments are reported as debt service expenditures.

#### **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 and OPEB. The City also reports deferred inflows of resources for unavailable revenues, court fines and grants, 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 DETA and DEDTA’s highest levels of decision-making authority are 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, 2017, the City’s General Fund, is reporting a deficit 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 give 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, 2017, 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 early implemented 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. See Note III. G.

**CITY OF DUNCAN, OKLAHOMA  
ANNUAL FINANCIAL REPORT  
DECEMBER 31, 2017**

### III. Detailed Notes on All Funds

**A. Deposits and investments** – The City held the following deposits/investments at December 31, 2017:

#### PRIMARY GOVERNMENT:

Schedule of Deposits and Investments by Type

Type	Fair Value	Credit Rating	Fair Value Category	Maturities in Years				
				Less Than One	1 - 5	6 - 10	11-20	20+
Government money markets	\$ 635,764	AAA/m	n/a	635,764	-	-	-	-
Money Markets	28,086	n/a	n/a	28,086	-	-	-	-
US Agency (GNMA)	10,082,387	AA+	Level 2	-	-	-	-	10,082,387
Mutual funds fixed income	8,001,082	not rated	Level 2	8,001,082	-	-	-	-
Sub-total	18,747,319			<u>\$ 8,664,932</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,082,387</u>
Demand accounts	\$ 19,736,605	n/a	n/a					
Cash on hand	2,818	n/a	n/a					
Mutual Funds:								
Equity	1,901,607	n/a	Level 1					
Common trust fund equity	3,203,350	n/a	Level 1					
	<u>\$ 43,591,699</u>							
Reconciliation to Statement of Net Position:								
Cash and cash equivalents	\$ 21,811,701							
Cash and cash equivalents restricted	2,368,660							
Investments	3,013,667							
Investments, restricted	7,068,720							
Pension cash and cash equivalents	208,623							
Pension investments	9,026,514							
Agency fund cash and cash equivalents	93,814							
	<u>\$ 43,591,699</u>							

The City uses the fair value hierarchy established by generally accepted accounting principles based on the valuation inputs used to measure the fair value of an asset. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels. Level 1 inputs are quoted prices (unadjusted) for identical assets in active markets that a government can access at the measurement date; Level 2 inputs are quoted prices for similar assets or significant other observable inputs; Level 3 inputs are significant unobservable inputs. The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs.

Equity investments classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for identical investments. Fixed income investments classified in Level 2 of the fair value hierarchy are normally valued based on price data obtained from observed transactions and market price quotations from broker dealers and/or pricing vendors. Valuation estimates from service providers' internal models use observable inputs such as interest rates, graded curves, credit/risk spreads and default rates. Matrix pricing techniques value securities based on their relationship to benchmark quoted market prices.

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, 2017, the City's deposits were fully insured and collateralized.

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, 2017, the City had no investments that are exposed to custodial credit risk.

*Interest Rate Risk.* Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City discloses its exposure to interest rate risk by disclosing the maturity dates of its various investments by date range as outlined in the table above. The City of Duncan's formal investment policy requires that the portfolio be designed to attain a market rate of return throughout budgetary and economic cycles, taking into account the City's legal constraints, investment risk constraints and the cash flow characteristics of the portfolio.

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

**CITY OF DUNCAN, OKLAHOMA  
ANNUAL FINANCIAL REPORT  
DECEMBER 31, 2017**

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“real” rate, consistent with the risk levels established by the Pension Board. The minimum acceptable long-term rate of return over a full market cycle (5 year) is that which achieves the total return of its benchmark while maintaining a risk level similar to, or less than, that of the benchmark.

Asset allocation guidelines for the Plan are as follows:

<b>Class</b>	<b>Target Percent</b>	<b>December 2017 Percent</b>
Equities	45-65%	49%
Small Cap Equities	Up to 25%	23%
International Equities	Up to 15%	1%
Fixed Income	35%-55%	44%
Cash and equivalents	0% to 5%	3%

*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 Plan (any over 5% are disclosed). Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools and other pooled investments are excluded from this consideration. All investments of the plan are in common trust funds, money markets or cash at December 31, 2017.

*Rate of return* – For the year ended December 31, 2017, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 11.4 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, 2017. The \$154,465 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, 2017. The \$25,318 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 \$1,587,295 of which \$1,270,537 were covered by FDIC insurance. The deposits are placed with quality financial institutions and management believes the risk of loss is minimal. In addition, DAEDF held \$1,235,805 of Federal Home Loan Bank Bonds (Level II securities) bearing interest at 1.00%; and certificates of deposit totaling \$2,233,401 with interest from .45% to 1.55% with maturities from April 2018 to January 2019.

**CITY OF DUNCAN, OKLAHOMA**  
**ANNUAL FINANCIAL REPORT**  
**DECEMBER 31, 2017**

**B. Receivables**

Receivables as of December 31, 2017, for the City of Duncan's governmental and business-type activities, including the applicable allowances for uncollectible accounts are as follows:

	Accounts Receivable	Less: Allowance for Uncollectible Accounts	Net Accounts Receivable
Governmental Activities:			
Taxes	\$ 134,636	\$ -	\$ 134,636
Court fines	935,825	(655,077)	280,748
Other	91,534	-	91,534
Total Governmental Activities	<u>\$ 1,161,995</u>	<u>\$ (655,077)</u>	<u>\$ 506,918</u>
Business-Type Activities:			
Utilities	<u>\$ 4,421,099</u>	<u>\$ (100,703)</u>	<u>\$ 4,320,396</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	\$ 1,087,942	\$ -	\$ 1,087,942
Trustee Accounts:			
2009A Debt Service Account	175,303	-	175,303
2009A SRF	89,452	-	89,452
OWRB 2002A Debt Service Account	62,614	-	62,614
2012 Note Revenue Account	308,395	-	308,395
Waurika Debt Service	644,954	7,068,720	7,713,674
Total Restricted Assets	<u>\$ 2,368,660</u>	<u>\$ 7,068,720</u>	<u>\$ 9,437,380</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 2017 for the primary government:



**CITY OF DUNCAN, OKLAHOMA  
ANNUAL FINANCIAL REPORT  
DECEMBER 31, 2017**

**PRIMARY GOVERNMENT:**

	Balance at January 1, 2017	Additions	Deductions	Balance at December 31, 2017
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 1,209,125	\$ 10,000	\$ -	\$ 1,219,125
Construction in progress	16,625	1,000,010	69,565	947,070
Total capital assets not being depreciated	<u>1,225,750</u>	<u>1,010,010</u>	<u>69,565</u>	<u>2,166,195</u>
Capital assets being depreciated:				
Buildings	22,437,987	232,975	198,992	22,471,970
Machinery, furniture and equipment	13,795,484	1,549,532	1,612,177	13,732,839
Infrastructure	93,366,638	79,608	28,198	93,418,048
Total other capital assets at historical cost	<u>129,600,109</u>	<u>1,862,115</u>	<u>1,839,367</u>	<u>129,622,857</u>
Less accumulated depreciation for:				
Buildings	11,269,500	749,919	161,171	11,858,248
Machinery, furniture and equipment	11,148,090	702,306	1,573,810	10,276,586
Infrastructure	64,067,796	2,540,757	28,063	66,580,490
Total accumulated depreciation	<u>86,485,386</u>	<u>3,992,982</u>	<u>1,763,044</u>	<u>88,715,324</u>
Capital assets being depreciated, net	<u>43,114,723</u>	<u>(2,130,867)</u>	<u>76,323</u>	<u>40,907,533</u>
Governmental activities capital assets, net	<u>\$ 44,340,473</u>	<u>\$ (1,120,857)</u>	<u>\$ 145,888</u>	<u>\$ 43,073,728</u>
<b>Business-type activities:</b>				
Capital assets not being depreciated:				
Land	\$ 358,676	\$ 17,000	\$ -	\$ 375,676
Construction in progress	692,740	1,174,904	970,046	897,598
Total capital assets not being depreciated	<u>1,051,416</u>	<u>1,191,904</u>	<u>970,046</u>	<u>1,273,274</u>
Capital assets being depreciated:				
Buildings	20,250,614	723,153	301,808	20,671,959
Machinery, furniture and equipment	7,295,955	632,722	1,544,239	6,384,438
Utility property	99,726,610	178,165	703,867	99,200,908
Water rights	18,785,708	-	-	18,785,708
Total other capital assets at historical cost	<u>146,058,887</u>	<u>1,534,040</u>	<u>2,549,914</u>	<u>145,043,013</u>
Less accumulated depreciation for:				
Buildings	9,870,968	730,058	261,196	10,339,830
Machinery, furniture and equipment	6,221,531	233,469	1,475,884	4,979,116
Utility property	62,361,433	2,489,392	698,004	64,152,821
Water rights	10,865,203	232,956	-	11,098,159
Total accumulated depreciation	<u>89,319,135</u>	<u>3,685,875</u>	<u>2,435,084</u>	<u>90,569,926</u>
Capital assets being depreciated, net	<u>56,739,752</u>	<u>(2,151,835)</u>	<u>114,830</u>	<u>54,473,087</u>
Business-type activities capital assets, net	<u>\$ 57,791,168</u>	<u>\$ (959,931)</u>	<u>\$ 1,084,876</u>	<u>\$ 55,746,361</u>

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

Governmental Activities:

General government	\$ 216,968
Culture and recreation	291,671
Community development	11,301
Economic development	146,358
Public safety	495,302
Streets	2,831,382
	<u>\$ 3,992,982</u>

Business-Type Activities:

Water	\$ 1,580,629
Wastewater	902,907
Sanitation	544,169
Electric	305,791
Lake	100,163
Airport	252,216
	<u>\$ 3,685,875</u>

**CITY OF DUNCAN, OKLAHOMA  
ANNUAL FINANCIAL REPORT  
DECEMBER 31, 2017**

DAEDF capital assets were as follows:

<b>Duncan Area Economic Development Foundation:</b>	<b>Balance, December 31, 2017</b>
Capital assets, being depreciated:	
Buildings and improvements	\$ 16,031,916
Equipment	208,235
Total capital assets, being depreciated	<u>16,240,151</u>
Less accumulated depreciation	<u>(4,494,214)</u>
Total capital assets, being depreciated, net	<u>11,745,937</u>
Governmental activities capital assets, net	<u><u>\$ 11,745,937</u></u>

DIA capital assets were as follows:

<b>Duncan Industrial Authority:</b>	<b>Balance, July 1, 2017</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance, June 30, 2017</b>
Capital assets, being depreciated:				
Equipment	\$ -	\$ 31,676	\$ -	\$ 31,676
Total capital assets, being depreciated	<u>-</u>	<u>31,676</u>	<u>-</u>	<u>31,676</u>
Less accumulated depreciation	<u>-</u>	<u>1,131</u>	<u>-</u>	<u>1,131</u>
Total capital assets, being depreciated, net	<u>-</u>	<u>30,545</u>	<u>-</u>	<u>30,545</u>
Governmental activities capital assets, net	<u><u>\$ -</u></u>	<u><u>\$ 30,545</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 30,545</u></u>

**E. Long-term liabilities**

Long-term liabilities of the City of Duncan as of December 31, 2017, are summarized as follows:

**CITY OF DUNCAN, OKLAHOMA  
ANNUAL FINANCIAL REPORT  
DECEMBER 31, 2017**

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**Governmental Activities**

**Notes Payable:**

\$200,000 Note Payable, dated September 22, 2017, payable to Halliburton Energy due in quarterly installments \$28,571, with interest of 0.0%.  
Final payment due September 2017. Proceeds were used for the purchase of building. \$ 200,000

**Capital Leases Payable:**

\$716,810 capital lease agreement for the purchase of vehicles, payable to Arvest Bank in annual installments of \$91,089, including interest at 1.99%, with final payment due December 2018. \$ 89,288

\$91,244 capital lease agreement for the purchase of computers, payable to Arvest Bank in annual installments of \$32,220, including interest at 2.90%, with final payment due February 2020. 91,244

\$82,783 capital lease agreement for the purchase of a backhoe, payable to Arvest Bank in annual installments of \$28,979, including interest at 2.49%, with final payment due May 2020. 82,783

\$624,888 capital lease agreement for the purchase of a 2017 fire truck, payable to First Bank in annual installments of \$161,621, including interest at 2.00%, with final payment due January 2021. 624,888

\$118,180 capital lease agreement for the purchase of an asphalt machine, payable to OK State Bank in annual installments of \$25,358, including interest at 2.39%, with final payment due September 2022. 118,180

\$41,946 capital lease agreement for the purchase of a tractor, payable to OK State Bank in annual installments of \$9,001, including interest at 2.39%, with final payment due September 2022. 41,946

\$ 1,048,329

**Compensated Absences:**

Accrued compensated absences. The general fund typically has been used to liquidate this liability. \$ 1,262,783

**Claims Liability:**

The liability related to retained risk of loss in connection with workers compensation claims. The Worker's Compensation fund liquidates this liability. \$ 942,864

**CITY OF DUNCAN, OKLAHOMA**  
**ANNUAL FINANCIAL REPORT**  
**DECEMBER 31, 2017**

**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.	\$ 5,777,234
\$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.	921,657
\$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.	2,894,450
\$6,666,600 note payable to the Waurika Master Conservancy District, issued December 2017, 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 system improvements.	6,666,600
\$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.	901,595
\$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.	3,461,000
\$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 3.20% 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.	4,507,000
\$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.	2,970,000
\$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.	7,105,000
\$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.	3,502,000
<b>Total notes payable</b>	<b>\$ 38,706,536</b>

