

CITY OF YALE
Yale, Oklahoma

BASIC FINANCIAL STATEMENTS
June 30, 2012

**CITY OF YALE
Yale, Oklahoma**

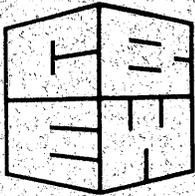
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CITY OF YALE
Yale, Oklahoma

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INDEPENDENT AUDITOR'S REPORT

September 28, 2012

Honorable Board of City Commissioners
City of Yale
Yale, Oklahoma

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Yale, Oklahoma, (City) as of and for the year ended June 30, 2012 which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Yale, Oklahoma as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, the City of Yale adopted the accrual method of accounting, effective July 1, 2011. The accrual method of accounting is the preferred method for governmental reporting under the Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, which was effective June 15, 2003.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2012, on our consideration of the City's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

City of Yale
September 28, 2012

Accounting principles generally accepted in the United States of America require that budgetary comparison information on pages 33 through 34 and the notes on page 35 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The City of Yale has not presented Management's Discussion and Analysis that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB), who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Yale's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for additional analysis and is not a required part of the basic financial statements. The combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual non-major fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

CBEW Professional Group, LLP

CBEW Professional Group, LLP
Certified Public Accountants

CITY OF YALE
STATEMENT OF NET ASSETS
June 30, 2012

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets:			
Cash and investments:			
Cash & cash equivalents (Note 3A)	\$ 234,217	\$ 91,950	\$ 326,167
Cash on hand	2,600	-	2,600
Investments	50,000	-	50,000
Accounts receivable (net)	16,596	219,716	236,312
Accrued governmental transfers	46,099	-	46,099
Restricted assets:			
Cash in bank (Note 3A)	3,116	-	3,116
Capital assets:			
Land	58,700	12,500	71,200
Construction in progress	-	1,967,242	1,967,242
Depreciable buildings, property, equipment and infrastructure, net of depreciation (Notes 1 & 3)	936,203	1,426,480	2,362,683
Other assets:			
Debt issue costs	-	125,700	125,700
Total assets	\$ 1,347,531	\$ 3,843,588	\$ 5,191,119
Liabilities:			
Accounts payable	\$ 22,486	\$ 79,976	\$ 102,462
Sales tax payable	-	1,883	1,883
Due to State of Oklahoma	-	-	-
Accrued compensated absences	18,271	3,511	21,782
Cash bonds	3,116	-	3,116
Notes payable (Note 3)			
Due in one year	-	102,966	102,966
Due in more than one year	-	1,749,183	1,749,183
Total liabilities	43,873	1,937,519	1,981,392
Net assets:			
Invested in capital assets, net of related debt	994,903	1,554,073	2,548,976
Restricted	260,018	-	260,018
Unrestricted	48,737	351,996	400,733
Total net assets	\$ 1,303,658	\$ 1,906,069	\$ 3,209,727

The accompanying notes are an integral part of the basic financial statements.

CITY OF YALE
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
Year Ended June 30, 2012

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense)/ Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Governmental activities:					
General government:					
City clerk	\$ 77,256	\$ -	\$ -	\$ -	\$ (77,256)
Governing board	113,250	-	-	-	(113,250)
General government	161,681	-	22,025	49,633	(90,023)
Total general government	<u>352,187</u>	<u>-</u>	<u>22,025</u>	<u>49,633</u>	<u>(280,529)</u>
Public safety and judiciary:					
City attorney	13,438	-	-	-	(13,438)
Fire	131,339	43,112	4,413	-	(83,814)
Municipal court	61,522	132,820	-	-	71,298
Police	269,319	-	-	4,265	(265,054)
Total public safety and judiciary	<u>475,618</u>	<u>175,932</u>	<u>4,413</u>	<u>4,265</u>	<u>(291,008)</u>
Transportation:					
Streets	141,030	-	-	-	(141,030)
Total transportation	<u>141,030</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(141,030)</u>
Cultural, parks and recreation:					
Cemetery	13,050	13,529	-	-	479
Library	79,563	665	2,765	-	(76,133)
Parks	12,105	-	-	-	(12,105)
Swimming pool	25,676	11,295	-	-	(14,381)
Total cultural, parks and recreation	<u>130,393</u>	<u>25,489</u>	<u>2,765</u>	<u>-</u>	<u>(102,139)</u>
Total governmental activities	<u>1,099,228</u>	<u>201,421</u>	<u>29,203</u>	<u>53,898</u>	<u>(814,706)</u>
Business-type activities					
Gas service	204,354	318,282	-	-	113,928
Water service	365,301	311,271	-	-	(54,030)
Sewer service	96,780	108,445	-	301,885	313,550
Electric service	802,784	1,204,536	-	-	401,752
Sanitation service	108,091	128,386	-	-	20,295
Economic development	5,181	-	-	-	(5,181)
Financing costs	17,643	-	-	-	(17,643)
Total business-type activities	<u>1,600,134</u>	<u>2,070,920</u>	<u>-</u>	<u>301,885</u>	<u>772,671</u>
Total	<u>\$ 2,699,362</u>	<u>\$ 2,272,341</u>	<u>\$ 29,203</u>	<u>\$ 355,783</u>	<u>\$ (42,035)</u>

The accompanying notes are an integral part of the basic financial statements.

CITY OF YALE
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
Year Ended June 30, 2012

	Net (Expense) Revenue and Changes in Net Assets		
	Governmental Activities	Business-Type Activities	Total
Net (expense)/revenue	\$ (814,706)	\$ 772,671	\$ (42,035)
General revenues:			
Taxes:			
Sales and use taxes	232,793	-	232,793
Franchise taxes	6,804	-	6,804
Intergovernmental	19,243	-	19,243
Interest earnings	4,817	4	4,821
Connection fees and penalties	12,142	-	12,142
Miscellaneous	24,813	19,999	44,812
Transfers	385,800	(385,800)	-
Total general revenues and transfers	<u>686,412</u>	<u>(365,797)</u>	<u>320,615</u>
Change in net assets	(128,294)	406,874	278,580
Net assets - beginning of year	<u>1,431,951</u>	<u>1,499,195</u>	<u>2,931,146</u>
Net assets - end of year	<u>\$ 1,303,657</u>	<u>\$ 1,906,069</u>	<u>\$ 3,209,726</u>

The accompanying notes are an integral part of the basic financial statements.

**CITY OF YALE
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2012**

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Cash and investments:			
Cash & cash equivalents (Note 3A)	\$ 26,217	\$ 208,000	\$ 234,217
Cash on hand	2,600	-	2,600
Investments	-	50,000	50,000
Accounts receivable (net)	16,596	-	16,596
Accrued governmental transfers	44,081	2,018	46,099
Restricted assets:			
Cash in bank (Note 3A)	3,116	-	3,116
Total assets	<u>\$ 92,610</u>	<u>\$ 260,018</u>	<u>\$ 352,628</u>
Liabilities:			
Accounts payable	\$ 22,486	\$ -	\$ 22,486
Cash bonds	3,116	-	3,116
Total liabilities	<u>25,602</u>	<u>-</u>	<u>25,602</u>
Fund balances:			
Restricted	-	118,610	118,610
Assigned	-	141,408	141,408
Unassigned	67,008	-	67,008
Total fund balances	<u>67,008</u>	<u>260,018</u>	<u>327,026</u>
Total liabilities and fund balances	<u>\$ 92,610</u>	<u>\$ 260,018</u>	<u>\$ 352,628</u>

The accompanying notes are an integral part of the basic financial statements.

CITY OF YALE
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE GOVERNMENT-WIDE
STATEMENT OF NET ASSETS
June 30, 2012

Total Fund Balances - Total Governmental Funds **\$ 327,026**

Amounts reported for governmental activities in the statement of net assets are different because:

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. These liabilities consist of:

Deferred compensation		(18,271)
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Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

Land	\$ 58,700	58,700
General Government	388,467	
Sewer	12,176	
Sanitation	8,968	
Police	112,844	
Fire	411,936	
Culture & Recreation	58,323	
Streets	316,425	
Park	109,826	
Cemetery	15,508	
Accumulated Depreciation	<u>\$ (498,271)</u>	
Total		<u>936,203</u>

Net assets of governmental activities **\$ 1,303,658**

The accompanying notes are an integral part of the basic financial statements.

