

**CITY OF YUKON OKLAHOMA
YUKON, OKLAHOMA**

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

**FOR THE YEAR ENDED
JUNE 30, 2012**

THE CITY OF YUKON, OKLAHOMA
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Derrel S. White, CPA

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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Yukon, OK

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 City of Yukon, OK 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 City of Yukon, OK'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 those 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 above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Yukon, OK, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 10 and 40 through 41 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 11, 2013 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 controls 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Yukon, OK's financial statements as a whole. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual nonmajor 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.

A handwritten signature in black ink, appearing to read "D. White, CPA". The signature is fluid and cursive.

Derrel S. White, CPA

Woodward, OK

January 11, 2013

Within this section, the City of Yukon's ("City") management provides narrative discussion and analysis of the financial performance of the City's for the fiscal year ended June 30, 2012. The City's performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL SUMMARY

- At June 30, 2012, the assets of the City exceeded its liabilities by \$35,207,301 (net assets). This compared to the previous year when restated assets exceeded liabilities by \$34,832,707.
- The City's total net assets are comprised of the following:
 - (1) Invested in capital assets, net of related debt of \$40,473,397 includes property and equipment, net of accumulated depreciation, and reduced for outstanding debt related to the purchase of construction of capital assets. Business-type activities report debt in excess of capital assets of \$11,653,209. This is due to revenue bonds issued under the Yukon Municipal Authority used to fund assets that are governmental in nature, specifically the fire station in fiscal year 2012 and street improvements.
 - (2) Restricted net assets of \$20,130,225.
 - (3) Unrestricted net assets of negative \$25,396,321 represent the portion available to maintain the City's continuing obligations to citizens and creditors. Due to the large amount of capital assets and restricted funds held by the City, unrestricted net assets are reported as a negative.
- Total liabilities of the City decreased by \$1,924,899 during the fiscal year from \$53,591,702 to \$51,666,803. The majority of this decrease is attributable to repayments made on outstanding debt and current obligations.
- The City's governmental funds reported total ending fund balance of \$16,553,903 this year. This compared to the prior year ending fund balance of \$16,357,733, showing an increase of \$206,170 during the current year, including a prior period adjustment for sales tax accrual.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was negative \$98,104. This is due to the cash restrictions related to capital lease agreements and debt requirements.

OVERVIEW OF THE FINANCIAL STATEMENTS

Management's Discussion and Analysis introduces the City's basic financial statements. The basic financial statements include: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The City also includes in this report additional information to supplement the basic financial statements.

Government-wide Financial Statements

The City's annual reporting includes two government-wide financial statements. These statements provide both long-term and short-term information about the City's overall status and are presented to demonstrate the extent the City has met its operating objective efficiently and effectively using all the resourced available and whether the City can continue to meet it objectives in the foreseeable future. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The first of these government-wide statements is the *Statement of Net Assets*. This is the City-wide statement of financial position presenting information that includes all of the City's assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets may serve as a useful indication of whether the financial position of the City as a whole is improving or deteriorating. Evaluation of the overall economic health of the City would extend to other financial factors such as diversification of the taxpayer base or the condition of the City infrastructure in addition to the financial information provided in this report.

The second government-wide statement is the *Statement of Activities*, which reports how the City's net assets changed during the current fiscal year and can be used to assess the City's operating results in its entirety and analyze how the City's programs are financed. All current year revenues and expenses are included regardless of when cash is received or paid. An important purpose of the design of the statement of activities is to show the financial reliance of the City's distinct activities or functions on revenues provided by the City's taxpayers.

Both government-wide financial statements distinctively report governmental activities of the City that are principally supported by taxes and intergovernmental revenues, such as grants, and business-type activities that are intended to recover all or a significant portion of their costs through user fees and charges. Governmental activities includes general government; public safety and judiciary; transportation; and cultural, parks, and recreation. Business-types activities include utility services, including water and sanitation, provided by the City.

The City's financial reporting entity includes the funds of the City (primary government) and organization for which the City is accountable (component units). Comprehensive information about the City's component units can be found in footnotes.

Fund Financial Statements

A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. The City uses funds to ensure and demonstrate compliance with finance-related laws and regulations. Within the basic financial statements, fund financial statements focus on the City's most significant funds rather than the City as a whole.

The City has three kinds of funds:

Governmental funds are reported in the fund financial statements and encompass essentially the same functions reported as governmental activities in the government-wide financial statements. However, the focus is different with fund statements reporting short-term fiscal accountability focusing on the use of spendable resources during the year and balances of spendable resources available at the end of the year. They are useful in evaluating annual financing requirements of governmental programs and the commitment of spendable resources for the near-term.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to the government-wide statements to assist in understanding the differences between these two perspectives.

Budgetary comparison statement is included in the basic financial statement for governmental funds deemed as major. This statement demonstrates compliance with the City's adopted and final revised budget.

Proprietary funds are reported in the fund financial statements and generally report services for which the City charges customers a fee. The City has one type of proprietary fund, enterprise funds. Enterprise funds essentially encompass the same functions reported as business-type activities in the government-wide statements. Services are provided to customers external to the City organization such as water, sanitation, and electric utilities.

Proprietary fund statements and statements for discretely presented component units (reporting similarly to proprietary funds) provide both long-term and short-term financial information consistent with the focus provided by the government-wide financial statements but with more detail.

Fiduciary funds are reported in the fiduciary fund financial statements, but are excluded from the government-wide reporting. Fiduciary fund financial statements report resources that are not available to fund City programs. Fiduciary fund financial statements report similarly to proprietary funds.

Notes to the financial statements

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements. Those notes to the financial statement begin immediately following the basic financial statements.

Other information

In addition to the basic financial statements and accompanying noted, this report presents certain *Required Supplementary Information* concerning the City's compliance with the approved and revised budget for major governmental funds.

A FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Assets

The City's combined net assets at June 30, 2012 were \$35,207,301. This is a \$1,471,829 increase over June 30, 2011 net assets of \$33,768,206, prior to restatement. The City reported positive balances in total net assets for governmental activities. In business-type activities, The City reported negative net assets, which is a function of the issuance of debt that funds governmental assets. The City's overall financial position improved 1% during fiscal year 2012.

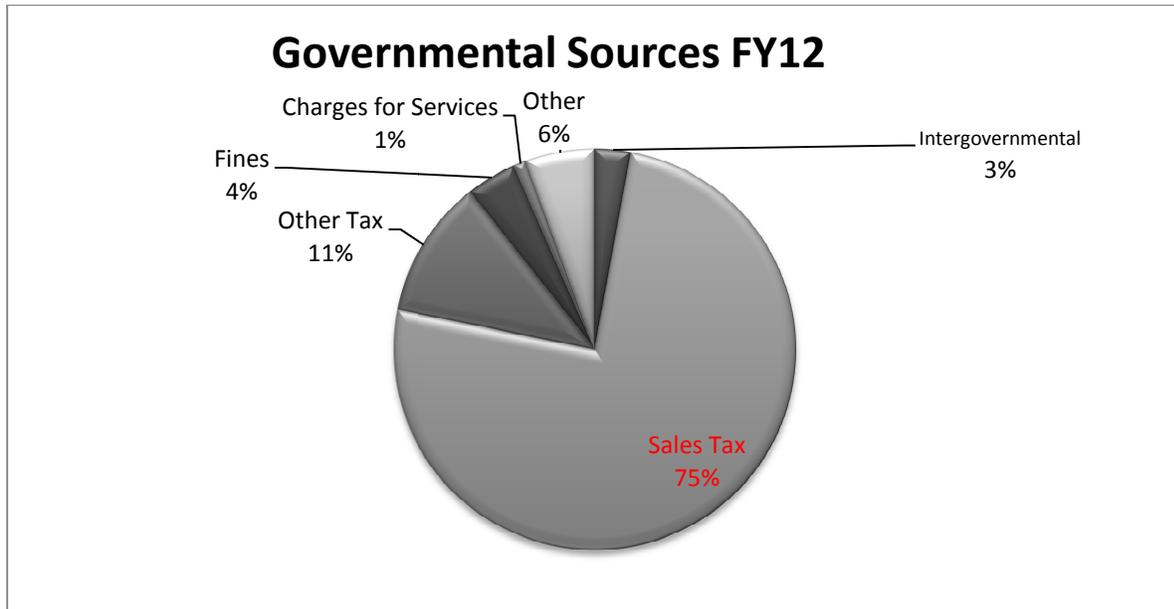
	Summary of Net Assets							
	<i>in thousands</i>							
	Governmental Activities		Business-Type Activities		Total		\$	%
	2012	2011	2012	2011	2012	2011	Change	Change
Current assets	\$ 17,094	\$ 17,083	\$ 7,660	\$ 13,671	\$ 24,754	\$ 30,754	\$ (6,000)	-20%
Capital assets, net	51,909	46,730	10,211	9,876	62,120	56,606	5,514	10%
Total assets	69,003	63,813	17,871	23,547	86,874	87,360	(486)	-1%
Current liabilities	15,407	15,341	4,694	4,519	20,101	19,860	241	1%
Non-current liabilities	10,806	10,461	20,760	23,271	31,566	33,732	(2,166)	-6%
Total liabilities	26,213	25,802	25,454	27,790	51,667	53,592	(1,925)	-4%
Net assets								
Invested in capital assets, net of related debt	52,127	43,372	(11,653)	(10,888)	40,474	32,484	7,990	25%
Restricted	16,662	7,768	3,468	589	20,130	8,357	11,773	141%
Unrestricted	(25,999)	(13,129)	602	6,056	(25,397)	(7,073)	(18,324)	259%
Total net assets	\$ 42,790	\$ 38,011	\$ (7,583)	\$ (4,243)	\$ 35,207	\$ 33,768	\$ 1,439	4%

