

**CITY OF YUKON OKLAHOMA
YUKON, OKLAHOMA**

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

**FOR THE YEAR ENDED
JUNE 30, 2014**



INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Yukon, Oklahoma

Report on the Financial Statements

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, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, 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, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3–10 and 41–42 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 14, 2015, on our consideration of the City of Yukon, OK's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Yukon, OK's internal control over financial reporting and compliance.

FSW&B CPAs- PLLC

FSW&B CPAs PLLC

Stillwater, OK
January 14, 2015

THE CITY OF YUKON, OKLAHOMA
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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, 2014. 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, 2014, the assets of the City exceeded its liabilities by \$32,409,244 (net assets). This compared to the previous year when assets exceeded liabilities by \$33,779,500.
- The City's total net assets are comprised of the following:
 - (1) Invested in capital assets, net of related debt of \$35,638,100 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 \$8,157,897. This is due to revenue bonds issued under the Yukon Municipal Authority used to fund assets that are governmental in nature, specifically street and infrastructure improvements.
 - (2) Restricted net assets deficit of \$4,734,720 which includes sales tax funds restricted for capital improvements offset by the other post-employment benefit liability.
 - (3) Unrestricted net assets of \$1,505,864 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 \$3,512,913 during the fiscal year from \$62,386,710 to \$58,873,797. This increase is a result of repayments made on outstanding debt and current obligations. Additional information on the repayment of debt is detailed in the footnotes of the financial statements.
- The City's governmental funds reported total ending fund balance of \$9,855,513 this year. This compared to the prior year ending fund balance of \$11,938,640, showing decrease of \$2,083,127 during the current year. During the fiscal year, the City purchased \$5,384,603 in governmental capital assets, which were funded with debt proceeds issued by the Yukon Municipal Authority. Governmental activities reflect the purchase of capital assets as expenses in the Statement of Revenues, Expenditures, and Changes in Fund Balances. Proceeds from the 2013 debt issued by YMA are reflected as a liquid asset for Business-type Activities on the Statement of Net Position.

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 Position*. 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 position. Over time, increases or decreases in net position 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 position 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 notes, 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 Position

The City's combined net assets at June 30, 2014 were \$32,409,244. This is a \$1,370,256 decrease over June 30, 2013 net assets of \$33,779,500.

The City reported positive balances in total net position 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. In the statement of Net Position, debt used to fund governmental capital assets is recorded as a liability of the YMA, which is a business-type activity. The assets purchased from the proceeds of that debt are reported as a governmental assets based upon their purpose.

The City's total assets decreased 5% when compared year over year. This decrease was noted mainly in current assets related to bond proceeds spent during the fiscal year for the purchase of capital assets. Capital assets noted an increase of 5% due to the additions, less depreciation taken in the current year. Decrease in liabilities of 6% is directly related to payments made on long term obligations of the City. Overall, the City's net position decreased 4% when compared to fiscal year 2013. Refer to chart below.

Summary of Net Position
in thousands

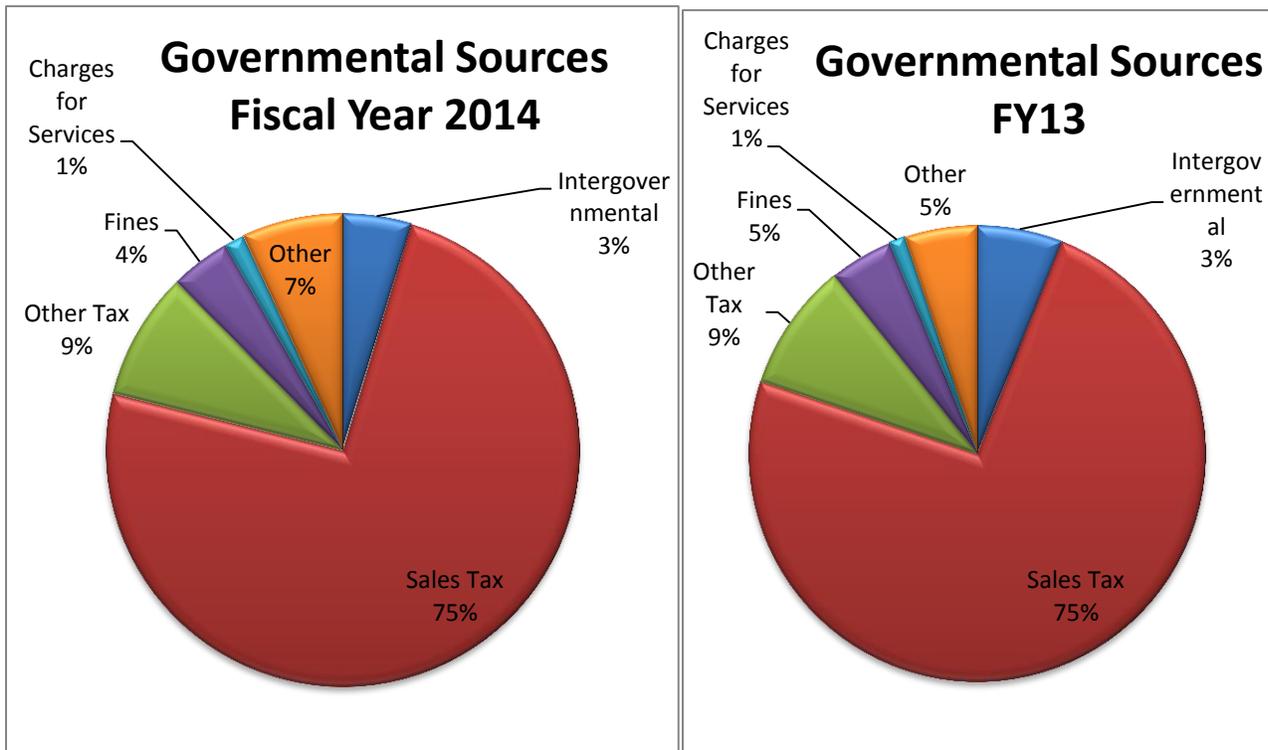
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>		<u>\$</u> <u>Change</u>	<u>%</u> <u>Change</u>
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>		
Current assets	\$ 10,678	\$ 12,480	\$ 13,705	\$ 19,668	\$ 24,383	\$ 32,148	\$ (7,765)	-24%
Capital assets, net	53,320	51,925	13,580	12,093	66,900	64,018	2,882	5%
Total assets	63,998	64,405	27,285	31,761	91,283	96,166	(4,883)	-5%
Current liabilities	15,560	15,255	4,595	4,675	20,155	19,930	225	1%
Non-current liabilities	8,146	9,469	30,573	32,988	38,719	42,457	(3,738)	-9%
Total liabilities	23,706	24,724	35,168	37,663	58,874	62,387	(3,513)	-6%
Net position								
Invested in capital assets, net of related debt	43,796	49,056	(8,158)	(12,950)	35,638	36,106	(468)	-1%
Restricted	(5,094)	10,395	359	3,468	(4,735)	13,863	(18,598)	-134%
Unrestricted	1,590	(19,770)	(84)	3,580	1,506	(16,190)	17,696	-109%
Total net position	\$ 40,292	\$ 39,681	\$ (7,883)	\$ (5,902)	\$ 32,409	\$ 33,779	\$ (1,370)	-4%