CITY OF YALE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2012

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
Sales tax	\$ 232,793	\$ -	\$ 232,793
Alcoholic beverage tax	4,294	-	4,294
Gasoline excise tax	-	2,092	2,092
Commercial vehicle tax	-	10,060	10,060
Franchise tax	6,804	-	6,804
Grants	61,077	-	61,077
Insure OK Subsidy	22,025	-	22,025
Connection fees and penalties	11,964	-	11,964
Miscellaneous	27,610	-	27,610
Court fines	132,820	-	132,820
Outside fire runs and dues	43,112	-	43,112
Swimming pool fees	11,295	-	11,295
Interest	4,817	-	4,817
Donations	842	-	842
Grave openings	6,913	988	7,901
Cemetery lot sales	4,925	703	5,628
Total revenues	<u>571,291</u>	<u>13,843</u>	<u>585,134</u>
Expenditures:			
Current:			
General government	337,146	-	337,146
Highways and roads	124,257	-	124,257
Public safety	445,652	-	445,652
Cultural and recreation	122,103	-	122,103
Capital outlay	9,500	-	9,500
Total expenditures	<u>1,038,658</u>	<u>-</u>	<u>1,038,658</u>
Excess of revenues over (under) expenditures	(467,367)	13,843	(453,524)
Other financing uses:			
Operating transfers in (out)	475,800	(90,000)	385,800
Excess of revenues over (under) expenditures & transfers	8,433	(76,157)	(67,724)
Fund balance - beginning of year	<u>58,575</u>	<u>336,175</u>	<u>394,750</u>
Fund balance - end of year	<u>\$ 67,008</u>	<u>\$ 260,018</u>	<u>\$ 327,026</u>

The accompanying notes are an integral part of the basic financial statements.

CITY OF YALE
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCE TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES AND CHANGES
IN NET ASSETS
Year Ended June 30, 2012

Net Change in Fund Balances - Total Governmental Funds	\$ (67,724)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Government-Wide Statement of Activities and Changes in Net Assets report accrued compensated absences in the period incurred. However, Governmental Funds do not pay on this liability until the employee has left employment. The amount of the change in accrued absences recorded in the current period.	(18,271)
Governmental Funds report capital outlay as expenditures. However, in the Government-Wide Statement of Activities and Changes in Net Assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period.	9,500
Depreciation expense on capital assets is reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in Governmental Funds.	<u>(51,799)</u>
Change in Net Assets of Governmental Activities	<u><u>\$ (128,294)</u></u>

The accompanying notes are an integral part of the basic financial statements.

CITY OF YALE
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2012

	Business-type Activities - Enterprise Funds					
	Gas	Water & Sewage	Electric	Sanitation (Non-major)	Yale Economic Development Authority (Non-major)	Totals
Assets:						
Cash and investments:						
Cash & cash equivalents	\$ 11,194	\$ 6,828	\$ 73,775	\$ 134	\$ 19	\$ 91,950
Accounts receivables (net of allowance for uncollectibles)	15,967	45,014	144,782	13,953	-	219,716
Capital assets:						
Land	-	10,500	2,000	-	-	12,500
Construction in progress	-	1,967,242	-	-	-	1,967,242
Depreciable buildings, property, equipment and infrastructure, net of depreciation (Notes 1 & 3)	280,699	1,047,354	98,427	-	-	1,426,480
Other assets:						
Debt issue costs	-	125,700	-	-	-	125,700
Total assets	\$ 307,860	\$ 3,202,638	\$ 318,984	\$ 14,087	\$ 19	\$ 3,843,588
Liabilities:						
Accounts payable	\$ 2,710	\$ 16,673	\$ 51,174	\$ 9,419	\$ -	\$ 79,976
Sales tax payable	-	-	1,883	-	-	1,883
Accrued compensated absences	698	286	2,527	-	-	3,511
Notes payable	-	1,852,149	-	-	-	1,852,149
Total liabilities	3,408	1,869,108	55,584	9,419	-	1,937,519
Net assets:						
Invested in capital assets, net of related debt	280,699	1,172,947	100,427	-	-	1,554,073
Restricted	-	-	-	-	-	-
Unrestricted	23,753	160,583	162,973	4,668	19	351,996
Total net assets	\$ 304,452	\$ 1,333,530	\$ 263,400	\$ 4,668	\$ 19	\$ 1,906,069

The accompanying notes are an integral part of the basic financial statements.

CITY OF YALE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
Year Ended June 30, 2012

	Business-type Activities - Enterprise Funds					Totals
	Gas	Water & Sewage	Electric	Sanitation	Yale Economic Development Authority	
Revenues:						
Gas revenue	\$ 318,282	\$ -	\$ -	\$ -	\$ -	\$ 318,282
Water revenue	-	311,271	-	-	-	311,271
Sewer revenue	-	108,445	-	-	-	108,445
Electric revenue	-	-	1,204,536	-	-	1,204,536
Sanitation revenue	-	-	-	128,386	-	128,386
Miscellaneous revenue	-	19,036	963	-	-	19,999
Total revenues	318,282	438,752	1,205,499	128,386	-	2,090,919
Operating expense:						
Salaries and payroll taxes	38,862	49,860	68,056	-	-	156,778
Gas purchases	118,088	-	-	-	-	118,088
Electric energy purchases	-	-	665,494	-	-	665,494
Water purchases	-	199,248	-	-	-	199,248
Sanitation Collection Service	-	-	-	108,091	-	108,091
Materials and supplies	32,608	38,639	49,479	-	-	120,726
Economic development	-	-	-	-	5,181	5,181
Water expense	-	43,324	-	-	-	43,324
Sewer expense	-	64,304	-	-	-	64,304
Depreciation	14,796	66,706	19,755	-	-	101,257
Total operating expenses	204,354	462,081	802,784	108,091	5,181	1,582,491
Income before non-operating revenues, expenses & transfers	113,928	(23,329)	402,715	20,295	(5,181)	508,428
Non-operating revenues (expenses):						
Interest revenue	-	4	-	-	-	4
Grant revenue	-	301,885	-	-	-	301,885
Interest expense	-	(16,244)	-	-	-	(16,244)
Trustee fees	-	(1,399)	-	-	-	(1,399)
Total	-	284,246	-	-	-	284,246
Income (loss) before operating transfers	113,928	260,917	402,715	20,295	(5,181)	792,674
Transfers in (out)	(105,000)	90,000	(360,000)	(16,000)	5,200	(385,800)
Change in net assets	8,928	350,917	42,715	4,295	19	406,874
Net assets at beginning of year	295,524	982,613	220,685	373	-	1,499,195
Net assets at end of year	\$ 304,452	\$ 1,333,530	\$ 263,400	\$ 4,668	\$ 19	\$ 1,906,069

The accompanying notes are an integral part of the basic financial statements.