Summary of Changes in Net Assets, in thousands

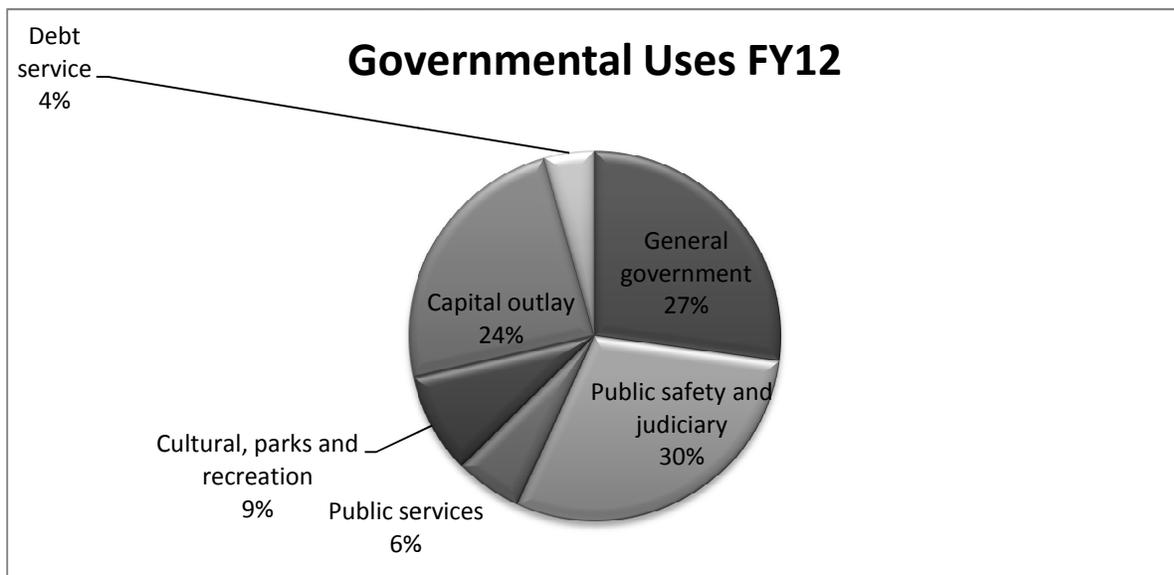
	Governmental Activities		Business-type Activities		Total		\$ Change	% Change
	2012	2011	2012	2011	2012	2011		
Revenues								
Program revenues	\$ 2,597	\$ 1,075	\$ 8,105	\$ 8,210	\$ 10,702	\$ 9,285	\$ 1,417	15%
Taxes and other general revenues	21,702	20,893	222	477	21,924	21,370	554	3%
Total revenues	24,299	21,968	8,327	8,687	32,626	30,655	1,971	18%
Expenses								
General government	8,264	20,852	-	-	8,264	20,852	(12,588)	-60%
Public safety and judiciary	8,965	8,021	-	-	8,965	8,021	944	12%
Public services	3,282	3,021	-	-	3,282	3,021	261	9%
Cultural, parks, and recreation	2,571	2,555	-	-	2,571	2,555	16	1%
Interest on debt	402	678	1,295	801	1,697	1,479	218	15%
Water	-	-	2,344	3,647	2,344	3,647	(1,303)	-36%
Sewer	-	-	2,512	1,269	2,512	1,269	1,243	98%
Sanitation	-	-	1,518	1,266	1,518	1,266	252	20%
Total expenses	23,484	35,127	7,669	6,983	31,153	42,110	(10,957)	-26%
Excess (deficiency) before transfers	\$ 815	\$ (13,159)	\$ 658	\$ 1,704	\$ 1,473	\$ (11,455)	\$ 12,928	-113%
Transfers	4,289	444	(4,289)	(444)	-	-	-	0%
Increase (decrease) in net assets	\$ 5,104	\$ (12,715)	\$ (3,631)	\$ 1,260	\$ 1,473	\$ (11,455)	\$ 12,928	-113%

Revenues for the City increased 18% year over year. This increase in revenues is attributable to operating and capital contributions. Operating expenses noted an overall decrease over fiscal year 2011 of 26%. This decrease is a function of the post retirement benefits which were recorded in fiscal year 2011.

Graphic presentations of selected data from the summary table follow to assist in the analysis of the City's activities.

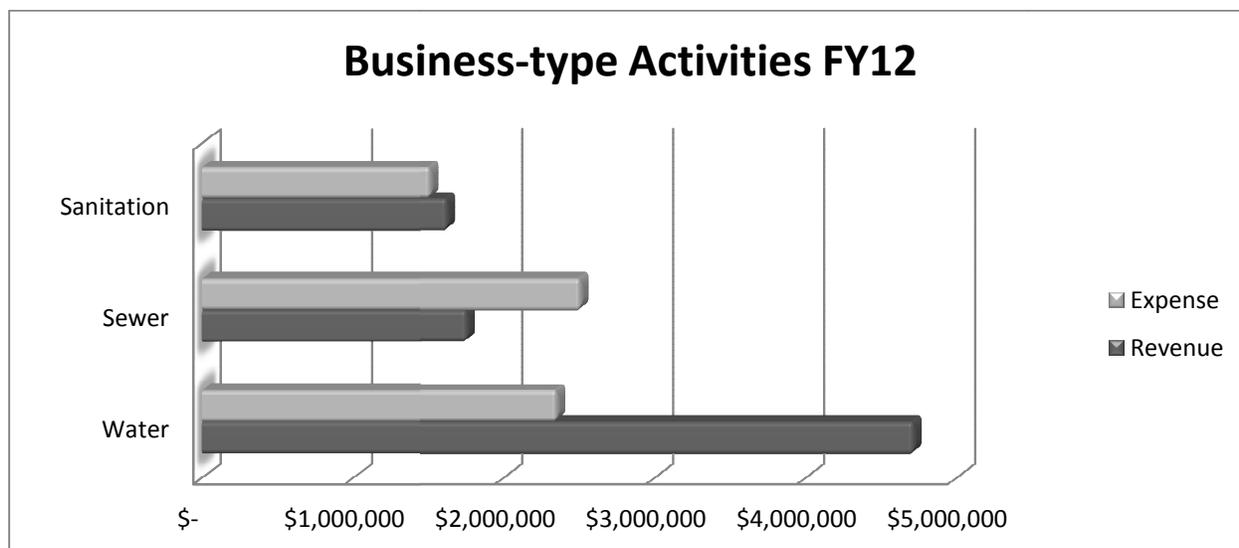


Taxes provided 75% of the City's governmental revenues in fiscal year 2012. Property taxes and franchise taxes represent 11% of governmental sources under other taxes.



For the year ended June 30, 2012, total expenses for governmental activities were \$29,669,316. Of this amount, public safety and judiciary with \$8,383,185, was the largest operating service department at 30% of the total cost of services for the City government, which is consistent with prior year. These costs, as well as all other governmental activity expenses, were primarily funded by tax revenues and transfers in from the Yukon Municipal Authority. It should be noted that governmental expenses are adjusted from the fund statements to the government-wide statements for the purchase and construction of capital assets. Government-wide statement is full accrual; capital outlay expenses are eliminated and capital assets are reported.

Business-type Activities



Business-type activities are shown comparing costs to revenues generated by the related services. Sanitation, Sewer, and Water activities are intended to be self-supporting with user charges.

For the fiscal year ended June 30, 2012, revenues from water and sanitation services covered the cost of operating their respective departments.

General Fund Budgetary Highlights

The original adopted General Fund budget for fiscal year 2012 was \$19,508,444 as compared to \$18,055,532 in fiscal year 2011. For the year ended June 30, 2012, actual expenses exceeded budgeted amounts in two departments, public safety and cultural, parks, and recreation, and in total for the fiscal year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of June 30, 2012, the City had \$40,473,397 invested in capital assets, net of related debt, including vehicles and equipment for police and fire operations, street improvements, and park facilities, in governmental activities and water lines, sewer lines, and utility equipment in business-type activities. Refer to the table below.

Primary Government Capital Assets (net of accumulated depreciation)
 in thousands

	Governmental Activities 2012	Business-type Activities 2012	Total 2012
Land	\$ 2,974,338	\$ 97,740	\$ 3,072,078
Construction in process	8,022,227	327,401	8,349,628
Buildings	3,905,970	133,607	4,039,577
Machinery & equipment	1,488,820	295,546	1,784,366
Infrastructure	35,517,935	9,356,541	44,874,476
Totals	\$ 51,909,290	\$ 10,210,835	\$ 62,120,125

The most significant additions included work on the fire station, street improvements, and department vehicles.

Long-Term Debt

At year-end, the City had \$31,566,373 in long-term debt outstanding. The City's summary of long-term debt by type of debt is as follows:

Primary Government Long-Term Debt	
	Business-type Activities
	2012
Lease payable	\$ 3,383,070
Notes payable	1,604,216
Bonds payable	31,540,000
less current portion	(4,960,913)
Total	\$ 31,566,373

ECONOMIC FACTORS AND NEXT YEARS'S BUDGET AND RATES

Economic Environment

The City of Yukon has benefited from the expansion of the metro area through increased sales tax dollars and additional demand on utility services within the City limits. In preparing for the fiscal year 2012 budget, the City projected revenue growth of over 3%. Expenses followed the same increase due to inflation coupled with increasing personnel costs. Although the national economy is projecting cautious recovery, the City has been relatively insulated to the recession. With growth projected in fiscal year 2012, the City continues to move forward in fiscal year 2013 with continued progress.

Fees and Rates

The budget for fiscal year 2013, projects a moderate increase in fees and rates for the City's primary government. After some research, it has been determined that the City is likely to realize at least a 4.5% level of growth from its main sources of revenue. The majority of this increase is general economic growth and recovery that will turn into sales tax revenue for the City. The budget also includes an increase in revenues for the Yukon Municipal Authority through the utility services provided to citizens. Budget projections are based on an overall restructuring of the rate plans for water, sewer and sanitation which will go into effect during fiscal year 2013.

Operating and Capital Expenses

Within the General Fund, the City projects a 4.5% increase in expenses when compared to prior year. Major changes include: a 2.5% raise for all permanent full-time employees and additions to personnel in various departments.