Summary of Changes in Net Position in thousands

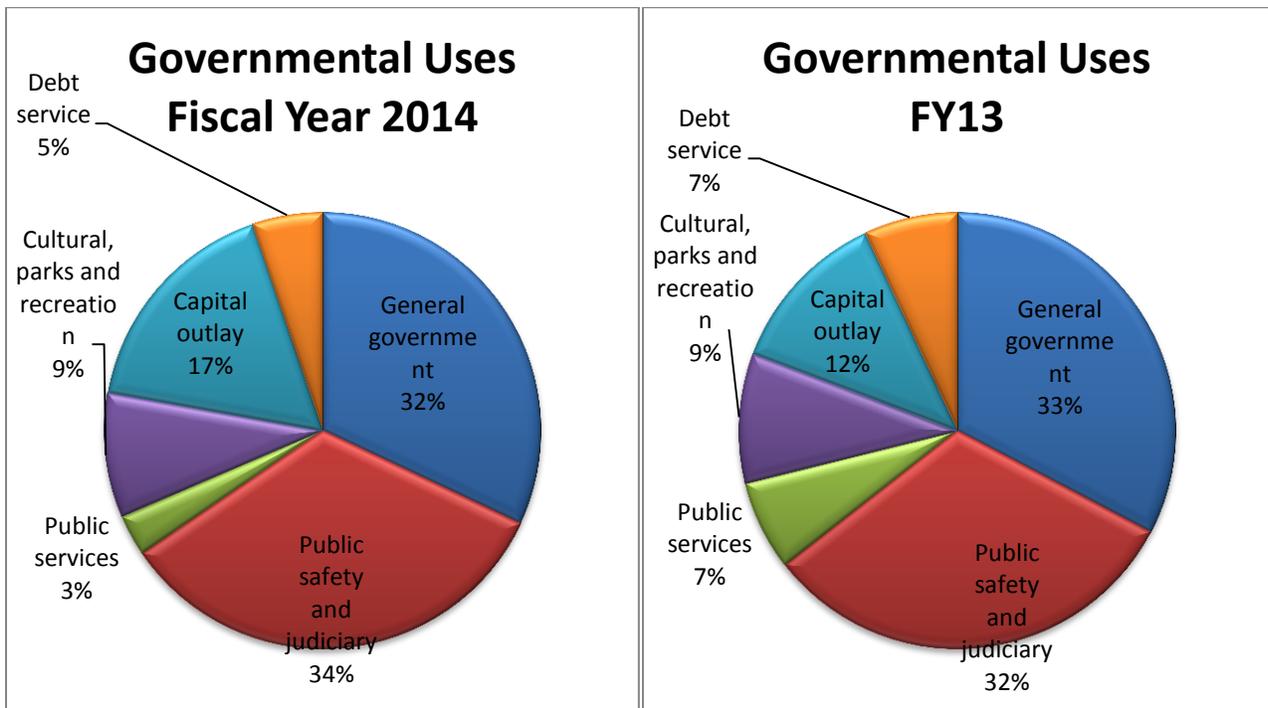
	Governmental Activities		Business-type Activities		Total		\$ Change	% Change
	2014	2013	2014	2013	2014	2013		
Revenues								
Program revenues	\$ 3,658	\$ 3,740	\$ 8,517	\$ 8,548	\$ 12,175	\$ 12,288	\$ (113)	-1%
Taxes and other general revenues	23,584	21,959	245	239	23,829	22,198	1,631	7%
Total revenues	27,242	25,699	8,762	8,787	36,004	34,486	1,518	6%
Expenses								
General government	10,402	9,481	-	-	10,402	9,481	921	10%
Public safety and judiciary	11,956	9,789	-	-	11,956	9,789	2,167	22%
Public services	2,763	3,450	-	-	2,763	3,450	(687)	-20%
Cultural, parks, and recreation	3,416	3,058	-	-	3,416	3,058	358	12%
Interest on debt	467	425	1,115	1,064	1,582	1,489	93	6%
Water	-	-	1,959	5,540	1,959	5,540	(3,581)	-65%
Sewer	-	-	3,848	1,227	3,848	1,227	2,621	214%
Sanitation	-	-	1,448	1,580	1,448	1,580	(132)	-8%
Total expenses	29,004	26,203	8,370	9,411	37,374	35,614	1,760	5%
Excess (deficiency) before transfers	\$ (1,762)	\$ (504)	\$ 392	\$ (624)	\$ (1,370)	\$ (1,128)	\$ (242)	21%
Transfers	2,373	(2,604)	(2,373)	2,604	-	-	-	0%
Increase (decrease) in net position	\$ 611	\$ (3,108)	\$ (1,981)	\$ 1,980	\$ (1,370)	\$ (1,128)	\$ (242)	21%

Revenues for the City increased 6% year over year. This increase in revenues is attributable to tax revenues for governmental activities. Correspondingly, operating expenses noted an overall increase over fiscal year 2013 of 5%. The most significant of this increase was noted in the public safety departments of the City.

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



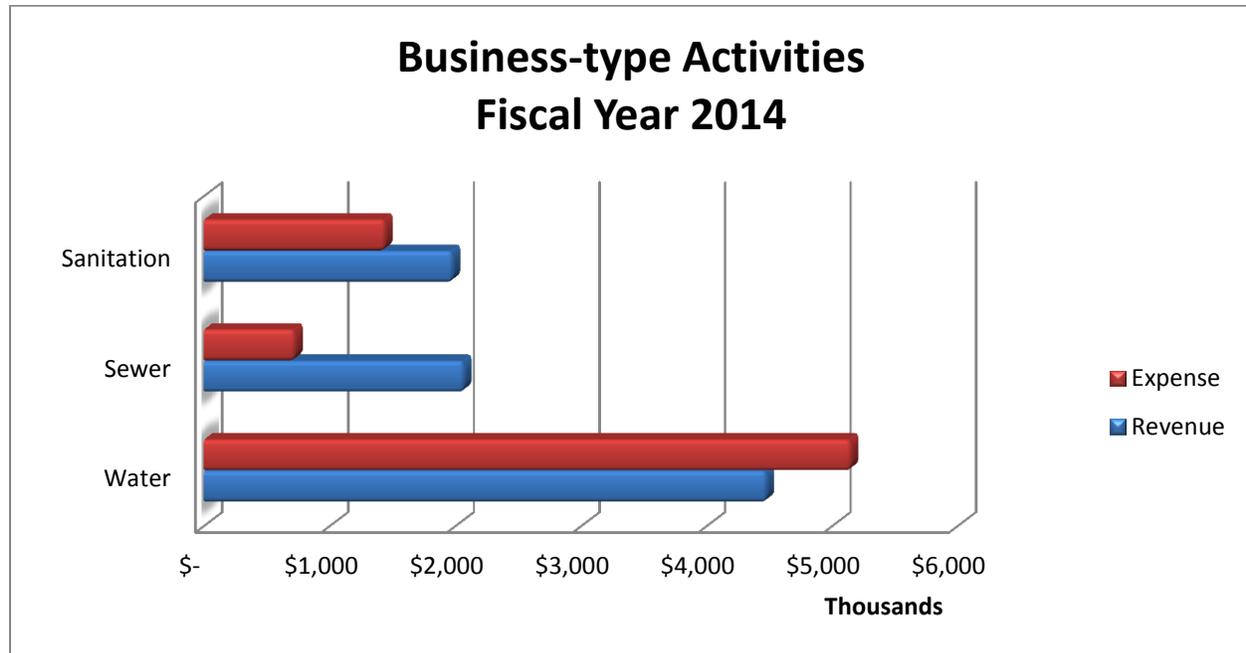
Taxes provided 75% of the City’s governmental revenues in fiscal year 2014 which is consistent with fiscal year 2013. Property taxes and franchise taxes represent 9% of governmental sources under other taxes which is also comparable to fiscal year 2013.