CITY OF YALE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2012

	Business-type Activities - Enterprise Funds					Totals
	Gas	Water & Sewage	Electric	Sanitation	Yale Economic Development Authority	
Cash flows from operating activities:						
Cash received from customers & service users	\$ 302,315	\$ 393,738	\$ 1,060,717	\$ 114,433	\$ -	\$ 1,871,203
Cash payments for goods & services & employees	(186,150)	(379,123)	(727,445)	(98,672)	(5,181)	(1,396,571)
Other operating revenues	-	-	-	-	-	-
Net cash provided by operating activities	<u>116,165</u>	<u>14,615</u>	<u>333,272</u>	<u>15,761</u>	<u>(5,181)</u>	<u>474,632</u>
Cash flows from noncapital financing activities:						
Operating transfers out to other funds	(105,000)	-	(360,000)	(16,000)	-	(481,000)
Operating transfers in from other funds	-	90,000	-	-	5,200	95,200
Net cash provided (used) for noncapital financing activities	<u>(105,000)</u>	<u>90,000</u>	<u>(360,000)</u>	<u>(16,000)</u>	<u>5,200</u>	<u>(385,800)</u>
Cash flows from capital and related financing activities:						
Acquisition & sale of capital assets	-	(1,942,877)	-	-	-	(1,942,877)
Proceeds from new debt	-	1,872,164	-	-	-	1,872,164
Principal paid on debt	-	(12,316)	-	-	-	(12,316)
Interest paid on debt	-	(16,244)	-	-	-	(16,244)
Trustee fees	-	(1,399)	-	-	-	(1,399)
Net cash provided (used) for capital and related financing activities	<u>-</u>	<u>(100,672)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(100,672)</u>
Cash flows from investing activities:						
(Purchase) liquidation of investments - restricted	-	-	100,000	-	-	100,000
Interest on investments	-	4	-	-	-	4
Net cash provided by investing activities	<u>-</u>	<u>4</u>	<u>100,000</u>	<u>-</u>	<u>-</u>	<u>100,004</u>
Net increase (decrease) in cash & cash equivalents	11,165	3,947	73,272	(239)	19	88,164
Cash and cash equivalents - beginning of year	29	2,881	503	373	-	3,786
Cash and cash equivalents - end of year	<u>\$ 11,194</u>	<u>\$ 6,828</u>	<u>\$ 73,775</u>	<u>\$ 134</u>	<u>\$ 19</u>	<u>\$ 91,950</u>
Reconciliation of operating income to net cash provided by operating activities:						
Operating income	\$ 113,928	\$ (23,329)	\$ 402,715	\$ 20,295	\$ (5,181)	\$ 508,428
Adjustments to reconcile operating income to net cash provided by operating activities:						
Depreciation	14,796	66,706	19,755	-	-	101,257
Change in assets and liabilities:						
(Increase) decrease in accounts receivable	(15,967)	(45,014)	(144,782)	(13,953)	-	(219,716)
(Increase) decrease in banked electric	-	-	-	-	-	-
Increase (decrease) in accounts payable	2,710	15,966	53,057	9,419	-	81,152
Increase (decrease) in accrued expenses	698	286	2,527	-	-	3,511
Total adjustments	<u>2,237</u>	<u>37,944</u>	<u>(69,443)</u>	<u>(4,534)</u>	<u>-</u>	<u>(33,796)</u>
Net cash provided by operating activities	<u>\$ 116,165</u>	<u>\$ 14,615</u>	<u>\$ 333,272</u>	<u>\$ 15,761</u>	<u>\$ (5,181)</u>	<u>\$ 474,632</u>

The accompanying notes are an integral part of the basic financial statements.

CITY OF YALE
STATEMENT OF FIDUCIARY ASSETS
FIDUCIARY FUNDS
June 30, 2012

	<u>Agency Funds Meter Trust</u>
Assets:	
Cash and investments at cost	\$ 130,027
Total assets	<u>\$ 130,027</u>
Liabilities:	
Deposits	\$ 130,027
Total liabilities	<u>\$ 130,027</u>

The accompanying notes are an integral part of the basic financial statements.

CITY OF YALE
Yale, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Yale, Oklahoma (the City) complies with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the City has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the City has chosen not to do so. The more significant accounting policies established in GAAP and used by the City are discussed below.

A. Reporting Entity

The City of Yale, Oklahoma was organized under the statutes of the State of Oklahoma. The City operates under a council form of government and is governed by a five-member board of commissioners. The commissioners elect the mayor from their own body. As required by generally accepted accounting principles, these financial statements present the activities of 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 and so data from these units are combined with the data of the primary government. The City provides the following services as authorized by its charter: general government, public safety (fire and police), streets, public works (electric, gas, water, sewer, and refuse), judicial, health and social services, culture, parks and recreation, public improvements, and planning and zoning for the geographical area organized as the City of Yale, Oklahoma.

Blended Component Units:

The Yale Water and Sewage Trust (the Trust) was created pursuant to a Trust Indenture dated December 5, 1972 to finance, operate, construct and administer any public works, improvements or facilities for the benefit of the City of Yale, Oklahoma. The public works systems owned by the City have been leased to the Trust. The Trust is a public trust and an agency of the State of Oklahoma under Title 60, Oklahoma Statutes 1991, Section 176, et seq., and is governed by a board consisting of five trustees identical with the City Council. The Trust is exempt from State and Federal income taxes. The Trust is reported as an enterprise fund and includes the Water and Sewage Fund, the Electric Fund, the Gas Fund and the Sanitation Fund.

The Yale Economic Development Authority (YEDA) was created pursuant to 60 O.S. § 176 created in August 2010 to promote and stimulate economic growth and development in and around the City. The City of Yale is the beneficiary of the trust and the City Council serves as the governing body of the trust. The Trust is exempt from State and Federal income taxes. The Trust is reported as an enterprise fund.

B. Measurement Focus, Basis of Accounting and Basis of Presentation – Fund Accounting

The City's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information. Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting.

CITY OF YALE
Yale, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus, Basis of Accounting and Basis of Presentation – Fund Accounting (Continued)

Prior year comparison

As of June 30, 2011, the City's financial statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States. As a result of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected, and accrued revenue and receivables) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) were not presented in the financial statements. For the year ended June 30, 2012 the City's financial statements were prepared using the accrual method of accounting, a method generally accepted in the United States. The accrual method of accounting recognizes all of the assets, liabilities, revenues, and expenses mentioned above that were not presented on the modified cash basis. Because of the change in presentation, what would be accruals from the prior period (not recognized under modified cash basis) are also included in the current year's financial statements. As a result, the financial statements are not comparable.

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except fiduciary funds. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

The statement of net assets presents the financial condition of the governmental and business-type activities at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and for the business-type activities of the City. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on program revenues are presented as general revenues of the city, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the City.

Fund Financial Statements – During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Major funds represent 10% of assets, liabilities, revenues, or expenditures of the corresponding element for all funds of that category *and* is at least 5% of the corresponding element total for all governmental and enterprise funds combined *or* is a fund that the government believes is important enough for financial statement users to be reported as a major fund. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

Fund Accounting – The accounts of the City are organized and operated on the basis of funds. A fund is an independent fiscal accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. There are three categories of funds: governmental, proprietary and fiduciary.

CITY OF YALE
Yale, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus, Basis of Accounting and Basis of Presentation – Fund Accounting (Continued)

Governmental Funds – are used to account for the government's general government activities. Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual, i.e., when they become measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The government considers all revenues available if they are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences, claims, and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Sales taxes collected and held by the state at year-end on behalf of the City are susceptible to accrual and are recognized as revenue. Other receipts and taxes (franchise taxes, licenses, etc.) become measurable and available when cash is received by the government and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible-to-accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The following are the City's major governmental funds:

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

Other governmental funds of the City that are considered non-major funds include:

Special Revenue Funds - account for specific revenue sources that are legally restricted or committed to expenditures for specific purposes (not including major capital projects). The following are the City's Special Revenue Funds: Cemetery Lot Care Fund and Street and Alley.

Capital Projects Fund – account for and report resources that are restricted, committed, or assigned to expenditure for the acquisition or construction of major capital facilities, other than those activities financed by proprietary activities or held in trust for individuals, private organizations or other governments. Capital Project Funds of the City include the Capital Outlay Fund.

Proprietary Funds – are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. In compliance with the Governmental Accounting Standards Board (GASB) Statement No. 20 the City has elected to only apply Financial Accounting Standards Board (FASB), Accounting Principles Board (APB) and Accounting Research Board (ARB) materials issued on or before November 30, 1989 that do not conflict with GASB. Proprietary funds are classified as enterprise.

Enterprise Funds – are used to account for those operations that are financed and operated in a manner similar to private business where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or where the governing body has decided that the determination of revenues earned, costs incurred and/or net income is necessary for capital maintenance, public policy or management accountability. The Yale Water and Sewage Trust and the Yale Economic Development Authority are accounted for as enterprise funds.

CITY OF YALE
Yale, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus, Basis of Accounting and Basis of Presentation – Fund Accounting (Continued)

The following are the City's major enterprise funds:

Water and Sewage Fund – accounts for the operations of providing public works (water and sewer) to the City.

Electric Fund – accounts for the operations of providing public works (electric) to the City.

Gas Fund – accounts for the operations of providing public works (gas) to the City.

Other enterprise funds of the City that are considered non-major funds include:

Sanitation Fund – accounts for the contracting of garbage services for the City.

Yale Economic Development Authority – accounts for operations of economic development for the City.