Within the Yukon Municipal Authority fund, the most significant change in the budget was the 2.5% raise for full time employees.

Based upon projected revenues, the City has budgeted a number of capital projects for fiscal year 2013, including:

- Park Maintenance: new equipment and drainage work \$54,000;
- Fire: renovation of current Station 1 \$29,000;
- Library: circulation desk refurbishment, new flooring and new materials \$47,000;
- Park Administration: Splash Pad (if awarded grant), retaining wall, Mobile Mini, and steel pole \$212,000 (City's net responsibility for projects);
- Police: new carpet tiles \$7000;

- Recreation: new flooring for RAC, light fixture replacement, pool renovations, parking lot lights \$61,000;
- Fleet Maintenance: overhead door replacement \$5,000;
- Streets: 30 x 30 equipment storage facility, intersection and drainage repair, traffic counter analyzer system and 8 mobile units, first year of three year program to change out signal systems \$43,000;
- Technology: Two-way radio equipment, 2 replacement servers, 62 replacement desktop computers, 7 laptop replacements, secondary back-up vault for redundant data protection, replacement and upgrade of New World servers at police station and other New World updates, Cisco hardware upgrades, record on demand system, 7 toughbook laptops \$383,854;
- Emergency Management: update of eight storm sirens to run on solar power \$50,000; Water & Sewer: new meter reading system, line bursting, Waste Water Treatment system improvements (pump, motor, pipe, valves, wire, and electrical replacement), water well, water tower, and lift station improvements, Godwin six inch pump for backup system at lift stations, etc. \$240,000;
- Sanitation: shop building improvements, new polycarts and dumpsters \$75,000

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Treasurer's Office at Yukon City Hall, 500 West Main Street in Yukon, Oklahoma.

CITY OF YUKON
STATEMENT OF NET ASSETS
JUNE 30, 2012

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Assets:			
Cash and cash equivalents	\$ 2,435,940	\$ 616,090	\$ 3,052,030
Investments	258,705	-	258,705
Accounts receivables (net)	-	907,076	907,076
Taxes receivables	1,685,499	-	1,685,499
Fines receivable	137,376	-	137,376
Grants receivable	26,000	-	26,000
Due to/from other funds	24,732	-	24,732
Restricted assets:			
Cash	6,988,795	1,819	6,990,614
Investments	5,536,591	5,331,327	10,867,918
Other assets	-	804,029	804,029
Capital assets (net)	<u>51,909,290</u>	<u>10,210,835</u>	<u>62,120,125</u>
Total assets	<u>69,002,928</u>	<u>17,871,176</u>	<u>86,874,104</u>
Liabilities:			
Accounts payable	296,947	258,455	555,402
Accrued salaries	232,788	92,772	325,560
Accrued interest payable	117,616	309,643	427,259
Accrued compensated absences, current	-	213,309	213,309
Capital lease obligation, current	821,697	-	821,697
OPEB liability	13,257,820	-	13,257,820
Notes payable, current	-	1,604,216	1,604,216
Revenue bonds payable, current	-	1,855,000	1,855,000
General obligation bond payable, current	680,000	-	680,000
Customer deposits payable	-	360,167	360,167
Capital lease obligation, non-current	2,561,373	-	2,561,373
General obligation bonds payable, non-current	8,245,000	-	8,245,000
Revenue bonds payable, non-current	<u>-</u>	<u>20,760,000</u>	<u>20,760,000</u>
Total liabilities	<u>26,213,241</u>	<u>25,453,562</u>	<u>51,666,803</u>
Net assets:			
Invested in capital assets, net of related debt	52,126,606	(11,653,209)	40,473,397
Restricted	16,662,007	3,468,218	20,130,225
Unrestricted	<u>(25,998,926)</u>	<u>602,605</u>	<u>(25,396,321)</u>
Total net assets	<u>\$ 42,789,687</u>	<u>\$ (7,582,386)</u>	<u>\$ 35,207,301</u>

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

**CITY OF YUKON
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012**

Functions/Programs:	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants & Contributions	
Governmental activities:					
General government	\$ 8,263,714	\$ 328,043	\$ 11,993	\$ 232,645	\$ (7,691,033)
Public safety:					
Police	5,170,736	987,219	37,239	-	(4,146,278)
Municipal court	253,783	-	-	-	(253,783)
Fire	3,390,735	1,596	-	-	(3,389,139)
Animal control	150,738	-	-	-	(150,738)
Public services	3,281,807	-	104,875	202,744	(2,974,188)
Cultural and recreation	2,570,858	253,088	437,719	-	(1,880,051)
Interest on long term debt	401,976	-	-	-	(401,976)
Total Governmental activities	23,484,347	1,569,946	591,826	435,389	(20,887,186)
Business-type activities:					
Water	2,344,002	4,718,155	-	-	2,374,153
Sewer	2,512,151	1,758,644	-	-	(753,507)
Sanitation	1,517,746	1,628,276	-	-	110,530
Interest on long term debt	1,295,178	-	-	-	(1,295,178)
Total Business-type activities	7,669,077	8,105,075	-	-	435,998
Total	\$ 31,153,424	\$ 9,675,021	\$ 591,826	\$ 435,389	\$ (20,451,188)

	Net (Expense) Revenue and Changes in Net Assets		
	Governmental Activities	Business-Type Activities	Total
Net (expense) revenue	\$ (20,887,186)	\$ 435,998	\$ (20,451,188)
General revenues:			
Taxes:			
Sales and use taxes	18,297,909	-	18,297,909
Property taxes	1,339,034	-	1,339,034
Franchise and public service taxes	1,464,795	-	1,464,795
Investment income	80,015	1,655	81,670
Gain on sale of property	79,862	-	79,862
Royalties	7,386	-	7,386
Miscellaneous	432,787	219,574	652,361
Transfers	4,289,049	(4,289,049)	-
Total general revenues and transfers	25,990,837	(4,067,820)	21,923,017
Change in net assets	5,103,651	(3,631,822)	1,471,829
Net assets - beginning of year, restated	37,686,036	(3,950,564)	33,735,472
Net assets - end of year	\$ 42,789,687	\$ (7,582,386)	\$ 35,207,301

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

**CITY OF YUKON
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012**

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>96 Sales Tax Capital Projects Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:					
Cash and cash equivalents	\$ 636,177	\$ -	\$ -	\$ 1,799,763	\$ 2,435,940
Investments	258,705				258,705
Taxes receivable	1,277,666	-	380,573	27,260	1,685,499
Fines receivable, net of allowance	137,376	-	-	-	137,376
Grants receivable	-	-	-	26,000	26,000
Due from other funds	-	-	1,099,911	-	1,099,911
Retricted cash:					
Cash	4,311,497	163,070	2,514,228	-	6,988,795
Investments	5,100,000	-	436,591	-	5,536,591
Total assets	<u>\$ 11,721,421</u>	<u>\$ 163,070</u>	<u>\$ 4,431,303</u>	<u>\$ 1,853,023</u>	<u>\$ 18,168,817</u>
Liabilities:					
Accounts payable	\$ 248,286	\$ -	\$ 40,712	\$ 7,949	\$ 296,947
Accrued salaries	232,788	-	-	-	232,788
Due to other funds	1,075,179	-	-	-	1,075,179
Total liabilities	<u>1,556,253</u>	<u>-</u>	<u>40,712</u>	<u>7,949</u>	<u>1,604,914</u>
Fund balance:					
Restricted	7,139,100	-	4,390,591	801,235	12,330,926
Committed	3,124,172	163,070	-	516,996	3,804,238
Assigned	-	-	-	526,843	526,843
Unassigned	(98,104)	-	-	-	(98,104)
Total fund balances	<u>10,165,168</u>	<u>163,070</u>	<u>4,390,591</u>	<u>1,845,074</u>	<u>16,563,903</u>
Total liabilities and fund balances	<u>\$ 11,721,421</u>	<u>\$ 163,070</u>	<u>\$ 4,431,303</u>	<u>\$ 1,853,023</u>	<u>\$ 18,168,817</u>

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

**CITY OF YUKON
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2012**

Total fund balance - all governmental funds

Amounts reported for governmental activities in the statement of net assets are different because: \$ 16,563,903

Land and capital assets, net of accumulated depreciation, are not financial resources and, therefore, are not reported in the funds.

Land and construction in process	10,961,765	
Capital assets	90,204,806	
Less: Accumulated depreciation	(49,257,281)	51,909,290

Long-term liabilities are not due and payable in the current period and are not reported in the funds.