For the year ended June 30, 2014, total expenses for governmental activities were \$31,731,953 compared to \$27,720,481. Of this amount, public safety with \$10,625,600 (34%) was the largest operating department, compared to 32% in prior year. General government at \$10,155,885 was a close second at 32% 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. 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, 2014, revenues from sewer and sanitation services covered the cost of operating their respective departments.

General Fund Budgetary Highlights

The original adopted General Fund budget for fiscal year 2014 was \$22,230,230, as amended, compared to \$20,861,494 in fiscal year 2013. The budget was amended once during the fiscal year. For the year ended June 30, 2014, the City spent within budgeted amounts.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of June 30, 2014, the City had \$35,604,342 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 for a summary of assets owned by the City.

Primary Government Capital Assets (net of accumulated depreciation)

in thousands

	Governmental		Business-type		Total	
	Activities		Activities			
	2014	2013	2014	2013	2014	2013
Land	\$ 2,974,338	\$ 2,974,338	\$ 91,005	\$ 97,740	\$ 3,065,343	\$ 3,072,078
Construction in process	189,979	8,512,007	76,378	327,401	266,357	8,839,408
Buildings	13,381,434	3,812,999	70,224	94,732	13,451,658	3,907,731
Machinery & equipment	3,384,605	3,099,869	2,136,943	2,140,235	5,521,548	5,240,104
Infrastructure	33,389,660	33,525,267	10,754,151	9,432,840	44,143,811	42,958,107
Totals	<u>\$ 53,320,016</u>	<u>\$ 51,924,480</u>	<u>\$ 13,128,701</u>	<u>\$ 12,092,948</u>	<u>\$ 66,448,717</u>	<u>\$ 64,017,428</u>

The most significant additions included:

- Street and highway improvements
- Sewer infrastructure
- Completion of the fire station
- Splash pad and improvements at the municipal parks
- Repairs and maintenance on Jackie Cooper gym, including flooring and roof replacement
- Police vehicles and equipment
- 2014 Mack truck and equipment in the sanitation department

Long-Term Debt

At year-end, the City had \$38,696,712 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

	Governmental	Business-type	Total
	Activities	Activities	June 30, 2014
Lease payable	\$ 1,959,019	\$ -	\$ 1,959,019
Notes payable	-	832,480	832,480
Bonds payable	7,565,000	32,890,000	40,455,000
less current portion	(1,377,982)	(3,171,805)	(4,549,787)
Total	<u>\$ 8,146,037</u>	<u>\$ 30,550,675</u>	<u>\$ 38,696,712</u>

ECONOMIC FACTORS AND NEXT YEARS'S BUDGET AND RATES

Economic Environment

According to the Oklahoma Economic Report, the state's gross receipts are higher than ever before. State Treasurer, Ken Miller, stated when talking about July 2014 sales tax "collections have been higher than the same month of the prior year in 45 of the past 51 months, which indicates a steady economic expansion". Unemployment numbers from June 2014 reflect Oklahoma's relative economic strength compared to the nation as a whole, reporting 4.5% statewide compared to 6.1% nationally. The economic environment of the state sheds light on the local economy.

The City of Yukon has noted increase in sales and other tax revenues when compared to prior year. Utility billing has remained strong due to an increasing customer base. Continued improvement in the City's strong economic position is projected into fiscal year 2015.

Fees and Rates

- A 4% increase in all tax revenues has been included in the 2014-2015 fiscal year budgets.
- For water and sewer service revenues, an increase of 5% has been proposed primarily to offset the City's anticipated increases in water purchases during the upcoming year.
- A 3.0% increase in all other service and fee revenues has been included in the FY15 budget, primarily due to the increase in the Consumer Price Index and also as a result of the overall growth of the City.

As noted above, after research, it has been determined that the City is likely to realize at least a 3% 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. Additionally, the City expects to see an increase in utility revenues accounted for in the Yukon Municipal Authority.

Operating and Capital Expenses

Within the General Fund, the City projects an 8.7% increase in expenses when compared to prior year. Major changes include: a 2.5% raise for all permanent full-time employees, step raises to employees who qualify, and additions to personnel in various departments.

The Capital Improvement fund reflects \$2.15 million in capital projects budgeted for fiscal year 2015. Additionally, the City is budgeting for over \$5.7 million in grants to be used for capital projects for the City. The City's annual budget details the projects proposed.

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 POSITION
JUNE 30, 2014

	Governmental Activities	Business-type Activities	Total
Assets:			
Cash and cash equivalents	\$ 2,412,624	\$ 168,152	\$ 2,580,776
Investments	260,834	-	260,834
Accounts receivables (net)	-	1,138,667	1,138,667
Taxes receivables	1,654,834	-	1,654,834
Fines receivable	136,588	-	136,588
Grants receivable	122,883	-	122,883
Due to/from other funds	69,981	-	69,981
Restricted assets:			
Cash	611,883	1,821	613,704
Investments	5,408,198	12,307,193	17,715,391
Other assets	-	540,666	540,666
Capital assets (net)	53,320,016	13,128,701	66,448,717
Total assets	63,997,841	27,285,200	91,283,041
Liabilities:			
Accounts payable	475,926	382,002	857,928
Accrued salaries	346,386	50,450	396,836
Accrued interest payable	101,473	405,242	506,715
Accrued compensated absences, current	-	252,374	252,374
Capital lease obligation, current	697,982	-	697,982
OPEB liability	13,257,820	-	13,257,820
Notes payable, current	-	261,805	261,805
Revenue bonds payable, current	-	2,910,000	2,910,000
General obligation bond payable, current	680,000	-	680,000
Customer deposits payable	-	355,625	355,625
Capital lease obligation, non-current	1,261,037	-	1,261,037
General obligation bonds payable, non-current	6,885,000	-	6,885,000
Notes payable, non-current	-	570,675	570,675
Revenue bonds payable, non-current	-	29,980,000	29,980,000
Total liabilities	23,705,624	35,168,173	58,873,797
Net position:			
Invested in capital assets, net of related debt	43,795,997	(8,157,897)	35,638,100
Restricted	(5,094,092)	359,372	(4,734,720)
Unrestricted	1,590,312	(84,448)	1,505,864
Total net position	\$ 40,292,217	\$ (7,882,973)	\$ 32,409,244

