

**CITY OF YUKON OKLAHOMA
YUKON, OKLAHOMA**

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

**FOR THE YEAR ENDED
JUNE 30, 2013**

**THE CITY OF YUKON, OKLAHOMA
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YEAR ENDED JUNE 30, 2013**

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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Yukon, OK

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, 2013, 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, 2013, 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 December 31, 2013, 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 CPA's - PLLC

FSW&B CPA's-PLLC

Woodward, OK
December 31, 2013

Within this section, the City of Yukon's ("City") management provides narrative discussion and analysis of the financial performance of the City's for the fiscal year ended June 30, 2013. 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, 2013, the assets of the City exceeded its liabilities by \$33,779,500 (net assets). This compared to the previous year when restated assets exceeded liabilities by \$35,207,301.
- The City's total net assets are comprised of the following:
 - (1) Invested in capital assets, net of related debt of \$36,105,271 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 \$12,950,251. This is due to revenue bonds issued under the Yukon Municipal Authority used to fund assets that are governmental in nature, specifically the fire station in fiscal year 2013 and street improvements.
 - (2) Restricted net assets of \$13,863,986 which includes sales tax funds restricted for capital improvements.
 - (3) Unrestricted net assets of negative \$16,189,757 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 increased by \$10,719,907 during the fiscal year from \$51,666,803 to \$62,386,710. This increase is a result of the issuance of bonds by the Yukon Municipal Authority, offset by repayments made on outstanding debt and current obligations. During fiscal year 2013, the YMA issued \$15,000,000 in revenue bonds. Proceeds will be used to fund capital additions in the City.
- The City's governmental funds reported total ending fund balance of \$11,938,640 this year. This compared to the prior year ending fund balance of \$16,553,903, showing decrease of \$4,625,263 during the current year. In fiscal year 2012, the City issued debt resulting in proceeds of \$3,250,555. In governmental funds, proceeds from debt are reported as revenue in the year of issue. This debt issuance in fiscal year 2012 coupled with a decrease in transfers from the YMA, resulted in a decrease in fund balance when compared to prior year.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$1,543,231, which represents assets available for the ongoing operations of the City's general fund. This is an increase of \$1,641,335 over prior year.

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 resources available and whether the City can continue to meet its 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 Assets

The City's combined net assets at June 30, 2013 were \$33,779,500. This is a \$1,128,556 decrease over June 30, 2012 net assets of \$35,207,301, prior to adjustment. An adjustment to net position was made to reflect the City's adoption of GASB 65 which altered the way the City accounts for bond issuance costs. Prior to adoption, those costs were carried on the Statement of Net Position and amortized over the life of the debt. GASB 65 states those costs should be expensed in the year they are incurred. This adjustment reflects the unamortized portion of those costs.

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.

The City's total assets increased 11% when compared year over year. This increase was noted mainly in current assets related to bond proceeds that had not been spent by the end of the fiscal year. Increase in liabilities of 21% is directly related to issuance of \$15,000,000 in revenue bonds by the YMA in business-type activities. Overall, the City's net position decreased 4% when compared to fiscal year 2012.