	<i>Current</i>	<i>Non-Current</i>	
Bonds payable	\$ (680,000)	\$ (8,245,000)	
Bonds interest payable	(117,616)	-	
Capital leases payable	(821,697)	(2,561,373)	(12,425,686)

OPEB liability (13,257,820)

Net assets of governmental activities \$ 42,789,687

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

CITY OF YUKON
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2012

	General Fund	Capital Projects Fund	96 Sales Tax Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
Sales and use tax	\$ 14,052,157	\$ -	\$ 4,245,752	\$ -	\$ 18,297,909
Taxes	243,417	-	-	1,339,034	1,582,451
Intergovernmental	289,258	-	232,645	175,627	697,530
Franchise tax	1,134,864	-	-	-	1,134,864
Charges for services	236,446	-	-	10,190	246,636
Fines and forfeitures	991,071	-	-	-	991,071
Licenses and permits	268,910	-	-	-	268,910
Investment income	65,291	211	9,816	4,697	80,015
Rental and royalty income	52,382	7,386	-	1,470	61,238
Donations	-	-	-	425,676	425,676
Sale of property	79,862	-	-	-	79,862
Proceeds from debt issuance	3,250,555	-	-	-	3,250,555
Miscellaneous	366,178	-	-	66,610	432,788
Total revenues	21,030,391	7,597	4,488,213	2,023,304	27,549,505
Expenditures:					
General government	7,078,571	25	207,700	291,483	7,577,779
Public safety:	-	-	-	-	-
Police	4,746,522	-	-	92,316	4,838,838
Municipal court	253,783	-	-	-	253,783
Fire	3,143,408	-	-	-	3,143,408
Animal control	147,156	-	-	-	147,156
Public services	1,591,366	-	-	61,679	1,653,045
Cultural and recreation	2,474,390	-	-	750	2,475,140
Debt service	-	-	352,785	1,055,828	1,408,613
Capital outlay	6,856,302	484,516	666,965	163,771	8,171,554
Total expenditures	26,291,498	484,541	1,227,450	1,665,827	29,669,316
Excess revenues over (under) expenditures	(5,261,107)	(476,944)	3,260,763	357,477	(2,119,811)
Other financing sources (uses):					
Transfers in	12,078,902	-	-	-	12,078,902
Transfers out	(3,861,275)	(411,723)	(3,516,855)	-	(7,789,853)
Total other financing sources and uses	8,217,627	(411,723)	(3,516,855)	-	4,289,049
Net change in fund balances	2,956,520	(888,667)	(256,092)	357,477	2,169,238
Net assets - beginning of year	8,575,945	1,051,737	4,706,464	2,023,587	16,357,733
Prior period adjustment	(1,367,297)	-	(59,781)	(535,990)	(1,963,068)
Fund balance - end of year	\$ 10,165,168	\$ 163,070	\$ 4,390,591	\$ 1,845,074	\$ 16,563,903

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

**CITY OF YUKON
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012**

Net change in fund balances - total governmental funds \$ 2,169,238

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	8,171,554	
Depreciation expense	<u>(2,993,222)</u>	5,178,332

Proceeds from capital lease agreements provide current financial resources to governmental funds, but issuing capital leases increases long-term liabilities in the statement of net assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Debt principle repayment	1,006,636	
Issuance of capital leases	<u>(3,250,555)</u>	(2,243,919)

Government-Wide Statement of Activities and Changes in Net Assets report OPEB liabilities in the period incurred. However, Governmental Funds do not pay on this liability. The amount of the change for the OPEB liability recorded in the current period.

	<u>Prior Year</u>	<u>Current Year</u>
OPEB liability	13,257,820	<u>13,257,820</u>
		<u>-</u>

Change in net assets of governmental activities \$ 5,103,651

**CITY OF YUKON
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2012**

	Water/ Sewer Fund	Sanitation Fund	Yukon Municipal Authority	Stormwater Fund	Total Proprietary Funds
Assets:					
Cash and cash equivalents	\$ (111,006)	\$ 619,828	\$ (33,348)	\$ 140,616	\$ 616,090
Accounts receivable, net	-	189,146	712,022	5,908	907,076
Restricted assets:					
Cash	1,819	-	-	-	1,819
Investments	358,861	-	4,972,466	-	5,331,327
Capital assets:					
Land	-	6,735	91,005	-	97,740
Construction in progress	-	-	327,401	-	327,401
Capital assets, net	-	290,101	9,495,593	-	9,785,694
Other assets:					
Bond issuance costs (net of amortization)	-	-	804,029	-	804,029
Total assets	\$ 249,674	\$ 1,105,810	\$ 16,369,168	\$ 146,524	\$ 17,871,176
Liabilities:					
Accounts payable	\$ 213,203	\$ 43,686	\$ -	\$ 1,566	\$ 258,455
Accrued salaries	81,758	10,105	-	909	92,772
Accrued compensated absences, current	139,617	59,302	-	14,390	213,309
Notes payable, current	-	-	1,604,216	-	1,604,216
Payable from restricted assets:					
Bond interest payable, current	-	-	309,643	-	309,643
Bonds payable, current	-	-	1,855,000	-	1,855,000
Customer deposits payable	360,167	-	-	-	360,167
Bonds payable, non-current	-	-	20,760,000	-	20,760,000
Total liabilities	794,745	113,093	24,528,859	16,865	25,453,562
Net assets:					
Invested in capital assets, net of related debt	-	296,836	(11,950,045)	-	(11,653,209)
Restricted	358,861	-	3,109,357	-	3,468,218
Unrestricted	(903,932)	695,881	680,997	129,659	602,605
Total net assets	(545,071)	992,717	(8,159,691)	129,659	(7,582,386)
Total liabilities and net assets	\$ 249,674	\$ 1,105,810	\$ 16,369,168	\$ 146,524	\$ 17,871,176

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

CITY OF YUKON
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2012

	Water/ Sewer Fund	Sanitation Funds	Yukon Municipal Authority	Stormwater Funds	Total Proprietary Funds
Operating revenues:					
Water revenues	\$ -	\$ -	\$ 4,718,155	\$ -	\$ 4,718,155
Sewer revenues	-	-	1,519,910	238,734	1,758,644
Sanitation revenues	-	1,628,276	-	-	1,628,276
Total operating revenues	-	1,628,276	6,238,065	238,734	8,105,075
Operating expense:					
Personal services	1,149,605	823,377	-	119,036	2,092,018
Materials and supplies	135,197	230,726	-	11,706	377,629
Other charges and services	2,593,632	371,209	-	11,109	2,975,950
Depreciation and amortization	-	92,434	835,867	-	928,301
Total operating expenses	3,878,434	1,517,746	835,867	141,851	6,373,898
Operating income before non-operating revenues, expenses and transfers	(3,878,434)	110,530	5,402,198	96,883	1,731,177
Non-operating revenues (expenses)					
Investment income	1,168	-	315	172	1,655
Interest expense	-	-	(1,295,178)	-	(1,295,178)
Other revenues (expense)	2,047	25,264	189,930	2,332	219,573
Total nonoperating revenues (expenses)	3,215	25,264	(1,104,933)	2,504	(1,073,950)
Income (loss) before operating transfers	(3,875,219)	135,794	4,297,265	99,387	657,227
Transfers in	6,712,521	63,507	4,592,783	6,698	11,375,509
Transfers out	(2,991,174)	(612,331)	(11,775,468)	(285,585)	(15,664,558)
Change in net assets	(153,872)	(413,030)	(2,885,420)	(179,500)	(3,631,822)
Net assets - beginning of year, restated	(310,906)	1,405,747	(5,274,271)	309,159	(3,870,271)
Prior period adjustment	(80,293)	-	-	-	(80,293)
Net assets at end of year	\$ (545,071)	\$ 992,717	\$ (8,159,691)	\$ 129,659	\$ (7,582,386)

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

**CITY OF YUKON
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2012**

	Water/ Sewer Fund	Sanitation Fund	Yukon Municipal Authority	Stormwater Fund	Total Proprietary Funds
Cash flows operating activities:					
Cash received from customers	\$ (1,434,513)	\$ 1,671,547	\$ 6,523,327	\$ 232,826	\$ 6,993,187
Cash payments to suppliers	(1,200,108)	(1,023,627)	(18,082)	(132,732)	(2,374,549)
Cash payments to employees	(1,010,527)	(798,079)	-	(120,019)	(1,928,625)
Other operating revenues	2,047	452,168	-	107,927	562,142
Net cash provided (used) by operating activities	<u>(3,643,101)</u>	<u>302,009</u>	<u>6,505,245</u>	<u>88,002</u>	<u>3,252,155</u>
Cash flows from non-capital financing activities:					
Non-capital contributions	-	25,866	189,930	2,332	218,128
Transfers from other funds	6,712,521	63,507	4,592,783	6,698	11,375,509
Transfers to other funds	(2,991,174)	(612,331)	(11,775,468)	(285,585)	(15,664,558)
Net cash provided (used) by non-capital financing activities	<u>3,721,347</u>	<u>(522,958)</u>	<u>(6,992,755)</u>	<u>(276,555)</u>	<u>(4,070,921)</u>
Cash flows from capital and related financing activities:					
Acquisition and construction of capital assets	-	-	(1,160,951)	-	(1,160,951)
Principal paid on bonds, notes and lease obligations	-	-	(2,407,184)	-	(2,407,184)
Interest paid on bonds, notes, and lease obligations	-	-	(1,198,461)	-	(1,198,461)
Transfers to other funds for capital expenditures	-	-	(756,473)	-	(756,473)
Net cash provided (used) by capital and related financing activities	<u>-</u>	<u>-</u>	<u>(5,523,069)</u>	<u>-</u>	<u>(5,523,069)</u>
Cash flows from investing activities:					
Proceeds from sale of investments	(598,137)	-	-	-	(598,137)
Investment income	1,168	-	315	172	1,655
Net cash provided (used) by investing activities	<u>(596,969)</u>	<u>-</u>	<u>315</u>	<u>172</u>	<u>(596,482)</u>
Net increase (decrease) in cash and cash equivalents	<u>(518,723)</u>	<u>(220,949)</u>	<u>(6,010,264)</u>	<u>(188,381)</u>	<u>(6,938,317)</u>
Cash and cash equivalents at beginning of year	<u>409,536</u>	<u>840,777</u>	<u>5,976,916</u>	<u>328,997</u>	<u>7,556,226</u>
Cash and cash equivalents at end of year	<u>\$ (109,187)</u>	<u>\$ 619,828</u>	<u>\$ (33,348)</u>	<u>\$ 140,616</u>	<u>\$ 617,909</u>
Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets					
Cash and cash equivalents	\$ (111,006)	\$ 619,828	\$ (33,348)	\$ 140,616	\$ 616,090
Restricted assets, cash	1,819	-	-	-	1,819
Cash and cash equivalents at end of year	<u>\$ (109,187)</u>	<u>\$ 619,828</u>	<u>\$ (33,348)</u>	<u>\$ 140,616</u>	<u>\$ 617,909</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:					
Operating income (loss)	\$ (3,878,434)	\$ 110,530	\$ 5,402,198	\$ 96,883	\$ 1,731,177
Adjustments to reconcile operating income (loss) to Net cash provided (used) by operating activities					
Depreciation	-	92,434	835,867	-	928,301
Changes in assets and liabilities:					
(Increase) decrease in accounts receivable	-	43,271	285,262	(5,908)	322,625
Increase (decrease) in accounts payable	84,694	30,476	(18,082)	(1,990)	95,098
Increase (decrease) in accrued salaries	69,883	702	-	(888)	69,697
Increase (decrease) in compensated absences	69,195	24,596	-	(95)	93,696
Increase (decrease) in liability for meter deposits	11,561	-	-	-	11,561
Total adjustments	<u>235,333</u>	<u>191,479</u>	<u>1,103,047</u>	<u>(8,881)</u>	<u>1,520,978</u>
Net cash provided (used) by operating activities	<u>\$ (3,643,101)</u>	<u>\$ 302,009</u>	<u>\$ 6,505,245</u>	<u>\$ 88,002</u>	<u>\$ 3,252,155</u>

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

**CITY OF YUKON
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2012**

	Total Agency Funds
Assets:	
Cash and cash equivalents	\$ 417,466
Total assets	<u>417,466</u>
Liabilities:	
Escrow liability	392,733
Due to other funds	<u>24,733</u>
Total liabilities	<u>\$ 417,466</u>

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

CITY OF YUKON
Yukon, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting framework and the more significant accounting principles and practices of the City of Yukon, Oklahoma ("City") are discussed in subsequent section of this note. The remainder of the notes is organized to provide explanations, including required disclosures of the City's financial activities for the fiscal year ended June 30, 2012. The City operates under a charter with a Council-Manager form of government.