**CITY OF DUNCAN, OKLAHOMA**  
**ANNUAL FINANCIAL REPORT**  
**DECEMBER 31, 2017**

**Compensated Absences:**

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

\$ 238,447

Long-term liability transactions for the year ended December 31, 2017 and changes therein were as follows:

<u>Type of Debt</u>	<u>Balance January 1, 2017</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31, 2017</u>	<u>Due Within One Year</u>
<b>Governmental Activities:</b>					
Notes payable	\$ 645,000	\$ 200,000	\$ 645,000	\$ 200,000	\$ 114,286
Capital leases payable	176,810	959,041	87,522	1,048,329	335,384
Accrued compensated absences	1,414,553	-	151,770	1,262,783	126,278
Claims liability	1,106,615	260,725	424,476	942,864	377,146
Total Governmental Activities	<u>\$ 3,342,978</u>	<u>\$ 1,419,766</u>	<u>\$ 1,308,768</u>	<u>\$ 3,453,976</u>	<u>\$ 953,094</u>
			Add: Total OPEB liability	4,623,549	
			Add: Net Pension Liability	14,475,547	
				<u>\$ 22,553,072</u>	
<b>Business-Type Activities:</b>					
Notes Payable	\$ 41,349,480	\$ 6,666,600	\$ 9,309,544	\$ 38,706,536	\$ 3,977,772
Premium on debt issued	-	669,434	4,483	664,951	-
Meter deposits	1,071,382	331,524	314,964	1,087,942	1,087,942
Accrued compensated absences	234,456	3,991	-	238,447	20,956
Total Business-Type Activities	<u>\$ 42,655,318</u>	<u>\$ 7,671,549</u>	<u>\$ 9,628,991</u>	<u>\$ 40,697,876</u>	<u>\$ 5,086,670</u>
			Add: Total OPEB liability	1,304,078	
			Add: Net Pension Liability	15,778,889	
				<u>\$ 57,780,843</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
2018	\$ 114,286	\$ -	\$ 335,384	\$ 12,831
2019	85,714	-	241,478	15,722
2020	-	-	246,736	10,325
2021	-	-	191,173	4,806
2022	-	-	33,558	802
	<u>\$ 200,000</u>	<u>\$ -</u>	<u>\$ 1,048,329</u>	<u>\$ 44,486</u>

**CITY OF DUNCAN, OKLAHOMA  
ANNUAL FINANCIAL REPORT  
DECEMBER 31, 2017**

Fiscal Year Ending December 31,	Business-Type Activities	
	Notes Payable	
	Principal	Interest
2018	\$ 3,977,772	\$ 1,066,028
2019	4,173,325	993,556
2020	4,530,072	895,570
2021	3,980,528	783,392
2022	3,907,760	684,061
2023-2027	11,921,251	2,040,821
2028-2032	3,497,058	921,875
2033-2037	2,245,571	288,152
2038	473,199	24,831
	<u>\$ 38,706,536</u>	<u>\$ 7,698,286</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 \$5,318,738. Total interest paid during 2017 was \$110,320. The current loan balance is \$1,770,326. Future debt service requirements are as follows:

Fiscal Year Ending December 31,	DAEDF Component Unit	
	Notes Payable	
	Principal	Interest
2018	\$ 427,378	\$ 86,725
2019	451,521	62,582
2020	476,900	37,203
2021	414,527	13,891
	<u>\$ 1,770,326</u>	<u>\$ 200,401</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 was payable through fiscal year 2017. The total principal and interest payable for the remainder of the life of this note is \$-0-. Pledged sales taxes in the current year were \$2,096,723. Debt service payment of \$658,610 for the current fiscal year was 31.4% of pledged sales tax.

**CITY OF DUNCAN, OKLAHOMA**  
**ANNUAL FINANCIAL REPORT**  
**DECEMBER 31, 2017**

*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 \$24,474,090. The notes are payable from the above-mentioned utility revenues. The debt service payments on the notes this year were \$2,684,782 which was 8.8% of pledged utility revenues of \$30,641,951.

*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 \$10,570,141. The note is payable from the above-mentioned utility revenues. The debt service payments on the note this year were \$481,882 which was 7.14% of pledged utility revenues of \$6,752,185.

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

The composition of interfund balances as of December 31, 2017 is as follows:

Receivable Fund	Payable Fund	Amount	Nature of Interfund Balance
* Capital Improvement Fund	* DEDTA	\$ 109,526	Project funding
* DPUA	Internal service - workers comp	991,537	Negative pooled cash
* DPUA	* General	1,929,418	Negative pooled cash
		<u>\$ 3,030,481</u>	
* Denotes major fund.			
<b>Reconciliation to Fund Financial Statements:</b>			
	Advance/Due From	Advance/Due to	Net Interfund Balances
Governmental Funds	\$ 109,526	\$ 2,038,944	\$ (1,929,418)
Proprietary Funds	2,920,955	-	2,920,955
Internal Service Funds	-	991,537	(991,537)
	<u>\$ 3,030,481</u>	<u>\$ 3,030,481</u>	<u>\$ -</u>
Reconciliation of Statement of Net Position:			
Net Internal Balances		\$	2,920,955
Internal Service Fund Activity reported in Business-type Activities			(368,632)
Net Internal Balances - Government Wide		<u>\$</u>	<u>2,552,323</u>

**CITY OF DUNCAN, OKLAHOMA**  
**ANNUAL FINANCIAL REPORT**  
**DECEMBER 31, 2017**

A summary of interfund transfers for the fiscal year ended December 31, 2017 is as follows:

<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>	<u>Purpose of Transfer</u>
911 Telephone	* General	\$ 159,788	Budgeted operational transfer
DEDTA	* Capital Improvement Fund	277,281	operational cost
* DPUA	Employee insurance	198,199	To close fund
* DPUA	* General	897,701	Pledged sales tax
* DPUA	* General	4,961,208	Budgeted operational transfer
* DPUA	DEDTA	14,240	Budgeted operational transfer
* DPUA	DPUA Sinking	24,850	Debt service
* DPUA	DPUA Debt Service	546,716	Debt service
CDBG	* General	340,293	Budgeted operational transfer
* General	CDBG	90,700	Budgeted operational transfer
* General	DETA	18,000	Budgeted operational transfer
* General	* Capital Improvement Fund	897,701	Expense reimbursement
* Capital Improvement Fund	* DPUA	1,278,060	Capital projects
Total		<u>\$ 9,704,737</u>	

\* Denotes major fund.

**Reconciliation to Fund Financial Statements:**

	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Net Transfers</u>
Governmental Funds	\$ 7,330,777	\$ (3,061,823)	\$ 4,268,954
Proprietary Funds	2,175,761	(6,644,978)	(4,469,217)
Internal Service Funds	198,199	-	198,199
	<u>\$ 9,704,737</u>	<u>\$ (9,706,801)</u>	<u>\$ (2,064)</u>

**Reconciliation to Statement of Activities:**

Net transfers governmental activities	\$ 4,469,217
Transfer of capital assets to business-type activities	(1,225,224)
Transfers - internal activity	<u>\$ 3,243,993</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:



**CITY OF DUNCAN, OKLAHOMA  
ANNUAL FINANCIAL REPORT  
DECEMBER 31, 2017**

Fund	Restricted By	Amount
<b>Governmental Activities:</b>		
Cemetery Fund	Statutory requirements	\$ 190,630
Street and Alley Fund	Statutory requirements	191,782
E911 Fund	Statutory requirements	221,116
		<u>\$ 603,528</u>
CDBG Fund	External sources	\$ 90,700
Police grants and seizures	External sources	66,264
First responder	External sources	10,831
Library grants	External sources	3,189
Economic Development Fund	External sources	8,065,572
Capital Projects Fund	External sources	10,534,002
		<u>\$ 18,770,558</u>
Total Governmental Restricted		<u><u>\$ 19,374,086</u></u>
Reconciliation to Statement of Net Position:		
Restricted for:		
Public Safety		\$ 298,211
Capital projects		10,534,002
Economic development		8,065,572
Other		476,301
Total Governmental Restricted		<u><u>\$ 19,374,086</u></u>
<b>Business Type Activities:</b>		
Debt Service Reserves	External sources	<u><u>\$ 7,266,491</u></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:					
Restricted for:					
Street improvements	\$ -	\$ -	\$ -	\$ 191,782	\$ 191,782
Cemetery improvements	-	-	-	190,630	190,630
CDBG programs	-	-	-	90,700	90,700
E911 dispatch	-	-	-	221,116	221,116
Police	-	-	-	66,264	66,264
First responder program	-	-	-	10,831	10,831
Economic development	-	8,059,265	-	6,307	8,065,572
Culture and recreation	-	-	-	3,189	3,189
Capital improvements	-	-	10,534,002	-	10,534,002
Sub-total restricted	<u>-</u>	<u>8,059,265</u>	<u>10,534,002</u>	<u>780,819</u>	<u>19,374,086</u>
Unassigned (deficit)	(1,282,848)	-	-	-	(1,282,848)
TOTAL FUND BALANCE	<u><u>\$ (1,282,848)</u></u>	<u><u>\$ 8,059,265</u></u>	<u><u>\$ 10,534,002</u></u>	<u><u>\$ 780,819</u></u>	<u><u>\$ 18,091,238</u></u>

**CITY OF DUNCAN, OKLAHOMA  
ANNUAL FINANCIAL REPORT  
DECEMBER 31, 2017**

*Restatement of beginning net position*

	Governmental Activities	Business- Type Activities	DPUA
Beginning net position a previously reported	\$ 31,205,101	\$ 24,369,419	\$ 25,071,838
Reversal of OPEB obligation under GASB 45	5,453,017	885,086	885,086
Implementation of GASB Statement 75	(12,737,053)	(3,592,502)	(3,592,502)
Beginning net position as restated	<u>\$ 23,921,065</u>	<u>\$ 21,662,003</u>	<u>\$ 22,364,422</u>

The net position was restated due to a change in accounting principle related to the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pension*.

#### **H. Postemployment Healthcare Plan**

*Plan Description.* The City offers post-employment benefits (OPEB) for 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. A substantive plan is in which the plan terms are understood by the employer and the plan members. This understanding is based on communication between the employer and the plan member and historical pattern of practice with regard to the sharing of benefit cost. 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 a portion (approximately 44% at the end of 2017) of 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. No assets are accumulated in a trust to pay benefits. The plan does not issue separate financial statements.

**Benefits provided** - The Plan covers all current retirees of the City who elected postretirement medical coverage through the City Health Plan and future retired employees of the City's health plan. In accordance with administrative policy, the benefit levels are the same as those afforded to active employees; this creates an implicit rate subsidy. The benefits offered by the City to retirees include health, prescription, dental and vision. Beginning July 1, 2017 and each July 1 thereafter, retirees will pay the cost of any premium increases annually to their health plan coverage. In addition, they will pay an additional 10% of the current premium cost until the retiree is paying 100% of the premium cost.

**Contributions** – Retirees continue coverage with the City by paying a portion (approximately 44% at the beginning of 2018) of the carrier premium rate. Authority to establish and amend contributions rests with the City Council. The amount of benefit payments during fiscal year December 31, 2017 were \$227,919.

**CITY OF DUNCAN, OKLAHOMA  
ANNUAL FINANCIAL REPORT  
DECEMBER 31, 2017**

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**Employees Covered by Benefit Terms**

Active Employees	178
Inactive not yet receiving benefits	0
Inactive or beneficiaries receiving benefits	<u>35</u>
Total	<u>213</u>

**Total OPEB Liability** – The total OPEB liability was determined based on an actuarial valuation performed as of December 31, 2017 which is also the measurement date.

**Actuarial Assumptions**- The total OPEB liability in the December 31, 2017 valuation, was determined using the following actuarial assumptions:

- Actuarial Cost Method - Entry Age Normal
- Discount Rate – 3.44% based on the 20 year municipal bond yield
- Pay increases – 3.0% per annum
- Retirement Age – Civilians - 55 with 10 years of service, Police and Fire 20 years of service
- Mortality – RP 2000 projected, with cohort projection
- Inflation rate – 2.5% per annum
- Medical Trend Rates

<u>Year</u>	<u>Rate</u>
2018	6.0%
2019	5.5%
2020	5.0%
2021	4.5%
2022+	4.0%

**Changes in Total OPEB Liability** –

	<b>Total OPEB Liability</b>
<b>Balances at Beginning of Year</b>	<u>\$ 16,329,555</u>
<b>Changes for the Year:</b>	
Service cost	318,425
Interest expense	602,632
Difference in expected and actual experience	(521,176)
Difference due to changes in actuarial assumptions	704,657
Difference due to changes in plan provision	(11,278,547)
Benefits paid	<u>(227,919)</u>
<b>Net Changes</b>	<u>(10,401,928)</u>
<b>Balances End of Year</b>	<u><u>\$ 5,927,627</u></u>

**CITY OF DUNCAN, OKLAHOMA  
ANNUAL FINANCIAL REPORT  
DECEMBER 31, 2017**

The total OPEB liability of \$5,927,627 is allocated \$4,623,549 to governmental activities and \$1,304,078 to business-type activities based on the number of employees covered by benefit terms.

The changes in assumptions relate to a change in the discount rate from 3.78% at January 1, 2017 to 3.44% at December 31, 2017. The health care trend rates were modified to reflect the actual changes in the budgeted rates for the period. Also, to better reflect actual and expected experience, the assumed utilization for future plan benefits was changed to more accurately reflect current trends.