Summary of Net Position
in thousands

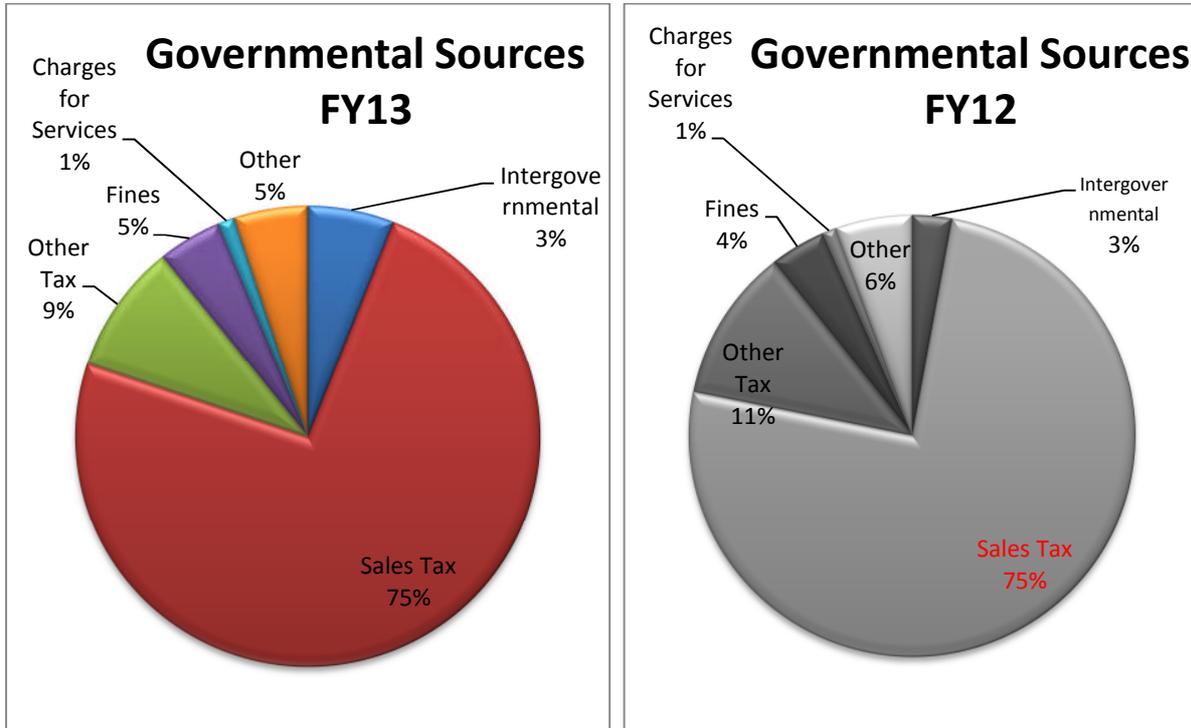
	Governmental Activities		Business-Type Activities		Total		\$ Change	% Change
	2013	2012	2013	2012	2013	2012		
Current assets	\$ 12,480	\$ 17,094	\$ 19,668	\$ 7,660	\$ 32,148	\$ 24,754	\$ 7,394	30%
Capital assets, net	51,925	51,909	12,093	10,211	64,018	62,120	1,898	3%
Total assets	64,405	69,003	31,761	17,871	96,166	86,874	9,292	11%
Current liabilities	15,255	15,407	4,675	4,694	19,930	20,101	(171)	-1%
Non-current liabilities	9,469	10,806	32,988	20,760	42,457	31,566	10,891	35%
Total liabilities	24,724	26,213	37,663	25,454	62,387	51,667	10,720	21%
Net position								
Invested in capital assets, net of related debt	49,056	52,127	(12,950)	(11,653)	36,106	40,474	(4,368)	-11%
Restricted	10,395	16,662	3,468	3,468	13,863	20,130	(6,267)	-31%
Unrestricted	(19,770)	(25,999)	3,580	602	(16,190)	(25,397)	9,207	-36%
Total net position	\$ 39,681	\$ 42,790	\$ (5,902)	\$ (7,583)	\$ 33,779	\$ 35,207	\$ (1,428)	-4%