A. Reporting Entity

The government is a municipal corporation governed by an elected five-member council. As required by generally accepted accounting principles, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the government's operations and so data from these units are combined with data of the primary government.

Fund Types and Major Funds

Major Governmental Funds

General Fund

Reported as the primary fund of the City. This fund is used to account for all financial resources not reported in other funds.

Capital Projects Fund

Accounts for the capital expenditures funded from a variety of sources, including bond proceeds, grants, or gas royalty income

96 Sales Tax Capital Projects Fund – accounts for capital expenditures using the proceeds of the 1996 Sales Tax. This fund also pays back debt of the 1996 Sales Tax Revenue Bonds.

Non-Major Governmental Funds

Debt Service Funds – accounts for the accumulation of resources for, and the payment of, governmental activities debt principal, interest and related costs.

Special Revenue Funds – accounts for revenues derived from specific taxes or other sources that are designated to finance particular functions or activities of the City.

Yukon Community Support Fund – accounts for funds for community activities and events. This fund operates on a calendar year basis. Included in the City's statement is the trial balance for December 31, 2011.

Community Development Block Grant Fund – accounts for CDBG funds received by the City.

Major Proprietary Funds

Water and Sewer Enterprise Fund – accounts for operating expenses related to providing water and sewer services.

Sanitation Enterprise Fund – collects all revenues and pays all expenses associated with providing sanitation services.

Yukon Municipal Authority – collects the revenues related to water and sewer operations. The Authority also issues debt for capital acquisitions related to water and sewer operations.

Stormwater Fund – accounts for operating expenses related to stormwater operating activities.

CITY OF YUKON
Yukon, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

Fiduciary Component Units (reported in fiduciary financial statements)

Agency Fund

Accounts for fiduciary assets held by the City in a custodial capacity as an agent on behalf of others. The City's Agency Fund is used to account for various deposits and bail bonds.

Due to restrictions of the state constitution relating to the issuance of municipal debt, public trusts are created to finance City services with revenue bonds or other non-general obligation financing and provide for multi-year contracting. Financing services provided by these public trusts are solely for the benefit of the City. Public trusts created to provide financing services are blended into the City's primary government as an integral part of City operations although retaining separate legal identity. Component units that do not meet the criteria for blending are reported discretely. The City blends all component units.

B. Basic Financial Statements

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.

Government-wide Financial Statements

The government-wide financial statements include the statement of net assets and statement of activities. These statements report financial information for the City as a whole excluding fiduciary activities. The statements distinguish governmental activities, generally supported by taxes and City general revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers. Individual funds are not displayed by the statements.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services with usage fees, fines and forfeitures, and other charges to users of the City's services; (2) operating grants and contributions which finance annual operating activities; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets. Taxes and other revenues sources not properly included with program revenues are reported as general revenues.

Fund Financial Statements

Fund financial statements are provided for governmental, proprietary, and fiduciary funds. Major individual governmental and enterprise funds are reported in separate columns with composite columns for non-major funds.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The financial statements of the City are prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP). The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The City's reporting entity does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

The government-wide statements report using the economic resources measurements focus and the accrual basis of accounting. Reimbursements are reported as reductions to expenses. Proprietary and fiduciary fund

CITY OF YUKON
Yukon, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

financial statements and financial statements of the City's component units also report using the same focus and basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The City considered revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenses are recorded when the related fund liability is incurred.

Major revenue sources susceptible to accrual include: sales and use taxes and intergovernmental revenues. In general, other revenues are recognized when cash is received.

Operating income reported in the proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of provided goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

C. Budget Policy and Practice

Budget Approval

The City Manager submits an annual budget to the City Council in accordance with the Oklahoma Municipal Budget Act. The budget is presented to the Commission for review, and public hearings are held to address priorities and the allocation of resources. In June, the Council adopts the annual fiscal year budgets for City's operating funds. Budget amendments or supplements may be made during the year when unexpected modifications are required in estimated revenues and appropriations. Budget amendments are recommended by the City Manager and must be approved by the Council. Public trusts submit budgets and other planning documents to their respective governing bodies. Other funds budgeted on a project-length basis are also subjected to the Council review and approval process.

Basis of Budgeting

Each fund's appropriated budget is prepared on a detailed line item basis. Revenues are budgeted by source. Expenditures are budgeted by department and object class as follows: personal services, other services and charges, supplies, capital outlay, transfers, and debt service. The legal level of control is by department within a fund. Expenditures may not exceed appropriations at this level. Within these control levels, management may transfer appropriations without Commission approval. Revisions to the budget were made throughout the year.

The budgets for operating funds and proprietary funds are prepared on the cash basis. Revenues are budgeted in the year they are expected to be received. Expenses are budgeted in the year they are expected to be paid.

D. Policies Related to Assets, Liabilities and Equity

1. Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

**CITY OF YUKON
Yukon, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012**

For purposes of the statement of cash flows, cash and cash equivalents include restricted assets in revenue bond and restricted construction fund accounts at the trustee bank.

Investments are stated at cost, which approximates market unless otherwise indicated.

2. Restricted Assets

Certain proceeds of enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.

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

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 do 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.

4. Estimates

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

5. Accounts Receivable

Significant receivables for governmental activities include sales and use tax receivables and property tax receivables. Business-type receivables consist mainly of amount due from customers for utility services. Certain enterprise funds report accounts receivable net of an allowance for uncollectible accounts. The allowance amount is estimated using accounts receivable past due more than 60 to 90 days.

6. Capital Assets and Depreciation

The City's property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost, or estimated historical cost if actual is unavailable, and comprehensively reported in the government-wide financial statements. Prior to July 1, 2002, governmental funds' infrastructure assets were not capitalized. These assets (back to July 1, 1980) will be valued at estimated historical cost. The City capitalized some of the infrastructure assets in the fiscal year June 30, 2005; while the remaining infrastructure assets were valued and capitalized in the fiscal year June 30, 2007, complying with GASB 34 standards.

Proprietary and component unit capital assets are also reported in their respective fund and combining component units' financial statements.

Donated assets are stated at fair value on the date donated. The City capitalizes assets with cost of \$5 thousand or more as purchase and construction outlays occur. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized.

CITY OF YUKON
Yukon, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

Capital assets, including those of component units, are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

Estimated useful lives, in years, for depreciable assets are as follows:

Buildings	40 years
Building Improvements	20-40 years
Vehicles	5 years
Office Equipment	7 - 10 years
Computer Equipment	5 years
Infrastructure	25 - 50 years

Costs incurred during construction of long-lived assets are recorded as construction in progress and are not depreciated until placed in service.

7. Compensated Absences

City employees are granted vacation and sick leave based upon length of employment. In the event of termination, the employee is paid for accumulated vacation leave (maximum 500 hours). Payment of sick leave is restricted to retiring employees who can be paid up to 120 days of accumulated benefits and are limited to maximum compensation equivalent of 33 to 68 days. Compensated absences are reported as accrued in the government-wide, proprietary, and fiduciary financial statements. Governmental funds report compensated absences payable to employees.

8. Long-term Obligations

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term debt consists primarily of notes payable, accrued compensated absences, and a court-assessed judgment.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as revenue and payment of principle and interest reported as expenditures. The accounting for proprietary fund is the same in the fund statements as it is in the government-wide statements.

9. 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.

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

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June 30, 2012

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.

10. 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.

11. Interfund Balances

Generally, outstanding balances between funds reported as due to/due from other funds include outstanding charges by one fund to another for services or goods or miscellaneous receivables/payables between funds. Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year and are described as due to/due from other funds.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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2. ASSETS AND LIABILITIES

A. Deposits and Investments

Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be returned or the City will not be able to recover collateral securities in the possession of an outside party. The City's deposits are secured by collateral values at market or par, whichever is lower, less the amount covered by the Federal Deposit Insurance Corporation (FDIC). Deposited funds may be invested in certificates of deposit in institutions with an established record of fiscal health and service.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes

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

Type	Weighted Average Maturity (Months)	Credit Rating	Market Value	Cost
Investments				
Money Market	N/A	AAAm	\$ 4,742,004	\$ 4,742,004
Certificate of deposit	6.29	N/A	6,384,619	6,384,619
Total investments			<u>\$ 11,126,623</u>	<u>\$ 11,126,623</u>

<u>Reconciliation to Statement of Net Assets</u>	
Governmental activities	\$ 5,795,296
Business-type activities	5,331,327
	<u>\$ 11,126,623</u>

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NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

B. Capital Assets

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

Governmental Activities

	Balance June 30, 2011	Additions	Retirements/ Adjustments	Balance June 30, 2012
Capital assets				
Land	\$ 2,974,338	\$ -	\$ -	\$ 2,974,338
Construction in progress	2,377,229	5,644,998	-	8,022,227
Infrastructure	66,331,823	801,434	-	67,133,257
Buildings and improvements	12,053,012	582,121	-	12,635,133
Furniture, fixtures and equipment	5,163,267	227,134	-	5,390,401
Vehicles	4,095,890	915,866	-	5,011,756
Total capital assets	92,995,559	8,171,553	-	101,167,112
Less accumulated depreciation	(46,264,600)	(2,993,222)	-	(49,257,822)
Capital assets, net	<u>\$ 46,730,959</u>	<u>\$ 5,178,331</u>	<u>\$ -</u>	<u>\$ 51,909,290</u>

The amount of capital assets acquired through leases is \$890,536 with related depreciation of \$89,054.