The changes in plan provisions were the result of management changing the amount of premium to be paid by the retiree beginning July 1, 2017. Beginning July 1, 2017 and each July 1 thereafter, retirees will pay the cost of any premium increases annually to their health plan coverage. In addition, they will pay an additional 10% of the current premium cost until the retiree is paying 100% of the premium cost.

**OPEB Liabilities, OPEB Expense, and Deferred Outflows or Resources and Deferred Inflows of Resources Related to OPEB** - For the year ended December 31, 2017, the City recognized OPEB expense of (\$10,336,758). At December 31, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 462,284
Changes of assumptions	625,034	-
Total	<u>\$ 625,034</u>	<u>\$ 462,284</u>

Any amounts reported as deferred outflows or resources and deferred inflows of resources related to OPEB will be recognized in pension expense as follows:

**Year Ended June 30:**

2018	\$ 20,732
2019	20,732
2020	20,732
2021	20,732
2022	20,732
Thereafter	59,090
	<u>\$ 162,750</u>

**Sensitivity of the City's total OPEB liability to changes in the discount rate**- The following presents the City's total OPEB liability, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.44 percent) or 1-percentage-point higher (4.44 percent) than the current discount rate:

	1% Decrease ( 2.44%)	Current Discount Rate ( 3.44%)	1% Increase ( 4.44%)
Employer's total OPEB liability	\$6,190,797	\$5,927,627	\$5,681,125

**CITY OF DUNCAN, OKLAHOMA**  
**ANNUAL FINANCIAL REPORT**  
**DECEMBER 31, 2017**

**Sensitivity of the City's total OPEB liability to changes in the healthcare cost trend rates** - The following presents the City's total OPEB liability, as well as what the City's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (5.0 percent decreasing to 3.0 percent) or 1-percentage-point higher (7.0 percent decreasing to 5.0 percent) than the current healthcare cost trend rates:

	1% Decrease (5.00% decreasing to 3.0%)	Current Rate (6.00% decreasing to 4.0%)	1% Increase ( 7.00% decreasing to 5.0%)
Employer's total OPEB liability	\$5,658,718	\$5,927,627	\$6,217,548

#### 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, through December 31, 2015, 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. Beginning January 1, 2016, the City had purchased commercial insurance.
- 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, 2015 to December 31, 2017, are as follows:

##### CLAIMS LIABILITY ANALYSIS

	Health	Worker's Comp	Total
Claims liability, December 31, 2015	\$ 276,571	\$ 887,506	\$ 1,164,077
Claims and changes in estimates	51,409	1,012,232	1,063,641
Claims payments	(327,980)	(793,123)	(1,121,103)
Claims liability, December 31, 2016	-	1,106,615	1,106,615
Claims and changes in estimates	-	260,725	260,725
Claims payments	-	(424,476)	(424,476)
Claims liability, December 31, 2017	\$ -	\$ 942,864	\$ 942,864

The City estimates that the liability of \$942,864 is \$377,146 (40%) current and \$565,718 (60%) long-term.

## **B. Commitments and contingent liabilities**

### **Grant Programs**

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

### **Litigation**

The City is a party to various legal proceedings which normally occur in the course of governmental operations. The financial statements do not include accruals or provisions for loss contingencies that may result from these proceedings. State statutes provide for the levy of an ad valorem tax over a three-year period by a City Sinking Fund for the payment of any court assessed judgment rendered against the City. While the outcome of the above noted proceedings cannot be predicted, due to the insurance coverage maintained by the City and the State statute relating to judgments, the City feels that any settlement or judgment not covered by insurance would not have a material adverse effect on the financial condition of the City.

### **DAEDF**

As of December 31, 2017, DAEDF has committed a total of \$279,638 for industry incentives and \$372,719 for water infrastructure.

### **Purchased Power**

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

## **C. Employee retirement systems and pensions plans**

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

**CITY OF DUNCAN, OKLAHOMA  
ANNUAL FINANCIAL REPORT  
DECEMBER 31, 2017**

	Governmental Activities	Business Type Activites	Total
Net Pension Liability			
Police Pension System	\$ 59,987	\$ -	\$ 59,987
Firefighter's Pension System	10,260,242	-	10,260,242
Single Employer Plan	4,155,318	15,778,889	19,934,207
Total Net Pension Liability	<u>\$ 14,475,547</u>	<u>\$ 15,778,889</u>	<u>\$ 30,254,436</u>
Deferred Outflows of Resources			
Police Pension System	\$ 598,777	\$ -	\$ 598,777
Firefighter's Pension System	1,627,372	-	1,627,372
Single Employer Plan	226,411	5,062,442	5,288,853
Total Deferred Outflows of Resources	<u>\$ 2,452,560</u>	<u>\$ 5,062,442</u>	<u>\$ 7,515,002</u>
Deferred Inflows of Resources			
Police Pension System	\$ 455,596	\$ -	\$ 455,596
Firefighter's Pension System	748,773	-	748,773
Single Employer Plan	3,990,352	649,215	4,639,567
Total Deferred Inflows of Resources	<u>\$ 5,194,721</u>	<u>\$ 649,215</u>	<u>\$ 5,843,936</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](http://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.

**CITY OF DUNCAN, OKLAHOMA  
ANNUAL FINANCIAL REPORT  
DECEMBER 31, 2017**

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 \$293,559. The State of Oklahoma also made on-behalf contributions to OPPRS in the amount of \$266,268 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 \$267,359. These on-behalf payments did not meet the criteria of a special funding situation.

**Net Pension Liability, Pension Expense, and Deferred Outflows and Deferred Inflows of Resources Related to Pensions** - At December 31, 2017, the City reported a liability of \$59,987 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2017. 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, 2017. Based upon this information, the City's proportion was 0.7799%.

For the year ended December 31, 2017, the City recognized pension expense of \$341,573. At December 31, 2017, 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	\$ 3,013	\$ 362,664
Net difference between projected and actual earnings on pension plan investments	446,798	-
Changes in proportion	4,861	20,716
Contributions during measurement date	-	72,216
City contributions subsequent to the measurement date	144,105	-
Total	<u>\$ 598,777</u>	<u>\$ 455,596</u>



**CITY OF DUNCAN, OKLAHOMA  
ANNUAL FINANCIAL REPORT  
DECEMBER 31, 2017**

---

Deferred outflows of resources related to pensions totaling \$144,105 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, 2018. 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 5.72 years and 5.725 years as of June 30, 2017 and 2016, 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:		
2018	\$	(39,153)
2019		195,722
2020		78,068
2021		(194,995)
2022		(40,566)
	\$	<u>(924)</u>

**Actuarial Assumptions**- The total pension liability was determined by an actuarial valuation as of July 1, 2017, 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 forward 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.

The actuarial assumptions used in the July 1, 2017, 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

**CITY OF DUNCAN, OKLAHOMA  
ANNUAL FINANCIAL REPORT  
DECEMBER 31, 2017**

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, 2017, are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed income	4.51%
Domestic equity	6.62%
International equity	9.70%
Real estate	6.96%
Private equity	9.86%
Commodities	5.18%

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 revenue collected by the state, 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 employers 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>
Employers' net pension liability (asset)	\$2,027,395	\$59,987	(\$1,601,786)

**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](http://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](http://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' annual pay. Contributions to the pension plan from the City were \$322,149. The State of Oklahoma also made on-behalf contributions to OFPRS in the amount of \$793,639 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 \$718,978. These on-behalf payments did not meet the criteria of a special funding situation.

**CITY OF DUNCAN, OKLAHOMA  
ANNUAL FINANCIAL REPORT  
DECEMBER 31, 2017**

**Net Pension Liability, Pension Expense, and Deferred Outflows and Deferred Inflows of Resources Related to Pensions** - At December 31, 2017, the City reported a liability of \$10,260,242 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2017. 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, 2017. Based upon this information, the City's proportion was 0.8158%.

For the year ended December 31, 2017, the City recognized pension expense of \$1,041,976. At December 31, 2017, 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	\$ 1,370,592	\$ -
Net difference between projected and actual earnings on pension plan investments	-	285,918
Changes in proportion	99,440	453,891
City contributions during measurement date	4,201	8,964
City contributions subsequent to the measurement date	153,139	-
Total	<u>\$ 1,627,372</u>	<u>\$ 748,773</u>

Deferred outflows of resources related to pensions totaling \$153,139 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, 2018. 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 6.23 years and 6.26 years as of June 30, 2017 and 2016, 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 June 30:	
2018	\$ (12,066)
2019	305,401
2020	205,213
2021	(11,259)
2022	196,018
2023	42,153
	<u>\$ 725,460</u>

**CITY OF DUNCAN, OKLAHOMA  
ANNUAL FINANCIAL REPORT  
DECEMBER 31, 2017**

---

**Actuarial Assumptions**-The total pension liability was determined by an actuarial valuation as of July 1, 2017, using the following actuarial assumptions, applied to all prior periods included in the measurement:

Inflation:	3%
Salary increases:	3.5% to 9% 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 with generational mortality improvement Using Scale AA.  Active employees (post-retirement) and nondisabled pensioners: RP-2000 Blue Collar Healthy Combined table with generational mortality improvement using scale AA.  Disabled pensioners: RP-2000 Blue Collar Healthy Combined.

The actuarial assumptions used in the July 1, 2017, 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, 2017, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed income	20%	4.38%
Domestic equity	47%	7.72%
International equity	15%	9.70%
Real estate	10%	6.96%
Other assets	8%	5.75%

**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 36% 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

**CITY OF DUNCAN, OKLAHOMA  
ANNUAL FINANCIAL REPORT  
DECEMBER 31, 2017**

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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:

	1% Decrease 6.5%	Current Discount Rate 7.5%	1% Increase 8.5%
Employer's net pension liability	\$ 13,459,931	\$ 10,260,242	\$ 7,548,572

**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](http://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 hired prior to March 12, 2015 and 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.

**CITY OF DUNCAN, OKLAHOMA  
ANNUAL FINANCIAL REPORT  
DECEMBER 31, 2017**

---

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 was 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.

*Plan Membership -*

Active participants	71
Retired participants and beneficiaries	99
Inactive plan members not yet receiving benefits	<u>5</u>
Total Members	<u>175</u>

*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, 2016, 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, 2016 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, 2016, 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,

**CITY OF DUNCAN, OKLAHOMA**  
**ANNUAL FINANCIAL REPORT**  
**DECEMBER 31, 2017**

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.

City of Duncan Net Pension Liability - December 31, 2016 Plan Year

	Total Pension Liability	Plan Net Position	Net Pension Liability
Balances at beginning of year, January 1, 2016	\$ 28,016,632	\$ 7,099,742	\$ 20,916,890
Charges for year:			
Service cost	526,133	-	526,133
Interest expense	1,560,485	-	1,560,485
Contributions - employer	-	1,877,217	(1,877,217)
Contributions - employee	-	303,402	(303,402)
Net investment income	-	666,290	(666,290)
Changes of benefit terms	-	-	-
Difference between actual and expected experience	(286,458)	-	(286,458)
Changes in assumptions	-	-	-
Benefit payments, including refunds of member contributions	(1,781,876)	(1,781,876)	-
Plan administrative expenses	-	(64,066)	64,066
Net changes	\$ 18,284	\$ 1,000,967	\$ (982,683)
Balances at end of year, December 31, 2016	\$ 28,034,916	\$ 8,100,709	\$ 19,934,207

City of Duncan Net Pension Liability - December 31, 2017 Plan Year

	Total Pension Liability	Plan Net Position	Net Pension Liability
Balances at beginning of year, January 1, 2016	\$ 28,034,916	\$ 8,100,709	\$ 19,934,207
Charges for year:			
Service cost	475,144	-	475,144
Interest expense	1,562,236	-	1,562,236
Contributions - employer	-	806,899	(806,899)
Contributions - employee	-	249,490	(249,490)
Net investment income	-	963,255	(963,255)
Changes of benefit terms	-	-	-
Difference between actual and expected experience	638,610	-	638,610
Changes in assumptions	-	-	-
Benefit payments, including refunds of member contributions	(1,674,840)	(1,674,840)	-
Plan administrative expenses	-	(65,575)	65,575
Net changes	\$ 1,001,150	\$ 279,229	\$ 721,921
Balances at end of year, December 31, 2017	\$ 29,036,066	\$ 8,379,938	\$ 20,656,128

The City reported \$1,220,511 in pension expense for the year ended December 31, 2017. At December 31, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:



**CITY OF DUNCAN, OKLAHOMA**  
**ANNUAL FINANCIAL REPORT**  
**DECEMBER 31, 2017**

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 423,490
Net difference between projected and actual earnings on pension plan investments	265,879	-
Changes in proportion and differences between City contributions and proportionate share of contributions	4,216,075	4,216,077
City contributions subsequent to the measurement date	806,899	-
Total	<u>\$ 5,288,853</u>	<u>\$ 4,639,567</u>

The \$806,899 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 liability in the year ended December 31, 2018. Deferred Inflows of Resources related to the differences between expected and actual experience are 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 4.03 years and 2.69 years as of December 31, 2016 and 2017, respectively. Deferred outflows of resources related to the difference between expected and actual investment earnings are being amortized over a closed 5-year period as of the beginning of each measurement period. Other amounts reported as deferred outflows and inflows will be recognized in pension expense as follows:

Year ended December 31:

2018	\$ 5,631
2019	146,398
2020	61,341
2021	(60,217)
2022	4,460
	<u>\$ 157,613</u>

Actuarial Assumptions – Unless stated otherwise, the assumptions described below are as of the actuarial valuation date of December 31, 2016 and December 31, 2017:

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

**CITY OF DUNCAN, OKLAHOMA  
ANNUAL FINANCIAL REPORT  
DECEMBER 31, 2017**

---

*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, 2016 are summarized in the following table:

Asset Class	Target Allocation	Real Return
Equities	54%	2.90%
Fixed income	44%	1.10%
Cash equivalents 3 month Treasury	2%	0.00%
Inflation	N/A	3.00%

*Money-Weighted Rate of Return on Investments* – For the year ended December 31, 2017, the annual money-weighted rate of return on investments, net of investment expense, was 11.4%. 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 5.74 percent for the measurement date ended December 31, 2017. This was based on the expected rate of return of pension plan investments of 7.0% and the municipal bond rate of 3.78%. 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. Supplemental annual contributions of approximately \$1.5 million have been made in recent years.