Fiduciary Funds – account for assets held by the government in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the government under the terms of a formal trust agreement. Agency Funds are custodial in nature and do not present results of operations or have a measurement focus. Agency Funds are accounted for using the modified accrual basis of accounting. These funds are used to account for assets that the government holds for others in an agency capacity. The City's agency fund is composed of the Customer Meter Deposit Fund.

C. Assets, Liabilities and Equity

1. Deposits and Investments

Oklahoma statutes authorize the City to invest in certificates of deposit, repurchase agreements, passbooks, bankers' acceptances, and other available bank investments provided that all deposits are fully covered by approved securities pledged to secure those funds. In addition, the City can invest in direct debt securities of the United States unless law expressly prohibits such an investment.

For financial statement presentation and for purposes of the statement of cash flows, the City's cash and cash equivalents are considered to be cash on hand, demand deposits and certificates of deposit with a maturity date of three months or less. Debt instruments with a maturity date of more than three months are considered to be investments. Investments are stated at cost.

2. Restricted Cash and Investments

The restricted cash and investments are the result of cash bonds held for pending court appearances. Additional restricted assets represent customer deposits, other reserves and Cemetery Trust funds.

3. Fair Value of Financial Instruments

The City's financial instruments include cash and cash equivalents, investments, accounts receivable and accounts payable. The City's estimates of the fair value of all financial instruments does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

CITY OF YALE
Yale, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Liabilities and Equity (Continued)

4. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

5. Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due from other/due to other funds".

6. Inventories

Inventories in both governmental funds and proprietary funds normally consist of minimal amounts of expendable supplies held for consumption. The costs of such inventories are recorded as expenditures when purchased rather than when consumed.

7. Capital Assets and Infrastructure

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$5,000. The City's infrastructure consists of roads, bridges, curbs and gutter, streets and sidewalks, drainage system, lighting systems and similar assets that are immovable and of value only to the City. Such infrastructure assets acquired after July 1, 2003 are capitalized in accordance with the requirements of GASB 34. Improvements are capitalized; the costs of normal maintenance and repairs that do not add value of the asset or materially extend an asset's life are not capitalized. Major outlays for capital assets and improvements are capitalized in proprietary funds as projects are constructed. Interest incurred during the construction phase of proprietary fund capital assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

All reported capital assets are depreciated except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement.

CITY OF YALE
Yale, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Liabilities and Equity (Continued)

Depreciation is computed on the straight-line method with estimated useful lives as follows:

Description	Governmental Activities Estimated Lives	Business-Type Activities Estimated Lives	Component Unit Estimated Lives
Buildings & Improvements	40 - 100 years	20 - 40 years	5 - 30 years
Furniture, Fixtures and Equipment	5 - 40 years	10 - 40 years	5 - 15 years
Vehicles	5 - 40 years	5 - 40 years	
Utility systems		40 years	
Transmission and distribution		40 years	

8. Deferred Charges

Bond discount costs and bond issue costs are amortized ratably over the repayment period of the applicable bond using the straight-line method.

9. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation time. Full-time employees who have been employed continuously for at least 1 year are granted vacation benefits in varying amounts to specified maximums depending on tenure with the City. Generally, after six consecutive months of service, employees are entitled to all accrued vacation leave upon termination. Sick leave may be accumulated to a maximum of 1,000 hours and is partially reimbursable only for employees with 5 or more years of service. Those who qualify are entitled to receive 10% of the accumulated unused sick leave calculated at retirement date. The expense and related liability for vested vacation benefits and compensatory time is recorded in the respective funds of the City or component unit.

10. Long-term Obligations

The accounting and reporting treatment applied to long-term liabilities associated with a fund are determined by its measurement focus. All governmental fund types are accounted for on a spending "financial flow" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of "available spendable resources". Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period. All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Therefore, long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate funds.

CITY OF YALE
Yale, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Liabilities and Equity (Continued)

11. Net Assets/Fund Balance

In the government-wide financial statement, net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, laws or other governments, or are imposed by law through constitutional provisions or enabling legislation. The City applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

In the fund financial statements, governmental funds report the hierarchy of fund balances. The hierarchy is based primarily on the degree of spending constraints placed upon use of resources for specific purposes versus availability of appropriation. An important distinction that is made in reporting fund balance is between amounts that are considered *nonspendable* (i.e., fund balance associated with assets that are *not in spendable form*, such as inventories or prepaid items, long-term portions of loans and notes receivable, or items that are legally required to be maintained intact (such as the corpus of a permanent fund)) and those that are *spendable* (such as fund balance associated with cash, investments or receivables).

Amounts in the *spendable* fund balance category are further classified as *restricted*, *committed*, *assigned* or *unassigned*, as appropriate.

Restricted fund balance represents amounts that are constrained either externally by creditors (such as debt covenants), grantors, contributors or laws or regulations of other governments; or by law, through constitutional provisions or enabling legislation.

Committed fund balance represents amount that are useable only for specific purposes by formal action of the government's highest level of decision-making authority. Such amounts are not subject to legal enforceability (like restricted amounts), but cannot be used for any other purpose unless the government removes or changes the limitation by taking action similar to that which imposed the commitment. The City Ordinance is the highest level of decision-making authority of the City.

Assigned fund balance represents amounts that are *intended* to be used for specific purposes, but are neither restricted nor committed. Intent is expressed by the governing body itself, or a subordinated high-level body or official who the governing body has delegated the authority to assign amounts to be used for specific purposes. Assigned fund balances includes all remaining spendable amounts (except negative balances) that are reported in governmental funds *other than the general fund*, that are neither restricted nor committed, and amounts in the general fund that are intended to be used for specific purpose in accordance with the provisions of the standard.

Unassigned fund balance is the residual classification for the general fund. It represents the amounts that have not been assigned to other funds, and that have not been restricted, committed, or assigned to specific purposes within the general fund.

12. Bad Debt Policy

It is the City's policy to charge bad debts against revenue.

CITY OF YALE
Yale, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Liabilities and Equity (Continued)

13. Resource Use Policy

It is in the City's policy for all funds that when an expenditure/expense is incurred for purposes for which both restricted and unrestricted resources, including fund balances, are available, the City considers restricted amounts to be spent first before any unrestricted amounts are used. Furthermore, it is the City's policy that when an expenditure/expense is incurred for purposes for which committed, assigned, or unassigned resources, including fund balances, are available, the City considers committed amounts to be spent first, followed by assigned amounts and lastly unassigned amounts.

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Grants and Awards

The City was the recipient of the following operating grants during the year:

State Aid Grant, Library	\$ 2,765
Rural Fire Department Assistance	4,413
District Attorney's Police Equipment	4,265
OWRB Capital Grants for State Revolving Funds	301,885
COEDD Reap Grant	<u>49,633</u>
Total	<u>\$362,961</u>

3. DETAILED NOTES CONCERNING THE FUNDS

A. Deposits and Investments

Custodial Credit Risk

At June 30, 2012, the City held deposits of approximately \$376,167 at financial institutions. The City's cash deposits, including interest-bearing certificates of deposit, are entirely covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the City or by its agent in the City's name.

Investment Interest Rate Risk

The City 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.

Investment Credit Risk

The City has no policy that limits its investment choices other than the limitation of state law as follows:

Section 1.

- a. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- b. Certificates of deposits or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- c. With certain limitation, negotiable certificates of deposit, prime bankers acceptances, prime commercial paper and repurchase agreements with certain limitations.

CITY OF YALE
Yale, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

3. DETAILED NOTES CONCERNING THE FUNDS (Continued)

A. Deposits and Investments (Continued)

- d. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district.
- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a.-d.).

Section 2. Trust authority funds may be invested in mutual funds whose portfolio is invested in tax-exempt securities, governmental securities, and high-grade government bonds.

Section 3. Investments shall be made with judgment and care under the circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of the principal as well as the probable income to be derived.

The investments held at June 30, 2012 are as follows:

Type	Weighted Average Maturity (Months)	Credit Rating	Market Value	Cost
Investments				
Certificate of deposit	12.00	N/A	50,000	50,000
Total investments			<u>\$ 50,000</u>	<u>\$ 50,000</u>
Reconciliation to Statement of Net Assets				
			\$ 50,000	
			-	
			<u>\$ 50,000</u>	

Concentration of Investment Credit Risk

The City places no limit on the amount it may invest in any one issuer. The City has the following of credit risk: 100% in Certificates of deposit (\$50,000).