Business-type Activities

	Balance June 30, 2011	Additions	Retirements	Balance June 30, 2012
Capital assets				
Land	\$ 97,740	\$ -	\$ -	\$ 97,740
Construction in progress	327,401	-	-	327,401
Infrastructure	31,671,188	894,428	-	32,565,616
Buildings and improvements	154,887	-	(13,885)	141,002
Furniture, fixtures and equipment	817,146	6,925	-	824,071
Vehicles	976,381	272,789	-	1,249,170
Total capital assets	34,044,743	1,174,142	(13,885)	35,205,000
Less accumulated depreciation	(24,155,293)	(838,872)	-	(24,994,165)
Capital assets, net	<u>\$ 9,889,450</u>	<u>\$ 335,270</u>	<u>\$ (13,885)</u>	<u>\$ 10,210,835</u>

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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**Business-type Activities by Fund
June 30, 2012**

	Yukon Municipal Authority	Sanitation Fund	Total
Capital assets			
Land	\$ 91,005	\$ 6,735	\$ 97,740
Construction in progress	327,401	-	327,401
Infrastructure	32,565,616	-	32,565,616
Buildings and improvements	141,002	-	141,002
Furniture, fixtures and equipment	291,687	532,384	824,071
Vehicles	672,188	576,982	1,249,170
Total capital assets	34,088,899	1,116,101	35,205,000
Less accumulated depreciation	(24,174,900)	(819,265)	(24,994,165)
Capital assets, net	<u>\$ 9,913,999</u>	<u>\$ 296,836</u>	<u>\$ 10,210,835</u>

Depreciation expense

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

Governmental activities:

General government	\$ 685,935
Public safety:	
Police	331,898
Fire	247,327
Animal control	3,582
Public service	1,628,762
Culture and recreation	95,718

Governmental activities depreciation expense 2,993,222

Business-type activities:

Water and sewer	746,768
Sanitation	92,104

Business-type activities depreciation expense 838,872

Total depreciation expense \$ 3,832,094

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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C. Long-term Debt and Capitalized Leases

The City has entered into general obligation bonds payable, revenue bonds payable and capitalized leases. The lease agreements met the criteria of a capital lease as defined by FASB Statement No. 13, *Accounting for Leases*, which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the financial statements for the governmental funds. These expenditures are reported as expenditures on the fund financial statements.

Governmental Activities

Capitalized Leases

In April 2010, the City entered into a master lease agreement payable to Ford Motor Credit in the amount of \$549,251 for the purchase of equipment. Terms of the lease include 3 annual installments of \$196,076.19 at a stated interest of 5.7%, maturing July 12, 2012.	\$ 185,503
In March 2012, the City entered into a master lease agreement payable to Arvest bank in the amount of \$1,568,555 for the purchase of equipment. Terms of the lease are 60 monthly installments of \$28,359.49 at a stated interest of 3.25%.	1,496,025
In March 2012, the City entered into a capital lease agreement payable in the amount of \$1,700,000 for the purchase of sanitation equipment. Terms of the lease are 60 monthly installments of \$30,736 at a stated interest rate of 3.25%.	1,621,392
In May 2012, the City entered into a capital lease for the purchase of a new street sweeper. The total cost of the equipment was \$159,950, The City made an \$80,000 down payment. The remaining balance is financed over four years with annual payments at 2.75%.	<u>80,150</u>
Total Governmental Capital Leases Payable	<u>\$ 3,383,070</u>

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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Governmental Activities, continued

Bonds Payable

On December 9th, 2003, the voters of the City of Yukon approved an ordinance authorizing the issuance of general obligation bonds for improvements to streets, bridges, water systems, and sanitary sewer systems. On March 1, 2004, the City issued \$4.5 million of City of Yukon General Obligation Bonds, Series 2004 for the construction and improvement of City streets and bridges. Interest on the bonds is payable semi-annually on March 1st and September 1st commencing on March 1, 2005, at rates ranging from 3 to 4.25%. The bonds will be repaid with ad valorem taxes collected on real property of taxpayers in the City of Yukon, Oklahoma

\$ 2,855,000

On December 9th, 2003, the voters of the City of Yukon approved an ordinance authorizing the issuance of general obligation bonds for improvements to streets, bridges, water systems, and sanitary sewer systems. On January 1, 2005, the City issued \$3.9 million of City of Yukon General Obligation Bonds, Series 2005 for the construction and improvement of City streets, bridges, water and sewer systems. Interest on the bonds is payable semi-annually on March 1st and September 1st commencing on March 1, 2006, at rates ranging from 3.50 to 4.25%. The bonds will be repaid with ad valorem taxes collected on real property of taxpayers in the City of Yukon, Oklahoma

2,670,000

On December 9th, 2003, the voters of the City of Yukon approved an ordinance authorizing the issuance of general obligation bonds for improvements to streets, bridges, water systems, and sanitary sewer systems. On January 1, 2006, the City issued \$4.6 million of City of Yukon General Obligation Bonds, Series 2006 for the construction and improvement of City streets, bridges, water and sewer systems. Interest on the bonds is payable semi-annually on March 1st and September 1st commencing on March 1, 2007, at rates ranging from 3.70 to 5.0%. The bonds will be repaid with ad valorem taxes collected on real property of taxpayers in the City of Yukon, Oklahoma

3,400,000

Total Governmental Activities Bonds Payable \$ 8,925,000

Total Governmental Activities Long Term Debt \$ 12,308,070

CITY OF YUKON
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NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

Business-type Activities

Notes Payable

Yukon Municipal Authority has a line of credit payable to Yukon National Bank. The line is renewed annually.

	\$ 1,604,216
Total Notes Payable	\$ 1,604,216

Bonds Payable

January 15, 2005 the City, through the Yukon Municipal Authority, issued \$3.080 million of Sales Tax and Utility System Revenue Bonds, Series 2005A and \$11.180 million of Sales Tax and Utility System Revenue Bonds, Series 2005B. Interest on these bonds is payable semi-annually on June 1st and December 1st at rates ranging from 4.25 to 5%.

\$ 5,885,000

April 1, 2007 the City, through the Yukon Municipal Authority, issued \$7.575 million of Sales Tax and Utility System Revenue Bonds, Series 2007. Interest on these bonds is payable semi-annually on January 1st and July 1st at rates ranging from 4.125 to 5%.

6,060,000

June 1, 2010 the City, through the Yukon Municipal Authority, issued \$4.430 million of Sales Tax and Utility System Revenue and Refunding Bonds, Series 2010. Interest on the bonds is payable semi-annually on June 1st and December 1st at rates ranging from 2 to 3.5%.

3,440,000

January 1, 2011 the City, through the Yukon Municipal Authority, issued \$7.500 million of Sales Tax and Utility System Revenue Bonds, Series 2011. Interest on the bonds is payable semi-annually on January 1st and July 1st at rates ranging from 1 to 5.15%.

7,230,000

Total Bonds Payable \$ 22,615,000

Total Business-type Activities Debt Payable \$ 24,219,216

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2012:

	Balance June 30, 2011	Issued	Retired	Balance June 30, 2012	Current Portion
Governmental Activities					
General obligation bonds	\$ 9,605,000	\$ -	\$ (680,000)	\$ 8,925,000	\$ 680,000
Lease obligations	373,876	3,348,705	(339,511)	3,383,070	821,697
Total Governmental Activities	9,978,876	3,348,705	(1,019,511)	12,308,070	1,501,697
Business-type Activities					
Revenue bonds	24,855,000	-	(2,240,000)	22,615,000	1,855,000
Notes payable	1,668,763	1,693,265	(1,757,812)	1,604,216	1,604,216
Total Business-type Activities	26,523,763	1,693,265	(3,997,812)	24,219,216	3,459,216
Total Primary Government Long-term debt	\$ 36,502,639	\$ 5,041,970	\$ (5,017,323)	\$ 36,527,286	\$ 4,960,913

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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Maturities of long-term debt are as follows:

Governmental Activities					
Year Ending June 30,	Capital Leases Payable		Bonds Payable		Total
	Principal	Interest	Principal	Interest	
2013	821,742	104,964	680,000	23,810	1,630,516
2014	657,077	73,728	680,000	24,488	1,435,293
2015	678,646	51,939	680,000	25,150	1,435,735
2016	700,923	29,662	680,000	25,828	1,436,413
2017	524,682	7,132	680,000	26,525	1,238,339
2018-2022	-	-	3,400,000	138,272	3,538,272
2023-2026	-	-	2,125,000	87,813	2,212,813
	\$ 3,383,070	\$ 267,425	\$ 8,925,000	\$ 351,886	\$ 12,927,381

Business Type Activities			
Year Ending June 30,	Principal	Interest	Total
2013	1,855,000	919,107	2,774,107
2014	1,470,000	856,638	2,326,638
2015	1,510,000	808,601	2,318,601
2016	1,560,000	759,156	2,319,156
2017	1,625,000	700,523	2,325,523
2018-2022	8,665,000	2,485,375	11,150,375
2023-2027	3,855,000	957,791	4,812,791
2028-2031	2,075,000	273,979	2,348,979
	\$ 22,615,000	\$ 7,761,170	\$ 30,376,170

CITY OF YUKON
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NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

D. Internal balances

Internal balances and activity are detailed below. All internal balances and activity have been eliminated in the statements of net assets and statement of activities, respectively.