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

**CITY OF YUKON
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2014**

Functions/Programs:	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants & Contributions	
Governmental activities:					
General government	\$ 10,401,614	\$ 456,472	\$ 295,223	\$ 245,415	\$ (9,404,504)
Public safety:					
Police	5,983,386	1,151,391	28,812	-	(4,803,183)
Municipal court	1,561,323	-	-	-	(1,561,323)
Fire	4,396,120	-	22,500	-	(4,373,620)
Animal control	14,980	-	-	-	(14,980)
Public services	2,763,755	39,375	229,166	387,216	(2,107,998)
Cultural and recreation	3,416,153	445,392	357,276	-	(2,613,485)
Interest on long term debt	467,305	-	-	-	(467,305)
Total Governmental activities	29,004,636	2,092,630	932,977	632,631	(25,346,398)
Business-type activities:					
Water	1,959,135	4,475,336	-	-	2,516,201
Sewer	3,847,647	2,065,905	-	-	(1,781,742)
Sanitation	1,448,236	1,975,354	-	-	527,118
Interest on long term debt	1,115,734	-	-	-	(1,115,734)
Total Business-type activities	8,370,752	8,516,595	-	-	145,843
Total	\$ 37,375,388	\$ 10,609,225	\$ 932,977	\$ 632,631	\$ (25,200,555)

	Net (Expense) Revenue and Changes in Net Position		
	Governmental Activities	Business-Type Activities	Total
Net (expense) revenue	\$ (25,346,398)	\$ 145,843	\$ (25,200,555)
General revenues:			
Taxes:			
Sales and use taxes	20,216,559	-	20,216,559
Property taxes	1,023,936	-	1,023,936
Franchise and public service taxes	1,482,095	-	1,482,095
Investment income	46,723	11,384	58,107
Gain on sale of property	99,476	-	99,476
Miscellaneous	715,093	235,033	950,126
Transfers	2,373,422	(2,373,422)	-
Total general revenues and transfers	25,957,304	(2,127,005)	23,830,299
Change in net position	610,906	(1,981,162)	(1,370,256)
Net position - beginning of year	39,681,311	(5,901,811)	33,779,500
Net position - end of year	\$ 40,292,217	\$ (7,882,973)	\$ 32,409,244

**CITY OF YUKON
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014**

	General Fund	Capital Projects Fund	96 Sales Tax Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Assets:					
Cash and cash equivalents	\$ (744,196)	\$ -	\$ -	\$ 3,156,820	\$ 2,412,624
Investments	260,834				260,834
Taxes receivable	1,255,338	-	394,182	5,314	1,654,834
Fines receivable, net of allowance	136,588	-	-	-	136,588
Grants receivable	-	-	-	122,883	122,883
Due from other funds	91,171	-	1,029,931	-	1,121,102
Retricted cash:					
Cash	1,384,585	119,995	(892,697)	-	611,883
Investments	4,960,000	-	448,198	-	5,408,198
Total assets	\$ 7,344,320	\$ 119,995	\$ 979,614	\$ 3,285,017	\$ 11,728,946
Liabilities:					
Accounts payable	\$ 205,555	\$ -	\$ 252,169	\$ 18,202	\$ 475,926
Accrued salaries	346,386	-	-	-	346,386
Due to other funds	1,029,931	-	21,190	-	1,051,121
Total liabilities	1,581,872	-	273,359	18,202	1,873,433
Fund balance:					
Restricted	1,544,516	-	706,255	283,789	2,534,560
Committed	5,271,756	119,995	-	573,460	5,965,211
Assigned	-	-	-	2,409,566	2,409,566
Unassigned	(1,053,824)	-	-	-	(1,053,824)
Total fund balances	5,762,448	119,995	706,255	3,266,815	9,855,513
Total liabilities and fund balances	\$ 7,344,320	\$ 119,995	\$ 979,614	\$ 3,285,017	\$ 11,728,946

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 POSITION
JUNE 30, 2014**

Total fund balance - all governmental funds

Amounts reported for governmental activities in the statement of net assets are different because: \$ 9,855,513

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	11,486,345	
Capital assets	98,473,531	
Less: Accumulated depreciation	(56,639,860)	53,320,016

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)	\$ (6,885,000)	
Bond interest payable	(101,473)	-	
Capital leases payable	(697,982)	(1,261,037)	(9,625,492)

OPEB liability (13,257,820)

Net assets of governmental activities \$ 40,292,217

CITY OF YUKON
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2014

	General Fund	Capital Projects Fund	96 Sales Tax Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
Sales and use tax	\$ 15,168,749	\$ -	\$ 5,047,810	\$ -	\$ 20,216,559
Taxes	216,284	-	-	996,622	1,212,906
Intergovernmental	353,218	-	245,415	674,255	1,272,888
Franchise tax	1,169,073	-	-	-	1,169,073
Charges for services	290,686	-	-	76,276	366,962
Fines and forfeitures	1,121,443	-	-	-	1,121,443
Licenses and permits	403,854	-	-	-	403,854
Investment income	31,298	56	12,809	2,560	46,723
Rental and royalty income	47,759	9,272	-	508	57,539
Donations	-	-	-	559,604	559,604
Sale of property	99,476	-	-	-	99,476
Issuance of capital lease	54,723	-	-	-	54,723
Miscellaneous	712,022	-	-	3,071	715,093
Total revenues	19,668,585	9,328	5,306,034	2,312,896	27,296,843
Expenditures:					
General government	9,146,426	-	242,206	703,200	10,091,832
Public safety:					
Police	5,336,573	-	-	85,355	5,421,928
Municipal court	1,558,075	-	-	-	1,558,075
Fire	3,645,597	-	-	-	3,645,597
Animal control	-	-	-	-	-
Public services	949,024	-	-	17,815	966,839
Transportation	2,790,180	-	-	155,678	2,945,858
Debt service	-	-	709,146	1,029,514	1,738,660
Capital outlay	3,534,873	-	1,442,690	407,040	5,384,603
Total expenditures	26,960,748	-	2,394,042	2,398,602	31,753,392
Excess revenues over (under) expenditures	(7,292,163)	9,328	2,911,992	(85,706)	(4,456,549)
Other financing sources (uses):					
Transfers in	5,361,705	-	-	1,671,439	7,033,144
Transfers out	(141,999)	-	(4,517,723)	-	(4,659,722)
Total other financing sources and uses	5,219,706	-	(4,517,723)	1,671,439	2,373,422
Net change in fund balances	(2,072,457)	9,328	(1,605,731)	1,585,733	(2,083,127)
Net assets - beginning of year	7,834,905	110,667	2,311,986	1,681,082	11,938,640
Fund balance - end of year	\$ 5,762,448	\$ 119,995	\$ 706,255	\$ 3,266,815	\$ 9,855,513

**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, 2014**

Net change in fund balances - total governmental funds **\$ (2,083,127)**

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	5,384,603	
Depreciation expense	<u>(3,989,067)</u>	1,395,536

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.

