

CITY OF DUNCAN, OKLAHOMA



ANNUAL FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

**AS OF AND FOR THE FISCAL YEAR
ENDED DECEMBER 31, 2016**

THE CITY OF DUNCAN, OKLAHOMA

Annual Financial Statements
And Independent Auditor's Report

As of and For the Fiscal Year Ended
December 31, 2016

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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, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Duncan Industrial Authority and Duncan Area Economic Development Foundation, Inc., discretely presented component units of the City, which represent 99.8%, 99.8% and 99.8%, 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, 2016, 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.

Other Matters

Required Supplementary Information

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

Other Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 10, 2017, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City's internal control over financial reporting and compliance.

RSM US LLP

Oklahoma City, Oklahoma
August 10, 2017

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Management's Discussion and Analysis

Our discussion and analysis of the City of Duncan's financial performance provides an overview of the City's financial activities for the fiscal year ended December 31, 2016. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- For the fiscal year ended December 31, 2016, the City's total net position increased by \$2,335,472 or (4.4%) from the prior year.
- In the City's governmental activities, program expenses exceeded program revenues by \$19,582,906, and the governmental activities total net position decreased by \$84,199 for the fiscal year.
- In the City's business-type activities, such as utilities, program revenues exceeded program expenses by \$4,698,426. The business-type activities total net position increased by \$2,419,671 for the fiscal year.
- At December 31, 2016, the General Fund reported an unassigned fund balance deficit of \$3,023,003, representing a decrease in the size of the prior year unassigned fund balance deficit of \$944,704, or 23.8%.
- At December 31, 2016, the Worker's Compensation Internal Service Fund reported a deficit net position of \$2,207,308, and total Internal Service Funds reported a deficit of \$2,401,532.
- For budgetary reporting purposes, the General Fund reported revenues below estimates of \$178,578 or 1.55%, while expenditures were under the final appropriations by \$599,285 or 3.52%.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

About the City

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

- Legislative – the governing body includes an elected five-member City Council and Mayor

- Executive – the City Manager is the Chief Executive Officer and is appointed by the City Council
- Judicial – the Municipal Judge is a practicing attorney appointed by the City Council

The City's Financial Reporting Entity

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

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

Primary Government:

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

Blended Component Units:

Duncan 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.

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, 2016

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 \$55,574,358 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.)
	2016	2015		2016	2015		2016	2015	
Current assets	\$ 16,167	\$ 15,037	8%	\$ 20,916	\$ 19,925	5%	\$ 37,083	\$ 34,962	6%
Capital assets, net	44,336	47,400	-6%	57,791	59,610	-3%	102,127	107,010	-5%
Deferred outflows	3,732	2,452	52%	1,158	920	26%	4,890	3,372	45%
Total assets and deferred outflows	64,235	64,889	-1%	79,865	80,455	-1%	144,100	145,344	-1%
Current liabilities	2,149	3,658	-41%	6,208	4,866	28%	8,357	8,524	-2%
Non-current liabilities	30,107	27,657	9%	49,072	53,639	-9%	79,179	81,296	-3%
Deferred inflows	774	2,285	-66%	216	-	0%	990	2,285	-57%
Total liabilities and deferred inflows	33,030	33,600	-2%	55,496	58,505	-5%	88,526	92,105	-4%
Net position									
Net investment in capital assets	43,514	45,476	-4%	16,441	15,395	7%	59,955	60,871	-2%
Restricted	18,978	17,836	6%	7,486	7,544	-1%	26,464	25,380	4%
Unrestricted (deficit)	(31,287)	(32,023)	-2%	442	(989)	-145%	(30,845)	(33,012)	-7%
Total net position	\$ 31,205	\$ 31,289	0%	\$ 24,369	\$ 21,950	11%	\$ 55,574	\$ 53,239	4%

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 2016, the net investment in capital assets amounted to \$59,955,808. 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, \$26,464,044 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:

Deferred outflows – Increase of \$1.3 million (52%) due to the change in deferred outflow related to the pension liability for the fire, police and single employer defined benefit plans.

Current liabilities – Decrease of \$.8 million (23%) due to the portion of the note payable that is current due to the note maturing within the next fiscal year.

Deferred inflows – Decrease of \$1.5 million (66%) due to the change in deferred inflow related to the pension liability for the fire, police and single employer defined benefit plans.

CITY OF DUNCAN, OKLAHOMA
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Business-type Activities:

Current liabilities – Increase of \$1.3 million (28%) due to a change in accounting policy where refundable meter deposits are all considered current.

Unrestricted net position (deficit) – Decrease of \$.5 million (145%) due to an increase in the overall net position for the fiscal year.

Changes in Net Position

For the year ended December 31, 2016, net position of the primary government changed as follows:

TABLE 2
CHANGES IN NET POSITION (In Thousands)

	Governmental Activities		% Inc. (Dec.)	Business-Type Activities		% Inc. (Dec.)	Total		% Inc. (Dec.)
	<u>2016</u>	<u>2015</u>		<u>2016</u>	<u>2015</u>		<u>2016</u>	<u>2015</u>	
Revenues									
Charges for service	\$ 1,288	\$ 1,319	-2%	\$ 30,626	\$ 30,886	-1%	\$ 31,914	\$ 32,205	-1%
Operating grants and contributions	1,398	1,408	-1%	-	23	-	1,398	1,431	-2%
Capital grants and contributions	207	15	1301%	972	85	1044%	1,179	100	1082%
Taxes	15,852	16,548	-4%	-	-	-	15,852	16,548	-4%
Intergovernmental revenue	446	501	-11%	-	-	-	446	501	-11%
Investment income	217	(26)	935%	438	69	-535%	655	43	1423%
Miscellaneous	59	42	40%	208	217	-4%	267	259	3%
Total revenues	<u>19,467</u>	<u>19,807</u>	-2%	<u>32,244</u>	<u>31,280</u>	3%	<u>51,711</u>	<u>51,087</u>	1%
Expenses									
General government	3,309	4,088	-19%	-	-	-	3,309	4,088	-19%
Public safety	10,670	9,671	10%	-	-	-	10,670	9,671	10%
Streets	3,808	3,894	-2%	-	-	-	3,808	3,894	-2%
Culture and recreation	1,610	1,736	-7%	-	-	-	1,610	1,736	-7%
Cemetery	357	405	-12%	-	-	-	357	405	-12%
Community development	635	831	-24%	-	-	-	635	831	-24%
Economic development	2,018	5,915	-66%	-	-	-	2,018	5,915	-66%
Interest on long-term debt	69	128	-46%	-	-	-	69	128	-46%
Water	-	-	-	5,647	8,983	-37%	5,647	8,983	-37%
Wastewater	-	-	-	2,121	2,062	3%	2,121	2,062	3%
Sanitation	-	-	-	4,213	3,999	5%	4,213	3,999	5%
Electric	-	-	-	14,189	13,852	2%	14,189	13,852	2%
Airport	-	-	-	278	263	6%	278	263	6%
Lake	-	-	-	452	535	-16%	452	535	-16%
Total expenses	<u>22,476</u>	<u>26,668</u>	-16%	<u>26,900</u>	<u>29,694</u>	-9%	<u>49,376</u>	<u>56,362</u>	12%
Excess (deficiency) before transfers	(3,009)	(6,861)	-56%	5,344	1,586	237%	2,335	(5,275)	-144%
Transfers	<u>2,925</u>	<u>3,489</u>	-16%	<u>(2,925)</u>	<u>(3,489)</u>	-16%	<u>-</u>	<u>-</u>	
Change in net position	(84)	(3,372)	-98%	2,419	(1,903)	-227%	2,335	(5,275)	-144%
Beginning net position	<u>31,289</u>	<u>34,661</u>	-10%	<u>21,950</u>	<u>23,853</u>	-8%	<u>53,239</u>	<u>58,514</u>	-9%
Ending net position	<u>\$ 31,205</u>	<u>\$ 31,289</u>	0%	<u>\$ 24,369</u>	<u>\$ 21,950</u>	11%	<u>\$ 55,574</u>	<u>\$ 53,239</u>	4%

Explanations of significant changes in Table 2 are as follows:

Governmental Activities:

Economic Development – Decrease of \$3.9 million (66%) due to fewer economic development incentives in the current year. Several contracts were completed in the prior year.

Business-Type Activities:

Capital grants and contributions – Increase of \$.9 million (1044%) due to capital grants related to airport improvements.

Water operations – Decrease of \$3.3 million (37%) due to a decrease in operational cost related to silt removal at Waurika Lake performed in the prior year.

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)

	Total Expense of Services		% Inc. (Dec.)	Net Revenue (Expense) of Services		% Inc. (Dec.)
	<u>2016</u>	<u>2015</u>		<u>2016</u>	<u>2015</u>	
General government	\$ 3,309	\$ 4,088	-19%	(\$3,261)	\$ (3,934)	-17%
Public safety	10,670	9,671	10%	(8,392)	(7,614)	10%
Streets	3,808	3,894	-2%	(3,561)	(3,634)	-2%
Culture, parks and recreation	1,610	1,736	-7%	(1,498)	(1,640)	-9%
Cemetery	357	405	-12%	(268)	(320)	-16%
Community development	635	831	-24%	(541)	(757)	-29%
Economic development	2,018	5,915	-66%	(1,993)	(5,899)	-66%
Interest on long-term debt	69	128	46%	(69)	(128)	-46%
Total	<u>\$ 22,476</u>	<u>\$ 26,668</u>	-16%	<u>(\$19,583)</u>	<u>\$ (23,926)</u>	-18%

For the year ended December 31, 2016 total expenses for governmental activities amounted to \$22.5 million which was a decrease from the prior year of 16%. See Table 2 above for explanations of changes.

Business-type Activities

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

	Total Expense of Services		% Inc. Dec.	Net Revenue (Expense) of Services		% Inc. Dec.
	<u>2016</u>	<u>2015</u>		<u>2016</u>	<u>2015</u>	
Water	\$ 5,647	\$ 8,983	-37%	\$ 74	\$ (3,305)	-102%
Wastewater	2,121	2,062	3%	480	268	79%
Sanitation	4,213	3,999	5%	(619)	(395)	57%
Electric	14,189	13,852	2%	4,566	5,266	-13%
Airport	278	263	6%	505	(139)	-463%
Lake	452	535	-16%	(308)	(395)	-22%
Total	<u>\$ 26,900</u>	<u>\$ 29,694</u>	<u>-9%</u>	<u>\$ 4,698</u>	<u>\$ 1,300</u>	<u>261%</u>

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 \$2,419,671 for the year ended December 31, 2016.
- Water, wastewater, airport and electric were the utilities that revenues exceeded operational costs.

A FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As the City completed its 2016 fiscal year, the governmental funds reported a combined total fund balance of \$15.8 million, or a 17.11% increase of \$2,312,339, mainly due to a decrease in economic development expenditures for incentives of \$2.8 million and a decrease in capital outlay of \$2.6 million.

The enterprise funds reported combined total net position of \$25.1 million, or a 13.0% increase from 2015, mainly related to an decrease in water operation costs related to the \$3,080,000 OWRB Note related to the Waurika Master Conservancy District.

General Fund Budgetary Highlights

For budgetary reporting purposes, the General Fund reported revenues under estimates of \$178,578 or 1.55%, while expenditures were under the final appropriations by \$559,285 or 3.52%.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of December 31, 2016, the City had \$102 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 \$4.9 million or 5% compared to last year.

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

	Governmental Activities		Business-Type Activities		Total	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Land	\$ 1,209	\$ 1,209	\$ 359	\$ 359	1,568	\$ 1,568
Buildings	11,163	11,671	10,380	10,213	21,543	21,884
Machinery, furniture and equipment	2,643	2,667	1,074	1,034	3,717	3,701
Infrastructure	29,304	31,741	37,365	39,194	66,669	70,935
Water rights	-	-	7,921	8,153	7,921	8,153
Construction in progress	17	112	693	657	710	769
Totals	<u>\$ 44,336</u>	<u>\$ 47,400</u>	<u>\$ 57,792</u>	<u>\$ 59,610</u>	<u>\$ 102,128</u>	<u>\$ 107,010</u>

This year's more significant capital asset additions included:

Water improvements	\$411,000
Police vehicles	\$281,000
Street Improvements – FY 2015	\$631,029
Airport Projects	\$632,000

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 \$44.9 in long-term debt outstanding which represents a \$4.0 million or 8.3% decrease from the prior year. The City's changes in long-term debt by type of debt are as follows:

CITY OF DUNCAN, OKLAHOMA
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TABLE 6
Long-Term Debt
(In Thousands)

	Governmental Activities		Business-Type Activities		Total		Total Percentage Change
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2014-2015</u>
Notes payable	\$ 645	\$ 1,895	\$ 41,350	\$ 44,214	\$ 41,995	\$ 46,109	-8.9%
Capital leases	177	29	-	-	177	29	510.3%
Meter deposits	-	-	1,071	1,130	1,071	1,130	-5.2%
Accrued compensated absences	1,414	1,391	234	291	1,648	1,682	-2.0%
Claims liability	1,106	888	-	-	1,106	888	24.5%
Totals	<u>\$ 3,342</u>	<u>\$ 4,203</u>	<u>\$ 42,655</u>	<u>\$ 45,635</u>	<u>\$ 45,997</u>	<u>\$ 49,838</u>	-7.7%

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 downturn of the energy sector from 2015 has continued into 2016. This downward cycle has negatively impacted the budgets for both the State of Oklahoma and the City of Duncan. A very high percentage of the Duncan economy engine is based on the manufacturing of products and services for oilfield operations. The remaining sectors of the Duncan economy are highly dependent upon the spin-off from the positive flow of the manufacturing for support in the service sector and or retail sales.

Sales 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.

Year	Annual Sale Tax	Stephens County Unemployment Rate	End of year Oil Prices	End of year Rig Count
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
June 2017	\$6,420,879	6.5%	\$44.40	927

During 2016, Duncan Recycling and Refining began operations in the community with a business that is not oil/gas sector. There are new business opportunities continuing to develop from the work being done by DAEDF at the incubator. All indicators are pointing to improvements being made to the overall economic climate of Duncan and to the State of Oklahoma. The 2017 sales tax number will most likely be near the 2012 or 2013 numbers if the demand of the oilfield products continues in a steady upward

direction. Oil prices need to stay near or above \$50.00 and the active rig count should be closer to 1,000. Since many wells being drilled with horizontal technology, it requires a lower rig count to gain production. Other positive community indicators are the number of workers being hired by Halliburton, Cameron Measurement Systems, Duncan Regional Hospital, Tilley Group, Rockwater, Duncan Machine Products and other businesses at a Job Fair in January 2017. Economic information contributed by Lyle Roggow, President, Duncan Area Economic Development Foundation.

The 2017 budget of the City of Duncan was prepared reflecting the City's continuing effort to provide quality services to our citizens. Sales and use taxes were estimated using the most conservative method and were budgeted at 3.7% reduction from the 2016 budget. In April of 2017 the Council approved a rate increase of 25% for base water sales while most every other utility rates increased by the CPI index. Expenses were budgeted at approximately the same levels as 2016 and included several capital improvements for departments city wide utilizing the penny sales tax designated for capital purchases as well as a few lease purchase agreements.

A new City Manager with a strong municipal finance background came on board with the City towards the end of 2016 and she hired a new Finance Director the first part of 2017. Management and staff have focused on working with consultants and auditors to bring the financial reporting up to date which will aid with being able to provide current financial information to the City Council for their decision-making process. There is a continued focus on monitoring and tracking expenditures to enable sound financial progress for the City of Duncan.