	<u>Due From</u>	<u>Due To</u>
General Fund		
96 Sales Tax Capital Projects fund	\$ 1,099,911	\$ -
Municipal Court	24,732	-
96 Sales Tax Capital Projects fund		
General Fund	-	1,099,911
Municipal Court		
General Fund	-	24,732
	<u>\$ 1,124,643</u>	<u>\$ 1,124,643</u>

	<u>Transfers From</u>	<u>Transfers To</u>
General Fund		
Water & Sewer	\$ 2,537,554	\$ 71,844
Sanitation	612,331	63,507
Stormwater	75,000	6,698
Yukon Municipal Authority	5,134,791	-
96 Sales Tax Capital Projects fund		
Yukon Municipal Authority	-	3,516,855
Capital projects fund		
Yukon Municipal Authority	-	411,723
Water & Sewer		
General Fund	71,844	2,537,554
Yukon Municipal Authority	6,640,677	453,619
Sanitation		
General Fund	63,507	612,331
Yukon Municipal Authority		
General Fund	-	5,134,791
Water & Sewer	453,619	6,640,677
96 Sales Tax Capital Projects fund	3,516,855	-
Capital projects fund	411,723	-
Stormwater	210,585	-
Stormwater		
General fund	6,698	75,000
Yukon Municipal Authority	-	210,585
	<u>\$ 19,735,184</u>	<u>\$ 19,735,184</u>

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012**

3. OTHER INFORMATION

A. Employee Retirement System and Plan

The City participates in three employee pension systems as follows:

Name of Plan	Type of Plan
Oklahoma Municipal Retirement Fund	Agent Multiple Employer – Defined Benefit Plan
Oklahoma Police Pension and Retirement Fund	Cost Sharing Multiple Employer – Defined Benefit Plan
Oklahoma Firefighter Pension and Retirement Fund	Cost Sharing Multiple Employer – Defined Benefit Plan

Oklahoma Municipal Retirement Fund

Plan Description

The City contributes to a cost-sharing, multiple-employer defined benefit pension plan adopted by the City and administered by the Oklahoma Municipal Retirement System, which was established to administer pension plans for municipal employees. At June 30, 2012, 121 active employees were participating in the plan and 98 non-active participants. The City's contribution to the fund for these participants was based on 22.21% of covered salaries and totaled \$1,389,097 for the year ended June 30, 2012. Employees have no contribution requirements.

The Plan is available to all full-time, employees of the City or Authority, except police, firefighters, and other employees who are covered under another approved system. The Plan has no probationary period. Employees vest after 5 years of qualified service.

Final average compensation of the plan is calculated as the average of the five highest consecutive years of salaries out of the last 10 years of service.

Funding Status and Progress

As of March 2012, the date of most recently completed actuarial valuation, the Plan reported the following:

Actuarial Valuation Date	Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll (b-a/c)
01/01/12	14,259,106	22,120,329	7,681,224	64.5%	5,653,615	139.0%

Oklahoma Police and Firefighter's Pension and Retirement Systems

Plan Description

The City participates in two statewide, cost-sharing, multiple-employer defined benefit plans on behalf of police officers and firefighters. The table below is a summary of eligibility factors contribution methods, and benefit provisions.

These two systems are administered by agencies of the State of Oklahoma and funded by contributions from participants, employers, insurance premium taxes, and state appropriations as necessary.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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	Oklahoma Firefighter's Pension and Retirement System	Oklahoma Police Pension and Retirement System
Eligibility to participate	All full-time or voluntary firefighters of a participating municipality hired before age 45.	All full-time officers employed by a participating municipality; not less than 21 years of age or more than 45 years of age when hired
Authority establishing contribution obligations and benefits	State Statute	State Statute
Plan member's contribution rate	0% of covered payroll	8% of covered payroll
City's contribution rate	\$60 per year, per firefighter (volunteer)	13% of covered payroll
Period required to vest	10 years	10 years
Benefits and eligibility for distribution (full time)	20 years credited service, 2 1/2% of final average salary multiplied by the years of credited service with a maximum of 30 years considered; if vested, at or after age 50, or after 10 but before 20 years of credited service, with reduced benefits.	20 years credited service, 2 1/2% of final average salary multiplied by the years of credited service with a maximum of 30 years considered; if vested, at or after age 50, or after 10 but before 20 years of credited service, with reduced benefits.
Benefits and eligibility for distribution (volunteer)	20 years credited service equal to \$7.53 per month per year of service, with a maximum of 30 years considered.	NA
Deferred retirement option	Yes, 20 years credited service with continued service for 30 or more years.	Yes, 20 years credited service with option to participate in deferred option plan for a maximum of 5 years
<i>Annual Required Contributions</i>		
Provision for:		
Cost of living adjustment	Yes, if vested by 5/83	Yes
Death (duty, non-duty, post retirement)	Yes	Yes
Disability (duty, non-duty)	Yes	Yes
Cost of living allowances	Yes	Yes
Valuation Date	7/1/12	7/1/12
Actuarial cost method	Individual entry age normal	Individual entry age
Amortization method/period	Level dollar	Level dollar

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012**

	30 years, open	30 years, open
Actuarial assumptions:		
Investment rate of return	7.5%	7.5%
Projected salary increases	5.0% - 19.0%	4.0% - 10.0%
Post retirement benefit increases	2.0%	2.0%
Inflation	3.0%	3.0%
Other	1994 group annuity table set forward 1 year for men and back 2 years for women	1994 group annuity table set forward 1 year for men and 2 years for women

Employer contribution rates are determined by Oklahoma State Statute.

B. Other Post-Employment Benefits

Plan Description: 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. As of June 30, 2012, 12 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 70% of premiums of 8 retirees and 0% of premiums of 4 retirees to the plan. Plan members receiving benefits contributed \$71,712, or approximately 50 percent of the total premiums, through their required contribution of \$636 per month for retiree-only coverage and \$1,502 for retiree and spouse medical coverage, these amounts include dental and vision coverage.

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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 following table shows the components of the City's annual OPEB cost the amount actually contributed to the plan, and changes in the City's net OPEB obligation for the year ended June 30, 2011:

Current Service Cost (\$1,560,603) + Amortization Amount (\$842,919) = Total Contribution (\$2,403,522). OPEB obligation for retired employees as determined by Actuarial is \$118,856.

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

Actuarial Valuation Date	Value of Assets	Asset Valuation Basis	Actuarial Accrued Liability (AAL)*	Unfunded AAL (UAAL)	Funded Ratio
6/30/2011	\$ -	Actuarial	\$ 13,257,820	\$ 13,257,820	0.0%

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. In June 30, 2011 actuarial valuation, since the City does not pre-fund the retiree healthcare benefits, a discount rate 5.25% was used. There were no assets to determine actuarial value of assets. The UAAL is being amortized over 30 years as level payments. The remaining amortization period at June 30, 2011 was twenty-eight years.

C. 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 has established a self insurance fund to cover deductibles on claims related to destruction, theft or damage of assets. Losses related to other risks or those exceeding deductibles are covered by commercial insurance. Management believes that such coverage is sufficient to preclude any significant uninsured losses to the City. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

**CITY OF YUKON
Yukon, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012**

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 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.

In addition to the Loss Fund, the City maintains an Escrow Fund that consists 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 balance in the Escrow Fund was \$25,173.

D. Commitments and Contingencies

The City in the past has participated in various grant programs. These programs are subject to financial and compliance audits by the grantor or its representative. Such audits could lead to requests for reimbursement to the grantor agency.

The City has certain commitments for operating leases. These leases are of immaterial amounts and are for only one-year intervals.

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.

The City is self-insured for employee health insurance claims in excess of \$45,000. The plan is administered by a third party who determines the appropriate insurance rate on each employee. The City remits payment on a monthly basis. Claims are submitted to and processed by the third party administrator. As June 30, 2012, \$1,244,469 was available to pay claims.

In June 2009, the City entered into an agreement with Integris Canadian Valley Regional Hospital (the "Hospital") to pay the Hospital \$1,200,000 over a six year period in quarterly installments of \$50,000. The funds will be used for expansion construction and operation of the Hospital. The contract expires on June 30, 2015.

4. SUBSEQUENT EVENTS

On June 19, 2012, the Yukon Municipal Authority authorized the issuance of \$15,000,000 in Sales Tax and Utility System Bonds Series 2012 to be used for capital improvements throughout the City, including street improvements and wastewater treatment improvements.

In December 2012, the Yukon Municipal Authority issued \$6,000,000 in Sales Tax and Utility System Bonds 2012, Series 1. The bonds carry a 1.99% interest rate over their 10 year period.