B. Restricted Cash and Investments

Other restricted cash includes \$15,026 in cash and \$115,000 in certificates of deposit held for meter deposits held in the Agency Fund. Restricted cash in governmental activities is comprised of cash bonds held for pending court appearances \$3,116.

CITY OF YALE
Yale, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

3. DETAILED NOTES CONCERNING THE FUNDS (Continued)

C. Uncollectible Accounts

Accounts receivable in the financial statements are reflected net of allowances. The City's estimates of uncollectible accounts receivable by fund and activity are as follows:

	General Fund	Water & Sewer Fund	Electric Fund	Gas Fund	Sanitation Fund	Total
Garbage	\$ -	\$ -	\$ -	\$ -	\$ 2,971	\$ 2,971
Sales tax	1,502	-	-	-	-	1,502
Water	-	9,319	-	-	-	9,319
Sewer	-	4,360	-	-	-	4,360
Gas	-	-	-	11,481	-	11,481
Electric	-	-	32,328	-	-	32,328
Total	\$ 1,502	\$ 13,678	\$ 32,328	\$ 11,481	\$ 2,971	\$ 61,960

CITY OF YALE
Yale, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

3. DETAILED NOTES CONCERNING THE FUNDS (Continued)

D. Capital Assets

Primary Government capital asset activity for the year ended is as follows:

	Balance 6/30/11	Additions	Disposals	Balance 6/30/12
Governmental Activities:				
Non-depreciable assets:				
Land	\$ 58,700	\$ -	\$ -	\$ 58,700
Total non-depreciable assets	58,700	-	-	58,700
Depreciable assets:				
Buildings	401,754	-	-	401,754
Infrastructure	204,708	-	-	204,708
Machinery & Equipment	818,511	9,500	-	828,011
Total depreciable assets	1,424,973	9,500	-	1,434,473
Less accumulated depreciation:				
Buildings	(133,920)	(5,828)	-	(139,748)
Infrastructure	(5,224)	(10,235)	-	(15,459)
Machinery & Equipment	(307,328)	(35,735)	-	(343,063)
Total accumulated depreciation	(446,472)	(51,799)	-	(498,271)
Net depreciable assets	978,501	(42,299)	-	936,202
Net governmental activities capital assets	\$ 1,037,201	\$ (42,299)	\$ -	\$ 994,902
Business-Type Activities:				
Non-depreciable assets:				
Land	\$ 12,500	\$ -	\$ -	\$ 12,500
Construction in progress	105,529	1,861,713	-	1,967,242
Total non-depreciable assets	118,029	1,861,713	-	1,979,742
Depreciable assets:				
Buildings	220,332	-	-	220,332
Machinery & Equipment	786,881	-	-	786,881
Infrastructure	2,996,029	81,164	-	3,077,193
Total depreciable assets	4,003,242	81,164	-	4,084,406
Less accumulated depreciation:				
Buildings	(158,769)	(5,098)	-	(163,867)
Machinery & Equipment	(600,218)	(22,921)	-	(623,139)
Infrastructure	(1,797,681)	(73,238)	-	(1,870,919)
Total accumulated depreciation	(2,556,668)	(101,257)	-	(2,657,925)
Net depreciable assets	1,446,574	(20,093)	-	1,426,481
Net business-type activities capital assets	\$ 1,564,603	\$ 1,841,620	\$ -	\$ 3,406,223

CITY OF YALE
Yale, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

3. DETAILED NOTES CONCERNING THE FUNDS (Continued)

D. Capital Assets (Continued)

Depreciation of capital assets is included in total expenses and is charged or allocated to the activities primarily benefiting from the use of the specific asset. Depreciation expense has been allocated as follows:

<i>Governmental Activities:</i>		<i>Business-type Activities:</i>	
General government	\$ 9,099	Electric	\$ 19,755
Public safety	21,955	Gas	14,796
Highways and streets	14,477	Water	40,024
Culture and recreation	5,668	Sewer	26,682
Cemetery	600		
Total depreciation	<u>\$ 51,799</u>	Total depreciation	<u>\$ 101,257</u>

E. Long-term Debt

Governmental Activities:

As of June 30, 2012 the governmental activities had no long-term debt.

Business-type Activities:

The following is summary of long-term debt of the City's Business-Type activities.

Notes Payable:

- | | |
|--|-----------|
| 1) Note Payable to Oklahoma Department of Commerce, collateralized by water and sewer revenues, payable in 240 monthly installments of \$583 beginning in October 2000, interest at 0%, matures October 2020. | \$ 57,167 |
| 2) Note payable to American Heritage Bank, collateralized by library annex building, payable in 120 monthly installments of \$372, including interest at 4.95%, final payment due March 2018. | 9,932 |
| 3) 2011 Series Interim Construction Clean water ORF Promissory Note to Oklahoma water Resources Board, original issue amount available for draw of \$2,990,000, secured by utilities revenues, payable in semi-annual principal installments of \$45,950, interest at 3.42%, matures March 15, 2042. | 1,785,050 |

Total business-type activities long-term debt	<u>\$ 1,852,149</u>
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CITY OF YALE
Yale, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

3. DETAILED NOTES CONCERNING THE FUNDS (Continued)

F. Long-term Debt (Continued)

As of June 30, 2012, the annual principal requirements to retire Business-Type activities long-term debt are as follows:

Year Ending June 30,	Principal	Interest
2013	\$ 102,966	\$ 45,578
2014	103,172	88,196
2015	100,494	84,878
2016	98,900	81,719
2017	98,900	78,576
2018	98,900	75,433
2019	98,900	72,290
2020	98,900	69,147
2021-2025	460,667	298,590
2026-2030	459,500	220,015
2031-2035	459,500	141,441
2036-2040	459,500	62,866
2041-2045	114,915	3,144
Total	<u>2,755,214</u>	<u>\$ 1,321,873</u>
Less: amount to be drawn down	<u>(903,065)</u>	
Total principal payments	<u>\$ 1,852,149</u>	

The changes in Business-Type activities long-term debt are as follows:

	Balance July 1, 2011	Additions	Payments	Balance June 30, 2012
Notes Payable	<u>\$ 294,187</u>	<u>\$ 1,570,279</u>	<u>\$ 12,317</u>	<u>\$ 1,852,149</u>
Total	<u>\$ 294,187</u>	<u>\$ 1,570,279</u>	<u>\$ 12,317</u>	<u>\$ 1,852,149</u>

CITY OF YALE
Yale, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

3. DETAILED NOTES CONCERNING THE FUNDS (Continued)

G. Fund Transfers

The following presents a summary of transfers between funds:

	From	To
General Fund:		
Electric	\$360,000	\$ -
Gas	105,000	-
Sanitation	16,000	-
Fire Capital Outlay	13,104	-
Equip Capital Outlay	15,000	-
YEDA	-	5,200
Water & Sewer:		
Capital Outlay	90,000	-
Electric:		
General	-	360,000
Equipment Capital Outlay:		
General	-	15,000
Fire Capital Outlay:		
General	-	13,104
Sanitation		
General	-	16,000
Capital Outlay:		
Water & Sewer	-	90,000
Gas:		
General	-	105,000
YEDA:		
General	5,200	-
 Total	 \$604,304	 \$604,304

4. 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; injuries to employees; employee health benefits; unemployment; and natural disasters. The City purchases commercial insurance for protection against loss other than health, life, and workers compensation. Settled claims have not exceeded the commercial coverage during the past three fiscal years.

CITY OF YALE
Yale, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

4. OTHER INFORMATION (Continued)

A. Risk Management (Continued)

The City is a member of the Oklahoma Municipal Assurance Group Workers' Compensation Plan (the Plan), an organization formed for the purpose of providing workers' compensation coverage through the State Insurance Fund to participating municipalities in the State of Oklahoma. In that capacity, the Plan is responsible for providing loss control services and certain fiscal activities, including obtaining contract arrangements for the underwriting, excess insurance agreements, claims processing, and legal defense for any and all claims submitted to it during the Plan year.