Summary of Changes in Net Position in thousands

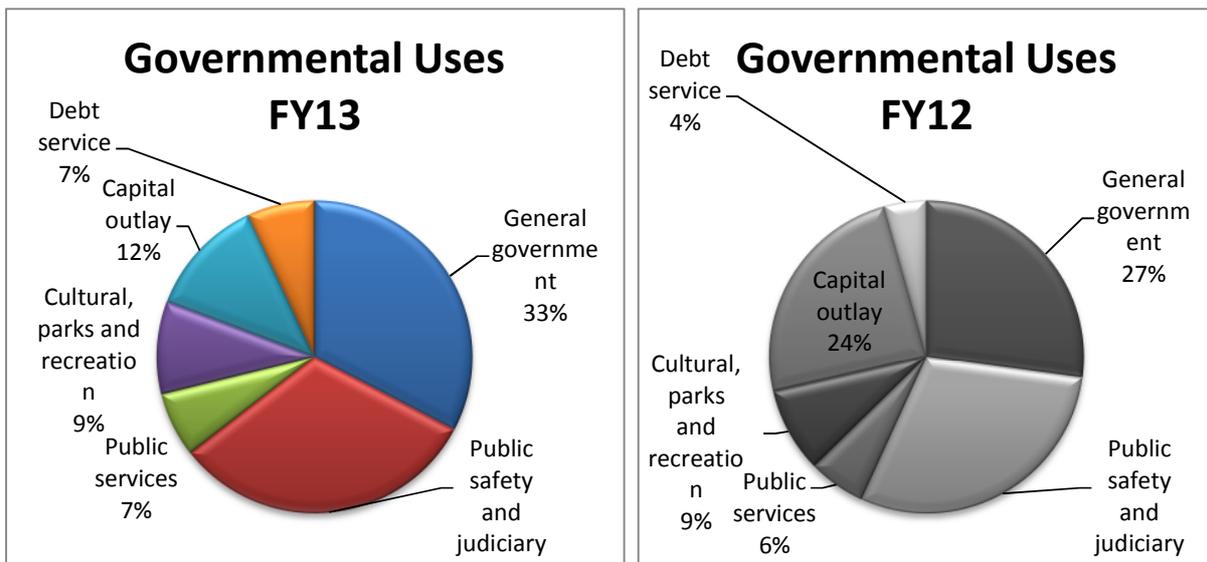
	Governmental Activities		Business-type Activities		Total		\$ Change	% Change
	2013	2012	2013	2012	2013	2012		
Revenues								
Program revenues	\$ 3,740	\$ 2,597	\$ 8,548	\$ 8,105	\$ 12,288	\$ 10,702	\$ 1,586	15%
Taxes and other general revenues	21,959	21,702	239	222	22,198	21,924	274	1%
Total revenues	25,699	24,299	8,787	8,327	34,486	32,626	1,860	16%
Expenses								
General government	9,481	8,264	-	-	9,481	8,264	1,217	15%
Public safety and judiciary	9,789	8,965	-	-	9,789	8,965	824	9%
Public services	3,450	3,282	-	-	3,450	3,282	168	5%
Cultural, parks, and recreation	3,058	2,571	-	-	3,058	2,571	487	19%
Interest on debt	425	402	1,064	1,295	1,489	1,697	(208)	-12%
Water	-	-	5,540	2,344	5,540	2,344	3,196	136%
Sewer	-	-	1,227	2,512	1,227	2,512	(1,285)	-51%
Sanitation	-	-	1,580	1,518	1,580	1,518	62	4%
Total expenses	26,203	23,484	9,411	7,669	35,614	31,153	4,461	14%
Excess (deficiency) before transfers	\$ (504)	\$ 815	\$ (624)	\$ 658	\$ (1,128)	\$ 1,473	\$ (2,601)	-177%
Transfers	(2,604)	4,289	2,604	(4,289)	-	-	-	0%
Increase (decrease) in net position	\$ (3,108)	\$ 5,104	\$ 1,980	\$ (3,631)	\$ (1,128)	\$ 1,473	\$ (2,601)	-177%

Revenues for the City increased 16% year over year. This increase in revenues is attributable to operating and capital contributions specifically in public services. Operating expenses noted an overall increase over fiscal year 2012 of 14%. The most significant of this increase with the water department due to water repairs and depreciation on improvements made.

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



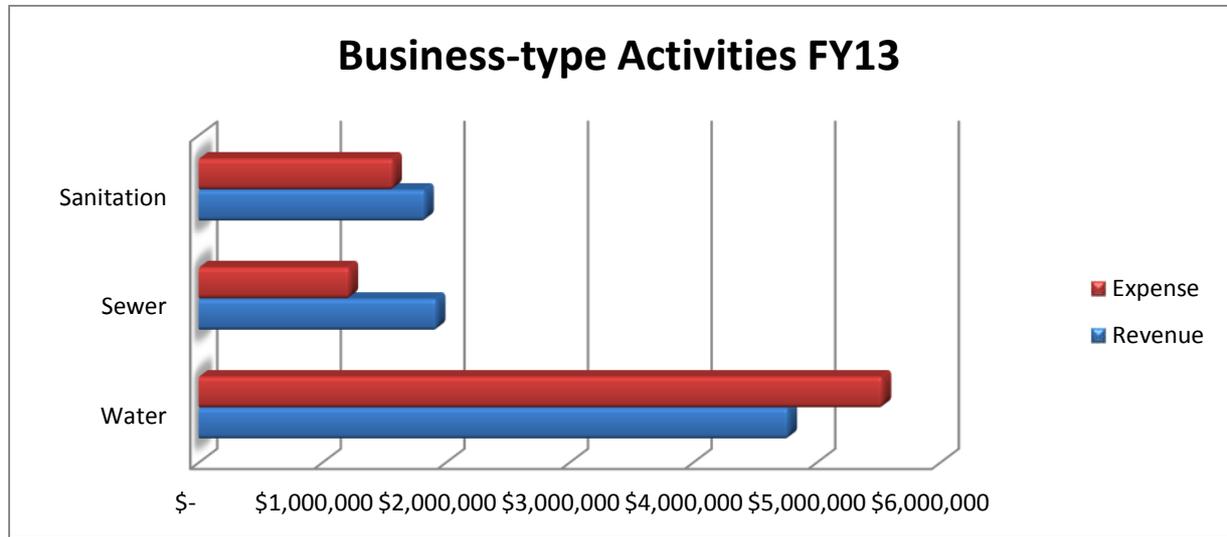
Taxes provided 75% of the City's governmental revenues in fiscal year 2013 which is consistent with fiscal year 2012. Property taxes and franchise taxes represent 9% of governmental sources under other taxes as compared to 11% in prior year.