For the plan year ended December 31, 2016 the discount rate is 5.12%. This was based on the expected rate of return of pension plan investments of 7.0% and the municipal bond rate of 3.44%. 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 21 within the 40 year projection period. Supplemental annual contributions of approximately \$1.5 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 and 5.12 percent, as well as what

**CITY OF DUNCAN, OKLAHOMA  
ANNUAL FINANCIAL REPORT  
DECEMBER 31, 2017**

the Plan's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.5 or 4.12 percent) or 1-percentage-point higher (6.5 or 6.12 percent) than the current rate:

	1% Decrease - 4.5%	Current Discount Rate - 5.5%	1% Increase - 6.5%
Plan Net Pension Liability - December 31, 2016 Plan Year	\$ 23,120,638	\$ 19,934,207	\$ 17,325,323
	1% Decrease - 4.12%	Current Discount Rate - 5.12%	1% Increase - 6.12%
Plan Net Pension Liability - December 31, 2017 Plan Year	\$ 24,147,477	\$ 20,656,129	\$ 17,752,950

The components of the net pension liability of the City and the Plan at December 31, 2017, were as follows:

	City - Primary Government Financial Statements	Pension Plan
Total Pension Liability	\$ 28,034,916	\$ 29,036,066
Plan Fiduciary Net Position	8,100,709	8,379,937
Net Pension Liability	\$ 19,934,207	\$ 20,656,129
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	28.90%	28.86%

*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 approximately \$.5 million in year two (FY 2018) and for each of the next eighteen years.

### **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, 2016, 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, 2017, total assets held in trust were \$807,706.

**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

**CITY OF DUNCAN, OKLAHOMA  
ANNUAL FINANCIAL REPORT  
DECEMBER 31, 2017**

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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 2017 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, 2017, by employees and employer were \$39,237 and \$31,225, respectively, on a covered payroll of \$392,370.

**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.

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, 2017, for employees and employer were \$51,861 and \$52,064, respectively, on a covered payroll of \$1,037,545. Employer and employee contributions are held in trust by OkMRF.

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

Plan Description – Effective October 2016, 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 the City Manager. At December 31, 2017, there was one (1) participant 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 8%. 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 8% of covered payroll. The City’s contributions for each employee (and interest allocated to the employee’s account) immediately 100% vested. 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, 2017, for employees and employer were \$10,121 and \$12,652, respectively, on a covered payroll of \$127,219. Employer and employee contributions are held in trust by OkMRF.

**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. In FY 2017 the monthly rental amount was reduced to \$55,459. Future minimum lease payments are \$4,957,638.

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.

The Foundation completed construction on a new building and leased it for a period of eight years beginning April 2016 at a monthly rental of \$24,000 which began September 2016. During 2017, lease income on this property was \$288,000. Future minimum lease payments are \$1,800,000.

Total lease revenues from all properties for 2017 was \$1,232,999. Real estate lease revenue presented in the statement of activities is reflected net of direct expense in the amount of \$1,249,524, for a net loss of \$16,526. Cost and carrying amount of property held for leasing as of December 31, 2017:

Building and land (cost)	\$15,891,061
Accumulated depreciation	<u>(4,402,958)</u>
Net book value	<u>\$ 1,488,103</u>

Future minimum lease payments on lease agreements in existence at December 31, 2017 are approximately \$1,222,128 for 2018, \$1,123,848 for 2019, \$1,092,708 for 2020, \$1,068,708 for 2021, \$1,027,308 for 2022.

**E. Non-Compliance**

State law prohibits deficit fund balance in governmental funds. The General Fund had deficit fund balance at December 31, 2017, of \$1,282,848.

**F. Other Matters**

The Worker's Compensation Internal Service Fund had a deficit of \$1,294,431. Deficits resulting from accrual reporting do not constitute violations of Oklahoma State Statutes.

**G. Subsequent Events**

In December 2018, the DPUA signed a binding letter of commitment with the Oklahoma Water Resources Board to incur debt not to exceed \$11,325,000 for the rehabilitation of the dam spillway at Clear Creek Lake Dam.

During 2018, the City and DPUA entered multiple lease for the purchase of vehicles and equipment. The City/DPUA financed \$1,077,154 with annual payments totaling \$261,993.

#### H. New Accounting Pronouncements –

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. The City has not yet determined the impact implementation will have on its net position.

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 84 will have on its net position.

GASB Statement 86, *Certain Debt Extinguishment Issues*, issued May 2017, will be effective for the City beginning with its fiscal year ending December 31, 2018. The primary objective of this Statement is to improve the consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – resources other than the proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The City has not yet determined the impact that implementation of GASB 86 will have on its net position.

GASB Statement 87, *Leases*, issued June 2017, will be effective for the City beginning with its fiscal year ending December 31, 2020. The primary objective of this Statement is to increase the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred

inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The City has not yet determined the impact that implementation of GASB 87 will have on its net position.

GASB Statement 88, *Certain Disclosures Related to Debt* - GASB No. 88 was issued April 2018, the primary objective of this Statement is to improve the information that is disclosed in the notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. It defines debt for purposes of disclosure in the notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date of the contractual obligation is established. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. This Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The City has not yet determined the impact that implementation of GASB 87 will have on its disclosures.

GASB 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period* – issued June 2018. This statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

GASB Statement 90, *Majority Equity Interests (An amendment of GASB Statement 14 and 61)* –issued August 2018, will be effective for the City beginning with its fiscal year ending June 30, 2020. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. The City has not yet determined the impact that implementation of GASB 90 will have on its net position.

**REQUIRED SUPPLEMENTARY INFORMATION**



**CITY OF DUNCAN, OKLAHOMA  
ANNUAL FINANCIAL REPORT  
DECEMBER 31, 2017**

**Budgetary Comparison Schedules – General Fund - (Budgetary Basis) – Year Ended December 31, 2017**

	<b>Budgeted Amounts</b>		<b>Actual Amounts, Budgetary Basis</b>	<b>Variance with Final Budget</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Taxes	\$ 9,489,700	\$ 9,489,700	\$ 9,597,473	\$ 107,773
Licenses and permits	59,675	59,675	80,235	20,560
Intergovernmental	300,049	300,049	307,869	7,820
Charges for services	94,350	94,350	182,364	88,014
Fees and fines	763,126	763,126	830,902	67,776
Investment earnings	1,200	1,200	2,415	1,215
Miscellaneous	150,006	150,006	127,899	(22,107)
Total revenues	<u>10,858,106</u>	<u>10,858,106</u>	<u>11,129,157</u>	<u>271,051</u>
<b>EXPENDITURES</b>				
Departmental:				
General government	3,245,326	3,245,326	2,999,593	245,733
Community development	759,524	759,524	611,898	147,626
Public safety	9,128,594	9,128,594	8,908,137	220,457
Highways and streets	961,271	961,271	752,100	209,171
Health	397,075	397,075	297,089	99,986
Culture and recreation	<u>1,408,520</u>	<u>1,408,520</u>	<u>1,168,110</u>	<u>240,410</u>
Total expenditures	<u>15,900,310</u>	<u>15,900,310</u>	<u>14,736,927</u>	<u>1,163,383</u>
Excess (deficiency) of revenues over expenditures	<u>(5,042,204)</u>	<u>(5,042,204)</u>	<u>(3,607,770)</u>	<u>1,434,434</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	5,962,489	6,358,990	6,358,990	-
Transfers out	<u>(920,171)</u>	<u>(1,028,871)</u>	<u>(1,028,871)</u>	-
Total other financing sources and uses	<u>5,042,318</u>	<u>5,330,119</u>	<u>5,330,119</u>	-
Net change in fund balances	114	287,915	1,722,349	1,434,434
Fund balances - beginning	-	-	<u>(3,070,447)</u>	<u>(3,070,447)</u>
Fund balances - ending	<u>\$ 114</u>	<u>\$ 287,915</u>	<u>\$ (1,348,098)</u>	<u>\$ (1,636,013)</u>

**CITY OF DUNCAN, OKLAHOMA  
ANNUAL FINANCIAL REPORT  
DECEMBER 31, 2017**

**Budgetary Comparison Schedules – DEDTA Major Special Revenue Fund - (Budgetary Basis) – Year Ended December 31, 2017**

	<b>Budgeted Amounts</b>		<b>Actual Amounts, Budgetary Basis</b>	<b>Variance with Final Budget</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Taxes	\$ 1,975,040	\$ 1,975,040	\$ 940,783	\$ (1,034,257)
Investment earnings	64,400	64,400	113,931	49,531
Miscellaneous	-	-	1,146,625	1,146,625
Total revenues	<u>2,039,440</u>	<u>2,039,440</u>	<u>2,201,339</u>	<u>161,899</u>
<b>EXPENDITURES</b>				
Departmental:				
Economic development	<u>4,693,442</u>	<u>4,693,442</u>	<u>1,588,263</u>	<u>3,105,179</u>
Total expenditures	<u>4,693,442</u>	<u>4,693,442</u>	<u>1,588,263</u>	<u>3,105,179</u>
Excess (deficiency) of revenues over expenditures	<u>(2,654,002)</u>	<u>(2,654,002)</u>	<u>613,076</u>	<u>3,267,078</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	14,240	14,240	-
Transfers out	-	(277,381)	(277,281)	100
Total other financing sources and uses	<u>-</u>	<u>(263,141)</u>	<u>(263,041)</u>	<u>100</u>
Net change in fund balances	(2,654,002)	(2,917,143)	350,035	3,267,178
Fund balances - beginning	<u>7,709,230</u>	<u>7,709,230</u>	<u>7,709,230</u>	<u>-</u>
Fund balances - ending	<u>\$ 5,055,228</u>	<u>\$ 4,792,087</u>	<u>\$ 8,059,265</u>	<u>\$ 3,267,178</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.

**CITY OF DUNCAN, OKLAHOMA  
ANNUAL FINANCIAL REPORT  
DECEMBER 31, 2017**

---

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	\$ 17,488,147
Total expenses - budgetary basis	<u>(15,765,798)</u>
Change in fund balance - budgetary basis	1,722,349
Add change in fund balance of sub-accounts combined for reporting purposes:	
Fire Uniform Allowance	4,847
Hunting and Fishing	<u>12,959</u>
Change in fund balance - GAAP basis	<u><u>\$ 1,740,155</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.

**CITY OF DUNCAN, OKLAHOMA  
ANNUAL FINANCIAL REPORT  
DECEMBER 31, 2017**

**CITY OF DUNCAN EMPLOYEE RETIREMENT PLAN  
SCHEDULE OF CHANGES IN THE CITY'S NET PENSION LIABILITY AND RELATED RATIOS**

	Year Ended December 31, 2014	Year Ended December 31, 2015	Year Ended December 31, 2016	Year Ended December 31, 2017
<b>Total pension liability</b>				
Service cost	\$ 819,768	\$ 553,112	\$ 526,133	\$ 475,144
Interest	1,507,326	1,573,160	1,560,485	1,562,236
Changes of benefit terms	-	(1,104,023)	-	-
Difference between expected and actual experience	-	(483,444)	(286,458)	638,610
Changes of assumptions	-	-	-	-
Benefit payments, including refunds of member contributions	(1,585,149)	(1,585,679)	(1,781,876)	(1,674,840)
<b>Net change in total pension liability</b>	<b>\$ 741,945</b>	<b>\$ (1,046,874)</b>	<b>\$ 18,284</b>	<b>\$ 1,001,150</b>
<b>Total pension liability - beginning</b>	<b>28,321,561</b>	<b>29,063,506</b>	<b>28,016,632</b>	<b>28,087,537</b>
<b>Total pension liability - ending (a)</b>	<b>\$ 29,063,506</b>	<b>\$ 28,016,632</b>	<b>\$ 28,034,916</b>	<b>\$ 29,088,687</b>
 <b>Plan fiduciary net position</b>				
Contributions - employer	\$ 1,436,483	\$ 1,880,420	\$ 1,877,217	\$ 806,899
Contributions - members	368,322	334,780	303,402	249,490
Net investment income	342,804	(76,239)	666,290	963,255
Benefit payments, including refunds of member contributions	(1,585,149)	(1,585,679)	(1,781,876)	(1,674,840)
Administrative expense	(54,172)	(29,434)	(64,067)	(65,575)
Other	-	-	-	-
<b>Net change in plan fiduciary net position</b>	<b>508,288</b>	<b>523,848</b>	<b>1,000,966</b>	<b>279,229</b>
<b>Plan fiduciary net position - beginning</b>	<b>6,067,606</b>	<b>6,575,894</b>	<b>7,099,742</b>	<b>8,153,329</b>
<b>Plan fiduciary net position - ending (b)</b>	<b>\$ 6,575,894</b>	<b>\$ 7,099,742</b>	<b>\$ 8,100,708</b>	<b>\$ 8,432,558</b>
City's net pension liability - ending (a-b)	\$ 22,487,612	\$ 20,916,891	\$ 19,934,208	\$ 20,656,129
Plan fiduciary net position as a percentage of the total pension liability	22.63%	25.34%	28.90%	29.00%
Covered-employee payroll	\$ 4,261,764	\$ 4,046,479	\$ 4,007,413	\$ 2,535,041
City's net pension liability as a percentage of covered employee payroll	527.66%	516.92%	497.43%	814.82%
<b>Actuarial Assumptions:</b>				
Valuation date	December 31, 2013	December 31, 2014	December 31, 2015	December 31, 2016
Actuarial cost method	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization method	Level Dollar	Level Dollar	Level Dollar	Level Dollar
Amortization period	40 years rolling	40 years rolling	40 years rolling	40 years rolling
Actuarial asset valuation method	Market Value	Market Value	Market Value	Market Value
Investment rate of return	7.00%	7.00%	7.00%	7.00%
Projected salary increases	4.00%	4.00%	N/A - compensation is frozen	N/A - compensation is frozen
Mortality table	RP 2000 projected	RP 2000 projected	RP 2000 projected	RP 2000 projected, with cohort projections
Experience study				

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.