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, 2016

Statement of Net Position – December 31, 2016

	Governmental Activities	Business-type Activities	Total	Aggregate Discretely Presented Component Units
ASSETS				
Cash and cash equivalents	\$ 15,642,004	\$ 2,611,802	\$ 18,253,806	\$ 2,592,242
Investments	3,094,998	-	3,094,998	-
Interest receivable	-	-	-	5,249
Accounts receivable, net of allowance	409,135	3,875,075	4,284,210	2,574
Other receivable	-	-	-	2,185
Internal balances	(4,935,335)	4,935,335	-	-
Due from other governmental agencies	1,955,528	198,162	2,153,690	-
Inventories	-	590,109	590,109	890,807
Other assets	309	45	354	112,857
Prepaid items	-	-	-	26,125
Cash and cash equivalents, restricted	-	2,095,990	2,095,990	-
Investments, restricted	-	6,609,720	6,609,720	3,412,451
Capital assets:				
Land and construction in progress	1,225,751	1,051,416	2,277,167	-
Other capital assets, net of depreciation	43,110,179	56,739,752	99,849,931	12,379,314
Total assets	60,502,569	78,707,406	139,209,975	19,423,804
DEFERRED OUTFLOW OF RESOURCES				
Deferred amounts related to pensions	3,731,533	1,158,036	4,889,569	-
LIABILITIES				
Accounts payable and accrued expenses	826,986	1,689,994	2,516,980	29,804
Accrued interest payable	5,640	256,886	262,526	5,154
Unearned income	-	119,980	119,980	57,538
Long-term liabilities				
Due within one year	1,316,672	4,140,878	5,457,550	404,525
Due in more than one year	30,106,572	49,072,012	79,178,584	1,768,763
Total liabilities	32,255,870	55,279,750	87,535,620	2,265,784
DEFERRED INFLOW OF RESOURCES				
Deferred amounts related to pensions	773,131	216,273	989,404	-
NET POSITION				
Net investment in capital assets	43,514,120	16,441,688	59,955,808	10,206,026
Restricted for:				
Debt service	107,163	7,486,225	7,593,388	-
Public safety	270,671	-	270,671	-
Capital projects	10,053,892	-	10,053,892	-
Economic development	7,818,756	-	7,818,756	890,807
Other	727,337	-	727,337	4,937,707
Unrestricted (deficit)	(31,286,838)	441,506	(30,845,332)	1,123,480
Total net position	\$ 31,205,101	\$ 24,369,419	\$ 55,574,520	\$ 17,158,020

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, 2016

Statement of Activities – Year Ended December 31, 2016

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Position			Aggregate Discretely Presented Component Units
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	Component Units
Primary government								
Governmental activities:								
General government	\$ 3,309,333	\$ 15,555	\$ 32,004	\$ 600	\$ (3,261,174)	\$ -	\$ (3,261,174)	\$ -
Public safety	10,669,214	993,459	1,077,774	206,326	(8,391,655)	-	(8,391,655)	-
Streets	3,807,833	-	246,490	-	(3,561,343)	-	(3,561,343)	-
Culture and recreation	1,610,284	95,857	16,326	-	(1,498,101)	-	(1,498,101)	-
Health	357,071	89,574	-	-	(267,497)	-	(267,497)	-
Community development	634,594	93,745	-	-	(540,849)	-	(540,849)	-
Economic development	2,018,355	-	25,227	-	(1,993,128)	-	(1,993,128)	-
Interest on long-term debt	69,159	-	-	-	(69,159)	-	(69,159)	-
Total governmental activities	<u>22,475,843</u>	<u>1,288,190</u>	<u>1,397,821</u>	<u>206,926</u>	<u>(19,582,906)</u>	<u>-</u>	<u>(19,582,906)</u>	<u>-</u>
Business-type activities:								
Water	5,647,434	5,716,856	-	5,000	-	74,422	74,422	-
Wastewater	2,121,242	2,362,388	-	238,362	-	479,508	479,508	-
Sanitation	4,212,561	3,593,891	-	-	-	(618,670)	(618,670)	-
Electric	14,188,517	18,754,660	-	-	-	4,566,143	4,566,143	-
Airport	278,409	54,577	-	728,889	-	505,057	505,057	-
Lake	451,919	143,885	-	-	-	(308,034)	(308,034)	-
Total business-type activities	<u>26,900,082</u>	<u>30,626,257</u>	<u>-</u>	<u>972,251</u>	<u>-</u>	<u>4,698,426</u>	<u>4,698,426</u>	<u>-</u>
Total primary government	<u>\$ 49,375,925</u>	<u>\$ 31,914,447</u>	<u>\$ 1,397,821</u>	<u>\$ 1,179,177</u>	<u>\$ (19,582,906)</u>	<u>4,698,426</u>	<u>(14,884,480)</u>	
Component Unit								
Industrial Development	\$ 11,677	\$ 8,587	\$ -	\$ -				(3,090)
Economic Development	805,499	2,076,883	15,787	-				1,287,171
Health and Welfare	-	25	-	-				25
Total component units	<u>\$ 817,176</u>	<u>\$ 2,085,495</u>	<u>\$ 15,787</u>	<u>\$ -</u>				<u>1,284,106</u>
General revenues:								
Taxes:								
Sales and use taxes					15,015,449	-	15,015,449	-
Franchise taxes and public service taxes					535,597	-	535,597	-
Hotel/motel taxes					301,169	-	301,169	-
Intergovernmental					446,446	-	446,446	-
Unrestricted investment earnings					217,031	438,053	655,084	-
Miscellaneous					57,809	208,398	266,207	-
Transfers					2,925,206	(2,925,206)	-	-
Total general revenues and transfers					<u>19,498,707</u>	<u>(2,278,755)</u>	<u>17,219,952</u>	<u>-</u>
Change in net position					(84,199)	2,419,671	2,335,472	1,284,106
Net position - beginning					31,289,300	21,949,748	53,239,048	15,873,914
Net position - ending					<u>\$ 31,205,101</u>	<u>\$ 24,369,419</u>	<u>\$ 55,574,520</u>	<u>\$ 17,158,020</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, 2016

BASIC FINANCIAL STATEMENTS – GOVERNMENTAL FUNDS

CITY OF DUNCAN, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended December 31, 2016

Balance Sheet – Governmental Funds – December 31, 2016

	<u>General Fund</u>	<u>Special Revenue Duncan Economic Development Trust Authority (DEDTA)</u>	<u>Capital Project Capital Improvement Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and cash equivalents	\$ 73,207	\$ 5,398,773	\$ 8,695,764	\$ 1,060,945	\$ 15,228,689
Investments	-	2,173,737	921,261	-	3,094,998
Receivable from other governments	1,142,150	246,246	492,494	74,638	1,955,528
Due from other funds	-	-	109,526	-	109,526
Taxes receivable, net	128,760	-	-	-	128,760
Court fines receivable, net	240,510	-	-	-	240,510
Other receivables	28,605	-	-	700	29,305
Other assets	309	-	-	-	309
Total assets	<u>\$ 1,613,541</u>	<u>\$ 7,818,756</u>	<u>\$ 10,219,045</u>	<u>\$ 1,136,283</u>	<u>\$ 20,787,625</u>
LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 116,646	\$ -	\$ 165,153	\$ 6,606	\$ 288,405
Accrued payroll payable	524,013	-	-	-	524,013
Due to other funds	-	109,526	-	24,850	134,376
Advance to other funds	3,907,960	-	-	-	3,907,960
Due to bondholders	600	-	-	-	600
Payable to other governments	120	-	-	-	120
Total liabilities	<u>4,549,339</u>	<u>109,526</u>	<u>165,153</u>	<u>31,456</u>	<u>4,855,474</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue	<u>87,205</u>	<u>-</u>	<u>-</u>	<u>19,979</u>	<u>107,184</u>
Fund balances:					
Restricted	-	7,709,230	10,053,892	1,110,811	18,873,933
Unassigned (deficit)	(3,023,003)	-	-	(25,963)	(3,048,966)
Total fund balances	<u>(3,023,003)</u>	<u>7,709,230</u>	<u>10,053,892</u>	<u>1,084,848</u>	<u>15,824,967</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 1,613,541</u>	<u>\$ 7,818,756</u>	<u>\$ 10,219,045</u>	<u>\$ 1,136,283</u>	<u>\$ 20,787,625</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, 2016

Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances –Year Ended December 31, 2016

		<u>Special Revenue</u>	<u>Capital Project</u>		
	<u>General Fund</u>	<u>Duncan Economic Development Trust Authority (DEDTA)</u>	<u>Capital Improvement Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES					
Taxes	\$ 9,763,326	\$ 1,992,304	\$ 3,984,612	\$ 283,250	\$ 16,023,492
Intergovernmental	1,349,601	-	-	255,499	1,605,100
Licenses and permits	112,192	-	-	-	112,192
Charges for services	187,928	-	-	11,100	199,028
Fees and fines	876,509	-	-	-	876,509
Investment earnings	1,426	148,077	67,432	96	217,031
Miscellaneous	144,201	25,227	267,415	36,101	472,944
Total revenues	<u>12,435,183</u>	<u>2,165,608</u>	<u>4,319,459</u>	<u>586,046</u>	<u>19,506,296</u>
EXPENDITURES					
Current:					
General government	3,230,509	-	5,481	1,800	3,237,790
Community development	688,032	-	-	-	688,032
Public safety	9,877,812	-	-	28,373	9,906,185
Highways and streets	897,558	-	-	227,090	1,124,648
Health	367,807	-	-	-	367,807
Culture and recreation	1,356,799	-	-	18,291	1,375,090
Economic development	-	739,199	-	-	739,199
Capital outlay	-	1,133,272	1,791,420	149,348	3,074,040
Debt Service:					
Principal	-	-	-	1,279,204	1,279,204
Interest and other charges	-	-	-	70,183	70,183
Total expenditures	<u>16,418,517</u>	<u>1,872,471</u>	<u>1,796,901</u>	<u>1,774,289</u>	<u>21,862,178</u>
Excess (deficiency) of revenues over expenditures	<u>(3,983,334)</u>	<u>293,137</u>	<u>2,522,558</u>	<u>(1,188,243)</u>	<u>(2,355,882)</u>
OTHER FINANCING SOURCES (USES)					
Proceeds from long-term debt	-	-	176,810	-	176,810
Transfers in	7,091,228	-	109,526	1,324,890	8,525,644
Transfers out	(2,163,190)	(109,526)	(1,565,868)	(195,649)	(4,034,233)
Total other financing sources and uses	<u>4,928,038</u>	<u>(109,526)</u>	<u>(1,279,532)</u>	<u>1,129,241</u>	<u>4,668,221</u>
Net change in fund balances	944,704	183,611	1,243,026	(59,002)	2,312,339
Fund balances (deficit) - beginning	(3,967,707)	7,525,619	8,810,866	1,143,850	13,512,628
Fund balances (deficit) - ending	<u>\$ (3,023,003)</u>	<u>\$ 7,709,230</u>	<u>\$ 10,053,892</u>	<u>\$ 1,084,848</u>	<u>\$ 15,824,967</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, 2016

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position – December 31, 2016

Total fund balance, governmental funds	\$ 15,824,967
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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.	44,335,930
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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	3,731,533
Pension related deferred inflows	(773,131)

Certain assets are not available to pay for current fund liabilities and therefore are deferred inflows in the funds:	
Unavailable revenues	107,184

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	(5,640)
Net pension liability	(22,627,249)
Net OPEB obligations	(5,453,017)
Accrued compensated absences	(1,414,553)
Note payable	(645,000)
Capital leases payable	(176,810)

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)	(1,699,113)

Net Position of Governmental Activities in the Statement of Net Position	<u><u>\$ 31,205,101</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, 2016

**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit) of
Governmental Funds to the Statement of Activities - Year Ended December 31, 2016**

Net change in fund balances - total governmental funds:	\$	2,312,339
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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	780,635
Depreciation expense	(3,834,871)
Loss on disposal capital asset	(9,641)

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.

1,027,901

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		(23,463)
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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		(23,758)
Increase in net OPEB obligation		(556,372)
Payments on note payable		1,250,000
Capital lease proceeds		(176,810)
Payments on capital leases payable		29,204

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		1,025
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Internal service fund activity is reported as a proprietary fund in fund financial statements, but certain net revenues are reported in governmental activities on the Statement of Activities:

Total change in net position of governmental activities -internal service funds		(860,388)
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Change in net position of governmental activities	\$	<u>(84,199)</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, 2016

BASIC FINANCIAL STATEMENTS - PROPRIETARY FUNDS

CITY OF DUNCAN, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended December 31, 2016

Proprietary Funds Statement of Net Position –December 31, 2016

	Duncan Public Utilities Authority Enterprise Fund	Internal Service Fund
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,611,802	\$ 413,315
Restricted:		
Cash and cash equivalents	2,095,990	-
Due from other funds	223,049	-
Accounts receivable, net	3,834,404	-
Receivables from other governments	198,162	-
Other receivables	40,671	-
Inventories	590,109	-
Prepaid items	45	-
Annuities receivable	-	10,560
Total current assets	<u>9,594,232</u>	<u>423,875</u>
Non-current assets:		
Advance from other funds	5,414,705	-
Restricted:		
Investments	6,609,720	-
Capital assets:		
Land and construction in progress	1,051,416	-
Other capital assets, net of accumulated depreciation	<u>56,739,752</u>	<u>-</u>
Total non-current assets	<u>69,815,593</u>	<u>-</u>
Total assets	<u>79,409,825</u>	<u>423,875</u>
DEFERRED OUTFLOW OF RESOURCES		
Deferred amounts related to pension	<u>1,158,036</u>	<u>-</u>
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	1,522,435	13,848
Salaries payable	140,539	-
Accrued interest payable	256,886	-
Due to other funds	-	198,199
Payable to other governments	27,020	-
Unearned revenue	119,980	-
Deposits subject to refund	1,071,382	-
Compensated absences	23,446	-
Claims and judgments	-	442,646
Notes payable	<u>3,046,050</u>	<u>-</u>
Total current liabilities	<u>6,207,738</u>	<u>654,693</u>
Non-current liabilities:		
Advance to other funds	-	1,506,745
Compensated absences, net of current portion	211,010	-
Claims and judgments, net of current portion	-	663,969
Net pension liability	9,672,486	-
Net OPEB obligation	885,086	-
Notes payable, net of current portion	<u>38,303,430</u>	<u>-</u>
Total non-current liabilities	<u>49,072,012</u>	<u>2,170,714</u>
Total liabilities	<u>55,279,750</u>	<u>2,825,407</u>
DEFERRED INFLOW OF RESOURCES		
Deferred amounts related to pension	<u>216,273</u>	<u>-</u>
NET POSITION		
Net investment in capital assets	16,441,688	-
Restricted for debt service	7,486,225	-
Unrestricted (deficit)	<u>1,143,925</u>	<u>(2,401,532)</u>
Total net position	<u>\$ 25,071,838</u>	<u>\$ (2,401,532)</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		
	\$ (702,419)	
Total net position per Government-Wide financial statements	<u>\$ 24,369,419</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, 2016

Proprietary Funds Statement of Revenues, Expenses, and Changes in Net Position –Year Ended December 31, 2016

	Duncan Public Utilities Authority Enterprise Fund	Internal Service Fund
REVENUES		
Water	\$ 5,513,978	\$ -
Electric	18,730,660	-
Wastewater	2,362,388	-
Sanitation	3,593,891	-
Lake	143,885	-
Airport	54,577	-
Charges for services	-	373,500
Miscellaneous	226,852	-
Total operating revenues	<u>30,626,231</u>	<u>373,500</u>
OPERATING EXPENSES		
General government	645,037	117,051
Water	2,436,976	-
Wastewater	1,074,136	-
Sanitation	3,427,000	-
Electric	13,636,706	-
Lake	300,492	-
Airport	38,466	-
Claims expense	-	1,063,641
Depreciation	3,605,255	-
Total operating expenses	<u>25,164,068</u>	<u>1,180,692</u>
Operating income (loss)	<u>5,462,163</u>	<u>(807,192)</u>
NON-OPERATING REVENUES (EXPENSES)		
Interest and investment revenue	438,053	369
Miscellaneous revenue	365,117	15,836
Operating grants and contributions	81,643	-
Capital grants and contributions	728,889	-
Interest expense	(1,269,782)	-
Total non-operating revenue (expenses)	<u>343,920</u>	<u>16,205</u>
Income (loss) before transfers	<u>5,806,083</u>	<u>(790,987)</u>
Capital contributions	5,000	-
Capital contributions from governmental activities	1,030,598	-
Transfers in	3,725,840	-
Transfers out	(7,681,644)	(535,607)
Change in net position	<u>2,885,877</u>	<u>(1,326,594)</u>
Total net position - beginning	22,185,961	(1,074,938)
Total net position - ending	<u>\$ 25,071,838</u>	<u>\$ (2,401,532)</u>
Change in net position per above	\$ 2,885,877	
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	(466,206)	
Change in Business-Type Activities in Net Position per Government-Wide Financial Statements	<u>\$ 2,419,671</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, 2016