For the year ended June 30, 2013, total expenses for governmental activities were \$27,720,481 compared to \$29,669,316. Of this amount, general government with \$9,063,021 (33%) was the largest operating department, compared to 27% in prior year. Public safety and judiciary with \$8,807,047, 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, 2013, 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 2013 was \$20,861,494, as amended, compared to \$19,508,444 in fiscal year 2012. For the year ended June 30, 2013, actual expenses exceeded budgeted amounts in two departments, general government and cultural and recreation. In total, the City spent within budgeted amounts.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of June 30, 2013, the City had \$36,105,271 invested in capital assets, net of related debt, including vehicles and equipment for police and fire operations, street improvements, and park facilities, in governmental activities and water lines, sewer lines, and utility equipment in business-type activities. Refer to the table below.

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

	Governmental		Business-type		Total	
	Activities		Activities			
	2013	2012	2013	2012	2013	2012
Land	\$ 2,974,338	\$ 2,974,338	\$ 97,740	\$ 97,740	\$ 3,072,078	\$ 3,072,078
Construction in process	8,512,007	8,022,227	327,401	327,401	8,839,408	8,349,628
Buildings	3,812,999	3,905,970	94,732	133,607	3,907,731	4,039,577
Machinery & equipment	3,099,869	1,488,820	2,140,235	295,546	5,240,104	1,784,366
Infrastructure	33,525,267	35,517,935	9,432,840	9,356,541	42,958,107	44,874,476
Totals	<u>\$ 51,924,480</u>	<u>\$ 51,909,290</u>	<u>\$ 12,092,948</u>	<u>\$ 10,210,835</u>	<u>\$ 64,017,428</u>	<u>\$ 62,120,125</u>

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

Long-Term Debt

At year-end, the City had \$42,456,827 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		Total
	Governmental Activities	Business-type Activities	June 30, 2013
Lease payable	\$ 2,561,373	\$ -	\$ 2,561,373
Notes payable	-	595,818	595,818
Bonds payable	8,245,000	35,760,000	44,005,000
less current portion	(1,337,077)	(3,368,287)	(4,705,364)
Total	<u>\$ 9,469,296</u>	<u>\$ 32,987,531</u>	<u>\$ 42,456,827</u>

ECONOMIC FACTORS AND NEXT YEARS'S BUDGET AND RATES

Economic Environment

According to the Oklahoma Economic Report, the state's twelve-month gross receipts have reached an all time high, surpassing the previous record set in December 2008. State Treasurer, Ken Miller, Oklahoma has "regained and moved past the ground it lost during the Great Recession". Although the national economy has been sluggish, Oklahoma has shown significant improvement. The economic environment of the state sheds light on that local economy, as the City has also seen improvement.

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 2014.

Fees and Rates

The budget for fiscal year 2013, projects a moderate increase in fees and rates for the City's primary government. After some research, it has been determined that the City is likely to realize at least a 3.5% level of growth from its main sources of revenue. The majority of this increase is general economic growth and recovery that will turn into sales tax revenue for the City. 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 a 3.5% increase in expenses when compared to prior year. Major changes include: a 3.5% raise for all permanent full-time employees, step raises to employees who qualify, and additions to personnel in various departments.