As a member of the Plan, the City is required to pay fees set by the Plan according to an established payment schedule. A Loss Fund has been established from the proceeds of these fees for each participant in the Plan. The State Insurance Fund provides coverage in excess of the Loss Fund so the City's liability for claim loss is limited to the balance of that fund. The City's loss fund balance at June 30, 2012 was \$57,994. The State Insurance Fund provides coverage in excess of the Loss Fund so the City's liability for claim loss is limited to the balance of that fund. However, failure of the State Insurance Fund to honor its obligations could result in losses to the Plan.

In addition to the Loss Fund, the City maintains two additional funds with the Plan. The Rate Stabilization Reserve (RSR), which can be applied against future premium increases and an Escrow Fund made up of past refunds left on deposit with the Plan. Escrow funds earn interest and are readily available for use by the governing board. In accordance with GASB No. 10, the City reports the required contribution to the pool, net of refunds, as insurance expense. The balances in the RSR Fund and the Escrow Fund were \$0 and \$0, respectively.

B. Contingent Liabilities

The City is a defendant in legal actions arising from normal governmental activities. Most of these actions are covered by insurance. Although the outcome of these lawsuits is not presently determinable, management believes that the resolution of these matters will not have a material adverse effect on the financial condition of the City.

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 which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

Lone Chimney Water Association:

The City of Yale, together with seven other cities and rural water districts located in Noble, Pawnee, and Payne Counties, Oklahoma, have jointly formed Lone Chimney Water Association. The purpose of the Association is to provide a water system for the benefit of its members and other users. The Association has entered into various loan agreements with the United States of America (USDA Rural Development) and the Oklahoma Water Resources Board to provide financing for the facility. Under the terms of the agreements regarding the Lone Chimney Water Association, each member contracted to purchase a minimum amount of water from the Association during the 40-year term of the notes. In addition, each individual member is proportionately liable for any debts that exceed the assets of the Association to the extent of one and one-half times the percentage of ownership interest held by the entity pursuant to the agreement. The City is contingently liable for 21.7% of these obligations of the Association, which total approximately \$2,585,000 to ORWB at June 30, 2012. The City's contingent share of Lone Chimney Water Association's debt is \$560,945.

CITY OF YALE
Yale, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

4. OTHER INFORMATION (Continued)

B. Contingent Liabilities (Continued)

Business Incentives:

The Yale Economic Development Authority (YEDA) developed an incentive/loan rebate program whereby businesses can apply and be eligible for a rebate or loan of sales tax revenue generated. New or expanding businesses must show proof of economic benefit or growth to the City.

The YEDA entered into such an agreement with Yale Subway, LLC in May 2011. In accordance with the agreement, Subway must continue in business for three years from November 3, 2010. Subway will be eligible for a rebate of 50% of City sales tax generated since that time until the total rebate reaches a total of \$25,000 or until the end of the agreement on November 1, 2015, whichever comes first. As of June 30, 2012, the City has paid Subway \$5,181.

C. Employee Retirement Plans

Description of Plan

The City provides pension benefits for substantially all of its full-time employees (excluding firemen who are covered under a separate state retirement system) through a defined benefit cost-sharing plan with the Oklahoma Municipal Retirement Fund (OMRF), an agent multiple employer defined benefit plan. An employee includes any person who, if last hired after July 1, 1971, had not reached his 60th birthday at the time of hiring. An employee is eligible to participate in the Plan on the employee's employment commencement date, which means the first day of the first pay period during which the employee receives wages as an employee from which federal taxes are withheld. An employee becomes fully vested after ten years. The Oklahoma Municipal Retirement Fund issues a publicly available financial report that includes financial statements and required supplementary information for the fund. That report may be obtained by writing to Oklahoma Municipal Retirement Fund, 100 North Broadway, Oklahoma City, OK 73102, or by calling 1-800-395-2662.

Funding Policy

The required contribution rate for the 2011-2012 plan year was 14.75% of each participant's payroll. This consisted of 6.00% contributed by the employee and 8.75% contributed by the City. The required contribution rate changes each year, reflecting the investment earnings of the OMRF fund and the demographic experience of the participant group. Since the employee contribution rate is fixed by the terms of the plan, the City's required contribution rate is the amount necessary to bring the total contribution rate to at least the total required contribution rate. The total salary as reported on Form W-2, paid to the employee during the year, is used in computing the costs.

Annual Pension Cost

The City's annual pension cost of \$41,645 was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2011 actuarial valuation. The liabilities and costs were determined using the aggregate entry age normal cost method, considering the unfunded past service requirements to be the excess of the present value of all benefits over the present value of future normal costs and current assets. The actuarial assumptions included (a) 7.5% investment rate of return (net of administrative expenses) and (b) projected salary increases rated by age. The actuarial value of OMRF assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments by factoring in individual period adjustments, if any, for the current period and each of the nine preceding periods. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls. The remaining amortization period at June 30, 2012 was 30 years.

CITY OF YALE
Yale, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

4. OTHER INFORMATION (Continued)

C. Employee Retirement Plans (Continued)

The contributions from the City for this plan were \$41,645, \$38,152 and \$30,315 for plan years ending June 30, 2012, 2011, and 2010 respectively.

Schedule of Funding Progress

Actuarial Valuation Date	Value of Assets	Asset Valuation Basis	Actuarial Accrued Liability (AAL)*	Unfunded AAL (UAAL)	Funded Ratio
1/1/2003	\$ 1,011,214	Actuarial	\$ 1,002,129	\$ (9,085)	100.9%
1/1/2004	1,071,366	Actuarial	1,043,589	(27,777)	102.7%
1/1/2005	1,085,617	Actuarial	1,016,621	(68,996)	106.8%
1/1/2006	1,176,178	Actuarial	1,055,660	(120,518)	111.4%
1/1/2007	1,207,954	Actuarial	1,080,265	(127,689)	111.8%
1/1/2008	1,266,057	Actuarial	1,162,379	(103,678)	108.9%
1/1/2009	1,178,774	Actuarial	1,202,616	23,842	98.0%
1/1/2010	1,124,875	Actuarial	1,196,025	71,150	94.1%
1/1/2011	991,921	Actuarial	1,078,100	86,179	92.0%
1/1/2012	1,050,986	Actuarial	1,176,868	125,882	89.3%

*Funded **

Covered payroll is the total annualized rate of pay as of the valuation date based on actual pay for the preceding year.

Status Progress

As of January 1, 2012, the funded status of the OMRF agent multiple employer defined benefit plan is as follows:

Actuarial Accrued Liability (AAL)	\$1,176,868
Actuarial value of plan assets	<u>1,050,986</u>
Unfunded (Overfunded) actuarial accrued liability	<u>\$ 125,882</u>
Funded Ratio (actuarial value of plan assets/AAL)	89.3%
Annual covered payroll (active plan members)	457,926
Unfunded AAL as a percentage of covered payroll	27.5%

Firefighters' Pension Plan

All full-time or volunteer firefighters hired before age 45 are covered by a statewide cost-sharing multi-employer defined benefit plan adopted under Oklahoma Statutes. This plan is operated and administered by the Oklahoma Firefighters Pension and Retirement System (OFPRS). Under this plan the City contributes \$60 for each volunteer fireman. The OFPRS issues a publicly available financial report that includes financial statements and required supplementary information for the fund. That report may be obtained by writing to Oklahoma Firefighters Pension and Retirement System, 4545 North Lincoln Blvd., Suite 265, Oklahoma City, OK 73105-3414, or by calling 1-800-525-7461.

The required contribution from the City for this plan was \$1,080, \$1,080 and \$1,020 for 2012, 2011, and 2010 respectively. The required contribution was fully contributed. At June 30, 2012, the system held no related-party investments of the City or of its related entities.

CITY OF YALE
Yale, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

4. OTHER INFORMATION (Continued)

D. Related Party Transactions

The City purchased \$4,803 of supplies during fiscal year 2012 from a business owned by a city council member. It is the only business of its type within the City limits and City management believes it is impractical to go elsewhere for these incidental items.

E. Other Post-Employment Benefits

Plan Description: The City provides post-retirement benefit options for health care, prescription drug, dental and vision benefits for retired employees and their dependents that elect to make required contributions. The benefits are provided in accordance with State law, police and firefighter's union contracts and the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA). The relationship for these benefits is not formalized in a contract or plan document, only a few sentences in the administrative policy. These benefits are considered for accounting purposes to be provided in accordance with a single employer substantive plan. A substantive plan is one in which the plan terms are understood by the City and plan members. This understanding is based on communications between the employers and plan member and the historical pattern of practice with regard to the sharing of benefit costs.