Proprietary Funds Statement of Cash Flows – Year Ended December 31, 2016

	Duncan Public Utilities Authority	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 30,367,998	\$ 377,724
Payments to suppliers and employees	(21,667,660)	(186,418)
Claims and judgments paid	-	(1,121,103)
Receipts of customer meter deposits	368,331	-
Refunds of customer meter deposits	(426,800)	-
Interfund receipts	782,607	-
Interfund payments	(1,253,184)	1,007,190
Net cash provided by operating activities	8,171,292	77,393
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Proceeds from grant	81,643	-
Miscellaneous revenue	365,117	15,836
Transfers from other funds	3,725,840	-
Transfers to other funds	(7,681,644)	(535,607)
Net cash provided by (used in) noncapital financing activities	(3,509,044)	(519,771)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	(805,871)	-
Proceeds of capital grants	728,889	-
Principal paid on debt	(2,864,527)	-
Interest and fiscal agent fees paid on debt	(1,290,051)	-
Net cash provided by (used in) capital and related financing activities	(4,231,560)	-
CASH FLOWS FROM INVESTING ACTIVITIES		
Sales of investments	5,610,879	493,460
Purchase of investments	(4,614,119)	-
Interest and dividends	438,053	369
Net cash provided by investing activities	1,434,813	493,829
Net increase in cash and cash equivalents	1,865,501	51,451
Balances - beginning of year	2,842,291	361,864
Balances - end of year	\$ 4,707,792	\$ 413,315
Reconciliation to Statement of Net Position:		
Cash and cash equivalents	\$ 2,611,802	\$ 413,315
Restricted cash and cash equivalents - current	2,095,990	-
Total cash and cash equivalents, end of year	\$ 4,707,792	\$ 413,315
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ 5,462,163	\$ (807,192)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation expense	3,605,255	-
Gain on disposal	49,615	-
Change in assets and liabilities:		
Due from other funds	(374,130)	-
Accounts receivable	(130,271)	-
Due from other governments	(129,276)	1,007,190
Other receivable	1,314	-
Inventory	140,068	-
Deferred outflows pension	(238,411)	-
Prepaid items	(45)	-
Accounts payable	406,064	4,224
Accrued payroll payable	13,509	-
Deposits subject to refund	(61,149)	-
Due to other funds	(93,767)	(69,367)
Due to other governments	1,072	-
Net OPEB obligations	91,272	-
Accrued compensated absences	(56,367)	(57,462)
Deferred inflows related to pension	216,273	-
Net pension liability	(731,897)	-
Net cash provided by operating activities	\$ 8,171,292	\$ 77,393
Noncash activities:		
Asset contributed by others	\$ 5,000	\$ -
Assets transferred from other funds	1,030,598	-
	\$ 1,035,598	\$ -

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, 2016

BASIC FINANCIAL STATEMENTS – FIDUCIARY FUNDS

CITY OF DUNCAN, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended December 31, 2016

Fiduciary Funds Statement of Net Position –December 31, 2016

	City Employees Retirement Trust Funds	Deposit and Refund - Agency Fund
ASSETS		
Cash and cash equivalents	\$ 166,834	\$ 97,005
Investments, at fair value:		
Common trust funds	3,003,552	-
Mutual fund equity	1,770,736	-
Mutual fund fixed income	3,840,191	-
Accrued interest receivable	2,926	-
Total assets	<u>\$ 8,784,239</u>	<u>\$ 97,005</u>
LIABILITIES		
Refunds payable and others	\$ -	\$ 74,645
Other accrued expenses	-	22,360
Total liabilities	<u>\$ -</u>	<u>\$ 97,005</u>
NET POSITION		
Restricted for employees' pension benefits held in trust	<u>\$ 8,784,239</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, 2016

Fiduciary Funds Statement of Changes in Plan Net Position – Year Ended December 31, 2016

	City Employees Retirement Trust Funds
ADDITIONS	
Contributions:	
Employer	\$ 1,924,718
Plan members	341,403
Total contributions	<u>2,266,121</u>
Investment earnings:	
Net increase in fair value of investments	553,882
Interest and dividends	163,162
Total net investment earnings	<u>717,044</u>
Total additions	<u>2,983,165</u>
DEDUCTIONS	
Benefits paid to participants or beneficiaries	1,670,814
Refunds of contributions	244,237
Administrative	65,361
Total deductions	<u>1,980,412</u>
Change in net position held in trust for employees' pension benefits	1,002,753
Net position held in trust for employees' pension benefits - beginning	<u>7,781,486</u>
Net position held in trust for employees' pension benefits- ending	<u><u>\$ 8,784,239</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, 2016

BASIC FINANCIAL STATEMENTS – DISCRETELY PRESENTED COMPONENT UNITS

CITY OF DUNCAN, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended December 31, 2016

Component Units Combining Statement of Net Position –December 31, 2016

	Major Component Units		Nonmajor Component Unit	
	Duncan Area Economic Development Foundation	Duncan Industrial Authority	Duncan Hospital Authority	TOTALS
<u>ASSETS</u>				
Current Assets:				
Cash and cash equivalents	\$ 2,405,904	\$ 161,071	\$ 25,267	\$ 2,592,242
Investments	3,205,011	207,440	-	3,412,451
Receivables:				
Accounts receivable	2,574	-	-	2,574
Interest receivable	5,214	35	-	5,249
Other	44	2,141	-	2,185
Cash and cash equivalents, restricted	111,477	1,380	-	112,857
Prepaid building lease	26,125	-	-	26,125
Total current assets	5,756,349	372,067	25,267	6,153,683
Noncurrent Assets:				
Capital Assets:				
Depreciable, net of accumulated depreciation	12,379,314	-	-	12,379,314
Land available for development	315,540	575,267	-	890,807
Total noncurrent assets	12,694,854	575,267	-	13,270,121
Total Assets	\$ 18,451,203	\$ 947,334	\$ 25,267	\$ 19,423,804
<u>LIABILITIES</u>				
Current Liabilities:				
Accounts payable and accrued liabilities	\$ 25,085	\$ 3,200	\$ -	\$ 28,285
Wages payable	1,519	-	-	1,519
Interest payable	5,154	-	-	5,154
Unearned lease revenue	57,538	-	-	57,538
Real estate mortgage loan	404,525	-	-	404,525
Total Current Liabilities	493,821	3,200	-	497,021
Noncurrent Liabilities:				
Real estate mortgage loan	1,768,763	-	-	1,768,763
Total Noncurrent Liabilities	1,768,763	-	-	1,768,763
Total Liabilities	2,262,584	3,200	-	2,265,784
<u>NET POSITION</u>				
Net investment in capital assets	10,206,026	-	-	10,206,026
Expendable	315,540	575,267	-	890,807
Restricted	4,936,327	1,380	-	4,937,707
Unrestricted	730,726	367,487	25,267	1,123,480
Total Net Position	\$ 16,188,619	\$ 944,134	\$ 25,267	\$ 17,158,020

CITY OF DUNCAN, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended December 31, 2016

Component Units Combining Statement of Activities - Year Ended December 31, 2016

	Major Component Units		Nonmajor Component	
	Duncan Area Economic Development Foundation	Duncan Industrial Authority	Duncan Hospital Authority	TOTALS
Operating Revenues:				
Contributions	\$ 2,100,921	\$ -	\$ -	\$ 2,100,921
Rentals	(65,566)	7,469	-	(58,097)
Total Operating Revenues	2,035,355	7,469	-	2,042,824
Operating Expenses:				
Economic development	805,499	11,677	-	817,176
Total Operating Expenses	805,499	11,677	-	817,176
Operating Income (Loss)	1,229,856	(4,208)	-	1,225,648
Non-Operating Revenues:				
Investment income	41,528	1,118	25	42,671
Miscellaneous income	15,787	-	-	15,787
Net non-operating revenues	57,315	1,118	25	58,458
Change in Net Position	1,287,171	(3,090)	25	1,284,106
Net Position, beginning of year, restated	14,901,448	947,224	25,242	15,873,914
Net Position, end of year	\$ 16,188,619	\$ 944,134	\$ 25,267	\$ 17,158,020

I. Organization

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

II. Summary of significant accounting policies

A. Reporting entity

The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the City's operations. The City's financial statements also include three discretely presented component units, which are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the City.

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

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

Separate, stand-alone financial statements are not prepared for the blended component units.

Discretely presented component units. Duncan Industrial Authority (DIA) was created to finance, promote, develop and maintain industry within the City of Duncan and the surrounding area. The governing body is appointed by the City Council. Any issuance of debt requires a two-thirds approval of the City Council. The DIA issues separate, stand-alone financial statements, which are available by contacting that entity at Box 1468, Duncan, OK 73534. The DIA fiscal year end is June 30, and this information included herein for DIA is as of and for the fiscal year ended June 30, 2016.

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 \$3,433,461 in FY 2016 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.
- The DPUA Sinking Fund accounts for a residual deficit related to a judgment levied against the City.
- The Ad Valorem - Sinking Fund accounts for ad valorem taxes related to a judgment levied against the City.

The City reports two fiduciary funds:

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

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

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

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

1. Deposits and investments

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

Investments consist of long-term certificates of deposit, U.S. Treasury bonds and notes, U.S. agency securities, government money market funds, mutual funds and common stock (in the employee retirement fund only). Although classified as investments for purposes of the statement of cash flows, certificates of deposit are considered deposits and are reported at cost, while all other investments are reported at fair value. 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 \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated 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, 2016, no interest was capitalized as such amounts were not significant.

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

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

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

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

6. *Compensated absences*

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

Upon voluntary separation, other employees will be compensated for 15% of the total amount of his/her accrued sick leave. The General Fund is used to liquidate compensated absences in the governmental activities.

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

7. *Long-term obligations*

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statements of Net Position. If applicable, bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method, which is not significantly different from 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. The City also reports deferred inflows of resources for unavailable revenues in its governmental funds financial statements.

9. *Fund equity*

Government-Wide and Proprietary Fund Financial Statements:

Net Position is displayed in three components:

- a. *Net investment in capital assets* - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.

b. *Restricted Net Position* - Consists of net position with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or 2) law through constitutional provisions or enabling legislation.

c. *Unrestricted Net Position* - All other net position that does not meet the definition of “restricted” or “net investment in capital assets.”

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

Governmental Fund Financial Statements:

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

- a. Nonspendable – includes amounts that cannot be spent because they are either (1) not in spendable form or (2) legally or contractually required to be maintained intact.
- b. Restricted – consists of fund balance with constraints placed on the use of resources either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or (2) laws through constitutional provisions or enabling legislation.
- c. Committed – includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the City’s highest level of decision-making authority. The City’s highest level of decision-making authority is made by ordinance, while the DEDTA’s highest level of decision-making authority is by resolution.
- d. Assigned – includes amounts that are constrained by the City’s intent to be used for specific purposes but are neither restricted nor committed. Assignments of fund balance may be made by city council action, motion or resolution, or by management decision when the city council has authorized management (city manager) to make the decision. Assignments for transfers and interest income for governmental funds are made through the budgetary process.
- e. Unassigned – represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes within the general fund. At December 31, 2016, the City’s General Fund, DPUA Sinking Fund and Library Gifts and Grants Fund are reporting deficits in the unassigned classification.

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

E. Revenues, Expenditures, and Expenses

1. Sales Tax

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

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

2. Property Tax

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

Oklahoma State Statutes 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, 2016, the City's did not assess a property tax.

3. Program Revenues

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

- General Government – rents and royalties, special assessments, and federal and state operating and capital grants.

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

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

4. Expenditures/Expenses

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

F. Use of Estimates

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

G. New Accounting Pronouncements

The City implemented GASB Statement No. 72, Fair Value Measurement and Application. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. Implementation has resulted in additional disclosures in the deposits and investments footnote.

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

supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. Implementation had no material impact on the financial statements.

The City implemented GASB Statement No. 77, *Tax Abatement Disclosures* - GASB 77 was issued in August 2015, and establishes financial reporting standards for tax abatement agreements entered into by state and local governments. The disclosures required by this Statement encompass tax abatements resulting from both (a) agreements that are entered into by the reporting government and (b) agreements that are entered into by other governments and that reduce the reporting government's tax revenues. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015. Implementation had no material impact on the financial statements.

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

The City implemented GASB Statement No. 79, *Certain External Investment Pools and Pool Participants* – GASB 79 was issued in December 2015, and establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the criteria. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Implementation had no material impact on the financial statements.

III. Detailed Notes on All Funds

A. Deposits and investments – The City held the following deposits/investments at December 31, 2016:

PRIMARY GOVERNMENT:

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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	\$ 740,055	AAAm	n/a	740,055	-	-	-	-
Money Markets	260,426	n/a	n/a	260,426	-	-	-	-
US Agency (GNMA)	9,704,717	AA+	Level 2	-	-	-	-	9,704,717
Mututal funds fixed income	7,871,136	not rated	Level 2	7,871,136	-	-	-	-
Sub-total	18,576,334			<u>\$ 8,871,617</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,704,717</u>
Demand accounts	\$ 15,580,032	n/a	n/a					
Cash on hand	2,178	n/a	n/a					
Mutual Funds:								
Equity	1,770,736	n/a	Level 1					
Common trust fund equity	3,003,552	n/a	Level 1					
	<u>\$ 38,932,832</u>							
Reconciliation to Statement of Net Position:								
Cash and cash equivalents	\$ 18,253,806							
Cash and cash equivalents restricted	2,095,990							
Investments	3,094,998							
Investments, restricted	6,609,720							
Pension cash and cash equivalents	166,834							
Pension investments	8,614,479							
Agency fund cash and cash equivalents	97,005							
	<u>\$ 38,932,832</u>							

The City implemented GASB Statement No. 72, Fair Value Measurement and Application, during the fiscal year ended December 31, 2016. 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, 2016, the City's deposits were fully insured.

Exposure to custodial credit risk related to investments exists when the City holds investments that are uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name. At December 31, 2016, 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 "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.

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Asset allocation guidelines for the Plan are as follows:

Class	Target Percent	December 2016 Percent
Equities	45-65%	49%
Small Cap Equities	Up to 25%	4%
International Equities	Up to 15%	1%
Fixed Income	35%-55%	45%
Cash and equivalents	0% to 5%	1%

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, 2016.

Rate of return – For the year ended December 31, 2016, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 9.13 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, 2016. The \$135,512 of cash and cash equivalents was held in cash deposits and interest-bearing certificate of deposits fully insured by Federal Depository Insurance (FDIC) or direct obligations of the U.S. government. The DIA does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

The DHA was not exposed to custodial credit risk at December 31, 2016. The \$25,267 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 \$1,736,054 of which \$1,326,499 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 \$1,247,217 of Federal Home Loan Bank Bonds (Level II securities) bearing interest at 1.00%; and certificates of deposit totaling \$1,957,794 with interest from .30% to 1.10% with maturities from April 2017 to November 2017.

B. Receivables

Receivables as of December 31, 2016, for the City of Duncan's governmental and business-type activities, including the applicable allowances for uncollectible accounts are as follows:

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	Accounts Receivable	Less: Allowance for Uncollectible Accounts	Net Accounts Receivable
Governmental Activities:			
Taxes	\$ 128,760	\$ -	\$ 128,760
Court fines	801,698	(561,188)	240,510
Other	39,865	-	39,865
Total Governmental Activities	<u>\$ 970,323</u>	<u>\$ (561,188)</u>	<u>\$ 409,135</u>
Business-Type Activities:			
Utilities	<u>\$ 4,077,390</u>	<u>\$ (202,315)</u>	<u>\$ 3,875,075</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 <u>Investments</u>	Total
Due to Depositors	\$ 767,257	\$ -	\$ 767,257
Trustee Accounts:			
2009A Debt Service Account	173,829	-	173,829
2009A SRF	89,060	-	89,060
OWRB 2002A Debt Service Account	62,760	-	62,760
2012 Note Revenue Account	308,042	-	308,042
Waurika Debt Service	695,042	6,609,720	7,304,762
Total Restricted Assets	<u>\$ 2,095,990</u>	<u>\$ 6,609,720</u>	<u>\$ 8,705,710</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 2016 for the primary government:

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PRIMARY GOVERNMENT:

	Balance at January 1, 2016	Additions	Deductions	Balance at December 31, 2016
<i>Governmental activities:</i>				
Capital assets not being depreciated:				
Land	\$ 1,209,125	\$ -	\$ -	\$ 1,209,125
Construction in progress	112,342	16,625	112,341	16,626
Total capital assets not being depreciated	<u>1,321,467</u>	<u>16,625</u>	<u>112,341</u>	<u>1,225,751</u>
Capital assets being depreciated:				
Buildings	22,159,858	224,276	-	22,384,134
Machinery, furniture and equipment	13,253,042	615,900	73,430	13,795,512
Infrastructure	93,384,288	36,175	-	93,420,463
Total other capital assets at historical cost	<u>128,797,188</u>	<u>876,351</u>	<u>73,430</u>	<u>129,600,109</u>
Less accumulated depreciation for:				
Buildings	10,489,136	731,633	-	11,220,769
Machinery, furniture and equipment	10,586,018	630,432	63,789	11,152,661
Infrastructure	61,643,694	2,472,806	-	64,116,500
Total accumulated depreciation	<u>82,718,848</u>	<u>3,834,871</u>	<u>63,789</u>	<u>86,489,930</u>
Capital assets being depreciated, net	<u>46,078,340</u>	<u>(2,958,520)</u>	<u>9,641</u>	<u>43,110,179</u>
Governmental activities capital assets, net	<u>\$ 47,399,807</u>	<u>\$ (2,941,895)</u>	<u>\$ 121,982</u>	<u>\$ 44,335,930</u>
<i>Business-type activities:</i>				
Capital assets not being depreciated:				
Land	\$ 358,676	\$ -	\$ -	\$ 358,676
Construction in progress	656,902	272,451	236,613	692,740
Total capital assets not being depreciated	<u>1,015,578</u>	<u>272,451</u>	<u>236,613</u>	<u>1,051,416</u>
Capital assets being depreciated:				
Buildings	19,386,924	863,690	-	20,250,614
Machinery, furniture and equipment	7,082,622	213,333	-	7,295,955
Utility property	99,052,618	673,992	-	99,726,610
Water rights	18,785,708	-	-	18,785,708
Total other capital assets at historical cost	<u>144,307,872</u>	<u>1,751,015</u>	<u>-</u>	<u>146,058,887</u>
Less accumulated depreciation for:				
Buildings	9,174,188	696,780	-	9,870,968
Machinery, furniture and equipment	6,048,720	172,811	-	6,221,531
Utility property	59,858,725	2,502,708	-	62,361,433
Water rights	10,632,247	232,956	-	10,865,203
Total accumulated depreciation	<u>85,713,880</u>	<u>3,605,255</u>	<u>-</u>	<u>89,319,135</u>
Capital assets being depreciated, net	<u>58,593,992</u>	<u>(1,854,240)</u>	<u>-</u>	<u>56,739,752</u>
Business-type activities capital assets, net	<u>\$ 59,609,570</u>	<u>\$ (1,581,789)</u>	<u>\$ 236,613</u>	<u>\$ 57,791,168</u>

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

Governmental Activities:

General government	\$ 209,814
Culture and recreation	293,811
Community development	12,232
Economic development	145,884
Public safety	385,505
Streets	2,787,625
	<u>\$ 3,834,871</u>

Business-Type Activities:

Water	\$ 1,810,636
Wastewater	896,064
Sanitation	286,186
Electric	279,002
Lake	93,423
Airport	239,944
	<u>\$ 3,605,255</u>

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DAEDF capital assets were as follows:

Duncan Area Economic Development Foundation:	Balance, December 31, 2016
Capital assets, being depreciated:	
Buildings and improvements	\$ 16,031,916
Equipment	118,299
Total capital assets, being depreciated	<u>16,150,215</u>
Less accumulated depreciation	(3,770,901)
Total capital assets, being depreciated, net	<u>12,379,314</u>
Governmental activities capital assets, net	<u><u>\$ 12,379,314</u></u>

E. Long-term liabilities

Long-term liabilities of the City of Duncan as of December 31, 2016, are summarized as follows:

Governmental Activities

Notes Payable:

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

\$ 645,000

Capital Leases Payable:

\$155,551 capital lease agreement for the purchase of 911 wireless system, payable to SWBT in monthly installments of \$3,000, including interest at 5.9%, with final payment due October 2016.

\$ 176,810

Compensated Absences:

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

\$ 1,414,553

Claims Liability:

The liability related to retained risk of loss in connection with workers compensation claims.

\$ 1,106,615

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Business-type Activities

Notes payable:

\$12,068,282 note payable to the Waurika Lake Master Conservancy District, issued January 10, 1978, payable in monthly installments of \$55,060, including principal and interest at 3.463%, final payment due June 30, 2030. The note is secured by pledged revenues of the DPUA and a one percent sales tax restricted for debt retirement. Debt was issued for the City's use of water rights. \$ 6,222,228

\$9,318,240 note payable to the Waurika Lake Master Conservancy District, issued November 1, 2010, payable in monthly variable amounts, final payment due October 1, 2035. The note is secured by pledged water revenues of the DPUA. Debt was issued for the City's use of water rights. 7,509,136

\$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. 2,974,203

\$3,606,378 note payable to the Oklahoma Water Resources Board, issued September 12, 2002, payable semi-annually with interest at 0.0%, the DPUA pays a 0.5% administrative fee, final payment due August 15, 2022. The note is secured by pledged revenues of the DPUA. Debt was issued for wastewater system improvements. 1,081,913

\$7,635,000 note payable to the Oklahoma Water Resources Board, originally issued September 28, 2005 and amended September 12, 2013, payable semi-annually with interest at 2.75% and an administrative fee of 0.5%, final payment due March 15, 2021. The note is secured by pledged revenues of the DPUA. Debt was issued for water system improvements. 4,023,000

\$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. 5,116,000

\$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. 2,980,000

\$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. 7,115,000

\$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. 4,328,000

Total notes payable \$ 41,349,480

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Compensated Absences:

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

\$ 234,456

Long-term liability transactions for the year ended December 31, 2016 and changes therein were as follows:

<u>Type of Debt</u>	<u>Balance January 1, 2016</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31, 2016</u>	<u>Due Within One Year</u>
Governmental Activities:					
Notes payable	\$ 1,895,000	\$ -	\$ 1,250,000	\$ 645,000	\$ 645,000
Capital leases payable	29,204	176,810	29,204	176,810	87,571
Accrued compensated absences	1,390,795	23,758	-	1,414,553	141,455
Claims liability	887,506	1,012,232	793,213	1,106,525	442,646
Total Governmental Activities	<u>\$ 4,202,505</u>	<u>\$ 1,212,800</u>	<u>\$ 2,072,417</u>	<u>\$ 3,342,888</u>	<u>\$ 1,316,672</u>
			Add: OPEB obligation	5,453,017	
			Add: Pension Liability	22,627,249	
				<u>\$ 31,423,154</u>	
Business-Type Activities:					
Notes Payable	\$ 44,214,007	\$ -	\$ 2,864,527	\$ 41,349,480	\$ 3,046,050
Meter deposits	1,129,851	415,952	474,421	1,071,382	1,071,382
Accrued compensated absences	290,823	-	56,367	234,456	23,446
Total Business-Type Activities	<u>\$ 45,634,681</u>	<u>\$ 415,952</u>	<u>\$ 3,395,315</u>	<u>\$ 42,655,318</u>	<u>\$ 4,140,878</u>
			Add: OPEB obligation	885,086	
			Add: Pension Liability	9,672,486	
				<u>\$ 53,212,890</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
2017	645,000	13,610	87,571	3,519
2018	-	-	89,239	1,776
	<u>\$ 645,000</u>	<u>\$ 13,610</u>	<u>\$ 176,810</u>	<u>\$ 5,295</u>

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Fiscal Year Ending December 31,	Business-Type Activities	
	Notes Payable	
	Principal	Interest
2017	3,046,050	1,194,688
2018	4,013,777	1,120,137
2019	4,124,329	1,021,755
2020	4,238,910	927,033
2021	4,001,847	828,049
2022-2026	14,824,185	2,600,885
2027-2031	3,861,102	1,227,726
2032-2036	2,595,776	483,701
2037	643,504	46,732
	<u>\$ 41,349,480</u>	<u>\$ 9,450,706</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 2016 was \$132,265. The current loan balance is \$2,173,288. Future debt service requirements are as follows:

Fiscal Year Ending December 31,	DAEDF Component Unit	
	Notes Payable	
	Principal	Interest
2017	\$ 404,525	\$ 109,578
2018	427,378	86,725
2019	451,521	62,582
2020	476,900	37,203
2021	412,964	10,375
	<u>\$ 2,173,288</u>	<u>\$ 306,463</u>

Pledge of Future Revenues

Sales Tax Pledge – The City has fifty-five hundredths of a one penny tax (or .55%) of future sales tax revenues to repay \$10,000,000 of Series 2007 Sales Tax Revenue Note. Proceeds from the notes provided financing for street capital assets. The note is payable from pledged sales tax revenues. The note is payable through fiscal year 2017. The total principal and interest payable for the remainder of the life of this note is \$658,610. Pledged sales taxes in the current year were \$2,159,972. Debt service payment of \$1,319,387 for the current fiscal year was 61.1% of pledged sales tax.

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Utility Revenues Pledge – The City has also pledged future gross water, wastewater, electric and garbage revenues to repay \$3,606,378 of the 2002A Series OWRB Note Payable, \$7,635,000 of the 2005 Series OWRB Note Payable, \$7,755,000 of the 2007 Series OWRB Note Payable, \$4,130,000 of the 2009 Series OWRB Note Payable, \$11,245,000 of the 2009A series OWRB Note Payable, and \$7,390,000 of the 2012 Utility Revenue Note. Proceeds from the notes provided financing for utility system capital assets. The notes are payable through 2022, 2026, 2029, 2030, 2030, and 2021, respectively. The total principal and interest payable for the remainder of the life of these notes is \$27,209,844. The notes are payable from the above-mentioned utility revenues. The debt service payments on the notes this year were \$2,775,284 which was 9.2% of pledged utility revenues of \$30,088,014.

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 \$11,375,717. The note is payable from the above-mentioned utility revenues. The debt service payments on the note this year were \$481,882 which was 8.7% of pledged utility revenues of \$5,513,978.

F. Interfund receivables, payables, and transfers

The composition of interfund balances as of December 31, 2016 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	1,506,745	Negative pooled cash
* DPUA	Internal service - employee insurance	198,199	Negative pooled cash
* DPUA	Governmental Non-Major DPUA Sinking Fund	24,850	Negative pooled cash
* DPUA	* General	3,607,960	Negative pooled cash
* DPUA	* General	300,000	Revenue posted to incorrect fund
		<u>\$ 5,747,280</u>	

* Denotes major fund.

Reconciliation to Fund Financial Statements:

	Advance/Due From	Advance/Due to	Net Interfund Balances
Governmental Funds	\$ 109,526	\$ 4,042,336	\$ (3,932,810)
Proprietary Funds	5,637,754	-	5,637,754
Internal Service Funds	-	1,704,944	(1,704,944)
	<u>\$ 5,747,280</u>	<u>\$ 5,747,280</u>	<u>\$ -</u>

Reconciliation of Statement of Net Position:

Net Internal Balances	\$ 5,637,754
Internal Service Fund Activity reported in Business-type Activities	(702,419)
Net Internal Balances - Government Wide	<u>\$ 4,935,335</u>

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A summary of interfund transfers for the fiscal year ended December 31, 2016 is as follows:

<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>	<u>Purpose of Transfer</u>
911 Telephone	* General	\$ 171,415	Budgeted operational trans
* DPUA	* General	2,159,972	Pledged sales tax
* DPUA	* General	4,200,000	Budgeted operational trans
Ad Valorem Sinking	* General	24,234	Closing of fund
Health Fund	* General	535,607	Closing of account
* DEDTA	* Capital Improvement Fund	109,526	Expense reimbursement
* DPUA	DPUA Debt Service	1,321,672	Pledged sales tax
* General	Library	3,218	Grant match
* General	* DPUA	2,159,972	Pledged sales tax
* Capital Improvement Fund	* DPUA	245,868	Capital projects
* Capital Improvement Fund	* DPUA	1,320,000	Debt payments
Total		<u>\$ 12,251,484</u>	

Reconciliation to Fund Financial Statements:

	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Net Transfers</u>
Governmental Funds	\$ 8,525,644	\$ (4,034,233)	\$ 4,491,411
Proprietary Funds	3,725,840	(7,681,644)	(3,955,804)
Internal Service Funds	-	(535,607)	(535,607)
	<u>\$ 12,251,484</u>	<u>\$ (12,251,484)</u>	<u>\$ -</u>

* Denotes major fund.

Reconciliation to Statement of Activities:

Net transfers governmental activities	\$ 3,955,804
Transfer of capital assets to business-type activities	<u>(1,030,598)</u>
Transfers - internal activity	<u>\$ 2,925,206</u>

G. Net Position

Government-Wide and Proprietary Fund Financial Statements

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

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Fund	Restricted By	Amount
Governmental Activities:		
Cemetery Fund	Statutory requirements	\$ 189,199
Street and Alley Fund	Statutory requirements	197,845
E911 Fund	Statutory requirements	171,703
		<u>\$ 558,747</u>
CDBG Fund	External sources	\$ 340,293
Police grants and seizures	External sources	88,137
First responder	External sources	10,831
Economic Development Fund	External sources	7,818,756
Capital Projects Fund	External sources	10,053,892
Debt Service Fund	External sources	107,163
		<u>\$ 18,419,072</u>
Total Governmental Restricted		<u>\$ 18,977,819</u>
Reconciliation to Statement of Net Position:		
Restricted for:		
Debt service		\$ 107,163
Public Safety		270,671
Capital projects		10,053,892
Economic development		7,818,756
Other		727,337
Total Governmental Restricted		<u>\$ 18,977,819</u>
Business Type Activities:		
Debt Service Reserves	External sources	<u>\$ 7,486,225</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	\$ -	\$ -	\$ -	\$ 197,845	\$ 197,845
Cemetery improvements	-	-	-	189,199	189,199
CDBG programs	-	-	-	340,293	340,293
E911 dispatch	-	-	-	171,703	171,703
Debt service	-	-	-	112,803	112,803
Police	-	-	-	88,137	88,137
First responder program	-	-	-	10,831	10,831
Economic development	-	7,709,230	-	-	7,709,230
Capital improvements	-	-	10,053,892	-	10,053,892
Sub-total restricted	<u>-</u>	<u>7,709,230</u>	<u>10,053,892</u>	<u>1,110,811</u>	<u>18,873,933</u>
Unassigned (deficit)	(3,023,003)	-	-	(25,963)	(3,048,966)
TOTAL FUND BALANCE	<u>\$ (3,023,003)</u>	<u>\$ 7,709,230</u>	<u>\$ 10,053,892</u>	<u>\$ 1,084,848</u>	<u>\$ 15,824,967</u>

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Beginning net position of DAEDF at January 1, 2016 was restated due to a correction of an error in the recognition of lease revenue in 2015. The restatement reduced net position as previously reported by \$74,777.

Postemployment Healthcare Plan

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

Funding Policy. The contribution requirements of plan members and the City are established by the City Council. Annual health insurance premium amounts are established by the third party insurance provider. The required contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2016, the actuarially expected City contribution in the form of net age adjustment was \$443,445 to the Plan. Plan members receiving benefits contributed \$143,789 of the total premiums, through their payment of the full carrier determined premium in FY 2016.

Annual OPEB Cost and Net OPEB Obligation. The City's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period of thirty years. The following table shows the components of the City's annual OPEB cost, the amount actually contributed to the plan, and changes in the City's net OPEB obligation for the year ended December 31, 2016:

Normal cost	\$ 662,986
Amortization of Acturial Accrued Liability (AAL)	667,094
Annual Required Contribution (with Interest)	<u>1,330,080</u>
Interest on Net OPEB Obligation	181,541
Adjustment to the ARC	<u>(420,532)</u>
Annual OPEB cost (expense)	1,091,089
Employer Contributions of FY 16	(443,447)
Net OPEB obligation—beginning of year	<u>5,690,461</u>
Net OPEB obligation—end of year	<u><u>\$6,338,103</u></u>

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

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2014	\$1,321,602	36%	\$5,088,356
12/31/2015	\$1,091,089	41%	\$5,690,461
12/31/2016	\$1,091,089	41%	\$6,338,103

Funded Status and Funding Progress. As of January 1, 2015, the most recent actuarial valuation date, the Plan was not funded. The actuarial accrued liability (AAL) for benefits was \$11.1 million, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$11.1 million. The covered payroll (annual payroll of active employees covered by the plan) was \$9.2 million, and the ratio of the UAAL to the covered payroll was 121 percent.

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

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

In the January 1, 2015, actuarial valuation, the Entry Age Normal actuarial cost method was used. The actuarial assumptions included an annual healthcare cost trend rate of 9.0 percent initially, reduced by decrements to an ultimate rate of 4.87 percent after fifty years. Discount rate assumed is 3.6%. The UAAL is being amortized over 30 years based on a level dollar method. The remaining amortization period at January 1, 2015, was twenty-six years. As of the date of this valuation, there are no plan assets.