Within the Yukon Municipal Authority fund, the most significant change is the budgeting of capital projects within the Capital Improvement fund, as previously they were budgeted within the YMA department. Additionally, the sanitation department is will provide some new service elements, which will have initial startup costs recognized in fiscal year 2014. The changes are expected to improve services currently performed.

Based upon projected revenues, the City has budgeted over \$1.7 million in capital projects for fiscal year 2014, which are detailed in the City's annual budget.

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, 2013

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Assets:			
Cash and cash equivalents	\$ 2,420,616	\$ 718,888	\$ 3,139,504
Investments	260,011	-	260,011
Accounts receivables (net)	-	1,013,133	1,013,133
Taxes receivables	1,692,267	-	1,692,267
Fines receivable	126,965	-	126,965
Grants receivable	3,519	-	3,519
Due to/from other funds	39,571	-	39,571
Restricted assets:			
Cash	2,041,567	1,820	2,043,387
Investments	5,895,848	17,324,850	23,220,698
Other assets	-	609,727	609,727
Capital assets (net)	<u>51,924,480</u>	<u>12,092,948</u>	<u>64,017,428</u>
Total assets	<u>64,404,844</u>	<u>31,761,366</u>	<u>96,166,210</u>
Liabilities:			
Accounts payable	218,705	203,157	421,862
Accrued salaries	323,019	41,334	364,353
Accrued interest payable	117,616	434,000	551,616
Accrued compensated absences, current	-	260,035	260,035
Capital lease obligation, current	657,070	-	657,070
OPEB liability	13,257,820	-	13,257,820
Notes payable, current	-	113,287	113,287
Revenue bonds payable, current	-	3,255,000	3,255,000
General obligation bond payable, current	680,000	-	680,000
Customer deposits payable	-	368,833	368,833
Capital lease obligation, non-current	1,904,303	-	1,904,303
General obligation bonds payable, non-current	7,565,000	-	7,565,000
Notes payable, non-current	-	482,531	482,531
Revenue bonds payable, non-current	-	32,505,000	32,505,000
Total liabilities	<u>24,723,533</u>	<u>37,663,177</u>	<u>62,386,710</u>
Net position:			
Invested in capital assets, net of related debt	49,055,522	(12,950,251)	36,105,271
Restricted	10,395,409	3,468,577	13,863,986
Unrestricted	<u>(19,769,620)</u>	<u>3,579,863</u>	<u>(16,189,757)</u>
Total net position	<u>\$ 39,681,311</u>	<u>\$ (5,901,811)</u>	<u>\$ 33,779,500</u>

**CITY OF YUKON
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2013**

Functions/Programs:	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants & Contributions	
Governmental activities:					
General government	\$ 9,481,093	\$ 310,733	\$ 189,289	\$ 247,840	\$ (8,733,231)
Public safety:					
Police	5,773,386	1,144,865	59,005	-	(4,569,516)
Municipal court	258,354	-	-	-	(258,354)
Fire	3,739,180	-	677	-	(3,738,503)
Animal control	19,145	-	-	-	(19,145)
Public services	3,449,989	-	188,837	1,176,889	(2,084,263)
Cultural and recreation	3,057,610	260,116	161,736	-	(2,635,758)
Interest on long term debt	424,837	-	-	-	(424,837)
Total Governmental activities	26,203,594	1,715,714	599,544	1,424,729	(22,463,607)
Business-type activities:					
Water	5,539,894	4,777,198	-	-	(762,696)
Sewer	1,226,665	1,931,893	-	-	705,228
Sanitation	1,580,195	1,838,959	-	-	258,764
Interest on long term debt	1,063,834	-	-	-	(1,063,834)
Total Business-type activities	9,410,588	8,548,050	-	-	(862,538)
Total	\$ 35,614,182	\$ 10,263,764	\$ 599,544	\$ 1,424,729	\$ (23,326,145)