City of Yukon, Oklahoma
General Fund
Statement of Revenues, Expenditures, Encumbrances, and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
Year Ended June 30, 2012

	<u>Original Budget</u>	<u>Revisions</u>	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
REVENUES					
Sales and use tax	\$ 9,458,677	\$ -	\$ 9,458,677	\$ 13,944,020	\$ 4,485,343
Taxes	522,806	-	522,806	403,944	(118,862)
Intergovernmental	15,000	-	15,000	289,258	274,258
Franchise tax	1,084,952	-	1,084,952	1,134,864	49,912
Charges for services	101,450	-	101,450	236,446	134,996
Fines and forfeitures	668,920	-	668,920	991,071	322,151
Licenses and permits	336,108	-	336,108	268,910	(67,198)
Investment income	14,754	-	14,754	65,291	50,537
Rental and royalty income	3,600	-	3,600	52,382	48,782
Sale of property	5,000	-	5,000	79,862	74,862
Miscellaneous	430,192	-	430,192	366,178	(64,014)
Total revenues	<u>12,641,459</u>	<u>-</u>	<u>12,641,459</u>	<u>17,832,226</u>	<u>5,190,767</u>
EXPENDITURES					
General government					
Legislative	1,081,162	-	1,081,162	1,118,380	(37,218)
Finance	362,830	-	362,830	424,983	(62,153)
City Clerk	467,830	-	467,830	48,133	419,697
Administration	539,771	-	539,771	473,164	66,607
Building Maintenance	953,634	-	953,634	1,751,177	(797,543)
Human Resources	226,067	-	226,067	220,444	5,623
Insurance	2,760,199	-	2,760,199	2,265,613	494,586
Technology	830,946	-	830,946	844,264	(13,318)
Emergency Mangement	196,220	-	196,220	193,583	2,637
Public safety:					
Police	4,547,036	-	4,547,036	4,893,678	(346,642)
Municipal court	264,365	-	264,365	253,783	10,582
Fire	2,999,045	-	2,999,045	3,143,408	(144,363)
Public services					
Planning	583,386	-	583,386	594,158	(10,772)
Street and Alley	928,222	-	928,222	803,626	124,596
Cultural and recreation					
Park Maintenance	565,123	-	565,123	618,397	(53,274)
Library	378,606	-	378,606	376,450	2,156
Recreation	1,252,452	-	1,252,452	1,479,544	(227,092)
Capital outlay	571,550	-	571,550	403,631	167,919
Total expenditures	<u>19,508,444</u>	<u>-</u>	<u>19,508,444</u>	<u>19,906,416</u>	<u>(397,972)</u>
Revenue over (under) expenditures	(6,866,985)	-	(6,866,985)	(2,074,190)	5,588,739
OTHER FINANCING SOURCES (USES)					
Operating transfers in/(out)	6,866,985	-	6,866,985	6,944,111	77,126
Net other financing sources (uses)	<u>6,866,985</u>	<u>-</u>	<u>6,866,985</u>	<u>6,944,111</u>	<u>77,126</u>
Net change in fund balance	-	-	-	4,869,921	5,665,865
Fund balance at beginning of year (Non-GAAP budgetary basis)				8,405,777	
Fund balance at end of year (Non-GAAP budgetary basis)				<u>\$ 13,275,698</u>	<u>\$ 5,665,865</u>
ADJUSTMENTS TO GENERALLY ACCEPTED ACCOUNTING PRINCIPLES					
Revenue and transfer accruals				(3,110,530)	
Fund balance at end of year (GAAP basis)				<u>\$ 10,165,168</u>	

City of Yukon, Oklahoma
96 Sales Tax Capital Projects
Statement of Revenues, Expenditures, Encumbrances, and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
Year Ended June 30, 2012

	<u>Budget</u>	<u>Revisions</u>	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
REVENUES					
Sales and use tax	\$ 3,237,697	\$ -	\$ 3,237,697	\$ 4,234,670	\$ 996,973
Hotel/motel tax	182,198	-	182,198	232,645	50,447
Investment income	8,096	-	8,096	9,816	1,720
Total revenues	<u>3,427,991</u>	<u>-</u>	<u>3,427,991</u>	<u>4,477,131</u>	<u>1,049,140</u>
EXPENDITURES					
Debt service	3,418,638	-	3,418,638	3,577,340	(158,702)
Capital outlay	769,500	-	769,500	666,965	102,535
Total expenditures	<u>4,188,138</u>	<u>-</u>	<u>4,188,138</u>	<u>4,244,305</u>	<u>(56,167)</u>
Net change in fund balance	<u>(760,147)</u>	<u>-</u>	<u>(760,147)</u>	<u>232,826</u>	<u>1,105,307</u>
Fund balance at beginning of year (Non-GAAP budgetary basis)				3,652,405	
Fund balance at end of year (Non-GAAP budgetary basis)				<u>\$ 3,885,231</u>	<u>\$ 1,105,307</u>
ADJUSTMENTS TO GENERALLY ACCEPTED ACCOUNTING PRINCIPLES					
Revenue and transfer accruals				<u>505,360</u>	
Fund balance at end of year (GAAP basis)				<u>\$ 4,390,591</u>	

**CITY OF YUKON
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2012**

	Debt Service Fund	Special Revenue Fund	Yukon Community Support Fund	Community Development Block Grant Fund	Total Non-major Governmental Funds
Assets:					
Cash and cash equivalents	\$ 901,642	\$ 534,792	\$ 516,996	\$ (153,667)	\$ 1,799,763
Taxes receivable	27,260	-	-	-	27,260
Grants receivable	-	-	-	26,000	26,000
Total assets	\$ 928,902	\$ 534,792	\$ 516,996	\$ (127,667)	\$ 1,853,023
Liabilities					
Accounts payable	\$ -	\$ 7,949	\$ -	\$ -	\$ 7,949
Total liabilities	-	7,949	-	-	7,949
Fund balances:					
Restricted	928,902	-	-	(127,667)	801,235
Committed	-	-	516,996	-	516,996
Assigned	-	526,843	-	-	526,843
Total fund balances	928,902	526,843	516,996	(127,667)	1,845,074
Total liabilities and fund balances	\$ 928,902	\$ 534,792	\$ 516,996	\$ (127,667)	\$ 1,853,023

CITY OF YUKON
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2012

	Debt Service Fund	Special Revenue Fund	Yukon Community Support Fund	Community Development Block Grant Fund	Total Non-major Governmental Funds
Revenues:					
Taxes	\$ 1,339,034	\$ -	\$ -	\$ -	\$ 1,339,034
Charges for services	-	10,140	50	-	10,190
Investment income	4,603	32	62	-	4,697
Intergovernmental revenue	-	45,473	-	130,154	175,627
Rental income	-	1,470	-	-	1,470
Donations	-	349,504	76,172	-	425,676
Miscellaneous	-	64,872	1,738	-	66,610
Total revenues	1,343,637	471,491	78,022	130,154	2,023,304
Expenditures:					
General Government	525	251,584	-	39,374	291,483
Public Safety	-	92,316	-	-	92,316
Public Services	-	61,679	-	-	61,679
Cultural and Recreation	-	-	750	-	750
Capital Outlay	-	79,755	-	84,016	163,771
Debt Service:					
Pinciple and interest charges	1,055,828	-	-	-	1,055,828
Total Expenditures	1,056,353	485,334	750	123,390	1,665,827
Excess (deficiency) of revenues over expenditures	287,284	(13,843)	77,272	6,764	357,477
Net change in fund balances	287,284	(13,843)	77,272	6,764	357,477
Net assets - beginning of year	921,947	540,686	478,434	82,520	2,023,587
Prior period adjustment	(280,329)	-	(38,710)	(216,951)	(535,990)
Fund balances - end of year	\$ 928,902	\$ 526,843	\$ 516,996	\$ (127,667)	\$ 1,845,074

**CITY OF YUKON
 COMBINING STATEMENT OF FIDUCIARY NET ASSETS
 AGENCY FUNDS
 JUNE 30, 2012**

	Municipal Court Fund	Escrow Fund	Total Agency Funds
Assets:			
Cash and cash equivalents	\$ 97,774	\$ 319,692	\$ 417,466
Total assets	\$ 97,774	\$ 319,692	\$ 417,466
Liabilities:			
Escrow liability	\$ 73,041	\$ 319,692	\$ 392,733
Due to other funds	24,733	-	24,733
Total liabilities	\$ 97,774	\$ 319,692	\$ 417,466

Derrel S. White, CPA

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the City Council
City of Yukon, OK

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Yukon, OK, as of and for the year ended June 30, 2012, which collectively comprise City of Yukon, OK's basic financial statements and have issued our report thereon dated January 11, 2011. Our opinion is unqualified. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of City of Yukon, OK, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered City of Yukon, OK's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Yukon, OK's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Yukon, OK's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses. We consider Finding 2012-1 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompany schedule of findings and to be significant deficiencies. Since we consider Finding 2012-1 to be a material weakness, it is also a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Yukon, OK'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*.

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

This report is intended solely for the information and use of management, City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


Derrel S. White, CPA

Woodward, OK
January 11, 2013

Schedule of Findings and Responses- City of Yukon, OK

Finding 2012-01

Internal Control over Fixed Assets

Criteria: The city should have effective controls over the safeguarding of fixed assets owned by the city.

Condition and context: The City does maintain a comprehensive list of fixed assets and depreciation schedules that are used to prepare the financial statements and to assist in the safeguarding of assets. However, we found that this system did not always get updated contemporaneously nor was it periodically reconciled to physical inventories and/or the general ledger system.

Effect: There is an opportunity for fixed assets to be misappropriated because the perpetual fixed asset system does not necessarily reflect disposals or additions of assets. There is a possibility that the fixed asset account balances could be materially either overstated or understated without an effective method to determine not only completeness of the fixed asset listing, but also if fixed assets were no longer in service or were impaired and being carried at values in excess of their fair market value.

Cause: The underlying cause is that in prior periods the recording of both acquisitions and disposals is not recorded always in the general ledger and subsequently the general ledger being reconciled to the fixed asset and depreciation records. The prior accounting consultant performed these tasks at year end. Consequently, the accuracy and completeness of those procedures relied totally on a human function and effective communication rather than having a system where redundant processes and reconciliation could allow management to identify and correct misstatements on a timely basis. There are other transaction classes that could also be impacted by these omissions including debt.

Recommendation: Prior to our being engaged as the auditor, additional steps had already been undertaken to correct this deficiency. We recommend that all substantial transactions including asset acquisition and disposal as well as other related or non-related transactions including debt issuance be recorded as a source transaction in the general ledger in addition to maintaining the appropriate subsidiary ledgers. We also recommend that management evaluate all processes related to transactions that are now being maintained primarily on subsidiary ledgers and not integrated into the general ledger function to determine the risk that those transactions would not be properly recorded in financial statements and captured in a timely basis. We also recommend that management work with their accounting consultant to develop not only appropriate source entry processes but also reconciliation functions that would reduce the level of risk in these areas to an appropriate level.

Management Response: Concur

Management Corrective Action: The City will work with their accounting consultant to implement new control procedures that will correct these deficiencies and evaluate existing procedures for adequacy.