IV. Other Information

A. Risk management

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

- General Liability – Covered through purchased insurance.
- Physical Property – Covered through purchase insurance with a \$1,000 deductible.
- Workers Compensation – self-insured using a third party administrator that process claims and establish reserves. The City has a stop-loss policy which covers individual claims in excess of \$600,000, per occurrence. The maximum indemnity limit is \$2,000,000.
- Employee's Group Medical – Self-insured, 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, 2014 to December 31, 2016, are as follows:

CLAIMS LIABILITY ANALYSIS

	Health	Worker's Comp	Total
Claims liability, December 31, 2014	\$ 133,026	\$ 1,075,764	\$ 1,208,790
Claims and changes in estimates	2,455,253	276,331	2,731,584
Claims payments	<u>(2,311,708)</u>	<u>(464,589)</u>	<u>(2,776,297)</u>
Claims liability, December 31, 2015	276,571	887,506	1,164,077
Claims and changes in estimates	51,409	1,012,232	1,063,641
Claims payments	<u>(327,980)</u>	<u>(793,123)</u>	<u>(1,121,103)</u>
Claims liability, December 31, 2016	<u><u>\$ -</u></u>	<u><u>\$ 1,106,615</u></u>	<u><u>\$ 1,106,615</u></u>

The City estimates that the liability of \$1,106,615 is \$442,646 (40%) current and \$663,969 (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, 2015, DAEDF has committed a total of \$385,315 for industry incentives, \$547,400 for water infrastructure, and \$5,914 industrial building.

Outstanding Contracts

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

Fund/Project	Balance Remaining at December 31, 2016
Sewer Main Creek Crossing	\$ 1,000
ODALS Project - Design	25,000
AWOS Project	137,693
Pavement Condition Assessment	83,750
Lake Humphreys Pump Station	149,400
Chisholm Trail Parkway 16" Waterline Extension	102,000

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

C. Employee retirement systems and pensions plans

The City of Duncan participates in the Oklahoma State Police Pension and Retirement System and the Oklahoma State Firefighters' Pension and Retirement System, both of which are cost-sharing multiple-employer defined benefit pension plans administered by the State of Oklahoma. Copies of the State of Oklahoma sponsored multiple-employer plans and a schedule of funding progress is available, for each from the respective Plan. Additionally, for City employees not covered by these plans, the City of Duncan maintains the City of Duncan Employee Retirement Plan, a single employer defined benefit pension plan, and also a defined contribution plan designated as the Employee Retirement System of City of Duncan, Oklahoma, Defined Contribution Plan. A summary of all the amounts recorded in the City's financial statements for the plans is as follows:

	Governmental Activities
Net Pension Liability	
Police Pension System	\$ 1,154,578
Firefighter's Pension System	10,228,267
Single Employer Plan	20,916,890
Total Net Pension Liability	<u>\$ 32,299,735</u>
Deferred Outflows of Resources	
Police Pension System	\$ 1,254,793
Firefighter's Pension System	1,177,521
Single Employer Plan	2,457,255
Total Deferred Outflows of Resources	<u>\$ 4,889,569</u>
Deferred Inflows of Resources	
Police Pension System	\$ 247,687
Firefighter's Pension System	330,045
Single Employer Plan	411,672
Total Deferred Inflows of Resources	<u>\$ 989,404</u>

Oklahoma State Police Pension and Retirement System (OPPRS)

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

Benefits provided - OPPRS provides retirement, disability, and death benefits to members of the plan. The normal retirement date under the Plan is the date upon which the participant completes 20 years of credited service, regardless of age. Participants become vested upon completing 10 years of credited service as a contributing participant of the Plan. No vesting occurs prior to completing 10 years of credited service. Participants' contributions are refundable, without interest, upon termination prior to normal retirement. Participants who have completed 10 years of credited service may elect a vested

benefit in lieu of having their accumulated contributions refunded. If the vested benefit is elected, the participant is entitled to a monthly retirement benefit commencing on the date the participant reaches 50 years of age or the date the participant would have had 20 years of credited service had employment continued uninterrupted, whichever is later.

Monthly retirement benefits are calculated at 2.5% of the final average salary (defined as the average paid base salary of the officer over the highest 30 consecutive months of the last 60 months of credited service) multiplied by the years of credited service, with a maximum of 30 years of credited service considered.

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

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

Contributions - The contributions requirements of the Plan are at an established rate determined by Oklahoma Statute and are not based on actuarial calculations. Employees are required to contribute 8% percent of their annual pay. Participating cities are required to contribute 13% of the employees' annual pay. Contributions to the pension plan from the City were \$298,575. The State of Oklahoma also made on-behalf contributions to OPPRS in the amount of \$278,436 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 \$270,769. 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, 2016, the City reported a liability of \$1,154,578 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016. 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, 2016. Based upon this information, the City's proportion was 0.7539%.

For the year ended December 31, 2016, the City recognized pension expense of \$398,784. At December 31, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 3,709	\$ 129,694
Net difference between projected and actual earnings on pension plan investments	1,109,353	-
Changes in proportion	-	26,769
Contributions during measurement date	-	91,224
City contributions subsequent to the measurement date	141,731	-
Total	<u>\$ 1,254,793</u>	<u>\$ 247,687</u>

Deferred outflows of resources related to pensions totaling \$141,731 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, 2017. 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 5.725 years and 5.77 years as of June 30, 2016 and 2015, 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:

2017	\$ 135,054
2018	135,054
2019	362,116
2020	248,394
2021	(15,243)
	<u>\$ 865,375</u>

Actuarial Assumptions- The total pension liability was determined by an actuarial valuation as of July 1, 2016, 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.

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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, 2016, 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, 2016, are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed income	3.27%
Domestic equity	5.16%
International equity	8.61%
Real estate	4.97%
Private equity	8.32%
Commodities	2.42%

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 (asset) of the employers calculated using the discount rate of 7.5%, as well as what

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the Plan's net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower (6.5%) or 1-percentage-point higher (8.5%) than the current rate:

	1% Decrease 6.5%	Current Discount Rate 7.5%	1% Increase 8.5%
Employers' net pension liability (asset)	3,029,238	1,154,578	(428,285)

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

Oklahoma State Firefighters' Pension and Retirement System (OFPRS)

Firefighters' Plan:

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

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

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

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

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

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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 \$320,327. The State of Oklahoma also made on-behalf contributions to OFPRS in the amount of \$781,722 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 \$772,994. 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, 2016, the City reported a liability of \$10,228,267 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016. 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, 2016. Based upon this information, the City's proportion was 0.8372%.

For the year ended December 31, 2016, the City recognized pension expense of \$1,004,226. At December 31, 2016, 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	\$ 274,192	\$ -
Net difference between projected and actual earnings on pension plan investments	625,813	-
Changes in proportion	122,783	330,045
City contributions during measurement date	5,452	-
City contributions subsequent to the measurement date	149,281	-
Total	<u>\$ 1,177,521</u>	<u>\$ 330,045</u>

Deferred outflows of resources related to pensions totaling \$149,281 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, 2017. 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 6.26 years and 6.31 years as of June 30, 2016 and 2015, respectively. The deferred inflows relates to the difference between expected and actual investment earnings and is being amortized over a closed 5-year period as of the beginning of each measurement period. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

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Year ended June 30:

2017	\$ 27,403
2018	27,403
2019	353,209
2020	250,389
2021	26,865
2022	12,926
	<u>\$ 698,195</u>

Actuarial Assumptions-The total pension liability was determined by an actuarial valuation as of July 1, 2016, 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, 2016, 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, 2016, are summarized in the following table:

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<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed income	20%	5.18%
Domestic equity	42%	8.70%
International equity	15%	10.87%
Real estate	10%	7.23%
Other assets	13%	6.24%

The current allocation policy is that approximately 62% of assets in equity instruments, both domestic and international; approximately 20% 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 18% 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 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 return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

	<u>1% Decrease 6.5%</u>	<u>Current Discount Rate 7.5%</u>	<u>1% Increase 8.5%</u>
Employer's net pension liability	\$ 12,948,133	\$ 10,228,267	\$ 7,947,890

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

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

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

Plan Participation and Benefits: Plan benefits and contribution rates are set by Ordinance approved by the City Council. All regular, full-time City employees 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.

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.

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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 -

Non-vested active members	62
Partially vested active member	32
Vested active members	<u>12</u>
Total active members	106
Inactive members/beneficiaries receiving benefits	97
Inactive plan members not yet receiving benefits	<u>3</u>
Total Members	206

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, 2015 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, 2015, which is the measurement date elected by the City for purposes or recognizing the net pension liability, deferred inflows and outflows of resources related to pensions, and pension expense. There were no changes in actuarial assumptions that affected the measurement of the total pension liability. As discussed above, effective in 2015, the plan is closed to new participants and salaries for purposes of computing retirement plan benefits was frozen to the annual rate of pay as of March 1, 2015.

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City of Duncan Net Pension Liability - December 31, 2015 Plan Year

	Total Pension Liability	Plan Net Position	Net Pension Liability
Balances at beginning of year, January 1, 2015	\$ 29,063,506	\$ 6,575,894	\$ 22,487,612
Charges for year:			
Service cost	553,112	-	553,112
Interest expense	1,573,159	-	1,573,159
Contributions - employer	-	1,880,420	(1,880,420)
Contributions - employee	-	334,780	(334,780)
Net investment income (loss)	-	(76,239)	76,239
Changes of benefit terms	(1,104,022)	-	(1,104,022)
Difference between actual and expected experience	(483,444)	-	(483,444)
Changes in assumptions	-	-	-
Benefit payments, including refunds of member contributions	(1,585,679)	(1,585,679)	-
Plan administrative expenses	-	(29,434)	29,434
Net changes	\$ (1,046,874)	\$ 523,848	\$ (1,570,722)
Balances at end of year, December 31, 2015	\$ 28,016,632	\$ 7,099,742	\$ 20,916,890

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 (loss)	-	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	-	(64,067)	64,067
Net changes	\$ 18,284	\$ 1,000,966	\$ (982,682)
Balances at end of year, December 31, 2016	\$ 28,034,916	\$ 8,100,708	\$ 19,934,208

The City reported \$248,550 in pension expense for the year ended December 31, 2016. At December 31, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 363,483
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	531,850	-
Changes in proportion and differences between City contributions and proportionate share of contributions	48,189	48,189
City contributions subsequent to the measurement date	1,877,216	-
Total	<u>\$ 2,457,255</u>	<u>\$ 411,672</u>

The \$1,877,216 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, 2017. 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 4.16 years as of December 31, 2016 and 2015, 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:

2017	\$ 17,323
2018	17,323
2019	17,323
2020	116,398
	<u>\$ 168,367</u>

Actuarial Assumptions – Unless stated otherwise, the assumptions described below are as of the actuarial valuation date of December 31, 2015 and December 31, 2016:

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

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actuarial accrued liability. It is equal to the theoretical asset accumulation had the plan always been in effect, all actuarial assumptions were perfectly met and the employer contributed the normal cost each year.

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

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

Money-Weighted Rate of Return on Investments – For the year ended December 31, 2016, the annual money-weighted rate of return on investments, net of investment expense, was 9.13%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate - The discount rate used to measure the total pension liability was a blended rate of 5.5 percent for the measurement date ended December 31, 2015. This was based on the expected rate of return of pension plan investments of 7.0% and the municipal bond rate of 3.56%. The discount rate includes no allowance for administrative expenses, which are expensed separately. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be 8 percent of pay and that City contributions will be 10 percent of pay with additional supplementary contributions from the City under the established funding policy. By making additional contributions of \$1.2 million per year for twenty years there is a depletion date in year 24 within the 40 year projection period. Supplemental contributions of about \$1.5 million have been made in recent years.

For the plan year ended December 31, 2016 the discount rate is 5.74%. 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 contributions of about \$1.5 million have been made in recent years.

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Sensitivity of the net pension liability to changes in the discount rate – The following presents the net pension liability of the Plan, calculated using the discount rate of 5.50 and 5.74 percent, as well as what the Plan’s net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.5 or 4.74 percent) or 1-percentage-point higher (6.5 or 6.74 percent) than the current rate:

	1% Decrease - 4.5%	Current Discount Rate - 5.5%	1% Increase - 6.5%
City Net Pension Liability - December 31, 2015 Plan Year	\$ 24,217,429	\$ 20,916,890	\$ 18,229,943
	1% Decrease - 4.74%	Current Discount Rate - 5.74%	1% Increase - 6.74%
Plan Net Pension Liability - December 31, 2016 Plan Year	\$ 23,120,638	\$ 19,934,208	\$ 17,325,323

The components of the net pension liability of the City and the Plan at December 31, 2016, were as follows:

	City - Primary Government Financial Statements	Pension Plan
Total Pension Liability	\$ 28,016,632	\$ 28,034,916
Plan Fiduciary Net Position	7,099,742	8,100,708
Net Pension Liability	\$ 20,916,890	\$ 19,934,208
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	25.34%	28.90%

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 \$1.2 million in year two (FY 2017) 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.

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The New Plan is administered by a five member Board of city employees. The City Council must approve changes to the plan. Benefits depend solely on amounts contributed to the Plan plus investment earnings. 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, 2016, total assets held in trust were \$683,531.

Funding Policy – Benefits depend solely on amounts contributed to the Plan plus investment earnings. Employees are eligible to participate upon thirty years of employment, and must make a mandatory minimum pre-tax contribution of 8%. By City ordinance, the City, as the employer, is required to make contributions to the Plan, based on an amount equal to the city contributions that would have been made under the Defined Benefit Plan. City contributions for fiscal year 2016 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, 2016, by employees and employer were \$47,499 and \$38,000, respectively, on a covered payroll of \$475,077.

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

Plan Description – Effective March 2015, the City began providing a defined contribution plan and trust known as the City of Duncan Plan “the Plan” in the form of The Oklahoma Municipal Retirement Master Defined Contribution Plan (OkMRF). OkMRF operations are supervised by a nine-member Board of Trustees elected by the participating municipalities. The defined contribution plan is available to all full-time employees hired after March 12, 2015 except those participating in state police or fire programs. At December 31, 2016, there were thirty-one (31) participants in the Plan.

Funding Policy – Benefits depend solely on amounts contributed to the Plan plus investment earnings. Employees must make a mandatory minimum pre-tax contribution of 5%. By City ordinance, the City, as employer, is required to make contributions to the plan based upon employee contributions under the pick-up option, at a current rate of 5% of covered payroll. The City’s contributions for each employee (and interest allocated to the employee’s account) are vested at 50% after 5 years of service, 10% thereafter until fully vested after 10 years of service. The authority to establish and amend the provisions of the Plan rests with the City Council. Contributions to the Plan for the year ended December 31, 2016, for employees and employer were \$37,506 and \$37,506, respectively, on a covered payroll of \$750,121. 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, 2016, 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

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(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, 2016, for employees and employer were \$2,120 and \$4,250, respectively, on a covered payroll of \$26,500. Employer and employee contributions are held in trust by OkMRF.

ICMA Retirement Deferred Compensation Plan (the ICMA Plan)

The City of Duncan offers a retirement plan through ICMA to certain members of City management. The City contributes 10% of the participant's salary and employees contribute 8%. Employee and employer contributions to the ICMA Plan for the year ended December 31, 2016, were \$19,656 and \$24,407, respectively. Separate audited financial statements are not available.

D. DAEDF Operating Lease

In 2003, DAEDF leased an industrial building to a private company for twelve years with monthly rental payments of \$14,215. On November 1, 2009 a major expansion of the facilities was completed and the original lease was replaced with a new agreement providing for monthly rental payments of \$60,459 for an initial term of fifteen years and option for another five years. Future minimum lease payments are \$5,623,146

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 2016, lease income on this property was \$96,000. Future minimum lease payments are \$2,088,000.

Total lease revenues from all properties for 2016 was \$1,045,799. Real estate lease revenue presented in the statement of activities is reflected net of direct expense in the amount of \$1,111,365, for a net loss of \$65,566. Cost and carrying amount of property held for leasing as of December 31, 2016:

Building and land (cost)	\$15,891,061
Accumulated depreciation	<u>(3,681,903)</u>
Net book value	<u>\$ 12,209,158</u>

Future minimum lease payments on lease agreements in existence at December 31, 2016 are approximately \$1,075,000 for 2017, \$1,135,000 for 2018, \$1,069,000 annually for 2019 through 2021.

E. Non-Compliance

State law prohibits deficit fund balance in governmental funds. The General Fund had deficit fund balance at December 31, 2016, of \$3,023,003. Non-major governmental funds with deficit fund balances included the DPUA Sinking Fund of \$24,850 and the Library Gifts and Grants Fund of \$1,113.

In addition, the Insurance Fund and the Worker's Compensation Internal Service Funds had deficits of \$198,199 and \$2,207,308, respectively. Deficits resulting from accrual reporting do not constitute violations of Oklahoma State Statutes.

F. New Accounting Pronouncements –

Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans - GASB No. 74 was issued in June 2015, and replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No. 50, *Pension Disclosures*. This Statement is effective for financial statements for fiscal years beginning after June 15, 2016. The City's OPEB Plan does not prepare separate financial statements, and the City's financial reporting is not impacted by this GASB Statement.