	Net (Expense) Revenue and Changes in Net Position		
	Governmental Activities	Business-Type Activities	Total
Net (expense) revenue	\$ (22,463,607)	\$ (862,538)	\$ (23,326,145)
General revenues:			
Taxes:			
Sales and use taxes	19,050,968	-	19,050,968
Property taxes	984,869	-	984,869
Franchise and public service taxes	1,442,304	-	1,442,304
Investment income	81,015	18,213	99,228
Gain on sale of property	75,500	-	75,500
Miscellaneous	324,923	219,797	544,720
Transfers	(2,604,348)	2,604,348	-
Total general revenues and transfers	19,355,231	2,842,358	22,197,589
Change in net position	(3,108,376)	1,979,820	(1,128,556)
Net position - beginning of year, restated	42,789,687	(7,582,386)	35,207,301
Adjustment for adoption of GASB 65	-	(299,245)	(299,245)
Net position - end of year	\$ 39,681,311	\$ (5,901,811)	\$ 33,779,500

**CITY OF YUKON
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013**

	General Fund	Capital Projects Fund	96 Sales Tax Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Assets:					
Cash and cash equivalents	\$ 721,631	\$ -	\$ -	\$ 1,698,985	\$ 2,420,616
Investments	260,011				260,011
Taxes receivable	1,304,449	-	383,288	4,530	1,692,267
Fines receivable, net of allowance	126,965	-	-	-	126,965
Grants receivable	-	-	-	3,519	3,519
Due from other funds	91,171	-	1,008,741	-	1,099,912
Restricted cash:					
Cash	1,428,035	110,667	502,865	-	2,041,567
Investments	5,450,000	-	445,848	-	5,895,848
Total assets	\$ 9,382,262	\$ 110,667	\$ 2,340,742	\$ 1,707,034	\$ 13,540,705
Liabilities:					
Accounts payable	\$ 163,997	\$ -	\$ 28,756	\$ 25,952	\$ 218,705
Accrued salaries	323,019	-	-	-	323,019
Due to other funds	1,060,341	-	-	-	1,060,341
Total liabilities	1,547,357	-	28,756	25,952	1,602,065
Fund balance:					
Restricted	6,244,559	-	2,311,986	435,921	8,992,466
Committed	47,115	110,667	-	522,421	680,203
Assigned	-	-	-	722,740	722,740
Unassigned	1,543,231	-	-	-	1,543,231
Total fund balances	7,834,905	110,667	2,311,986	1,681,082	11,938,640
Total liabilities and fund balances	\$ 9,382,262	\$ 110,667	\$ 2,340,742	\$ 1,707,034	\$ 13,540,705

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, 2013**

Total fund balance - all governmental funds

Amounts reported for governmental activities in the statement of net assets are different because: \$ 11,938,640

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	93,088,928	
Less: Accumulated depreciation	(52,650,793)	51,924,480

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)	\$ (7,565,000)	
Bonds interest payable	(117,616)	-	
Capital leases payable	(657,070)	(1,904,303)	(10,923,989)

OPEB liability (13,257,820)

Net assets of governmental activities \$ 39,681,311

CITY OF YUKON
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2013

	General Fund	Capital Projects Fund	96 Sales Tax Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
Sales and use tax	\$ 14,639,079	\$ -	\$ 4,411,889	\$ -	\$ 19,050,968
Taxes	225,911	-	-	984,869	1,210,780
Intergovernmental	302,503	-	247,840	997,183	1,547,526
Franchise tax	1,122,657	-	-	-	1,122,657
Charges for services	236,524	-	-	58,865	295,389
Fines and forfeitures	1,149,117	-	-	-	1,149,117
Licenses and permits	268,037	-	-	-	268,037
Investment income	60,006	52	18,051	2,906	81,015
Rental and royalty income	54,943	5,374	-	1,719	62,036
Donations	-	-	-	511,998	511,998
Sale of property	75,500	-	-	-	75,500
Miscellaneous	319,769	-	-	4,774	324,543
Total revenues	18,454,046	5,426	4,677,780	2,562,314	25,699,566
Expenditures:					
General government	7,925,775	-	29,863	1,107,383	9,063,021
Public safety:	-	-	-	-	-
Police	5,082,185	-	-	73,536	5,155,721
Municipal court	255,106	-	-	-	255,106
Fire	3,394,059	-	-	-	3,394,059
Animal control	2,161	-	-	-	2,161
Public services	1,810,413	-	-	44,374	1,854,787
Cultural and recreation	2,544,508	-	-	116,423	2,660,931
Debt service	-	-	894,649	1,031,885	1,926,534
Capital outlay	2,046,717	57,829	950,910	352,705	3,408,161
Total expenditures	23,060,924	57,829	1,875,422	2,726,306	27,720,481
Excess revenues over (under) expenditures	(4,606,878)	(52,403)	2,802,358	(163,992)	(2,020,915)
Other financing sources (uses):					
Transfers in	2,418,664	-	-	-	2,418,664
Transfers out	(142,049)	-	(4,880,963)	-	(5,023,012)
Total other financing sources and uses	2,276,615	-	(4,880,963)	-	(2,604,348)
Net change in fund balances	(2,330,263)	(52,403)	(2,078,605)	(163,992)	(4,625,263)
Net assets - beginning of year	10,165,168	163,070	4,390,591	1,845,074	16,563,903
Fund balance - end of year	\$ 7,834,905	\$ 110,667	\$ 2,311,986	\$ 1,681,082	\$ 11,938,640