Substantially all of the government's employees may become eligible for those post-retirement benefits if they reach normal retirement age while working for the City. The plan is only provided for employees between the ages of 62 and 65. As of June 30, 2012, no retired employees are receiving benefits under this plan.

Funding Policy. The contribution requirement of the City is an implicit subsidy. The implicit subsidy is not a direct payment from the employer on behalf of the member but rather stems from retiree contribution levels that are less than the claims cost at retiree ages. Since claims experience for employees and non-Medicare eligible retirees are pooled when determining premiums, these retired members pay a premium based on a pool of members that, on average, are younger and healthier. There is an implicit subsidy from the employee group since the premiums paid by the retirees are lower than they would have been if the retirees were insured separately. The subsidies are valued using the difference between the age-based claims costs and the premium paid by the retiree. The amount required to fund the implicit rate is based on projected pay-as-you-go financing requirements. For fiscal year 2012, the City contributed 0% to the plan for previously retired employees (0 retirees) and 0% of premiums on newly retired employees (0 retirees).

Annual OPEB Cost and Net OPEB Obligation. The City's annual other post-employment 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. 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 not to exceed thirty years. GASB 45 requires entities with over 200 employees to have the actuarial valuation performed biennially. The City is not required to perform the actuarial valuation of the OPEB cost and related OPEB obligation for the year ended June 30, 2012 since no one is participating at this time.

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.

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.

CITY OF YALE
Yale, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

5. SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 28, 2012, which is the date the financial statements were available to be issued and has determined that no additional information needs to be added to the financial statements.

CITY OF YALE
Yale, Oklahoma

REQUIRED SUPPLEMENTAL INFORMATION
June 30, 2012

CITY OF YALE
REQUIRED SUPPLEMENTAL INFORMATION
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (GAAP BUDGETARY BASIS) AND ACTUAL
GOVERNMENTAL FUNDS
Year Ended June 30, 2012
(Unaudited)

GENERAL FUND

	<u>Budgeted Amounts</u>			<u>Variance with Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
Sales, Use and Bev Taxes	\$ 183,500	\$ 203,500	\$ 243,891	\$ 40,391
Grants	94,997	61,600	61,077	(523)
Miscellaneous	61,150	46,100	49,635	3,535
Court fines	122,500	125,700	132,820	7,120
Outside fire runs and contracts	49,600	55,700	55,076	(624)
Swimming pool fees	-	-	11,295	11,295
Interest	1,000	5,000	4,817	(183)
Donations	-	-	842	842
Grave openings	-	-	6,913	6,913
Cemetery lot sales	-	-	4,925	4,925
Total revenues	<u>512,747</u>	<u>497,600</u>	<u>571,291</u>	<u>73,691</u>
Expenditures:				
General Government	265,100	362,910	337,146	25,764
Public safety	396,387	444,270	445,652	(1,382)
Parks/recreation	119,439	115,530	109,653	5,877
Highways and roads	184,552	137,250	133,757	3,493
Cemetery	10,500	14,000	12,450	1,550
Total expenditures	<u>975,978</u>	<u>1,073,960</u>	<u>1,038,658</u>	<u>35,302</u>
Excess of revenue over (under) expenditures	(463,231)	(576,360)	(467,367)	108,993
Other financing sources (uses):				
Operating transfers in (out)	<u>511,000</u>	<u>511,000</u>	<u>475,800</u>	<u>(35,200)</u>
Net changes in fund balance	47,769	(65,360)	8,433	73,793
Fund balance at beginning of year	58,500	58,500	58,575	(75)
Fund balance at end of year	<u>\$ 106,269</u>	<u>\$ (6,860)</u>	<u>\$ 67,008</u>	<u>\$ 73,718</u>

The Notes to Required Supplemental Information are an integral part of this statement.

CITY OF YALE
REQUIRED SUPPLEMENTAL INFORMATION
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (GAAP BUDGETARY BASIS) AND ACTUAL
GOVERNMENTAL FUNDS
Year Ended June 30, 2012
(Unaudited)

SPECIAL REVENUE FUNDS

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes	\$ -	\$ -	\$ -	\$ -
Gasoline excise tax	2,500	1,500	2,092	592
Commercial vehicle tax	8,000	9,000	10,060	1,060
Grave openings	500	1,000	988	(12)
Cemetery lot sales	2,500	800	703	(97)
Total revenues	<u>13,500</u>	<u>12,300</u>	<u>13,843</u>	<u>1,543</u>
Expenditures:				
General Government	-	-	-	-
Public Safety	-	-	-	-
Parks/recreation	-	-	-	-
Streets	8,000	8,000	-	8,000
Cemetery	-	-	-	-
Debt service:				
Lease-purchase payments	-	-	-	-
Total expenditures	<u>8,000</u>	<u>8,000</u>	<u>-</u>	<u>8,000</u>
Excess of revenue over (under) expenditures	5,500	4,300	13,843	9,543
Other financing sources (uses):				
Operating transfers in (out)	-	(90,000)	(90,000)	-
Net changes in fund balance	5,500	(85,700)	(76,157)	9,543
Fund balance at beginning of year	<u>334,265</u>	<u>334,265</u>	<u>336,175</u>	<u>1,910</u>
Fund balance at end of year	<u>\$ 339,765</u>	<u>\$ 248,565</u>	<u>\$ 260,018</u>	<u>\$ 11,453</u>

The Notes to Required Supplemental Information are an integral part of this statement.

**CITY OF YALE
Yale, Oklahoma**

**NOTES TO REQUIRED SUPPLEMENTAL INFORMATION
For the Year Ended June 30, 2012
(Unaudited)**

BUDGETARY INFORMATION

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America (GAAP) for all governmental funds. The enterprise funds and internal service fund adopt budgets on the non-GAAP basis wherein service fees, bond and note proceeds are recognized as revenue, principal payments on debt and capital expenditures are recognized as expenses, and depreciation expense is not budgeted. Annual appropriated budgets are not adopted for the agency funds. Budgetary data for enterprise funds, internal service, and permanent funds are not presented in these financial statements.

Prior to July 1, the City Manager (not an elected official) submits a proposed operating budget for the fiscal year commencing July 1, to the Commissioners (elected officials). Public hearings are held at regular or special meetings to obtain taxpayer input. Prior to July 1, the budget is legally enacted through passage of a budget resolution. The operating budget, for all budgeted funds, includes proposed expenditures and the means of financing. Each fund's appropriated budget is prepared on a detailed line item basis. Revenues are budgeted by source. Expenditures are budgeted by department and class as follows: personal services, maintenance and operations, capital outlay, transfers, and debt service. This constitutes the legal level of control. Expenditures may not exceed appropriations at this level. A more detailed budget is used for operating purposes. All budget revisions at the legal level are subject to final approval by the City Council. Within these control levels, management may transfer appropriations without council approval. Revisions to the budget were made during the year in accordance with the provisions of the Oklahoma Statutes. All annual appropriations lapse at year-end.