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

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

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

GASB Statement No. 83, *Certain Asset Retirement Obligations*, issued December 2016, will be effective for the City beginning with its fiscal year ending June 30, 2019. Under Statement No. 83, a government that has legal obligations to perform future asset retirement activities related to its tangible

capital assets is required to recognize a liability and a corresponding deferred outflow of resources. The Statement identifies the circumstances that trigger the recognition of these transactions. The Statement also requires the measurement of an asset retirement obligation to be based on the best estimate of the current value of outlays expected to be incurred while the deferred outflow of resources associated with the asset retirement obligation will be measured at the amount of the corresponding liability upon initial measurement and generally recognized as an expense during the reporting periods that the asset provides service. The Statement requires disclosures including a general description of the asset retirement obligation and associated tangible capital assets; the source of the obligation to retire the assets; the methods and assumptions used to measure the liability; and other relevant information. 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 80 will have on its net position.

GASB Statement 85, *Omnibus 2017*, issued March 2017, will be effective for the City beginning with its fiscal year ending December 31, 2018. This Statement address a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits. The City has not yet determined the impact that implementation of GASB 85 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.

REQUIRED SUPPLEMENTARY INFORMATION

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Budgetary Comparison Schedules – General Fund - (Budgetary Basis) – Year Ended December 31, 2016

	<u>Budgeted Amounts</u>		<u>Actual Amounts, Budgetary Basis</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes	\$ 10,214,700	\$ 10,214,700	\$ 9,763,326	\$ (451,374)
Licenses and permits	62,400	62,400	90,175	27,775
Intergovernmental	290,000	290,000	289,443	(557)
Charges for services	70,500	70,500	187,928	117,428
Fees and fines	821,900	821,900	876,509	54,609
Investment earnings	3,000	3,000	1,426	(1,574)
Miscellaneous	68,475	68,475	143,590	75,115
Total revenues	<u>11,530,975</u>	<u>11,530,975</u>	<u>11,352,397</u>	<u>(178,578)</u>
EXPENDITURES				
Departmental:				
General government	3,295,477	3,384,108	3,230,509	153,599
Community development	898,040	836,940	688,032	148,908
Public safety	8,877,973	8,869,442	8,794,994	74,448
Highways and streets	992,335	973,835	897,558	76,277
Health	405,710	407,110	367,807	39,303
Culture and recreation	1,411,418	1,409,518	1,342,768	66,750
Total expenditures	<u>15,880,953</u>	<u>15,880,953</u>	<u>15,321,668</u>	<u>559,285</u>
Excess (deficiency) of revenues over expenditures	<u>(4,349,978)</u>	<u>(4,349,978)</u>	<u>(3,969,271)</u>	<u>380,707</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	5,735,000	6,575,000	6,555,621	(19,379)
Transfers out	<u>(1,320,000)</u>	<u>(2,284,696)</u>	<u>(2,284,668)</u>	<u>28</u>
Total other financing sources and uses	<u>4,415,000</u>	<u>4,290,304</u>	<u>4,270,953</u>	<u>(19,351)</u>
Net change in fund balances	65,022	(59,674)	301,682	361,356
Fund balances - beginning	-	-	(3,372,129)	(3,372,129)
Fund balances - ending	<u>\$ 65,022</u>	<u>\$ (59,674)</u>	<u>\$ (3,070,447)</u>	<u>\$ (3,010,773)</u>

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Budgetary Comparison Schedules – DEDTA Major Special Revenue Fund - (Budgetary Basis) – Year Ended December 31, 2016

	Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 2,000,000	\$ 2,000,000	\$ 1,992,304	\$ (7,696)
Investment earnings	-	-	148,077	148,077
Miscellaneous	-	-	25,227	25,227
Total revenues	<u>2,000,000</u>	<u>2,000,000</u>	<u>2,165,608</u>	<u>165,608</u>
EXPENDITURES				
Departmental:				
Economic development	<u>3,784,396</u>	<u>3,784,396</u>	<u>1,872,471</u>	<u>1,911,925</u>
Total expenditures	<u>3,784,396</u>	<u>3,784,396</u>	<u>1,872,471</u>	<u>1,911,925</u>
Excess (deficiency) of revenues over expenditures	<u>(1,784,396)</u>	<u>(1,784,396)</u>	<u>293,137</u>	<u>2,077,533</u>
OTHER FINANCING SOURCES (USES)				
Transfers out - component unit	-	-	(109,526)	(109,526)
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>(109,526)</u>	<u>(109,526)</u>
Net change in fund balances	(1,784,396)	(1,784,396)	183,611	1,968,007
Fund balances - beginning	<u>2,784,396</u>	<u>2,784,396</u>	<u>7,525,619</u>	<u>4,741,223</u>
Fund balances - ending	<u>\$ 1,000,000</u>	<u>\$ 1,000,000</u>	<u>\$ 7,709,230</u>	<u>\$ 6,709,230</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.

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

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

Budgetary Accounting

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

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

	General Fund
Total revenue - budgetary basis	\$ 17,908,018
Total expenses - budgetary basis	(17,606,336)
Change in fund balance - budgetary basis	301,682
Add change in fund balance of sub-accounts combined for reporting purposes:	
Police Uniform Allowance	10,493
Fire Uniform Allowance	88,325
Hunting and Fishing	8,597
Retiree Insurance	535,607
Change in fund balance - GAAP basis	<u>\$ 944,704</u>

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

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**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
Total pension liability			
Service cost	\$ 819,768	\$ 553,112	\$ 526,133
Interest	1,507,326	1,573,160	1,560,485
Changes of benefit terms	-	(1,104,023)	-
Difference between expected and actual experience	-	(483,444)	(286,458)
Changes of assumptions	-	-	-
Benefit payments, including refunds of member contributions	(1,585,149)	(1,585,679)	(1,781,876)
Net change in total pension liability	\$ 741,945	\$ (1,046,874)	\$ 18,284
Total pension liability - beginning	28,321,561	29,063,506	28,016,632
Total pension liability - ending (a)	\$ 29,063,506	\$ 28,016,632	\$ 28,034,916
 Plan fiduciary net position			
Contributions - employer	\$ 1,436,483	\$ 1,880,420	\$ 1,877,217
Contributions - members	368,322	334,780	303,402
Net investment income	342,804	(76,239)	666,290
Benefit payments, including refunds of member contributions	(1,585,149)	(1,585,679)	(1,781,876)
Administrative expense	(54,172)	(29,434)	(64,067)
Other	-	-	-
Net change in plan fiduciary net position	508,288	523,848	1,000,966
 Plan fiduciary net position - beginning	6,067,606	6,575,894	7,099,742
Plan fiduciary net position - ending (b)	\$ 6,575,894	\$ 7,099,742	\$ 8,100,708
 City's net pension liability - ending (a-b)	\$ 22,487,612	\$ 20,916,891	\$ 19,934,208
 Plan fiduciary net position as a percentage of the total pension liability	22.63%	25.34%	28.90%
 Covered-employee payroll	\$ 4,261,764	\$ 4,046,479	\$ 4,007,413
 City's net pension liability as a percentage of covered employee payroll	527.66%	516.92%	497.43%

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.

* Measurement periods are one year previous to the plan year.

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

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Actuarially determined contribution	\$ 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	\$ 1,274,430
Contributions in relation to the actuarially determined contribution	1,877,216	1,918,481	1,442,614	1,446,929	1,235,749	940,566	830,164	790,564	956,434	1,106,170
Contribution deficiency (excess)	<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>	<u>\$ 168,260</u>
Covered-employee payroll	\$ 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	\$ 3,789,364
Contributions as a percentage of covered-employee payroll	46.8%	47.4%	35.7%	34.0%	27.8%	22.2%	18.9%	18.6%	22.7%	29.2%

Notes to Schedule:

Valuation Date	December 31, 2016
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

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

Last Ten Fiscal Years

Year Ended	Annual money-weighted rate of return, net of investment expense
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%

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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>
City's proportion of the net pension liability	0.8122%	0.7539%
City's proportionate share of the net pension liability	\$ 33,116	\$ 1,154,578
City's covered-employee payroll	\$ 2,230,110	\$ 2,220,820
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	1.48%	51.99%
Plan fiduciary net position as a percentage of the total pension liability	99.82%	93.50%

* Only the current and prior fiscal years are presented because 10-year data is not yet available.

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

	<u>2015</u>	<u>2016</u>
Statutorily required contribution	\$ 288,707	\$ 298,575
Contributions in relation to the statutorily required contribution	<u>288,707</u>	<u>298,575</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 2,230,110	\$ 2,296,727
Contributions as a percentage of covered-employee payroll	12.95%	13.00%

* Only the current and prior fiscal years are presented because 10-year data is not yet available.

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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>
City's proportion of the net pension liability	0.8242%	0.8372%
City's proportionate share of the net pension liability	\$ 8,747,637	\$ 10,228,267
City's covered-employee payroll	\$ 2,282,721	\$ 2,282,721
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	383%	448%
Plan fiduciary net position as a percentage of the total pension liability	68.27%	64.87%

* Only the current and prior fiscal years are presented because 10-year data is not yet available.

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

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

* Only the current and prior fiscal years are presented because 10-year data is not yet available.

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Other Post-Employment Benefits

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

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

Notes to Schedule:

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

SUPPLEMENTARY INFORMATION

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Combining Balance Sheet – General Fund Accounts – December 31, 2016

	<u>General Fund</u>	<u>Police Uniform Allowance</u>	<u>Fire Uniform Allowance</u>	<u>Hunting and Fishing</u>	<u>Retiree Insurance</u>	<u>Total General Fund</u>
ASSETS						
Cash and cash equivalents	\$ 25,163	\$ -	\$ 14,584	\$ 33,460	\$ -	\$ 73,207
Receivable from other governments	1,142,150	-	-	-	-	1,142,150
Taxes receivable, net	128,760	-	-	-	-	128,760
Court fines receivable, net	240,510	-	-	-	-	240,510
Other receivables	28,605	-	-	-	-	28,605
Prepaid items	309	-	-	-	-	309
Total assets	<u>1,565,497</u>	<u>-</u>	<u>14,584</u>	<u>33,460</u>	<u>-</u>	<u>1,613,541</u>
LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES						
Liabilities:						
Accounts payable	116,646	-	-	-	-	116,646
Accrued payroll payable	524,013	-	-	-	-	524,013
Advance to other funds	3,907,960	-	-	-	-	3,907,960
Due to bondholders	-	-	-	600	-	600
Payable to other governments	120	-	-	-	-	120
Total liabilities	<u>4,548,739</u>	<u>-</u>	<u>-</u>	<u>600</u>	<u>-</u>	<u>4,549,339</u>
Deferred inflows of resources:						
Unavailable revenue	<u>87,205</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>87,205</u>
Fund balances:						
Unassigned (deficit)	<u>(3,070,447)</u>	<u>-</u>	<u>14,584</u>	<u>32,860</u>	<u>-</u>	<u>(3,023,003)</u>
Total fund balances	<u>(3,070,447)</u>	<u>-</u>	<u>14,584</u>	<u>32,860</u>	<u>-</u>	<u>(3,023,003)</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 1,565,497</u>	<u>\$ -</u>	<u>\$ 14,584</u>	<u>\$ 33,460</u>	<u>\$ -</u>	<u>\$ 1,613,541</u>

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**Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances – General Fund Accounts
– December 31, 2016**

	General Fund	Police Uniform Allowance	Fire Uniform Allowance	Hunting and Fishing	Retiree Insurance	Total General Fund
REVENUES						
Taxes	\$ 9,763,326	\$ -	\$ -	\$ -	\$ -	\$ 9,763,326
Intergovernmental	1,349,601	-	-	-	-	1,349,601
Licenses and permits	90,175	-	-	22,017	-	112,192
Charges for services	187,928	-	-	-	-	187,928
Fees and fines	876,509	-	-	-	-	876,509
Investment earnings	1,426	-	-	-	-	1,426
Miscellaneous	143,590	-	-	611	-	144,201
Total revenues	<u>12,412,555</u>	<u>-</u>	<u>-</u>	<u>22,628</u>	<u>-</u>	<u>12,435,183</u>
EXPENDITURES						
Current:						
General government	3,230,509	-	-	-	-	3,230,509
Community development	688,032	-	-	-	-	688,032
Public safety	9,855,152	-	22,660	-	-	9,877,812
Highways and streets	897,558	-	-	-	-	897,558
Health	367,807	-	-	-	-	367,807
Culture and recreation	1,342,768	-	-	14,031	-	1,356,799
Total expenditures	<u>16,381,826</u>	<u>-</u>	<u>22,660</u>	<u>14,031</u>	<u>-</u>	<u>16,418,517</u>
Excess (deficiency) of revenues over expenditures	<u>(3,969,271)</u>	<u>-</u>	<u>(22,660)</u>	<u>8,597</u>	<u>-</u>	<u>(3,983,334)</u>
OTHER FINANCING SOURCES (USES)						
Transfers in - interaccount	-	10,493	110,985	-	-	121,478
Transfers out - interaccount	(121,478)	-	-	-	-	(121,478)
Transfers in	6,555,621	-	-	-	535,607	7,091,228
Transfers out	(2,163,190)	-	-	-	-	(2,163,190)
Total other financing sources and uses	<u>4,270,953</u>	<u>10,493</u>	<u>110,985</u>	<u>-</u>	<u>535,607</u>	<u>4,928,038</u>
Net change in fund balances	301,682	10,493	88,325	8,597	535,607	944,704
Fund balances - beginning	(3,372,129)	(10,493)	(73,741)	24,263	(535,607)	(3,967,707)
Fund balances - ending	<u>\$ (3,070,447)</u>	<u>\$ -</u>	<u>\$ 14,584</u>	<u>\$ 32,860</u>	<u>\$ -</u>	<u>\$ (3,023,003)</u>

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Combining Balance Sheet – Nonmajor Governmental Funds – December 31, 2016

	Street and Alley Fund	Cemetery Care	Library Gifts and Grants	CDBG	E911 Dispatch	DPUA Debt Service Fund
ASSETS						
Cash and cash equivalents	\$ 177,955	\$ 188,499	\$ 1,217	\$ 340,293	\$ 141,210	\$ 112,803
Receivable from other governments	43,509	-	-	-	31,129	-
Other receivables	-	700	-	-	-	-
Total assets	<u>221,464</u>	<u>189,199</u>	<u>1,217</u>	<u>340,293</u>	<u>172,339</u>	<u>112,803</u>
LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES						
Liabilities:						
Accounts payable and accrued liabilities	3,640	-	2,330	-	636	-
Due to other funds	-	-	-	-	-	-
Total liabilities	<u>3,640</u>	<u>-</u>	<u>2,330</u>	<u>-</u>	<u>636</u>	<u>-</u>
Deferred inflows of resources:						
Unavailable revenue	<u>19,979</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances:						
Restricted	197,845	189,199	-	340,293	171,703	112,803
Unassigned (deficit)	-	-	(1,113)	-	-	-
Total fund balances	<u>197,845</u>	<u>189,199</u>	<u>(1,113)</u>	<u>340,293</u>	<u>171,703</u>	<u>112,803</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 221,464</u>	<u>\$ 189,199</u>	<u>\$ 1,217</u>	<u>\$ 340,293</u>	<u>\$ 172,339</u>	<u>\$ 112,803</u>

(continued)

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Combining Balance Sheet – Nonmajor Governmental Funds – December 31, 2016, continued

	Police Grants and Seizures	First Responder Program	DPUA Sinking Fund	Ad Valorem Sinking	Total Other Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 88,137	\$ 10,831	\$ -	\$ -	\$ 1,060,945
Receivable from other governments	-	-	-	-	74,638
Other receivables	-	-	-	-	700
Total assets	<u>88,137</u>	<u>10,831</u>	<u>-</u>	<u>-</u>	<u>1,136,283</u>
LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued liabilities	-	-	-	-	6,606
Due to other funds	-	-	24,850	-	24,850
Total liabilities	<u>-</u>	<u>-</u>	<u>24,850</u>	<u>-</u>	<u>31,456</u>
Deferred inflows of resources:					
Unavailable revenue	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>19,979</u>
Fund balances:					
Restricted	88,137	10,831	-	-	1,110,811
Unassigned (deficit)	-	-	(24,850)	-	(25,963)
Total fund balances	<u>88,137</u>	<u>10,831</u>	<u>(24,850)</u>	<u>-</u>	<u>1,084,848</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 88,137</u>	<u>\$ 10,831</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,136,283</u>

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**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor
Governmental Funds – December 31, 2016**