Note 1 - Changes of Benefit Terms - There were no significant changes of benefit terms.

Note 2 - Changes of Assumptions - The discount rate changed from 5.12% in 2016 to 5.74% in 2017.

**CITY OF DUNCAN, OKLAHOMA  
ANNUAL FINANCIAL REPORT  
DECEMBER 31, 2016**

**CITY OF DUNCAN EMPLOYEE RETIREMENT PLAN  
SCHEDULE OF CITY'S CONTRIBUTIONS  
Last Ten Fiscal Years**

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Actuarially determined contribution	\$ 957,485	\$ 1,345,314	\$ 1,326,214	\$ 1,477,104	\$ 1,580,051	\$ 1,555,638	\$ 1,384,412	\$ 1,414,968	\$ 1,419,508	\$ 1,430,829
Contributions in relation to the actuarially determined contribution	806,899	1,877,216	1,918,481	1,442,614	1,446,929	1,235,749	940,566	830,164	790,564	956,434
Contribution deficiency (excess)	<u>\$ 150,586</u>	<u>\$ (531,902)</u>	<u>\$ (592,267)</u>	<u>\$ 34,490</u>	<u>\$ 133,122</u>	<u>\$ 319,889</u>	<u>\$ 443,846</u>	<u>\$ 584,804</u>	<u>\$ 628,944</u>	<u>\$ 474,395</u>
Covered-employee payroll	\$ 2,535,041	\$ 4,007,413	\$ 4,046,479	\$ 4,046,479	\$ 4,261,764	\$ 4,440,377	\$ 4,235,881	\$ 4,384,280	\$ 4,254,695	\$ 4,209,380
Contributions as a percentage of covered-employee payroll	31.8%	46.8%	47.4%	35.7%	34.0%	27.8%	22.2%	18.9%	18.6%	22.7%

**Notes to Schedule:**

Valuation Date December 31, 2017  
Actuarially determined contribution rates are calculated as of January 1, one year prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age Normal - 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%, including inflation. Not applicable after 2015.
Investment rate of return	7.0% (before admin expenses)
Retirement age	Oklahoma municipal experience

**CITY OF DUNCAN EMPLOYEE RETIREMENT PLAN  
SCHEDULE OF INVESTMENT RETURNS**

**Last Ten Fiscal Years**

<b>Year Ended</b>	<b>Annual money-weighted rate of return, net of investment expense</b>
2017	11.40%
2016	9.13%
2015	-1.64%
2014	5.61%
2013	16.94%
2012	9.87%
2011	-3.51%
2010	10.32%
2009	24.75%
2008	-19.54%

**CITY OF DUNCAN, OKLAHOMA  
ANNUAL FINANCIAL REPORT  
DECEMBER 31, 2017**

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**SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF  
THE NET PENSION LIABILITY  
OKLAHOMA POLICE PENSION & RETIREMENT SYSTEM  
Last 10 Fiscal Years\***

	<u>2015</u>	<u>2016</u>	<u>2017</u>
City's proportion of the net pension liability	0.8122%	0.7539%	0.7799%
City's proportionate share of the net pension liability	\$ 33,116	\$ 1,154,578	\$ 59,987
City's covered payroll	\$ 2,230,110	\$ 2,230,110	\$ 2,296,727
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	1.48%	51.77%	2.61%
Plan fiduciary net position as a percentage of the total pension liability	99.82%	93.50%	99.68%

\* Only three fiscal years are presented because 10-year data is not yet available.

Note 1 - Changes of Benefit terms - There were no significant changes of benefit terms.

Note 2 - Changes of Assumptions - There were no significant changes in assumptions

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

	<u>2015</u>	<u>2016</u>	<u>2017</u>
Statutorially required contribution	\$ 288,707	\$ 298,575	\$ 292,354
Contributions in relation to the statutorially required contribution	<u>288,707</u>	<u>298,575</u>	<u>293,559</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,205)</u>
City's covered payroll	\$ 2,230,110	\$ 2,296,727	\$ 2,248,877
Contributions as a percentage of covered-employee payroll	12.95%	13.00%	13.05%

\* Only three fiscal years are presented because 10-year data is not yet available.

**CITY OF DUNCAN, OKLAHOMA  
ANNUAL FINANCIAL REPORT  
DECEMBER 31, 2017**

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SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF  
THE NET PENSION LIABILITY  
OKLAHOMA FIREFIGHTERS PENSION & RETIREMENT SYSTEM  
Last 10 Fiscal Years\*

	<u>2015</u>	<u>2016</u>	<u>2017</u>
City's proportion of the net pension liability	0.8242%	0.8372%	0.8158%
City's proportionate share of the net pension liability	\$ 8,747,637	\$ 10,228,267	\$ 10,260,242
City's covered payroll	\$ 2,282,721	\$ 2,282,721	\$ 2,265,861
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	383%	448%	453%
Plan fiduciary net position as a percentage of the total pension liability	68.27%	64.87%	66.61%

\* Only the three previous fiscal years are presented because 10-year data is not yet available.

Note 1- Changes of Benefit terms - There were no significant changes of benefit terms.

Note 2 - Changes of Assumptions - There were no significant changes in assumptions

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

	<u>2015</u>	<u>2016</u>	<u>2017</u>
Statutorially required contribution	\$ 319,270	\$ 320,327	\$ 320,327
Contributions in relation to the statutorially required contribution	<u>319,270</u>	<u>320,327</u>	<u>322,149</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,822)</u>
City's covered payroll	\$ 2,282,721	\$ 2,265,861	\$ 2,300,403
Contributions as a percentage of covered payroll	13.99%	14.14%	14.00%

\* Only the three previous fiscal years are presented because 10-year data is not yet available.



## Other Post-Employment Benefits

Covered employee payroll	\$	8,174,099
Total OPEB liability as a percentage of covered-employee payroll		72.52%

Discount rate	Decreased from 3.78% at 12/31/2016 to 3.44% at December 31, 2017
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**SUPPLEMENTARY INFORMATION**

**CITY OF DUNCAN, OKLAHOMA  
ANNUAL FINANCIAL REPORT  
DECEMBER 31, 2017**

**Combining Balance Sheet – General Fund Accounts – December 31, 2017**

	<u>General Fund</u>	<u>Fire Uniform Allowance</u>	<u>Hunting and Fishing</u>	<u>Total General Fund</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 30,922	\$ 20,655	\$ 46,501	\$ 98,078
Receivable from other governments	1,548,390	-	-	1,548,390
Taxes receivable, net	134,636	-	-	134,636
Court fines receivable, net	280,748	-	-	280,748
Other receivables	38,391	-	-	38,391
Total assets	<u>2,033,087</u>	<u>20,655</u>	<u>46,501</u>	<u>2,100,243</u>
<b>LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	339,548	1,224	82	340,854
Accrued payroll payable	628,577	-	-	628,577
Advance to other funds	1,929,418	-	-	1,929,418
Due to bondholders	-	-	600	600
Total liabilities	<u>2,897,543</u>	<u>1,224</u>	<u>682</u>	<u>2,899,449</u>
Deferred inflows of resources:				
Unavailable revenue	<u>483,642</u>	<u>-</u>	<u>-</u>	<u>483,642</u>
Fund balances:				
Unassigned (deficit)	<u>(1,348,098)</u>	<u>19,431</u>	<u>45,819</u>	<u>(1,282,848)</u>
Total fund balances	<u>(1,348,098)</u>	<u>19,431</u>	<u>45,819</u>	<u>(1,282,848)</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 2,033,087</u>	<u>\$ 20,655</u>	<u>\$ 46,501</u>	<u>\$ 2,100,243</u>

**CITY OF DUNCAN, OKLAHOMA**  
**ANNUAL FINANCIAL REPORT**  
**DECEMBER 31, 2017**

**Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances – General Fund Accounts  
– December 31, 2017**

	<b>General Fund</b>	<b>Fire Uniform Allowance</b>	<b>Hunting and Fishing</b>	<b>Total General Fund</b>
<b>REVENUES</b>				
Taxes	\$ 9,597,473	\$ -	\$ -	\$ 9,597,473
Intergovernmental	1,367,776	-	-	1,367,776
Licenses and permits	80,235	-	24,297	104,532
Charges for services	182,364	-	-	182,364
Fees and fines	830,902	-	-	830,902
Investment earnings	2,415	-	-	2,415
Miscellaneous	127,899	-	-	127,899
Total revenues	<u>12,189,064</u>	<u>-</u>	<u>24,297</u>	<u>12,213,361</u>
<b>EXPENDITURES</b>				
Current:				
General government	2,999,593	-	-	2,999,593
Community development	611,898	-	-	611,898
Public safety	9,968,044	17,623	-	9,985,667
Highways and streets	752,100	-	-	752,100
Health	297,089	-	-	297,089
Culture and recreation	1,168,110	-	11,338	1,179,448
Total expenditures	<u>15,796,834</u>	<u>17,623</u>	<u>11,338</u>	<u>15,825,795</u>
Excess (deficiency) of revenues over expenditures	<u>(3,607,770)</u>	<u>(17,623)</u>	<u>12,959</u>	<u>(3,612,434)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in - interaccount	-	22,470	-	22,470
Transfers out - interaccount	(22,470)	-	-	(22,470)
Transfers in	6,358,990	-	-	6,358,990
Transfers out	(1,006,401)	-	-	(1,006,401)
Total other financing sources and uses	<u>5,330,119</u>	<u>22,470</u>	<u>-</u>	<u>5,352,589</u>
Net change in fund balances	1,722,349	4,847	12,959	1,740,155
Fund balances - beginning	(3,070,447)	14,584	32,860	(3,023,003)
Fund balances - ending	<u>\$ (1,348,098)</u>	<u>\$ 19,431</u>	<u>\$ 45,819</u>	<u>\$ (1,282,848)</u>

**CITY OF DUNCAN, OKLAHOMA**  
**ANNUAL FINANCIAL REPORT**  
**DECEMBER 31, 2017**

**Combining Balance Sheet – Nonmajor Governmental Funds – December 31, 2017**

	Street and Alley Fund	Cemetery Care	Library Gifts and Grants	CDBG	E911 Dispatch	DPUA Debt Service Fund
<b>ASSETS</b>						
Cash and cash equivalents	\$ 164,051	\$ 190,174	\$ 3,777	\$ 90,700	\$ 194,923	\$ -
Receivable from other governments	28,790	-	-	-	27,013	-
Other receivables	-	456	-	-	-	-
Total assets	<u>192,841</u>	<u>190,630</u>	<u>3,777</u>	<u>90,700</u>	<u>221,936</u>	<u>-</u>
<b>LIABILITIES AND FUND BALANCES</b>						
Liabilities:						
Accounts payable and accrued liabilities	1,059	-	588	-	820	-
Total liabilities	<u>1,059</u>	<u>-</u>	<u>588</u>	<u>-</u>	<u>820</u>	<u>-</u>
Fund balances:						
Restricted	191,782	190,630	3,189	90,700	221,116	-
Total fund balances	<u>191,782</u>	<u>190,630</u>	<u>3,189</u>	<u>90,700</u>	<u>221,116</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 192,841</u>	<u>\$ 190,630</u>	<u>\$ 3,777</u>	<u>\$ 90,700</u>	<u>\$ 221,936</u>	<u>\$ -</u>

(continued)

**CITY OF DUNCAN, OKLAHOMA**  
**ANNUAL FINANCIAL REPORT**  
**DECEMBER 31, 2017**

**Combining Balance Sheet – Nonmajor Governmental Funds – December 31, 2017, continued**

	<b>Police Grants and Seizures</b>	<b>First Responder Program</b>	<b>Duncan Enhancement Trust Authority</b>	<b>DPUA Sinking Fund</b>	<b>Total Other Governmental Funds</b>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 66,687	\$ 10,831	\$ 6,307	\$ -	\$ 727,450
Receivable from other governments	-	-	-	-	55,803
Other receivables	-	-	-	-	456
Total assets	<u>66,687</u>	<u>10,831</u>	<u>6,307</u>	<u>-</u>	<u>783,709</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable and accrued liabilities	423	-	-	-	2,890
Total liabilities	<u>423</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,890</u>
Fund balances:					
Restricted	66,264	10,831	6,307	-	780,819
Total fund balances	<u>66,264</u>	<u>10,831</u>	<u>6,307</u>	<u>-</u>	<u>780,819</u>
Total liabilities and fund balances	<u>\$ 66,687</u>	<u>\$ 10,831</u>	<u>\$ 6,307</u>	<u>\$ -</u>	<u>\$ 783,709</u>