Capital lease repayment	673,220	
GO bond principle repayment	680,000	
Issuance of capital lease	<u>(54,723)</u>	1,298,497

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	13,257,820
		<u>-</u>

Change in net position of governmental activities **\$ 610,906**

**CITY OF YUKON
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2014**

	Yukon Municipal Authority	Sanitation Fund	Stormwater Fund	Total Proprietary Funds
Assets:				
Cash and cash equivalents	\$ 1,289	\$ 18,325	\$ 148,538	\$ 168,152
Accounts receivable, net	744,863	371,263	22,541	1,138,667
Restricted assets:				
Cash	1,821	-	-	1,821
Investments	12,307,193	-	-	12,307,193
Capital assets:				
Land	91,005	6,735	-	97,740
Construction in progress	403,779	-	-	403,779
Capital assets, net	11,370,096	1,257,086	-	12,627,182
Other assets:				
Bond issuance costs (net of amortization)	540,666	-	-	540,666
Total assets	\$ 25,460,712	\$ 1,653,409	\$ 171,079	\$ 27,285,200
Liabilities:				
Accounts payable	\$ 345,575	\$ 35,766	\$ 661	\$ 382,002
Accrued salaries	32,823	16,162	1,465	50,450
Accrued compensated absences, current	152,667	83,985	15,722	252,374
Notes payable, current	261,805	-	-	261,805
Payable from restricted assets:				
Bond interest payable, current	405,242	-	-	405,242
Bonds payable, current	2,910,000	-	-	2,910,000
Customer deposits payable	355,625	-	-	355,625
Notes payable, non-current	570,675	-	-	570,675
Bonds payable, non-current	29,980,000	-	-	29,980,000
Total liabilities	35,014,412	135,913	17,848	35,168,173
Net position:				
Invested in capital assets, net of related debt	(9,414,983)	1,257,086	-	(8,157,897)
Restricted	359,372	-	-	359,372
Unrestricted	(498,089)	260,410	153,231	(84,448)
Total net position	(9,553,700)	1,517,496	153,231	(7,882,973)
Total liabilities and net position	\$ 25,460,712	\$ 1,653,409	\$ 171,079	\$ 27,285,200

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

CITY OF YUKON
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2014

	Yukon Municipal Authority	Sanitation Funds	Stormwater Funds	Total Proprietary Funds
Operating revenues:				
Water revenues	\$ 4,475,336	\$ -	\$ -	\$ 4,475,336
Sewer revenues	1,836,251	-	229,654	2,065,905
Sanitation revenues	-	1,975,354	-	1,975,354
Total operating revenues	6,311,587	1,975,354	229,654	8,516,595
Operating expense:				
Personal services	1,386,995	713,044	125,169	2,225,208
Materials and supplies	475,990	172,048	7,740	655,778
Other charges and services	2,627,928	317,451	22,256	2,967,635
Depreciation and amortization	1,160,704	245,693	-	1,406,397
Total operating expenses	5,651,617	1,448,236	155,165	7,255,018
Operating income before non-operating revenues, expenses and transfers	659,970	527,118	74,489	1,261,577
Non-operating revenues (expenses)				
Investment income	11,211	-	172	11,383
Interest expense	(1,115,734)	-	-	(1,115,734)
Other revenues (expense)	206,919	25,620	2,502	235,041
Total nonoperating revenues (expenses)	(897,604)	25,620	2,674	(869,310)
Income (loss) before operating transfers	(237,634)	552,738	77,163	392,267
Transfers in	5,429,517	105,704	6,698	5,541,919
Transfers out	(6,648,045)	(1,170,857)	(96,439)	(7,915,341)
Change in net position	(1,456,162)	(512,415)	(12,578)	(1,981,155)
Net position - beginning of year	(8,097,538)	2,029,911	165,809	(5,901,818)
Net position at end of year	\$ (9,553,700)	\$ 1,517,496	\$ 153,231	\$ (7,882,973)

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, 2014**

	Water/ Sewer Fund	Sanitation Fund	Stormwater Fund	Total Proprietary Funds
Cash flows operating activities:				
Cash received from customers	\$ 6,300,261	\$ 1,851,445	\$ 239,356	\$ 8,391,062
Cash payments to suppliers	(2,923,818)	(489,926)	(30,016)	(3,443,760)
Cash payments to employees	(1,407,662)	(702,447)	(125,017)	(2,235,126)
Net cash provided (used) by operating activities	1,968,781	659,072	84,323	2,712,176
Cash flows from non-capital financing activities:				
Non-capital contributions	204,116	25,620	2,502	232,238
Transfers from other funds	5,429,517	105,704	6,698	5,541,919
Transfers to other funds	(6,648,045)	(1,170,857)	(96,439)	(7,915,341)
Net cash provided (used) by non-capital financing activities	(1,014,412)	(1,039,533)	(87,239)	(2,141,184)
Cash flows from capital and related financing activities:				
Acquisition and construction of capital assets	(2,050,156)	(323,671)	-	(2,373,827)
Principal paid on bonds, notes and lease obligations	(2,870,000)	-	-	(2,870,000)
Interest paid on bonds, notes, and lease obligations	(1,086,976)	-	-	(1,086,976)
Transfers to other funds for capital expenditures	-	-	-	-
Net cash provided (used) by capital and related financing activities	(6,007,132)	(323,671)	-	(6,330,803)
Cash flows from investing activities:				
Purchase of investments	5,197,693	-	-	5,197,693
Investment income	11,211	-	172	11,383
Net cash provided (used) by investing activities	5,208,904	-	172	5,209,076
Net increase (decrease) in cash and cash equivalents	156,141	(704,132)	(2,744)	(550,735)
Cash and cash equivalents at beginning of year	(153,031)	722,457	151,282	720,708
Cash and cash equivalents at end of year	\$ 3,110	\$ 18,325	\$ 148,538	\$ 169,973
Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets				
Cash and cash equivalents	\$ 1,289	\$ 18,325	\$ 148,538	\$ 168,152
Restricted assets, cash	1,821	-	-	1,821
Cash and cash equivalents at end of year	\$ 3,110	\$ 18,325	\$ 148,538	\$ 169,973
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	\$ 659,970	\$ 527,118	\$ 74,489	\$ 1,261,577
Adjustments to reconcile operating income (loss) to Net cash provided (used) by operating activities				
Depreciation	1,160,704	245,693	-	1,406,397
Changes in assets and liabilities:				
(Increase) decrease in accounts receivable	(11,326)	(123,909)	9,702	(125,533)
Increase (decrease) in accounts payable	180,100	(427)	(20)	179,653
Increase (decrease) in accrued salaries	(5,686)	3,728	(298)	(2,256)
Increase (decrease) in compensated absences	(14,981)	6,869	450	(7,662)
Total adjustments	1,308,811	131,954	9,834	1,450,599
Net cash provided (used) by operating activities	\$ 1,968,781	\$ 659,072	\$ 84,323	\$ 2,712,176