	Street and Alley Fund	Cemetery Care	Library Gifts and Grants	CDBG	E911 Dispatch	DPUA Debt Service Fund
REVENUES						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 283,250	\$ -
Intergovernmental	251,243	-	4,256	-	-	-
Charges for services	-	11,100	-	-	-	-
Investment earnings	-	-	-	-	-	96
Miscellaneous	-	1,346	51	-	-	-
Total revenues	<u>251,243</u>	<u>12,446</u>	<u>4,307</u>	<u>-</u>	<u>283,250</u>	<u>96</u>
EXPENDITURES						
Current:						
Public safety	-	-	-	-	28,373	-
Highways and streets	227,090	-	-	-	-	-
Culture and recreation	-	-	18,291	-	-	-
General government	-	1,800	-	-	-	-
Debt Service:						
Principal	-	-	-	-	29,204	1,250,000
Interest and other charges	-	-	-	-	796	69,387
Capital outlay	-	-	-	-	47,931	-
Total expenditures	<u>227,090</u>	<u>1,800</u>	<u>18,291</u>	<u>-</u>	<u>106,304</u>	<u>1,319,387</u>
Excess (deficiency) of revenues over expenditures	<u>24,153</u>	<u>10,646</u>	<u>(13,984)</u>	<u>-</u>	<u>176,946</u>	<u>(1,319,291)</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	-	-	3,218	-	-	1,321,672
Transfers out	-	-	-	-	(171,415)	-
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>3,218</u>	<u>-</u>	<u>(171,415)</u>	<u>1,321,672</u>
Net change in fund balances	24,153	10,646	(10,766)	-	5,531	2,381
Fund balances - beginning	173,692	178,553	9,653	340,293	166,172	110,422
Fund balances - ending	<u>\$ 197,845</u>	<u>\$ 189,199</u>	<u>\$ (1,113)</u>	<u>\$ 340,293</u>	<u>\$ 171,703</u>	<u>\$ 112,803</u>

(continued)

**CITY OF DUNCAN, OKLAHOMA
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**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor
Governmental Funds – December 31, 2016, continued**

	Police Grants and Seizures	First Responder Program	DPUA Sinking Fund	Ad Valorem Sinking	Total Other Governmental Funds
REVENUES					
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 283,250
Intergovernmental	-	-	-	-	255,499
Charges for services	-	-	-	-	11,100
Investment earnings	-	-	-	-	96
Miscellaneous	34,504	200	-	-	36,101
Total revenues	<u>34,504</u>	<u>200</u>	<u>-</u>	<u>-</u>	<u>586,046</u>
EXPENDITURES					
Current:					
Public safety	-	-	-	-	28,373
Streets	-	-	-	-	227,090
Culture and recreation	-	-	-	-	18,291
General government	-	-	-	-	1,800
Debt Service:					
Principal	-	-	-	-	1,279,204
Interest and other charges	-	-	-	-	70,183
Capital outlay	101,417	-	-	-	149,348
Total expenditures	<u>101,417</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,774,289</u>
Excess (deficiency) of revenues over expenditures	<u>(66,913)</u>	<u>200</u>	<u>-</u>	<u>-</u>	<u>(1,188,243)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	-	-	1,324,890
Transfers out	-	-	-	(24,234)	(195,649)
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>(24,234)</u>	<u>1,129,241</u>
Net change in fund balances	(66,913)	200	-	(24,234)	(59,002)
Fund balances - beginning	155,050	10,631	(24,850)	24,234	1,143,850
Fund balances - ending	<u>\$ 88,137</u>	<u>\$ 10,831</u>	<u>\$ (24,850)</u>	<u>\$ -</u>	<u>\$ 1,084,848</u>

CITY OF DUNCAN, OKLAHOMA
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Combining Schedule of Net Position – Duncan Public Utilities Authority – December 31, 2016

	DPUA Enterprise Fund Accounts							Total
	DPUA - Other Utilities	DPUA - Electric	DPUA Airport	DPUA Sinking - Waurika	Redeposit Cash	Meter Deposit	Waterline Improvement	
ASSETS								
Current assets:								
Cash and cash equivalents	\$ 656,146	\$ 1,833,514	\$ 70,959	\$ -	\$ 3,351	\$ -	\$ 47,832	\$ 2,611,802
Restricted:								
Cash and cash equivalents	633,691	-	-	695,042	-	767,257	-	2,095,990
Due from other funds	-	223,049	-	-	-	-	-	223,049
Due from other funds - interaccount	190,512	-	-	-	-	297,786	-	488,298
Accounts receivable, net	1,621,835	2,198,888	13,681	-	-	-	-	3,834,404
Receivables from other governments	-	-	198,162	-	-	-	-	198,162
Other receivables	24,938	1,998	-	-	13,735	-	-	40,671
Inventories	-	590,109	-	-	-	-	-	590,109
Prepaid Expenses	21	8	-	-	-	-	-	45
Total current assets	3,127,143	4,847,566	282,802	695,042	17,086	1,065,043	47,832	10,082,530
Non-current assets:								
Advance from other funds	-	5,414,705	-	-	-	-	-	5,414,705
Restricted:								
Investments	-	-	-	6,609,720	-	-	-	6,609,720
Capital assets:								
Land and construction in progress	468,172	419,250	163,994	-	-	-	-	1,051,416
Other capital assets, net of accumulated depreciation	51,950,692	2,333,922	2,455,138	-	-	-	-	56,739,752
Total non-current assets	52,418,864	8,167,877	2,619,132	6,609,720	-	-	-	69,815,593
Total assets	55,546,007	13,015,443	2,901,934	7,304,762	17,086	1,065,043	47,832	79,898,123
DEFERRED OUTFLOW OF RESOURCES								
Deferred amounts related to pension	549,716	544,855	-	-	-	-	-	1,158,036
LIABILITIES								
Current liabilities:								
Accounts payable and accrued liabilities	348,946	1,023,528	149,692	-	-	-	-	1,522,435
Salaries payable	75,029	55,926	-	-	-	-	-	140,539
Accrued interest payable	256,886	-	-	-	-	-	-	256,886
Due to other funds - interaccount	102,424	-	-	195,362	-	-	-	488,298
Payable to other governments	-	27,020	-	-	-	-	-	27,020
Unearned revenue	119,980	-	-	-	-	-	-	119,980
Deposits subject to refund	-	7,760	-	-	-	1,063,622	-	1,071,382
Compensated absences	10,385	12,623	-	-	-	-	-	23,446
Bonds payable	3,046,050	-	-	-	-	-	-	3,046,050
Total current liabilities	3,959,700	1,126,857	149,692	195,362	-	1,063,622	-	6,696,036
Non-current liabilities:								
Compensated absences, net of current portion	93,469	113,603	-	-	-	-	-	211,010
Net OPEB obligation	449,865	435,221	-	-	-	-	-	885,086
Net pension liability	4,772,948	4,348,496	-	-	-	-	-	9,672,486
Notes payable, net of current portion	38,303,430	-	-	-	-	-	-	38,303,430
Total non-current liabilities	43,619,712	4,897,320	-	-	-	-	-	49,072,012
Total liabilities	47,579,412	6,024,177	149,692	195,362	-	1,063,622	-	55,768,048
DEFERRED INFLOW OF RESOURCES								
Deferred amounts related to pension	94,363	75,566	-	-	-	-	-	216,273
NET POSITION								
Net investment in capital assets	11,069,384	2,753,172	2,619,132	-	-	-	-	16,441,688
Restricted for debt service	376,825	-	-	7,109,400	-	-	-	7,486,225
Unrestricted (deficit)	(3,024,261)	4,707,383	133,110	-	17,086	1,421	47,832	1,143,925
Total net position	\$ 8,421,948	\$ 7,460,555	\$ 2,752,242	\$ 7,109,400	\$ 17,086	\$ 1,421	\$ 47,832	\$ 25,071,838

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Combining Schedule of Revenues, Expenses, and Changes in Net Position – Duncan Public Utilities Authority – Year Ended December 31, 2016

	Enterprise Fund Accounts								Total
	DPUA - Other Utilities	DPUA - Electric	DPUA Airport	DPUA Sinking - Waurika	Redeposit Cash	Meter Deposit	Waterline Improvement	DPUA Sewer Replacement	
REVENUES									
Water	\$ 5,513,978	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,513,978
Electric	-	18,730,660	-	-	-	-	-	-	18,730,660
Sewer	2,362,388	-	-	-	-	-	-	-	2,362,388
Sanitation	3,593,891	-	-	-	-	-	-	-	3,593,891
Lake	143,885	-	-	-	-	-	-	-	143,885
Airport	-	-	54,577	-	-	-	-	-	54,577
Miscellaneous	202,602	24,000	-	-	150	-	-	100	226,852
Total operating revenues	11,816,744	18,754,660	54,577	-	150	-	-	100	30,626,231
OPERATING EXPENSES									
General government	645,037	-	-	-	-	-	-	-	645,037
Water	2,433,558	-	-	3,342	51	25	-	-	2,436,976
Wastewater	857,574	-	-	-	-	-	-	216,562	1,074,136
Sanitation	3,427,000	-	-	-	-	-	-	-	3,427,000
Electric	-	13,636,706	-	-	-	-	-	-	13,636,706
Lake	300,492	-	-	-	-	-	-	-	300,492
Airport	-	-	38,466	-	-	-	-	-	38,466
Depreciation	3,086,309	279,002	239,944	-	-	-	-	-	3,605,255
Total operating expenses	10,749,970	13,915,708	278,410	3,342	51	25	-	216,562	25,164,068
Operating income (loss)	1,066,774	4,838,952	(223,833)	(3,342)	99	(25)	-	(216,462)	5,462,163
NON-OPERATING REVENUES (EXPENSES)									
Interest and investment revenue	107	(113,010)	281	549,229	-	1,446	-	-	438,053
Miscellaneous revenue	233,564	130,628	925	-	-	-	-	-	365,117
Operating grants and contributions	81,643	-	-	-	-	-	-	-	81,643
Capital grants and contributions	-	-	728,889	-	-	-	-	-	728,889
Interest expense	(1,269,782)	-	-	-	-	-	-	-	(1,269,782)
Total non-operating revenue (expenses)	(954,468)	17,618	730,095	549,229	-	1,446	-	-	343,920
Income (loss) before transfers	112,306	4,856,570	506,262	545,887	99	1,421	-	(216,462)	5,806,083
Capital contributions	5,000	-	-	-	-	-	-	-	5,000
Capital contributions from governmental activities	530,592	479,506	20,500	-	-	-	-	-	1,030,598
Transfers in - interaccount	660,722	-	-	-	-	-	-	300,000	960,722
Transfers out - interaccount	(300,000)	-	-	(660,722)	-	-	-	-	(960,722)
Transfers in	3,635,572	39,023	51,245	-	-	-	-	-	3,725,840
Transfers out	(3,481,644)	(4,200,000)	-	-	-	-	-	-	(7,681,644)
Change in net position	1,162,548	1,175,099	578,007	(114,835)	99	1,421	-	83,538	2,885,877
Total net position - beginning, restated	7,259,400	6,285,456	2,174,235	7,224,235	16,987	-	47,832	(822,184)	22,185,961
Total net position - ending	\$ 8,421,948	\$ 7,460,555	\$ 2,752,242	\$ 7,109,400	\$ 17,086	\$ 1,421	\$ 47,832	\$ (738,646)	\$ 25,071,838

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Combining Schedule of Cash Flows – Duncan Public Utilities Authority – Year Ended December 31, 2016

	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	\$ 11,682,207	\$ 18,763,246	\$ (85,550)	\$ -	\$ 7,995	\$ -	\$ -	\$ 100	\$ 30,367,998
Payments to suppliers and employees	(7,994,695)	(13,508,712)	109,872	(3,342)	(51)	(25)	-	(270,707)	(21,667,660)
Receipts of customer meter deposits	-	58,790	-	-	-	309,541	-	-	368,331
Refunds of customer meter deposits	-	(105,248)	-	-	-	(321,552)	-	-	(426,800)
Interfund receipts	780,645	-	-	1,962	-	-	-	-	782,607
Interfund payments	(72,354)	(1,156,737)	(2,680)	-	-	-	-	(21,413)	(1,253,184)
Interfund receipts - interaccount	-	720,097	-	504,327	-	-	-	-	1,224,424
Interfund payments - interaccount	(491,754)	-	-	-	(4,593)	(720,097)	-	(7,980)	(1,224,424)
Net cash provided by (used in) operating activities	3,904,049	4,771,436	21,642	502,947	3,351	(732,133)	-	(300,000)	8,171,292
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES									
Proceeds from grants	81,643	-	-	-	-	-	-	-	81,643
Transfers from other funds - interaccount	660,722	-	-	-	-	-	-	300,000	960,722
Transfers to other funds - interaccount	(300,000)	-	-	(660,722)	-	-	-	-	(960,722)
Transfers from other funds	3,635,572	39,023	51,245	-	-	-	-	-	3,725,840
Transfers to other funds	(3,481,644)	(4,200,000)	-	-	-	-	-	-	(7,681,644)
Miscellaneous revenue	233,564	130,628	925	-	-	-	-	-	365,117
Net cash provided by (used in) noncapital financing activities	829,857	(4,030,349)	52,170	(660,722)	-	-	-	300,000	(3,509,044)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES									
Purchases of capital assets	(7,934)	(40,098)	(757,839)	-	-	-	-	-	(805,871)
Proceeds of capital grants	-	-	728,889	-	-	-	-	-	728,889
Principal paid on debt	(2,864,527)	-	-	-	-	-	-	-	(2,864,527)
Interest and fiscal agent fees paid on debt	(1,290,051)	-	-	-	-	-	-	-	(1,290,051)
Net cash provided by (used in) capital and related financing activities	(4,162,512)	(40,098)	(28,950)	-	-	-	-	-	(4,231,560)
CASH FLOWS FROM INVESTING ACTIVITIES									
Sale of investments	-	2,346,134	-	3,264,745	-	-	-	-	5,610,879
Purchase of investments	-	(1,206,445)	-	(3,407,674)	-	-	-	-	(4,614,119)
Interest and dividends	107	(113,010)	281	549,229	-	1,446	-	-	428,093
Net cash provided by investing activities	107	1,026,679	281	406,300	-	1,446	-	-	1,434,813
Net increase (decrease) in cash and cash equivalents	571,501	1,727,668	45,143	248,525	3,351	(730,687)	-	-	1,865,501
Balances - beginning of year	718,336	105,846	25,816	446,517	-	1,497,944	47,832	-	2,842,291
Balances - end of year	\$ 1,289,837	\$ 1,833,514	\$ 70,959	\$ 695,042	\$ 3,351	\$ 767,257	\$ 47,832	\$ -	\$ 4,707,792
Reconciliation to Statement of Net Position:									
Cash and cash equivalents	\$ 656,146	\$ 1,833,514	\$ 70,959	\$ -	\$ 3,351	\$ -	\$ 47,832	\$ -	\$ 2,611,802
Restricted cash and cash equivalents - current	633,691	-	-	695,042	-	767,257	-	-	2,095,990
Total cash and cash equivalents, end of year	\$ 1,289,837	\$ 1,833,514	\$ 70,959	\$ 695,042	\$ 3,351	\$ 767,257	\$ 47,832	\$ -	\$ 4,707,792
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:									
Operating income (loss)	\$ 1,066,774	\$ 4,838,952	\$ (223,833)	\$ (3,342)	\$ 99	\$ (25)	\$ -	\$ (216,462)	\$ 5,462,163
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:									
Depreciation expense	3,086,309	279,002	239,944	-	-	-	-	-	3,605,255
Gain on disposal	49,615	-	-	-	-	-	-	-	49,615
Change in assets and liabilities:									
Due from other funds	780,645	(1,156,737)	-	1,962	-	-	-	-	(374,130)
Due from other funds - interaccount	(185,919)	720,097	-	308,965	-	-	-	-	843,143
Accounts receivable	(128,006)	6,794	(9,059)	-	-	-	-	-	(130,271)
Due from other governments	-	1,792	(131,068)	-	-	-	-	-	(129,276)
Other receivable	(6,531)	-	-	-	-	-	-	-	-
Inventory	-	140,068	-	-	7,845	-	-	-	1,314
Prepaid expense	(21)	(8)	-	-	-	-	-	(16)	(45)
Deferred outflows related to pension	(94,817)	(136,828)	-	-	-	-	-	(6,766)	(238,411)
Accounts payable	(5,557)	263,023	148,338	-	-	-	-	260	406,064
Accrued payroll payable	13,992	(668)	-	-	-	-	-	185	13,509
Deposits subject to refund	-	(46,458)	(2,680)	-	-	(12,011)	-	-	(61,149)
Due to other funds	(72,354)	-	-	-	-	-	-	(21,413)	(93,767)
Due to other funds - interaccount	(305,835)	-	-	195,362	(4,593)	(720,097)	-	(7,980)	(843,143)
Due to other governments	-	1,072	-	-	-	-	-	-	1,072
Net OPEB obligations	48,232	43,040	-	-	-	-	-	-	91,272
Accrued compensated absences	(63,187)	10,539	-	-	-	-	-	(3,719)	(56,367)
Deferred inflows related to pension	94,363	75,566	-	-	-	-	-	46,344	216,273
Net pension liability	(373,654)	(267,810)	-	-	-	-	-	(90,433)	(731,897)
Net cash provided by (used in) operating activities	\$ 3,904,049	\$ 4,771,436	\$ 21,642	\$ 502,947	\$ 3,351	\$ (732,133)	\$ -	\$ (300,000)	\$ 8,171,292
Noncash activities:									
Asset contributed by others	\$ 5,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,000
Asset transferred from other funds	530,592	479,506	20,500	-	-	-	-	-	1,030,598
	\$ 535,592	\$ 479,506	\$ 20,500	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,035,598