**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, 2013**

Net change in fund balances - total governmental funds **\$ (4,625,263)**

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	3,408,161	
Depreciation expense	<u>(3,392,971)</u>	15,190

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

Debt principle repayment	821,697	
GO bond principle repayment	<u>680,000</u>	1,501,697

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 **\$ (3,108,376)**

**CITY OF YUKON
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2013**

	Water/ Sewer Fund	Sanitation Fund	Yukon Municipal Authority	Stormwater Fund	Total Proprietary Funds
Assets:					
Cash and cash equivalents	\$ (1,432,825)	\$ 722,457	\$ 1,277,974	\$ 151,282	\$ 718,888
Accounts receivable, net	-	247,354	733,537	32,242	1,013,133
Restricted assets:					
Cash	1,820	-	-	-	1,820
Investments	359,220	-	16,965,630	-	17,324,850
Capital assets:					
Land	-	6,735	91,005	-	97,740
Construction in progress	-	-	327,401	-	327,401
Capital assets, net	-	1,179,108	10,488,699	-	11,667,807
Other assets:					
Bond issuance costs (net of amortization)	-	-	609,727	-	609,727
Total assets	\$ (1,071,785)	\$ 2,155,654	\$ 30,493,973	\$ 183,524	\$ 31,761,366
Liabilities:					
Accounts payable	\$ 166,283	\$ 36,193	\$ -	\$ 681	\$ 203,157
Accrued salaries	27,137	12,434	-	1,763	41,334
Accrued compensated absences, current	167,648	77,116	-	15,271	260,035
Notes payable, current	-	-	113,287	-	113,287
Payable from restricted assets:					
Bond interest payable, current	-	-	434,000	-	434,000
Bonds payable, current	-	-	3,255,000	-	3,255,000
Customer deposits payable	368,833	-	-	-	368,833
Notes payable, non-current	-	-	482,531	-	482,531
Bonds payable, non-current	-	-	32,505,000	-	32,505,000
Total liabilities	729,901	125,743	36,789,818	17,715	37,663,177
Net position:					
Invested in capital assets, net of related debt	-	1,185,843	(14,136,094)	-	(12,950,251)
Restricted	359,220	-	3,109,357	-	3,468,577
Unrestricted	(2,160,906)	844,068	4,730,892	165,809	3,579,863
Total net position	(1,801,686)	2,029,911	(6,295,845)	165,809	(5,901,811)
Total liabilities and net position	\$ (1,071,785)	\$ 2,155,654	\$ 30,493,973	\$ 183,524	\$ 31,761,366