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

**CITY OF YUKON
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2014**

	Total Agency Funds
Assets:	
Cash and cash equivalents	\$ 420,527
Total assets	<u>420,527</u>
Liabilities:	
Escrow liability	350,546
Due to other funds	<u>69,981</u>
Total liabilities	<u>\$ 420,527</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, 2014

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, 2014. 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 and federal or state grants

96 Sales Tax Capital Projects Fund – accounts for capital expenditures using the proceeds of the 1996 Sales Tax and related debt service on outstanding governmental issues

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.

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, 2014

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 meter 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 position 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 position 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.

CITY OF YUKON
Yukon, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2014

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 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, 2014

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) are 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 in excess of \$5,000 as purchases 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, 2014

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 Position/Fund Balance

In the government-wide financial statement, net position represents the difference between assets and liabilities. Net position 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 position is 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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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, 2014 are as follows:

Type	Weighted Average Maturity (Months)	Credit Rating	Market Value	Cost
Investments				
Money Market	N/A	AAAm	\$ 11,947,821	\$ 11,947,821
Certificate of deposit	3.72	N/A	6,028,404	6,028,404
Total investments			<u>\$ 17,976,225</u>	<u>\$ 17,976,225</u>
<u>Reconciliation to Statement of Net Position</u>				
			\$ 5,669,032	
			12,307,193	
			<u>\$ 17,976,225</u>	

CITY OF YUKON
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NOTES TO THE BASIC FINANCIAL STATEMENTS
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B. Capital Assets

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

Governmental Activities

	Balance July 1, 2013	Additions	Retirements/ Adjustments	Balance June 30, 2014
Capital assets				
Land	\$ 2,974,338	\$ -	\$ -	\$ 2,974,338
Construction in progress	8,512,007	189,980	-	8,701,987
Infrastructure	68,140,589	4,536,353	-	72,676,942
Buildings and improvements	12,635,133	-	-	12,635,133
Furniture, fixtures and equipment	5,962,263	370,137	-	6,332,400
Vehicles	6,350,943	288,133	-	6,639,076
Total capital assets	<u>104,575,273</u>	<u>5,384,603</u>	<u>-</u>	<u>109,959,876</u>
Less accumulated depreciation	(52,650,793)	(3,989,067)	-	(56,639,860)
Capital assets, net	<u>\$ 51,924,480</u>	<u>\$ 1,395,536</u>	<u>\$ -</u>	<u>\$ 53,320,016</u>

Business-type Activities

	Balance July 1, 2013	Additions	Retirements	Balance June 30, 2014
Capital assets				
Land	\$ 97,740	\$ -	\$ -	\$ 97,740
Construction in progress	327,401	76,378	-	403,779
Infrastructure	33,641,915	1,947,942	-	35,589,857
Buildings and improvements	141,002	24,112	-	165,114
Furniture, fixtures and equipment	1,881,776	61,445	-	1,943,221
Vehicles	2,236,154	263,950	-	2,500,104
Total capital assets	<u>38,325,988</u>	<u>2,373,827</u>	<u>-</u>	<u>40,699,815</u>
Less accumulated depreciation	(26,233,040)	(1,338,074)	-	(27,571,114)
Capital assets, net	<u>\$ 12,092,948</u>	<u>\$ 1,035,753</u>	<u>\$ -</u>	<u>\$ 13,128,701</u>

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Business-type Activities by Fund
June 30, 2014

	Yukon Municipal Authority	Sanitation Fund	Total
Capital assets			
Land	\$ 91,005	\$ 6,735	\$ 97,740
Construction in progress	403,779	-	403,779
Infrastructure	35,487,422	116,480	35,603,902
Buildings and improvements	165,114	-	165,114
Furniture, fixtures and equipment	307,901	1,621,274	1,929,175
Vehicles	1,678,072	822,032	2,500,104
Total capital assets	<u>38,133,293</u>	<u>2,566,521</u>	<u>40,699,814</u>
Less accumulated depreciation	(26,268,413)	(1,302,700)	(27,571,113)
Capital assets, net	<u>\$ 11,864,880</u>	<u>\$ 1,263,821</u>	<u>\$ 13,128,701</u>

Depreciation expense

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

Governmental activities:

General government	\$ 403,447
Public safety:	
Police	572,664
Fire	750,523
Animal control	14,980
Public service	1,777,158
Culture and recreation	470,295

Governmental activities depreciation expense 3,989,067

Business-type activities:

Water and sewer	1,092,381
Sanitation	245,693

Business-type activities depreciation expense 1,338,074

Total depreciation expense \$ 5,327,141

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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. 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 March 2012, the City entered into a master lease agreement payable to Arvest bank, original amount \$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%.	\$ 894,102
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%.	969,029
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%.	41,165
Effective June 25, 2014, the City entered into a capital lease with Arvest Bank for the purchase of a brush truck. The truck was purchased for \$60,803 and funded with a 10% down payment by the City and the capital lease obligation of \$54,723. The lease carries an interest rate of 3.25%, maturing March 2017.	<u>54,723</u>
Total Governmental Capital Leases Payable	<u>\$ 1,959,019</u>

**CITY OF YUKON
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2014**

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

\$ 2,385,000

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

2,260,000

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

2,920,000

Total Governmental Activities Bonds Payable \$ 7,565,000

Total Governmental Activities Long Term Debt \$ 9,524,019

**CITY OF YUKON
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2014**

Business-type Activities

Notes Payable

Yukon Municipal Authority established a line of credit with Arvest Bank for the purchase of equipment. Each draw on the line is a separate borrowing of the YMA. During the year, there were four purchases issued totaling \$460,749 at a prevailing rate of 2.53% at June 30, 2014.

\$ 832,480

Total Notes Payable

\$ 832,480

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%.

\$ 4,715,000

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%.

5,150,000

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%.

2,740,000

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%.

6,685,000

December 6, 2012 the City, through the Yukon Municipal Authority, issued \$6,500,000 of Sales Tax and Utility System Revenue Bonds, Series 2012. Interest on the bonds is payable semi-annually on January 1st and July 1st at a 2% coupon rate.