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

Combining Statement of Net Position – Internal Service Funds – December 31, 2016

	<u>Self Insurance Fund</u>	<u>Employee Insurance</u>	<u>Worker's Comp</u>	<u>Total</u>
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 3,975	\$ -	\$ 409,340	\$ 413,315
Annuities receivable	-	-	10,560	10,560
Total current assets	<u>3,975</u>	<u>-</u>	<u>419,900</u>	<u>423,875</u>
Total assets	<u>3,975</u>	<u>-</u>	<u>419,900</u>	<u>423,875</u>
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities	-	-	13,848	13,848
Claims and judgments	-	-	442,646	442,646
Total current liabilities	<u>-</u>	<u>198,199</u>	<u>456,494</u>	<u>654,693</u>
Non-current liabilities:				
Advance to other funds	-	-	1,506,745	1,506,745
Claims and judgments, net of current portion	-	-	663,969	663,969
Total non-current liabilities	<u>-</u>	<u>-</u>	<u>2,170,714</u>	<u>2,170,714</u>
Total liabilities	<u>-</u>	<u>198,199</u>	<u>2,627,208</u>	<u>2,825,407</u>
NET POSITION				
Unrestricted (deficit)	3,975	(198,199)	(2,207,308)	(2,401,532)
Total net position	<u>\$ 3,975</u>	<u>\$ (198,199)</u>	<u>\$ (2,207,308)</u>	<u>\$ (2,401,532)</u>

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

Combining Statement of Revenues, Expenses, and Changes in Net Position – Internal Service Funds – Year Ended December 31, 2016

	Self Insurance Fund	Employee Insurance	Worker's Comp	Total
REVENUES				
Charges for services	\$ -	\$ -	\$ 373,500	\$ 373,500
Total operating revenues	<u>-</u>	<u>-</u>	<u>373,500</u>	<u>373,500</u>
OPERATING EXPENSES				
General government	-	24,244	92,807	117,051
Claims expense	-	51,409	1,012,232	1,063,641
Total operating expenses	<u>-</u>	<u>75,653</u>	<u>1,105,039</u>	<u>1,180,692</u>
Operating income	<u>-</u>	<u>(75,653)</u>	<u>(731,539)</u>	<u>(807,192)</u>
NON-OPERATING REVENUES (EXPENSES)				
Interest and investment revenue	-	-	369	369
Miscellaneous revenue	-	-	15,836	15,836
Total non-operating revenue (expenses)	<u>-</u>	<u>-</u>	<u>16,205</u>	<u>16,205</u>
Income (loss) before transfers	<u>-</u>	<u>(75,653)</u>	<u>(715,334)</u>	<u>(790,987)</u>
Transfers out	-	(535,607)	-	(535,607)
Change in net position	<u>-</u>	<u>(611,260)</u>	<u>(715,334)</u>	<u>(1,326,594)</u>
Total net position - beginning	3,975	413,061	(1,491,974)	(1,074,938)
Total net position - ending	<u>\$ 3,975</u>	<u>\$ (198,199)</u>	<u>\$ (2,207,308)</u>	<u>\$ (2,401,532)</u>

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

Combining Statement of Cash Flows – Internal Service Funds – Year Ended December 31, 2016

	Self Insurance Fund	Employee Insurance	Worker's Comp	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ -	\$ -	\$ 377,724	\$ 377,724
Payments to suppliers and employees	-	(102,904)	(83,514)	(186,418)
Claims and judgments paid	-	(327,980)	(793,123)	(1,121,103)
Interfund receipts	-	-	-	-
Interfund payments	-	198,199	808,991	1,007,190
Net cash provided by (used in) operating activities	-	(232,685)	310,078	77,393
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Miscellaneous revenue	-	-	15,836	15,836
Transfers to other funds	-	(535,607)	-	(535,607)
Net cash provided by (used in) noncapital financing activities	-	(535,607)	15,836	(519,771)
CASH FLOWS FROM INVESTING ACTIVITIES				
Sale of investments	-	493,460	-	493,460
Interest and dividends	-	-	369	369
Net cash provided by investing activities	-	493,460	369	493,829
Net increase (decrease) in cash and cash equivalents	-	(274,832)	326,283	51,451
Balances - beginning of year	3,975	274,832	83,057	361,864
Balances - end of year	\$ 3,975	\$ -	\$ 409,340	\$ 413,315
Reconciliation to Statement of Net Position:				
Cash and cash equivalents	\$ 3,975	\$ -	\$ 409,340	\$ 413,315
Total cash and cash equivalents, end of year	\$ 3,975	\$ -	\$ 409,340	\$ 413,315
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income	\$ -	\$ (75,653)	\$ (731,539)	\$ (807,192)
Change in assets and liabilities:				
Due to other funds	-	198,199	808,991	1,007,190
Other receivable	-	-	4,224	4,224
Accounts payable	-	(78,660)	9,293	(69,367)
Claims and judgments liability	-	(276,571)	219,109	(57,462)
Net cash provided by (used in) operating activities	\$ -	\$ (232,685)	\$ 310,078	\$ 77,393

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

Combining Statement of Net Position – Pension Trust Funds – December 31, 2016

	City Employees Retirement Trust Fund - Defined Benefit	City Employees Retirement Trust Fund - Defined Contribution	Totals
ASSETS			
Cash and cash equivalents	\$ 158,048	\$ 8,786	\$ 166,834
Investments, at fair value:			
Common trust funds	3,003,552	-	3,003,552
Mutual fund equity	1,502,879	267,857	1,770,736
Mutual fund fixed	3,436,229	403,962	3,840,191
Accrued interest receivable	-	2,926	2,926
Total assets	<u>\$ 8,100,708</u>	<u>\$ 683,531</u>	<u>\$ 8,784,239</u>
LIABILITIES			
Refunds payable and others	\$ -	\$ -	\$ -
Other accrued expenses	-	-	-
Total liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
NET POSITION			
Restricted for employees' pension benefits held in trust	<u>\$ 8,100,708</u>	<u>\$ 683,531</u>	<u>\$ 8,784,239</u>

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

Combining Statement of Changes in Plan Net Position – Pension Trust Funds – December 31, 2016

	City Employees Retirement Trust Fund	City Employees Retirement Trust Fund - Defined Contribution	Totals
ADDITIONS			
Contributions:			
Employer	\$ 1,877,217	\$ 47,501	\$ 1,924,718
Plan members	303,402	38,001	341,403
Total contributions	<u>2,180,619</u>	<u>85,502</u>	<u>2,266,121</u>
Investment earnings:			
Net increase in fair value of investments	504,130	49,752	553,882
Interest and dividends	162,160	1,002	163,162
Total net investment earnings	<u>666,290</u>	<u>50,754</u>	<u>717,044</u>
Total additions	<u>2,846,909</u>	<u>136,256</u>	<u>2,983,165</u>
DEDUCTIONS			
Benefits paid to participants or beneficiaries	1,537,639	133,175	1,670,814
Refunds of contributions	244,237	-	244,237
Administrative	64,067	1,294	65,361
Total deductions	<u>1,845,943</u>	<u>134,469</u>	<u>1,980,412</u>
Change in net position held in trust for employees' pension benefits	1,000,966	1,787	1,002,753
Net position held in trust for employees' pension benefits - beginning	<u>7,099,742</u>	<u>681,744</u>	<u>7,781,486</u>
Net position held in trust for employees' pension benefits- ending	<u><u>\$ 8,100,708</u></u>	<u><u>\$ 683,531</u></u>	<u><u>\$ 8,784,239</u></u>

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

Debt Service Coverage Schedule – Year Ended December 31, 2016

DEBT SERVICE COVERAGE:	OWRB Series 2002A, 2005, 2007, 2009A, 2009C Promissory Notes	2012 Utility Revenue Note
GROSS REVENUE AVAILABLE:		
Charges for services (water, electric, garbage and wastewater)	\$ 30,200,917	\$ 30,200,917
Investment income	(112,903)	(112,903)
Total Gross Revenue Available	<u>30,088,014</u>	<u>30,088,014</u>
OPERATING EXPENSES:		
Total Operating Expenses (excludes depreciation and amortization)	<u>20,999,875</u>	<u>20,999,875</u>
Net Revenue Available for Debt Service	<u>\$ 9,088,139</u>	<u>9,088,139</u>
Maximum Annual Remaining Debt Service on all OWRB Obligations Payable From		
Revenues of the System	\$ 2,567,544	\$ -
Current Annual Debt Service	-	3,995,640
	<u>\$ 2,567,544</u>	<u>\$ 3,995,640</u>
Computed Coverage	<u>354%</u>	<u>227%</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, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated August 10, 2017. Our report includes a reference to other auditors who audited the financial statements of Duncan Industrial Authority and Duncan Area Economic Development Foundation, Inc., discretely presented component units of the City. 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 were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as finding 2016-001 to be a material weakness. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses as finding 2016-002 to be a significant deficiency.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 2016-003.

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
August 10, 2017

City of Duncan

Schedule of Findings and Responses

Findings Required to be Reported by Government Auditing Standards Internal Controls over Financial Reporting December 31, 2016

FINDING 2016-001

Finding: The City has a significant deficit in its Internal Service Funds. The deficit in the Workers' Compensation fund is the result not charging a sufficient premium to other funds to sufficiently cover claims expense and the related reserves. The deficit in the Employee Insurance fund is the result of transferring too much to the General Fund when the Employee Insurance fund was closed.

Criteria: Per GASB Statement No. 34 *Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments*, internal service funds are established to account for any activity that provides goods or services to other funds, departments or agencies of the primary government and its component units, or to other governments, on a cost-reimbursement basis.

Condition: The City has a total deficit net position in the internal service funds of approximately \$2,402,000, which includes approximately \$2,207,000 in the Workers Compensation fund and \$198,000 deficit in the Employee Insurance fund.

- Workers Compensation fund – At the beginning of fiscal year 2016, the Workers Compensation fund had a deficit of approximately \$1,492,000. During the year ended December 31, 2016, the City charged premiums of approximately \$374,000 to other funds, had interest and miscellaneous revenues of approximately \$16,000, and incurred expenses of approximately \$1,105,000. The result of this activity was the ending deficit net position of \$2,207,000.
- Employee Insurance fund – When the City elected to quit being self-insured for health insurance and start purchasing commercial insurance, the Employee Insurance fund had a positive cash balance of approximately \$536,000, and transferred this amount to the General Fund. However, the Employee Insurance fund only had positive net position of \$337,000; thus the transfer created a deficit net position and Due to DPUA of \$198,000.

Cause: The City has historically not given sufficient attention to the accounting and operations of the Internal Service funds. The City does not have an adequate process in determining premiums to be charged to the related funds for workers' compensation premiums. In addition, the City has not developed a plan to reduce and eliminate the deficit in the workers compensation fund.

Effect: The City is reporting a deficit in its Internal Service Funds.

Recommendation: We recommend that the City implement a process for establishing and determining annual premiums that the internal service fund should charge the respective user fund. The premiums should take into consideration state statutory rates by kind of employee and previous loss history. In addition, the City needs to develop and implement a formal plan to reduce and ultimately eliminate the deficit net position in the Workers Compensation Fund over a reasonable period of time. We also recommend that eliminate the deficit in the Employee Insurance fund by recognizing a transfer from the DPUA, and that this fund be closed.

Management Response and Corrective Action Plan: City Management was aware of this issue in the Workers Compensation fund with the preparation of the 2017 budget and increased premiums to begin reducing the deficit. Premiums of \$1,035,350 are being charged to the departments and sent to the Workers Compensation fund to cover budgeted operational cost of \$701,183 leaving a difference of \$334,178 to assist with reducing the deficit. Through July 2017, the City is current on their monthly premiums and the fund has earned 58.33% of their revenue. The City has spent \$286,284 in worker's

City of Duncan

Schedule of Findings and Responses

Findings Required to be Reported by *Government Auditing Standards* Internal Controls over Financial Reporting December 31, 2016

compensation expenses and encumbered \$38,323 for annuities that will be paid. To date the fund has only used 46.29% of the budget.

This deficit has grown over the past several years and we will work to insure it is reduced as soon as possible with future budgeting, attention to safety, and reduction in administrative costs.

The City will bring a budget amendment to the Council for approval prior to the end of 2017 to request transfer of funds to eliminate the deficit fund balance and close the Employee Insurance fund as the City is no longer self-insured for health insurance.

FINDING 2016-002

Finding: The City is paying certain administrative costs for the City's pension plan from pooled cash but is charging the expense to the fiduciary funds.

Criteria: The plan document states that the payment of administrative expenses for the plan can be paid using plan assets.

Condition: Over the last several years, the City has paid \$52,289 in administrative expenses, including \$13,300 in the current year, using general fund pooled cash instead of using plan assets and did not record a due to/due from to the General fund in the Employee Pension fund. The administrative expenses were recorded in the Employee Retirement fund.

Cause: The City paid the expenses from pooled cash but neglected to record the payable back to the General fund at year end due to an inadequate review of the pension plan expenses to ensure compliance with the plan document.

Effect: The City did not record a due to/due from for the Employee Pension plan to the General fund for the plan expenditures. As a result, the amounts reported as Fiduciary Funds in the City's financial statements did not agree with the amounts held in trust by the Trustee.

Recommendation: We recommend that the City develop policies and procedures regarding the payment of Plan administrative expenses that is consistent with the Plan document. We also recommend that the City perform a reconciliation between the Fiduciary Funds reported in the financial statements compared to the funds held by the Trustee.

Management Response and Corrective Action Plan: This issue was addressed by staff after the end of 2016 and prior to the completion of the financial statement and audit. It was noted that we had a negative pooled cash of \$46,609 in this fund and expenditures were analyzed that had occurred during the 2014, 2015 and 2016 years. Staff was unaware that expenses for this fund were to be paid through the Trustee Bank that administers the fund. This has been corrected and new procedures are in place to prevent reoccurrence.

City of Duncan

Schedule of Findings and Responses

Findings Required to be Reported by *Government Auditing Standards*

Compliance Finding

December 31, 2016

FINDING 2016-003

Finding: At December 31, 2016, the City of Duncan was not in compliance with certain statutory provisions dealing with deficit fund balances.

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

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

Condition: At December 31, 2016, the following matters existed:

- The City's General Fund had a deficit fund balance of \$3,023,003.
- Non-major governmental funds with deficit fund balances included the DPUA Sinking Fund of \$24,850 and the Library Grants and Gifts Fund of \$1,113.

The City has reduced the General Fund deficit from a high of \$6,745,371 at December 31, 2013 to its current amount of \$3,023,003.

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.

The Library Grants and Gift Fund incurred a deficit in FY 2016 as a result of incurring more expenditures than revenues. The DPUA Sinking Fund deficit was created in FY 2014 due to transferring more to DPUA than funds available. There has been no activity in this fund since FY 2014.

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

Management Response and Corrective Action Plan: Management is working diligently towards elimination of the deficit fund balance in the General Fund. Said balance has been reduced by \$944,704 since the 2015 report. Staff reviews activity reports continually to better monitor revenues and expenditures. The 2017 budget was prepared with conservative methods to estimate anticipated revenues and past expenditures were analyzed for cost reductions and more realistic estimates for the 2017 budget. City Council receives monthly budget to actual comparison reports as well as treasury reports. Staff is working together to identify cost cutting measures for their operations but continue efforts to provide quality services to our Citizens. With the preparation of the 2018 budget, management will also be analyzing what other resources are available besides General Fund for required expenditures and to make sure the most appropriate funds are used.

City of Duncan

Schedule of Findings and Responses

Findings Required to be Reported by *Government Auditing Standards*

Compliance Finding

December 31, 2016

The City will bring a budget amendment to the Council for approval prior to the end of 2017 to transfer funds to eliminate the deficit fund balance and close the DPUA Sinking fund. The deficit in the Library Grants and Gift Fund has already corrected itself with the current 2017 activity and staff will monitor the budget to make sure it does not reoccur.