**CITY OF DUNCAN, OKLAHOMA  
ANNUAL FINANCIAL REPORT  
DECEMBER 31, 2017**

**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor  
Governmental Funds – December 31, 2017**

	Street and Alley Fund	Cemetery Care	Library Gifts and Grants	CDBG	E911 Dispatch	DPUA Debt Service Fund
<b>REVENUES</b>						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 303,892	\$ -
Intergovernmental	221,559	-	21,528	-	-	-
Charges for services	-	10,527	-	-	-	-
Investment earnings	-	-	-	-	-	348
Miscellaneous	-	-	-	-	-	-
Total revenues	<u>221,559</u>	<u>10,527</u>	<u>21,528</u>	<u>-</u>	<u>303,892</u>	<u>348</u>
<b>EXPENDITURES</b>						
Current:						
Public safety	-	-	-	-	29,329	-
Highways and streets	227,622	-	-	-	-	-
Culture and recreation	-	-	17,226	-	-	-
General government	-	1,400	-	-	-	-
Debt Service:						
Principal	-	-	-	-	-	645,000
Interest and other charges	-	-	-	-	-	14,867
Capital outlay	-	7,696	-	-	65,362	-
Total expenditures	<u>227,622</u>	<u>9,096</u>	<u>17,226</u>	<u>-</u>	<u>94,691</u>	<u>659,867</u>
Excess (deficiency) of revenues over expenditures	<u>(6,063)</u>	<u>1,431</u>	<u>4,302</u>	<u>-</u>	<u>209,201</u>	<u>(659,519)</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers in	-	-	-	90,700	-	546,716
Transfers out	-	-	-	(340,293)	(159,788)	-
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>(249,593)</u>	<u>(159,788)</u>	<u>546,716</u>
Net change in fund balances	(6,063)	1,431	4,302	(249,593)	49,413	(112,803)
Fund balances - beginning	197,845	189,199	(1,113)	340,293	171,703	112,803
Fund balances - ending	<u>\$ 191,782</u>	<u>\$ 190,630</u>	<u>\$ 3,189</u>	<u>\$ 90,700</u>	<u>\$ 221,116</u>	<u>\$ -</u>

(continued)

**CITY OF DUNCAN, OKLAHOMA  
ANNUAL FINANCIAL REPORT  
DECEMBER 31, 2017**

**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor  
Governmental Funds – December 31, 2017, continued**

	<b>Police Grants and Seizures</b>	<b>First Responder Program</b>	<b>Duncan Enhancement Trust Authority</b>	<b>DPUA Sinking Fund</b>	<b>Total Other Governmental Funds</b>
<b>REVENUES</b>					
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 303,892
Intergovernmental	9,553	-	-	-	252,640
Charges for services	-	-	-	-	10,527
Investment earnings	-	-	-	-	348
Miscellaneous	77,325	-	-	-	77,325
Total revenues	<u>86,878</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>644,732</u>
<b>EXPENDITURES</b>					
Current:					
Public safety	-	-	-	-	29,329
Streets	-	-	-	-	227,622
Culture and recreation	-	-	-	-	17,226
General government	-	-	5,279	-	6,679
Debt Service:					
Principal	-	-	-	-	645,000
Interest and other charges	-	-	-	-	14,867
Capital outlay	108,751	-	6,414	-	188,223
Total expenditures	<u>108,751</u>	<u>-</u>	<u>11,693</u>	<u>-</u>	<u>1,128,946</u>
Excess (deficiency) of revenues over expenditures	<u>(21,873)</u>	<u>-</u>	<u>(11,693)</u>	<u>-</u>	<u>(484,214)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	-	-	18,000	24,850	680,266
Transfers out	-	-	-	-	(500,081)
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>18,000</u>	<u>24,850</u>	<u>180,185</u>
Net change in fund balances	(21,873)	-	6,307	24,850	(304,029)
Fund balances - beginning	88,137	10,831	-	(24,850)	1,084,848
Fund balances - ending	<u>\$ 66,264</u>	<u>\$ 10,831</u>	<u>\$ 6,307</u>	<u>\$ -</u>	<u>\$ 780,819</u>



**CITY OF DUNCAN, OKLAHOMA**  
**ANNUAL FINANCIAL REPORT**  
**DECEMBER 31, 2017**

**Combining Schedule of Net Position – Duncan Public Utilities Authority – December 31, 2017**

	DPUA Enterprise Fund Accounts								Total
	DPUA - Other Utilities	DPUA - Electric	DPUA Airport	DPUA Sinking - Waurika	Redeposit Cash	Meter Deposit	Waterline Improvement	DPUA Sewer Replacement	
<b>ASSETS</b>									
Current assets:									
Cash and cash equivalents	\$ 1,308,423	\$ 4,015,243	\$ 186,988	\$ -	\$ 530	\$ -	\$ 47,832	\$ -	\$ 5,559,016
Restricted:									
Cash and cash equivalents	935,336	-	-	644,954	-	788,370	-	-	2,368,660
Due from other funds	-	991,537	-	-	-	-	-	-	991,537
Due from other funds - interaccount	856,211	-	-	-	-	297,786	-	-	1,153,997
Accounts receivable, net	1,939,974	2,332,341	5,090	-	-	-	-	-	4,277,405
Receivables from other governments	-	4,360	151,785	-	-	-	-	-	151,785
Other receivables	22,062	-	-	-	16,669	-	-	-	42,991
Inventories	-	1,028,909	-	-	-	-	-	-	1,028,909
Prepaid Expenses	16	-	-	-	-	-	-	-	16
Total current assets	5,062,022	8,372,290	343,863	644,954	17,199	1,086,156	47,832	-	15,574,316
Non-current assets:									
Advance from other funds	-	1,929,418	-	-	-	-	-	-	1,929,418
Restricted:									
Investments	-	-	-	7,068,720	-	-	-	-	7,068,720
Capital assets:									
Land and construction in progress	415,122	436,250	421,902	-	-	-	-	-	1,273,274
Other capital assets, net of accumulated depreciation	49,603,293	2,293,389	2,576,405	-	-	-	-	-	54,473,087
Total non-current assets	50,018,415	4,659,057	2,998,307	7,068,720	-	-	-	-	64,744,499
Total assets	55,080,437	13,031,347	3,342,170	7,713,674	17,199	1,086,156	47,832	-	80,318,815
<b>DEFERRED OUTFLOW OF RESOURCES</b>									
Deferred amounts on refunding	956,145	-	-	-	-	-	-	-	956,145
Deferred amounts related to pension	2,546,091	2,516,351	-	-	-	-	-	-	5,062,442
Deferred amounts related to OPEB	93,755	43,752	-	-	-	-	-	-	137,507
Total deferred inflows	3,595,991	2,560,103	-	-	-	-	-	-	6,156,094
<b>LIABILITIES</b>									
Current liabilities:									
Accounts payable and accrued liabilities	852,584	1,111,200	150,086	-	-	-	-	-	2,113,870
Salaries payable	70,413	46,999	-	-	-	-	-	-	117,412
Accrued interest payable	227,549	-	-	-	-	-	-	-	227,549
Due to other funds - interaccount	298,599	-	-	855,398	-	-	-	-	1,153,997
Payable to other governments	-	28,564	-	-	-	-	-	-	28,564
Deposits subject to refund	-	4,296	-	-	-	1,083,646	-	-	1,087,942
Compensated absences	9,307	11,649	-	-	-	-	-	-	20,956
Notes payable	3,977,772	-	-	-	-	-	-	-	3,977,772
Total current liabilities	5,436,224	1,202,708	150,086	855,398	-	1,083,646	-	-	8,728,062
Non-current liabilities:									
Compensated absences, net of current portion	109,041	108,450	-	-	-	-	-	-	217,491
Total OPEB liability	889,144	414,934	-	-	-	-	-	-	1,304,078
Net pension liability	8,144,192	7,634,697	-	-	-	-	-	-	15,778,889
Notes payable, net of current portion	35,393,715	-	-	-	-	-	-	-	35,393,715
Total non-current liabilities	44,536,092	8,158,081	-	-	-	-	-	-	52,694,173
Total liabilities	49,972,316	9,360,789	150,086	855,398	-	1,083,646	-	-	61,422,235
<b>DEFERRED INFLOW OF RESOURCES</b>									
Deferred amounts related to pension	487,020	162,195	-	-	-	-	-	-	649,215
Deferred amounts related to OPEB	69,341	32,360	-	-	-	-	-	-	101,701
Total deferred inflows	556,361	194,555	-	-	-	-	-	-	750,916
<b>NET POSITION</b>									
Net investment in capital assets	11,603,073	2,729,639	2,998,307	-	-	-	-	-	17,331,019
Restricted for debt service	408,215	-	-	6,858,276	-	-	-	-	7,266,491
Unrestricted (deficit)	(3,863,537)	3,306,467	193,777	-	17,199	2,510	47,832	-	(295,752)
Total net position	\$ 8,147,751	\$ 6,036,106	\$ 3,192,084	\$ 6,858,276	\$ 17,199	\$ 2,510	\$ 47,832	\$ -	\$ 24,301,758

**CITY OF DUNCAN, OKLAHOMA**  
**ANNUAL FINANCIAL REPORT**  
**DECEMBER 31, 2017**

**Combining Schedule of Revenues, Expenses, and Changes in Net Position – Duncan Public Utilities Authority – Year Ended December 31, 2017**

	Enterprise Fund Accounts								
	DPUA - Other Utilities	DPUA - Electric	DPUA Airport	DPUA Sinking - Waurika	Redeposit Cash	Meter Deposit	Waterline Improvement	DPUA Sewer Replacement	Total
REVENUES									
Water	\$ 6,557,611	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,557,611
Electric	-	18,139,552	-	-	-	-	-	-	18,139,552
Sewer	2,347,870	-	-	-	-	-	-	-	2,347,870
Sanitation	3,596,882	-	-	-	-	-	-	-	3,596,882
Lake	143,122	-	-	-	-	-	-	-	143,122
Airport	-	-	48,861	-	-	-	-	-	48,861
Miscellaneous	194,699	108,451	-	-	238	-	-	-	303,388
Total operating revenues	12,840,184	18,248,003	48,861	-	238	-	-	-	31,137,286
OPERATING EXPENSES									
General government	1,079,960	-	-	-	-	-	-	-	1,079,960
Water	2,649,357	-	-	780	125	-	-	-	2,650,262
Wastewater	859,241	-	-	-	-	-	-	(16,754)	842,487
Sanitation	3,393,108	-	-	-	-	-	-	-	3,393,108
Electric	-	14,388,888	-	-	-	-	-	-	14,388,888
Lake	(8,350)	-	-	-	-	-	-	-	(8,350)
Airport	-	-	56,717	-	-	-	-	-	56,717
Depreciation	3,127,870	305,791	252,216	-	-	-	-	-	3,685,877
Total operating expenses	11,101,186	14,694,679	308,933	780	125	-	-	(16,754)	26,088,949
Operating income (loss)	1,738,998	3,553,324	(260,072)	(780)	113	-	-	16,754	5,048,337
NON-OPERATING REVENUES (EXPENSES)									
Interest and investment revenue	2,223	17,497	117	410,038	-	1,089	-	-	430,964
Miscellaneous revenue	388,906	56,017	-	340	-	-	-	-	445,263
Gain (loss) on capital asset disposal	(46,450)	(35,958)	-	-	-	-	-	-	(82,408)
Operating grants and contributions	654	-	-	-	-	-	-	-	654
Capital grants and contributions	-	-	427,762	-	-	-	-	-	427,762
Interest expense	(1,048,152)	-	-	-	-	-	-	-	(1,048,152)
Total non-operating revenue (expenses)	(702,819)	37,556	427,879	410,378	-	1,089	-	-	174,083
Income before transfers	1,036,179	3,590,880	167,807	409,598	113	1,089	-	16,754	5,222,420
Capital contributions from governmental activities	735,830	277,768	170,535	-	-	-	-	-	1,184,133
Transfers in - interaccount	660,722	-	-	-	-	-	-	721,892	1,382,614
Transfers out - interaccount	(721,892)	-	-	(660,722)	-	-	-	-	(1,382,614)
Transfers in	1,556,311	517,950	101,500	-	-	-	-	-	2,175,761
Transfers out	(1,541,779)	(5,103,199)	-	-	-	-	-	-	(6,644,978)
Change in net position	1,725,371	(716,601)	439,842	(251,124)	113	1,089	-	738,646	1,937,336
Total net position - beginning, restated	6,422,380	6,752,707	2,752,242	7,109,400	17,086	1,421	47,832	(738,646)	22,364,422
Total net position - ending	\$ 8,147,751	\$ 6,036,106	\$ 3,192,084	\$ 6,858,276	\$ 17,199	\$ 2,510	\$ 47,832	\$ -	\$ 24,301,758