5,910,000

February 13, 2013 the City, through the Yukon Municipal Authority, issued \$8,500,000 of Sales Tax and Utility System Revenue Bonds, Series 2013. Interest on the bonds is payable semi-annually on January 1st and July 1st with an interest rate of 2%.

7,690,000

Total Bonds Payable

\$ 32,890,000

Total Business-type Activities Debt Payable

\$ 33,722,480

CITY OF YUKON
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NOTES TO THE BASIC FINANCIAL STATEMENTS
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Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2014:

	Balance July 1, 2013	Issued	Retired	Balance June 30, 2014	Current Portion
Governmental Activities					
General obligation bonds	\$ 8,245,000	\$ -	\$ (680,000)	\$ 7,565,000	\$ 680,000
Lease obligations	2,561,373	54,723	(657,077)	1,959,019	697,982
Total Governmental Activities	10,806,373	54,723	(1,337,077)	9,524,019	1,377,982
Business-type Activities					
Revenue bonds	35,760,000	-	(2,870,000)	32,890,000	2,910,000
Notes payable	595,818	460,749	(224,087)	832,480	261,805
Total Business-type Activities	36,355,818	460,749	(3,094,087)	33,722,480	3,171,805
Total Primary Government Long-term debt	\$ 47,162,191	\$ 515,472	\$ (4,431,164)	\$ 43,246,499	\$ 4,549,787

Maturities of long-term debt are as follows:

Governmental Activities				
Year Ending June 30,	Capital Leases Payable		Bonds Payable	
	Principal	Interest	Principal	Interest
2015	\$ 697,982	\$ 53,431	\$ 680,000	\$ 25,150
2016	720,897	30,516	680,000	25,828
2017	540,140	7,341	680,000	26,525
2018	-	-	680,000	26,965
2019	-	-	680,000	27,303
2020-2024	-	-	3,400,000	142,092
2025-2026	-	-	765,000	29,725
	\$ 1,959,019	\$ 91,288	\$ 7,565,000	\$ 303,588

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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Business Type Activities

Year Ending June 30,	Notes Payable		Bond Payable	
	Principal	Interest	Principal	Interest
2015	\$ 261,805	\$ 17,882	\$ 2,910,000	\$ 1,064,781
2016	268,533	11,161	2,985,000	987,356
2017	251,853	4,291	3,080,000	900,203
2018	50,289	428	3,160,000	815,858
2019	-	-	3,270,000	719,864
2020-2024	-	-	14,110,000	2,103,622
2025-2029	-	-	2,285,000	645,808
2030-2031	-	-	1,090,000	84,975
	<u>\$ 832,480</u>	<u>\$ 33,762</u>	<u>\$ 32,890,000</u>	<u>\$ 7,322,467</u>

CITY OF YUKON
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NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2014

D. Internal balances

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

	<u>Due From</u>	<u>Due To</u>
General Fund		
96 Sales Tax Capital Projects fund	\$ 21,190	\$ 1,029,931
Municipal Court	69,891	-
96 Sales Tax Capital Projects fund		
General Fund	1,029,931	21,190
Municipal Court		
General Fund	-	69,891
	<u>\$ 1,121,012</u>	<u>\$ 1,121,012</u>
	<u>Transfers From</u>	<u>Transfers To</u>
General Fund		
Sanitation	\$ 330,857	\$ 63,507
Stormwater	75,000	6,698
Yukon Municipal Authority	4,955,848	71,794
96 Sales Tax Capital Projects fund		
Yukon Municipal Authority	-	4,517,723
Special Revenue Fund		
Yukon Municipal Authority	1,650,000	-
Stormwater	21,439	-
Business-type activities:		
Yukon Municipal Authority		
General Fund	71,794	4,955,848
96 Sales Tax Capital Projects fund	4,517,723	-
Sanitation	840,000	42,197
Special Revenue Fund	-	1,650,000
Sanitation		
General Fund	63,507	330,857
Yukon Municipal Authority	42,197	840,000
Stormwater		
General fund	6,698	75,000
Debt service fund	-	21,439
	<u>\$ 12,575,063</u>	<u>\$ 12,575,063</u>

**CITY OF YUKON
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2014**

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, 2014, there were 140 active employees were participating in the plan and 101 non-active participants. The City's contribution to the fund for these participants was based on 18.25% of covered salaries and totaled \$1,623,418 for the year ended June 30, 2014. Employees are required to contribute 2% of their pay, increasing 1% each year until the maximum of 6% of pay is reached. Employee contributions were \$32,651.

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. 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 2014, 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)
01/01/14	17,605,999	25,207,743	7,601,744	69.8%	6,844,323	111.1%

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	7/1/13	7/1/13

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Actuarial cost method	Individual entry age normal	Individual entry age
Amortization method/period	Level dollar 30 years, open	Level dollar 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, 2014, 8 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 2014, the City contributed 70% of premiums of 7 retirees and 0% of premiums of 1 retiree to the plan. Plan members receiving benefits contributed \$103,488, or approximately 50 percent of the total premiums, through their required contribution of \$629 per month for retiree-only coverage and \$1,760 for retiree and family medical coverage, these amounts do not 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.

<u>Actuarial Valuation Date</u>	<u>Value of Assets</u>	<u>Asset Valuation Basis</u>	<u>Actuarial Accrued Liability (AAL)*</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>
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.

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June 30, 2014**

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.

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 \$50,000. 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, 2014, \$468,000 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

Date of Management's Review

Subsequent events were evaluated through January 14, 2015, which is the date the financial statements were available to be issued.

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, 2014

	<u>Original Budget</u>	<u>Revisions</u>	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
REVENUES					
Sales and use tax	\$ 10,716,315	\$ -	\$ 10,716,315	\$ 10,552,376	\$ (163,939)
Taxes	590,825	-	590,825	569,502	(21,323)
Franchise tax	1,223,941	-	1,223,941	1,169,073	(54,868)
Charges for services	79,247	-	79,247	290,686	211,439
Fines and forfeitures	1,042,607	-	1,042,607	1,121,443	78,836
Licenses and permits	279,033	-	279,033	403,854	124,821
Investment income	15,000	-	15,000	31,298	16,298
Rental and royalty income	46,754	-	46,754	47,759	1,005
Sale of property	99,000	-	99,000	99,476	476
Miscellaneous	624,365	-	624,365	712,022	87,657
Total revenues	<u>14,717,087</u>	<u>-</u>	<u>14,717,087</u>	<u>14,997,489</u>	<u>280,402</u>
EXPENDITURES					
General government	8,912,869	-	8,912,869	8,867,124	45,745
Public safety:					
Police	5,143,566	130,125	5,273,691	5,271,573	2,118
Municipal court	271,981	-	271,981	267,356	4,625
Fire	2,342,412	663,942	3,006,354	2,981,242	25,112
Public services	1,876,689	-	1,876,689	1,863,379	13,310
Cultural and recreation	2,888,646	-	2,888,646	2,811,058	77,588
Total expenditures	<u>21,436,163</u>	<u>794,067</u>	<u>22,230,230</u>	<u>22,061,732</u>	<u>168,498</u>
Revenue over (under) expenditures	(6,719,076)	(794,067)	(7,513,143)	(7,064,243)	111,904
OTHER FINANCING SOURCES (USES)					
Operating transfers in/(out)	6,794,021	794,067	7,588,088	7,370,069	(218,019)
Net other financing sources (uses)	<u>6,794,021</u>	<u>794,067</u>	<u>7,588,088</u>	<u>7,370,069</u>	<u>(218,019)</u>
Net change in fund balance	74,945	-	74,945	305,826	(106,115)
Fund balance at beginning of year (Non-GAAP budgetary basis)				9,231,622	
Fund balance at end of year (Non-GAAP budgetary basis)				<u>\$ 9,537,448</u>	<u>\$ (106,115)</u>
ADJUSTMENTS TO GENERALLY ACCEPTED ACCOUNTING PRINCIPLES					
Revenue and transfer accruals				(3,775,000)	
Fund balance at end of year (GAAP basis)				<u>\$ 5,762,448</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, 2014