CITY OF YALE
Yale, Oklahoma

SUPPLEMENTAL INFORMATION
June 30, 2012

**CITY OF YALE
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
June 30, 2012**

	<u>Capital Projects</u>	<u>Special Revenue</u>		<u>Total Non-Major Govern- mental Funds</u>
	<u>Capital Outlay</u>	<u>Cemetery Care Fund</u>	<u>Street and Alley Fund</u>	
Assets:				
Cash in bank (Note 3A)	\$ 141,408	\$ 13,641	\$ 52,951	\$ 208,000
Investments		50,000	-	50,000
Accrued governmental transfers		-	2,018	2,018
Total assets	<u>\$ 141,408</u>	<u>\$ 63,641</u>	<u>\$ 54,969</u>	<u>\$ 260,018</u>
Liabilities:				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Due to State of Oklahoma	-	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances:				
Reserved	141,408	63,641	54,969	260,018
Unreserved	-	-	-	-
Total fund balances	<u>141,408</u>	<u>63,641</u>	<u>54,969</u>	<u>260,018</u>
Total liabilities and fund balances	<u>\$ 141,408</u>	<u>\$ 63,641</u>	<u>\$ 54,969</u>	<u>\$ 260,018</u>

CITY OF YALE
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2012

	<u>Capital Projects</u>	<u>Special Revenue</u>		<u>Total Non-Major Govern- mental Funds</u>
	<u>Capital Outlay</u>	<u>Cemetery Care Fund</u>	<u>Street and Alley Fund</u>	
Revenues:				
Gasoline excise tax	\$ -	\$ -	\$ 2,092	\$ 2,092
Commercial vehicle tax	-	-	10,060	10,060
Cemetery lot sales	-	703	-	703
Grave openings	-	988	-	988
Total revenues	<u>-</u>	<u>1,691</u>	<u>12,152</u>	<u>13,843</u>
Expenditures:				
General Government	-	-	-	-
Highways and roads	-	-	-	-
Public safety	-	-	-	-
Parks and recreation	-	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of revenues over (under) expenditures	-	1,691	12,152	13,843
Other financing uses:				
Operating transfers in (out)	<u>(90,000)</u>	<u>-</u>	<u>-</u>	<u>(90,000)</u>
Excess of revenues over (under) expenditures & transfers	(90,000)	1,691	12,152	(76,157)
Fund balance - beginning of year	<u>231,408</u>	<u>61,950</u>	<u>42,817</u>	<u>336,175</u>
Fund balance - end of year	<u>\$ 141,408</u>	<u>\$ 63,641</u>	<u>\$ 54,969</u>	<u>\$ 260,018</u>

CITY OF YALE
Yale, Oklahoma

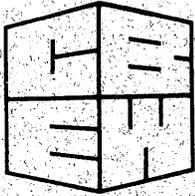
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ending June 30, 2012

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Program or Award Amount</u>	<u>Revenue Collected</u>	<u>Federal Expend- itures</u>
<u>U.S. Department of Justice:</u>				
<u>Passed through the Oklahoma District Attorneys Council:</u>				
JAG-LLE	16.738	<u>4,265</u>	<u>4,265</u>	<u>4,265</u>
<u>U.S. Environmental Protection Agency:</u>				
<u>Passed through the State of Oklahoma Water Resources Board:</u>				
Capitalization Grants for Clean Water State revolving Funds	66.458	<u>301,885</u>	<u>301,885</u>	<u>301,885</u>
<u>Office of Library Services, Institute of Museum and Library Services, National Foundation on the Arts and the Humanities:</u>				
<u>Passed through the Oklahoma Department of Libraries:</u>				
State Library Program	45.310	<u>2,765</u>	<u>2,765</u>	<u>2,765</u>
Total of Expenditures of Federal Awards		<u>\$ 308,915</u>	<u>\$ 308,915</u>	<u>\$ 308,915</u>

Note A - This schedule was prepared on an accrual (GAAP) basis of accounting consistent with the preparation of the basic financial statements.

CITY OF YALE
Yale, Oklahoma

REPORT REQUIRED BY *GOVERNMENT AUDITING STANDARDS*
June 30, 2012



CBEW
Professional
Group, LLP

Certified Public Accountants

DON K. ETHRIDGE, CPA
WALTER H. WEBB, CPA
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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

September 28, 2012

Honorable Board of City Commissioners
City of Yale
Yale, Oklahoma

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Yale, Oklahoma, (City) as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 28, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The City did not present the Management's Discussion and Analysis required by the Governmental Accounting Standards Board.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies in internal control over financial reporting. The finding reference numbers are 12-1 and 12-2. 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.

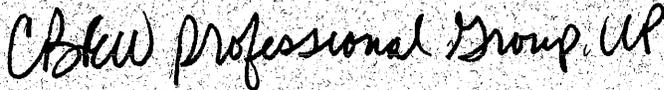
City of Yale
September 28, 2012

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, all applicable federal and state agencies, and those other Governments from which federal financial assistance was received and is not intended to be and should not be used by anyone other than these specified parties.



CBEW Professional Group, LLP
Certified Public Accountants

CITY OF YALE
Yale, Oklahoma

SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2012

12-1. Internal Control – Segregation of Duties

Criteria: The segregation of duties and responsibilities between different individuals for custody of assets, recordkeeping for those assets and reconciliation of those asset accounts is an important control activity needed to adequately protect the city's assets and ensure accurate financial reporting.

Condition: Presently the same individual is responsible for issuing purchase orders, writing checks, making deposits, posting transactions and reconciles the monthly bank statements.

Cause: The city's limited size and staffing resources have made it difficult for management to provide sufficient staffing to fully segregate incompatible duties in a cost-effective manner.

Effect or Potential Effect: Without sufficient segregation of duties, the risk significantly increases that errors and fraud related to purchasing and depositing activities, including misappropriation of assets, could occur and not be detected within a timely basis.

Recommendation: We recommend that management should consider a formal evaluation of their risks associated with these procedures. In response to the identified risks, consideration should be given to identifying and implementing controls that could help mitigate the risks associated with lack of segregation of duties, such as providing increased management oversight and an independent reconciliation of accounts. For example, the entity might consider soliciting the assistance of independent volunteer labor to perform certain functions including performing compensating procedures where applicable.

Responsible Official's Response: The city concurs with the recommendation, although, the cost to correct this condition might exceed the benefit, the city has made certain changes in procedures that will improve the overall lack of segregation of duties and has implemented compensating procedures as appropriate.

12-2. Internal Control – Material Adjusting Journal Entries

Criteria: The government's management is responsible for internal controls over accounting and financial reporting. This responsibility includes the design and implementation of controls over the fair and complete presentation of the government's annual financial statements in accordance with generally accepted accounting principles (GAAP) from trial balances derived from the government's accounting records. For trial balances to be both complete and accurate, the government must have effective internal controls over recording, processing, summarizing, and adjusting accounting data. As evidence of effective internal controls over accounting and financial reporting, there should generally be few, if any, material adjustments to the trial balances required that are detected and corrected solely as a result of the financial statement audit. In other words, government management should not rely on the external auditor to detect and correct material misstatements in the books and records as part of its internal controls, but rather should have its own procedures designed and in place that are independent of the external auditor to provide reasonable, although not absolute, assurance that material misstatements will be detected and corrected in its trial balances prior to audit.

Condition: The government's trial balances for the year ended June 30, 2012, required a number of material adjusting journal entries in order for the financial statements to be prepared in accordance with GAAP. These necessary adjusting entries, identified solely as a result of the financial statement audit, included such adjustments as the following: depreciation expense, balancing and recording note payables, interest expenses, purchased assets, and accrued revenue and expense transactions.

CITY OF YALE
Yale, Oklahoma

SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2012

12-2. Internal Control – Material Adjusting Journal Entries (continued)

Cause: Although the government's accounting and financial reporting staff possess the necessary knowledge and expertise to provide reasonable assurance that the trial balances used for preparing the governmental GAAP financial statements are complete and accurate prior to audit, because of work load and other time constraints sufficient efforts were not expended to correct these misstatements prior to the auditors' arrival to perform fieldwork. As a result, management has had to rely on the external auditors to identify and correct a number of material misstatements in the trial balances. However, management was able to review, understand and accept the adjusting entries proposed by the auditor in order to take responsibility for them and the financial statements.

Effect or Potential Effect: As a result of this condition, without reliance on its external auditors, the government did not comply with its internal controls over the completeness and accuracy of the trial balances that are used in the preparation of its financial statements in accordance with GAAP. This condition can result in undetected and uncorrected material misstatements in the financial statements that are not detected by management and may also not be detected by the financial statement audit. In addition, if management's intentions are to continue to rely on the external auditor to detect and correct material misstatements, this condition could place the auditor in a questionable position regarding auditor independence since management is responsible for the completeness and accuracy of the financial statements.

Recommendation: The accounting and financial reporting staff should spend sufficient time in evaluating the completeness and accuracy of trial balances that will be used to prepare the government's annual financial statements. If accounting staff doesn't have sufficient time because of workload constraints the government might consider outsourcing certain activities to other individuals or a qualified accounting firm other than the external auditor.

Responsible Official's Response: The City concurs with the recommendation, and will strive to prepare and post material adjusting journal entries to the financial statements. We have seen significant progress in the City's effort to reduce the number of material adjusting entries needed by the auditor.