**CITY OF DUNCAN, OKLAHOMA**  
**ANNUAL FINANCIAL REPORT**  
**DECEMBER 31, 2017**

**Combining Schedule of Cash Flows – Duncan Public Utilities Authority – Year Ended December 31, 2017**

	Enterprise Fund Accounts								Total
	DPUA - Other Utilities	DPUA - Electric	DPUA Airport	DPUA Sinking - Waurika	Redeposit Cash	Meter Deposit	Waterline Improvement	DPUA Sewer Replacement	
CASH FLOWS FROM OPERATING ACTIVITIES									
Receipts from customers	\$ 12,525,575	\$ 18,112,288	\$ 57,452	\$ -	\$ (2,696)	\$ -	\$ -	\$ -	\$ 30,692,619
Payments to suppliers and employees	(7,276,811)	(14,091,711)	(56,323)	(780)	(125)	-	-	(531,380)	(21,957,130)
Receipts of customer meter deposits	-	43,202	-	-	-	288,322	-	-	331,524
Refunds of customer meter deposits	-	(46,666)	-	-	-	(268,298)	-	-	(314,964)
Interfund receipts	-	2,716,799	-	-	-	-	-	-	2,716,799
Interfund receipts - interaccount	196,175	-	-	660,036	-	-	-	-	856,211
Interfund payments - interaccount	(665,699)	-	-	-	-	-	-	(190,512)	(856,211)
Net cash provided by (used in) operating activities	4,779,240	6,733,912	1,129	659,256	(2,821)	20,024	-	(721,892)	11,468,848
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES									
Transfers from other funds - interaccount	660,722	-	-	-	-	-	-	721,892	1,382,614
Transfers to other funds - interaccount	(721,892)	-	-	(660,722)	-	-	-	-	(1,382,614)
Transfers from other funds	1,556,311	517,950	101,500	-	-	-	-	-	2,175,761
Transfers to other funds	(1,541,779)	(5,103,199)	-	-	-	-	-	-	(6,644,978)
Miscellaneous revenue	268,926	56,310	-	340	-	-	-	-	325,576
Net cash provided by (used in) noncapital financing activities	222,288	(4,528,939)	101,500	(660,382)	-	-	-	721,892	(4,143,641)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES									
Purchases of capital assets	(33,673)	(40,741)	(460,856)	-	-	-	-	-	(535,270)
Proceeds of capital grants	-	-	474,139	-	-	-	-	-	474,139
Proceeds from debt	6,666,600	-	-	-	-	-	-	-	6,666,600
Note issuance cost paid	(291,194)	-	-	-	-	-	-	-	(291,194)
Principal paid on debt	(9,309,545)	-	-	-	-	-	-	-	(9,309,545)
Premium on issuance of debt	-	-	-	-	-	-	-	-	-
Interest and fiscal agent fees paid on debt	(1,082,017)	-	-	-	-	-	-	-	(1,082,017)
Net cash provided by (used in) capital and related financing activities	(4,049,829)	(40,741)	13,283	-	-	-	-	-	(4,077,287)
CASH FLOWS FROM INVESTING ACTIVITIES									
Sale of investments	-	-	-	3,891	-	-	-	-	3,891
Interest and dividends	2,223	17,497	117	195,672	-	1,089	-	-	216,598
Net cash provided by investing activities	2,223	17,497	117	199,563	-	1,089	-	-	220,489
Net increase (decrease) in cash and cash equivalents	953,922	2,181,729	116,029	198,437	(2,821)	21,113	-	-	3,468,409
Balances - beginning of year	1,289,837	1,833,514	70,959	446,517	3,351	767,257	47,832	-	4,459,267
Balances - end of year	\$ 2,243,759	\$ 4,015,243	\$ 186,988	\$ 644,954	\$ 530	\$ 788,370	\$ 47,832	\$ -	\$ 7,927,676
Reconciliation to Statement of Net Position:									
Cash and cash equivalents	\$ 1,308,423	\$ 4,015,243	\$ 186,988	\$ -	\$ 530	\$ -	\$ 47,832	\$ -	\$ 5,559,016
Restricted cash and cash equivalents - current	935,336	-	-	644,954	-	788,370	-	-	2,368,660
Total cash and cash equivalents, end of year	\$ 2,243,759	\$ 4,015,243	\$ 186,988	\$ 644,954	\$ 530	\$ 788,370	\$ 47,832	\$ -	\$ 7,927,676
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:									
Operating income (loss)	\$ 1,738,998	\$ 3,553,324	\$ (260,072)	\$ (780)	\$ 113	\$ -	\$ -	\$ 16,754	\$ 5,048,337
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:									
Depreciation expense	3,127,870	305,791	252,216	-	-	-	-	-	3,685,877
Gain on disposal	654	-	-	-	-	-	-	-	654
Change in assets and liabilities:									
Due from other funds	-	2,716,799	-	-	-	-	-	-	2,716,799
Due from other funds - interaccount	(665,699)	-	-	-	-	-	-	-	(665,699)
Accounts receivable	(318,139)	(133,453)	8,591	-	-	-	-	-	(443,001)
Due from other governments	-	(2,262)	-	-	-	-	-	-	(2,262)
Other receivable	2,876	-	-	-	(2,934)	-	-	-	(58)
Inventory	-	(438,800)	-	-	-	-	-	-	(438,800)
Prepaid expense	5	8	-	-	-	-	-	16	29
Deferred outflows related to pension	(1,996,375)	(1,971,496)	-	-	-	-	-	63,465	(3,904,406)
Deferred outflows related to OPEB	(93,755)	(43,752)	-	-	-	-	-	-	(137,507)
Accounts payable	503,799	87,672	394	-	-	-	-	(269)	591,596
Accrued payroll payable	(4,616)	(8,927)	-	-	-	-	-	(9,584)	(23,127)
Deposits subject to refund	-	(3,464)	-	-	-	20,024	-	-	16,560
Due to other funds - interaccount	196,175	-	-	660,036	-	-	-	(190,512)	665,699
Due to other governments	-	1,544	-	-	-	-	-	-	1,544
Total OPEB liability	(1,560,289)	(728,135)	-	-	-	-	-	-	(2,288,424)
Deferred inflows related to OPEB	69,341	32,360	-	-	-	-	-	-	101,701
Accrued compensated absences	14,494	(6,127)	-	-	-	-	-	(4,376)	3,991
Deferred inflows related to pension	392,657	3,286,201	-	-	-	-	-	(46,344)	3,632,514
Net pension liability	3,371,244	86,629	-	-	-	-	-	(551,042)	2,906,831
Net cash provided by (used in) operating activities	\$ 4,779,240	\$ 6,733,912	\$ 1,129	\$ 659,256	\$ (2,821)	\$ 20,024	\$ -	\$ (721,892)	\$ 11,468,848
Noncash activities:									
Asset transferred from other funds	735,830	277,768	170,535	-	-	-	-	-	1,184,133
	\$ 735,830	\$ 277,768	\$ 170,535	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,184,133

**CITY OF DUNCAN, OKLAHOMA**  
**ANNUAL FINANCIAL REPORT**  
**DECEMBER 31, 2017**

**Combining Statement of Net Position – Internal Service Funds – December 31, 2017**

	<u>Self Insurance Fund</u>	<u>Employee Insurance</u>	<u>Worker's Comp</u>	<u>Total</u>
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 3,975	\$ -	\$ 390,808	\$ 394,783
Annuities receivable	-	-	10,941	10,941
Total current assets	<u>3,975</u>	<u>-</u>	<u>401,749</u>	<u>405,724</u>
Total assets	<u>3,975</u>	<u>-</u>	<u>401,749</u>	<u>405,724</u>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable and accrued liabilities	-	-	8,030	8,030
Claims and judgments	-	-	377,146	377,146
Total current liabilities	<u>-</u>	<u>-</u>	<u>385,176</u>	<u>385,176</u>
Non-current liabilities:				
Advance to other funds	-	-	991,537	991,537
Claims and judgments, net of current portion	-	-	565,718	565,718
Total non-current liabilities	<u>-</u>	<u>-</u>	<u>1,557,255</u>	<u>1,557,255</u>
Total liabilities	<u>-</u>	<u>-</u>	<u>1,942,431</u>	<u>1,942,431</u>
<b>NET POSITION</b>				
Unrestricted (deficit)	3,975	-	(1,540,682)	(1,536,707)
Total net position	<u>\$ 3,975</u>	<u>\$ -</u>	<u>\$ (1,540,682)</u>	<u>\$ (1,536,707)</u>

**CITY OF DUNCAN, OKLAHOMA**  
**ANNUAL FINANCIAL REPORT**  
**DECEMBER 31, 2017**

**Combining Statement of Revenues, Expenses, and Changes in Net Position – Internal Service Funds – Year Ended December 31, 2017**

	Self Insurance Fund	Employee Insurance	Worker's Comp	Total
<b>REVENUES</b>				
Charges for services	\$ -	\$ -	\$ 990,328	\$ 990,328
Total operating revenues	-	-	990,328	990,328
<b>OPERATING EXPENSES</b>				
General government	-	-	93,048	93,048
Claims expense	-	-	260,725	260,725
Total operating expenses	-	-	353,773	353,773
Operating income	-	-	636,555	636,555
<b>NON-OPERATING REVENUES (EXPENSES)</b>				
Interest and investment revenue	-	-	515	515
Miscellaneous revenue	-	-	29,556	29,556
Total non-operating revenue (expenses)	-	-	30,071	30,071
Income before transfers	-	-	666,626	666,626
Transfers in	-	198,199	-	198,199
Change in net position	-	198,199	666,626	864,825
Total net position - beginning	3,975	(198,199)	(2,207,308)	(2,401,532)
Total net position - ending	\$ 3,975	\$ -	\$ (1,540,682)	\$ (1,536,707)

**CITY OF DUNCAN, OKLAHOMA  
ANNUAL FINANCIAL REPORT  
DECEMBER 31, 2017**

**Combining Statement of Cash Flows – Internal Service Funds – Year Ended December 31, 2017**

	Self Insurance Fund	Employee Insurance	Worker's Comp	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers	\$ -	\$ -	\$ 989,947	\$ 989,947
Payments to suppliers and employees	-	-	(98,866)	(98,866)
Claims and judgments paid	-	-	(424,476)	(424,476)
Interfund receipts	-	(198,199)	(515,208)	(713,407)
Interfund payments	-	-	-	-
Net cash provided by (used in) operating activities	<u>-</u>	<u>(198,199)</u>	<u>(48,603)</u>	<u>(246,802)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Miscellaneous revenue	-	-	29,556	29,556
Transfers from other funds	-	198,199	-	198,199
Net cash provided by noncapital financing activities	<u>-</u>	<u>198,199</u>	<u>29,556</u>	<u>227,755</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest and dividends	-	-	515	515
Net cash provided by investing activities	<u>-</u>	<u>-</u>	<u>515</u>	<u>515</u>
Net increase (decrease) in cash and cash equivalents	-	-	(18,532)	(18,532)
Balances - beginning of year	<u>3,975</u>	<u>-</u>	<u>409,340</u>	<u>413,315</u>
Balances - end of year	<u>\$ 3,975</u>	<u>\$ -</u>	<u>\$ 390,808</u>	<u>\$ 394,783</u>
<b>Reconciliation to Statement of Net Position:</b>				
Cash and cash equivalents	<u>\$ 3,975</u>	<u>\$ -</u>	<u>\$ 390,808</u>	<u>\$ 394,783</u>
Total cash and cash equivalents, end of year	<u>\$ 3,975</u>	<u>\$ -</u>	<u>\$ 390,808</u>	<u>\$ 394,783</u>
<b>Reconciliation of operating income to net cash provided by (used in) operating activities:</b>				
Operating income	\$ -	\$ -	\$ 636,555	\$ 636,555
Change in assets and liabilities:				
Due to other funds	-	(198,199)	(515,208)	(713,407)
Other receivable	-	-	(381)	(381)
Accounts payable	-	-	(5,818)	(5,818)
Claims and judgments liability	-	-	(163,751)	(163,751)
Net cash provided by (used in) operating activities	<u>\$ -</u>	<u>\$ (198,199)</u>	<u>\$ (48,603)</u>	<u>\$ (246,802)</u>

**CITY OF DUNCAN, OKLAHOMA  
ANNUAL FINANCIAL REPORT  
DECEMBER 31, 2017**

**Combining Statement of Net Position – Pension Trust Funds – December 31, 2017**

	<b>City Employees Retirement Trust Fund - Defined Benefit</b>	<b>City Employees Retirement Trust Fund - Defined Contribution</b>	<b>Totals</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 180,537	\$ 28,086	\$ 208,623
Investments, at fair value:			
Common trust funds	3,203,351	-	3,203,351
Mutual fund equity	1,540,265	361,342	1,901,607
Mutual fund fixed	3,506,020	415,536	3,921,556
Accrued interest receivable	-	2,742	2,742
Total assets	<u>\$ 8,430,173</u>	<u>\$ 807,706</u>	<u>\$ 9,237,879</u>
<b>LIABILITIES</b>			
Refunds payable and others	\$ -	\$ -	\$ -
Other accrued expenses	-	-	-
Total liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>NET POSITION</b>			
Restricted for employees' pension benefits held in trust	<u>\$ 8,430,173</u>	<u>\$ 807,706</u>	<u>\$ 9,237,879</u>