	<u>Budget</u>	<u>Revisions</u>	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
REVENUES					
Sales and use tax	\$ 4,365,029	\$ -	\$ 4,365,029	\$ 5,047,810	\$ 682,781
Hotel/motel tax	255,515	-	255,515	245,415	(10,100)
Investment income	8,096	-	8,096	12,809	4,713
Total revenues	<u>4,628,640</u>	<u>-</u>	<u>4,628,640</u>	<u>5,306,034</u>	<u>677,394</u>
EXPENDITURES					
Debt service	5,689,334	-	5,689,334	3,819,075	1,870,259
Capital outlay	1,958,379	-	1,958,379	1,442,690	515,689
Total expenditures	<u>7,647,713</u>	<u>-</u>	<u>7,647,713</u>	<u>5,261,765</u>	<u>2,385,948</u>
Revenue over (under) expenditures	(3,019,073)	-	(3,019,073)	44,269	(1,708,554)
OTHER FINANCING SOURCES (USES)					
Operating transfers in/(out)	3,019,073	-	3,019,073	(1,650,000)	(4,669,073)
Net other financing sources (uses)	<u>3,019,073</u>	<u>-</u>	<u>3,019,073</u>	<u>(1,650,000)</u>	<u>(4,669,073)</u>
Net change in fund balance	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,605,731)</u>	<u>(6,377,627)</u>
Fund balance at beginning of year (Non-GAAP budgetary basis)				2,311,986	
Fund balance at end of year (Non-GAAP budgetary basis)				<u>\$ 706,255</u>	
ADJUSTMENTS TO GENERALLY ACCEPTED ACCOUNTING PRINCIPLES					
Revenue and transfer accruals				-	
Fund balance at end of year (GAAP basis)				<u>\$ 706,255</u>	

CITY OF YUKON
 COMBINING BALANCE SHEET
 NON-MAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2014

	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	\$ 870,537	\$ 2,409,566	\$ 573,460	\$ (696,743)	\$ 3,156,820
Taxes receivable	5,314	-	-	-	5,314
Grants receivable	-	-	-	122,883	122,883
Total assets	<u>\$ 875,851</u>	<u>\$ 2,409,566</u>	<u>\$ 573,460</u>	<u>\$ (573,860)</u>	<u>\$ 3,285,017</u>
Liabilities					
Accounts payable	\$ -	\$ -	\$ -	\$ 18,202	\$ 18,202
Total liabilities	-	-	-	18,202	18,202
Fund balances:					
Restricted	875,851	-	-	(592,062)	283,789
Committed	-	-	573,460	-	573,460
Assigned	-	2,409,566	-	-	2,409,566
Total fund balances	<u>875,851</u>	<u>2,409,566</u>	<u>573,460</u>	<u>(592,062)</u>	<u>3,266,815</u>
Total liabilities and fund balances	<u>\$ 875,851</u>	<u>\$ 2,409,566</u>	<u>\$ 573,460</u>	<u>\$ (573,860)</u>	<u>\$ 3,285,017</u>

CITY OF YUKON
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2014

	Debt Service Fund	Special Revenue Fund	Yukon Community Support Fund	Community Development Block Grant Fund	Total Non-major Governmental Funds
Revenues:					
Taxes	\$ 996,622	\$ -	\$ -	\$ -	\$ 996,622
Charges for services	-	74,951	1,325	-	76,276
Investment income	2,535	25	-	-	2,560
Intergovernmental revenue	-	41,418	154	632,683	674,255
Rental income	-	508	-	-	508
Donations	-	416,772	142,832	-	559,604
Miscellaneous	-	1,571	1,500	-	3,071
Total revenues	999,157	535,245	145,811	632,683	2,312,896
Expenditures:					
General Government	-	334,343	-	368,857	703,200
Public Safety	-	85,355	-	-	85,355
Public Services	-	17,815	-	-	17,815
Cultural and Recreation	-	60,906	94,772	-	155,678
Capital Outlay	-	-	-	407,040	407,040
Debt Service:					
Pinciple and interest charges	1,029,514	-	-	-	1,029,514
Total Expenditures	1,029,514	498,419	94,772	775,897	2,398,602
Excess (deficiency) of revenues over expenditures	(30,357)	36,826	51,039	(143,214)	(85,706)
Other financing sources (uses):					
Transfers in	21,439	1,650,000	-	-	1,671,439
Total other financing sources (uses)	21,439	1,650,000	-	-	1,671,439
Net change in fund balances	(8,918)	1,686,826	51,039	(143,214)	1,585,733
Net assets - beginning of year	884,769	722,740	522,421	(448,848)	1,681,082
Fund balances - end of year	\$ 875,851	\$ 2,409,566	\$ 573,460	\$ (592,062)	\$ 3,266,815

**CITY OF YUKON
 COMBINING STATEMENT OF FIDUCIARY NET ASSETS
 AGENCY FUNDS
 YEAR ENDED JUNE 30, 2014**

	Municipal Court Fund	Escrow Fund	Total Agency Funds
Assets:			
Cash and cash equivalents	\$ 100,030	\$ 320,497	\$ 420,527
Total assets	\$ 100,030	\$ 320,497	\$ 420,527
Liabilities:			
Escrow liability	\$ 30,049	\$ 320,497	\$ 350,546
Due to other funds	69,981	-	69,981
Total liabilities	\$ 100,030	\$ 320,497	\$ 420,527



INDEPENDENT AUDITOR'S 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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Yukon, OK, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise City of Yukon, OK's basic financial statements, and have issued our report thereon dated January 14, 2015.

Internal Control over Financial Reporting

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

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. 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.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Yukon, OK's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing

an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

FSW&B CPA'S- PLLC

FSW&B CPA's PLLC

Stillwater, OK

January 14, 2014