**CITY OF DUNCAN, OKLAHOMA  
ANNUAL FINANCIAL REPORT  
DECEMBER 31, 2017**

**Combining Statement of Changes in Plan Net Position – Pension Trust Funds – December 31, 2017**

	<b>City Employees Retirement Trust Fund</b>	<b>City Employees Retirement Trust Fund - Defined Contribution</b>	<b>Totals</b>
<b>ADDITIONS</b>			
Contributions:			
Employer	\$ 808,240	\$ 39,237	\$ 847,477
Plan members	249,490	31,225	280,715
Total contributions	<u>1,057,730</u>	<u>70,462</u>	<u>1,128,192</u>
Investment earnings:			
Net increase in fair value of investments	838,065	46,576	884,641
Interest and dividends	171,093	18,730	189,823
Total net investment earnings	<u>1,009,158</u>	<u>65,306</u>	<u>1,074,464</u>
Total additions	<u>2,066,888</u>	<u>135,768</u>	<u>2,202,656</u>
<b>DEDUCTIONS</b>			
Benefits paid to participants or beneficiaries	1,563,987	10,318	1,574,305
Refunds of contributions	112,179	-	112,179
Administrative	61,256	1,274	62,530
Total deductions	<u>1,737,422</u>	<u>11,592</u>	<u>1,749,014</u>
<b>Change in net position held in trust for employees' pension benefits</b>	329,466	124,176	453,642
<b>Net position held in trust for employees' pension benefits - beginning</b>	<u>8,100,707</u>	<u>683,530</u>	<u>8,784,237</u>
<b>Net position held in trust for employees' pension benefits- ending</b>	<u><u>\$ 8,430,173</u></u>	<u><u>\$ 807,706</u></u>	<u><u>\$ 9,237,879</u></u>



**CITY OF DUNCAN, OKLAHOMA  
ANNUAL FINANCIAL REPORT  
DECEMBER 31, 2017**

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**Debt Service Coverage Schedule – Year Ended December 31, 2017**

<b>DEBT SERVICE COVERAGE:</b>	<b>OWRB Series 2002A, 2005, 2007, 2009A, 2009C Promissory Notes</b>	<b>2012 Utility Revenue Note</b>
<b>GROSS REVENUE AVAILABLE:</b>		
Charges for services (water, electric, garbage and wastewater)	\$ 30,641,915	\$ 30,641,915
Investment income	19,720	19,720
Total Gross Revenue Available	<u>30,661,635</u>	<u>30,661,635</u>
<b>OPERATING EXPENSES:</b>		
Total Operating Expenses (excludes depreciation and amortization)	<u>22,370,554</u>	<u>22,370,554</u>
Net Revenue Available for Debt Service	<u>\$ 8,291,081</u>	<u>8,291,081</u>
Maximum Annual Remaining Debt Service on all OWRB Obligations Payable		
From Revenues of the System	\$ 2,472,127	\$ -
Current Annual Debt Service	<u>-</u>	<u>922,879</u>
	<u>\$ 2,472,127</u>	<u>\$ 922,879</u>
Computed Coverage	<u>335%</u>	<u>898%</u>
Coverage Requirement	<u>125%</u>	<u>125%</u>

**INTERNAL CONTROL AND COMPLIANCE INFORMATION**

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**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, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated April 18, 2019. Our report on our audit of the City's basic financial statements contains an emphasis of matter paragraph describing a restatement due to the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits*. Our opinion was not modified with respect to this matter. Our report also 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. 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*.

**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 have not been identified. However, as described in the accompanying schedule of findings and responses, we did identify 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 deficiencies described in the accompanying schedule of findings and responses as items 2017-003, 2017-004, and 2017-005 to be material weaknesses.

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 deficiency described in the accompanying schedule of findings and responses as item 2017-001 to be significant deficiency.

### **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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2017-002.

### **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  
April 18, 2019

## City of Duncan

### Schedule of Findings and Responses

#### Findings Required to be Reported by *Government Auditing Standards* Internal Controls over Financial Reporting December 31, 2017

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##### FINDING 2017-001

Finding: The City had several issues with the proper recording of capital assets that resulted in the understatement of capital asset balances in governmental and business-type activities. The issues involved the over depreciating of some capital assets and not moving completed construction-in-progress to infrastructure and depreciating those balances.

Criteria: Per GASB Statement No. 34 *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments* capital assets should be depreciated over their estimated useful lives. Inexhaustible capital assets such as land and land improvements should not be depreciated.

Condition and Context: As a result of depreciating capital assets in excess of their cost, the City understated capital assets for governmental-type activities by approximately \$52,000 and business-type activities by approximately \$25,000. Additionally, there was approximately \$412,000 of infrastructure that had been placed in service but was still reported by the City construction-in-progress at December 31, 2017.

Cause: The error on the over depreciation of capital assets occurred in prior years when the City was using an excel spreadsheet to maintain its depreciation schedule. When the City converted its capital asset records to interface with the general ledger system in 2017, these errors carried forward and were not corrected. In addition, construction-in-progress projects were not properly reviewed at year end to ensure that completed projects were reported as a depreciable capital asset.

Effect: The City had completed projects that remained in construction-in-progress at year end and were not depreciated and depreciated assets in excess of their historical cost.

Recommendation: We recommend that the City review assets in the general ledger system for potential excess depreciation and make sure the system is designed so that it prevents the over-depreciation of capital assets. We also recommend that the City thoroughly review the construction-in-progress regularly with the project administrators to ensure that completed projects transferred to depreciable capital assets and appropriately depreciated.

Management Response: 2017-001: In 2017 the City of Duncan converted the fixed asset inventories that were being maintained in a spreadsheet to the InCode financial software fixed asset application. This application provides better asset management and reporting. The over-depreciation of assets took place in the spreadsheet in prior years and is being corrected. The new system has controls in place to prevent over-depreciation.

The two electric department construction-in-progress projects mentioned were on the books in this status at the start of 2017. The department considered them "in-progress" not realizing that if part of the asset was in use than that portion of the project should be an active asset and depreciated. Additional training and proper processes are in place to avoid this problem in the future.

## City of Duncan

### Schedule of Findings and Responses

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

##### Compliance Finding

December 31, 2017

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#### FINDING 2017-002

Finding: At December 31, 2017, 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 and Context: At December 31, 2017, the following matters existed:

- The City's General Fund had a deficit fund balance of \$1,282,848.

The City has reduced the General Fund deficit from a high of \$6,745,371 at December 31, 2013 to its December 31, 2017 deficit amount of \$1,282,848. During the year ended December 31, 2017, the City reduced the deficit by \$1,740,155.

Cause: The General Fund deficit identified above was caused by incurring and paying for operating expenditures in excess of available revenues in the General Fund during the years 2011, 2012 and 2013.

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

Management Response and Corrective Action Plan: Management continues to work diligently towards elimination of the deficit fund balance in the General Fund which began in 2011. As stated above, during 2017 it was reduced by an additional \$1,740,155. Staff reviews activity reports on a regular basis to better monitor revenues and expenditures. The 2018 and 2019 budgets were prepared with conservative methods for estimating revenues and expenditures. In addition cost reductions have been made where possible. The City Council reviews treasury reports and monthly budget to actual comparison reports as an additional control. By the end of the 2018 reporting year, staff feels confident that the deficit fund balance will be resolved.

## City of Duncan

### Schedule of Findings and Responses

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

##### Compliance Finding

December 31, 2017

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#### FINDING 2017-003

**Finding:** The City implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in 2017. The original actuarial valuation prepared by the City's actuaries used assumptions that were not adequately supported by the City's recent experience. In addition, the City's actuaries did not follow the requirements of GASB Statement No. 75 in its calculation of projected benefit payments. In addition, changes to plan provisions that occurred during 2017 were not timely communicated and as a result, were not taken into consideration when the original actuarial valuation was prepared.

**Criteria:** The actuarial valuation should use assumptions that are supported by the City's actual experience and history, as well as established norms. In addition, the actuarial valuation should follow the Actuarial Standards of Practice in calculating the projected benefit payments when specifically required to by GASB Statement No. 75.

**Condition:** The City's actuaries initially used incorrect assumptions or assumptions without sufficient support. One example of this was the use of a participation rate that was not consistent with the actual participation rate over recent years, and the support of which was based upon little to no actual data. Another example of this was the use of an ultimate trend rate in healthcare costs that was 50 to 100 basis points lower than acceptable. In addition, GASB Statement No. 75 requires that projected benefit payments should be based on claims costs, or age-adjusted premiums approximating claims costs, in conformity with Actuarial Standards of Practice issued by the Actuarial Standards Board. The initial actuarial valuation prepared by the City's actuaries were not based upon either of the two methods described above.

**Cause:** The City experienced significant turnover in a number of departments during 2017. In addition, the City retained new actuaries to perform the GASB Statement No. 75 actuarial valuation. The lack of experience with the City's health insurance plans, including all of the changes that occurred, contributed to the errors in the actuarial valuation.

**Effect:** As a result of errors identified in the original actuarial valuations, the following adjustments were made to the City's financial statements:

	Magnitude of OPEB Audit Adjustment	
	Original OPEB Actuarial Valuation	Final OPEB Actuarial Valuation
Balance at January 1, 2017	\$ 11,736,000	\$ 16,330,000
2017 activity:		
Change in plan provisions	-	(11,279,000)
Other changes	248,000	877,000
Total 2017 changes	248,000	(10,402,000)
Balance at December 31, 2017	<u>\$ 11,984,000</u>	<u>\$ 5,928,000</u>

**Recommendation:** We recommend that the City review the assumptions used by the plan each year to ensure that the assumptions used by the actuaries reflect the actual experience of the plan. We also recommend that changes to plan provisions be communicated timely to appropriate members of management.



## City of Duncan

### Schedule of Findings and Responses

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

##### Compliance Finding

December 31, 2017

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#### **FINDING 2017-003 (Continued)**

Management Response and Corrective Action Plan: GASB Statement No. 75 is a new standard for governmental reporting and the City early implemented this with the 2017 report. The City has been subsidizing healthcare costs for retired employees after they leave service. For financial concerns, the City implemented a plan in 2017 to gradually reduce the portion paid by the City over a span of 10 years. This will reduce the amount of liability that the City has to record going forward.

Going forward the City will review the assumptions used by the plan each year and will be working closely with the Actuary Professionals.

#### **FINDING 2017-004**

Finding: In July 2017, management identified two fraud schemes perpetrated by one individual, an employee in the Code Enforcement Department. One of the schemes involved an override of controls in the area of nuisance abatement expenditures. The fraud involved one City employee and two vendors that were paid for work but didn't go through the proper bidding process.

Criteria: The City has internal controls related to purchasing and requirements for contract services related to bidding that require lowest and best offers for services provided to the City. However, these controls were not consistently followed or applied.

Condition and Context: The City experienced losses related to the overriding of controls for nuisance abatement contracts of approximately \$37,000 for the year ended December 31, 2015, \$64,000 for the year ended December 31, 2016, and \$45,000 for the year ended December 31, 2017, for a total loss of approximately \$146,000. This fraud was enabled by the use of blanket purchase orders for the two fraudulent vendors which allowed the City employee to bypass the normal purchasing process. This also allowed some invoices to be paid twice, for the vendors to overcharge the City, or to falsify addresses that had no nuisance abatement work done.

Cause: The primary issue was an override of existing controls by bypassing the bidding process, not reviewing work orders or invoices for vendors to ensure no duplicate payments by the Code Enforcement Department Head, open POs for vendors that didn't require one, failing to file liens on abatements, and paying vendors based on verbal authorization from a member of the department that did not have authorization authority.

Effect: The City had total losses of approximately \$146,000 over a three year period related to the fraud and overriding of controls.

Recommendation: We recommend that the City review the approval and existing blanket purchase orders to ensure that those vendors have a valid purpose for a blanket purchase order. We also recommend that the City ensure the employees are knowledgeable and follow the bidding processes established for each contract. During the course of performing our 2017 audit, we noted that the City has already implemented these recommendations.

Management Response and Corrective Action Plan: New purchasing processes and procedures have been implemented and staff training has been provided. Electronic systems settings have been revised to assist in better monitoring. In addition, monitoring controls have been implemented and segregation of duties has been established.

## City of Duncan

### Schedule of Findings and Responses

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

##### Compliance Finding

December 31, 2017

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#### FINDING 2017-005

Finding: As noted in Finding 2017-004, the City identified two fraud schemes perpetrated by one individual. The second fraud scheme involved the misappropriation of cash related to the issuance of licenses and permits in the Code Enforcement Department.

Criteria: Management should establish and implement an internal control system that is suitably designed to prevent or detect fraud or error in a timely manner.

Condition and Context: Permits and licenses that were paid in cash were issued to the requesting customer, but the cash would not be remitted to accounting for deposit. Customers were provided with a receipt for their payment and/or a license/permit at the time of the cash payment. Lien payments on abatements made by customers would not be deposited if made in cash. There were permits generated in the license and permit database found in the City employee's office that had been stamped 'paid' with no reflection of payment to match in the general ledger database. There were also payments notated in license and permit database that did not reflect in general ledger database or were reflected for a lesser amount than what was shown in license and permit database. Additionally, the City employee was able to both collect the cash and record cash receipts in the system, which permitted the employee to misappropriate cash without detection.

Cause: There was no reconciliation done between the cash balance and the INCODE system for cash receipts, which allowed an individual to skim cash from the City. The employee would also go in to the system for permits and violations database and issue permits and mark them as paid. There was no reconciliation between the IWORQ permit fees collected and cash

Effect: The City experienced a loss of approximately \$20,000 related to cash collected for issued licenses and permits that was not deposited into the City's bank accounts.

Recommendation: We recommend that the City implement a reconciliation process between the license and permit databases and the licenses and permits issued by the department. There should be an additional reconciliation between the license and permit databases and the general ledger. The City should also review the roles for employees involved in cash collection and segregate duties where practical. During the course of performing our 2017 audit, we noted that the City no longer allows cash to be accepted by the Code Enforcement Department.

Management Response and Corrective Action Plan: Improved controls in the areas of segregation of duties and cash handling have been implemented. The City will be reconciling the databases to the general ledger. In addition to the Code Enforcement area, proper changes have been made within other payment processing areas of the City as well.