CITY OF YUKON
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2013

	Water/ Sewer Fund	Sanitation Funds	Yukon Municipal Authority	Stormwater Funds	Total Proprietary Funds
Operating revenues:					
Water revenues	\$ -	\$ -	\$ 4,777,198	\$ -	\$ 4,777,198
Sewer revenues	-	-	1,668,817	263,076	1,931,893
Sanitation revenues	-	1,838,959	-	-	1,838,959
Total operating revenues	-	1,838,959	6,446,015	263,076	8,548,050
Operating expense:					
Personal services	1,540,440	822,259	-	121,928	2,484,627
Materials and supplies	518,198	199,899	-	8,518	726,615
Other charges and services	3,046,908	334,342	18,029	48,583	3,447,862
Depreciation and amortization	-	223,695	1,463,956	-	1,687,651
Total operating expenses	5,105,546	1,580,195	1,481,985	179,029	8,346,755
Operating income before non-operating revenues, expenses and transfers	(5,105,546)	258,764	4,964,030	84,047	201,295
Non-operating revenues (expenses)					
Investment income	360	-	17,681	172	18,213
Interest expense	-	-	(1,063,834)	-	(1,063,834)
Other revenues (expense)	2,038	25,593	190,684	1,483	219,798
Total nonoperating revenues (expenses)	2,398	25,593	(855,469)	1,655	(825,823)
Income (loss) before operating transfers	(5,103,148)	284,357	4,108,561	85,702	(624,528)
Transfers in	6,025,704	1,212,085	4,880,963	6,698	12,125,450
Transfers out	(2,179,171)	(459,248)	(6,826,433)	(56,250)	(9,521,102)
Change in net position	(1,256,615)	1,037,194	2,163,091	36,150	1,979,820
Net position - beginning of year	(545,071)	992,717	(8,159,691)	129,659	(7,582,386)
<i>Adjustment for adoption of GASB 65</i>	-	-	(299,245)	-	(299,245)
Net position at end of year	\$ (1,801,686)	\$ 2,029,911	\$ (6,295,845)	\$ 165,809	\$ (5,901,811)

**CITY OF YUKON
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2013**

	Water/ Sewer Fund	Sanitation Fund	Yukon Municipal Authority	Stormwater Fund	Total Proprietary Funds
Cash flows operating activities:					
Cash received from customers	\$ -	\$ 1,780,751	\$ 6,424,500	\$ 236,742	\$ 8,441,993
Cash payments to suppliers	(3,612,026)	(541,734)	-	(57,986)	(4,211,746)
Cash payments to employees	(1,567,030)	(802,116)	(18,029)	(120,193)	(2,507,368)
Other operating revenues	8,666	-	-	-	8,666
Net cash provided (used) by operating activities	(5,170,390)	436,901	6,406,471	58,563	1,731,545
Cash flows from non-capital financing activities:					
Non-capital contributions	-	25,593	190,684	1,483	217,760
Transfers from other funds	6,025,704	1,212,085	4,880,963	6,698	12,125,450
Transfers to other funds	(2,179,171)	(459,248)	(6,826,433)	(56,250)	(9,521,102)
Net cash provided (used) by non-capital financing activities	3,846,533	778,430	(1,754,786)	(48,069)	2,822,108
Cash flows from capital and related financing activities:					
Acquisition and construction of capital assets	-	(1,112,702)	(2,008,284)	-	(3,120,986)
Issuance of revenue bonds	-	-	15,000,000	-	15,000,000
Principal paid on bonds, notes and lease obligations	-	-	(2,863,398)	-	(2,863,398)
Interest paid on bonds, notes, and lease obligations	-	-	(939,477)	-	(939,477)
Transfers to other funds for capital expenditures	-	-	-	-	-
Net cash provided (used) by capital and related financing activities	-	(1,112,702)	9,188,841	-	8,076,139
Cash flows from investing activities:					
Purchase of investments	-	-	(12,546,885)	-	(12,546,885)
Investment income	2,039	-	17,681	172	19,892
Net cash provided (used) by investing activities	2,039	-	(12,529,204)	172	(12,526,993)
Net increase (decrease) in cash and cash equivalents	(1,321,818)	102,629	1,311,322	10,666	102,799
Cash and cash equivalents at beginning of year	(109,187)	619,828	(33,348)	140,616	617,909
Cash and cash equivalents at end of year	\$ (1,431,005)	\$ 722,457	\$ 1,277,974	\$ 151,282	\$ 720,708
Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets					
Cash and cash equivalents	\$ (1,432,825)	\$ 722,457	\$ 1,277,974	\$ 151,282	\$ 718,888
Restricted assets, cash	1,820	-	-	-	1,820
Cash and cash equivalents at end of year	\$ (1,431,005)	\$ 722,457	\$ 1,277,974	\$ 151,282	\$ 720,708
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:					
Operating income (loss)	\$ (5,105,546)	\$ 258,764	\$ 4,964,030	\$ 84,047	\$ 201,295
Adjustments to reconcile operating income (loss) to Net cash provided (used) by operating activities					
Depreciation	-	223,695	1,463,956	-	1,687,651
Changes in assets and liabilities:					
(Increase) decrease in accounts receivable	-	(58,208)	(21,515)	(26,334)	(106,057)
Increase (decrease) in accounts payable	(46,920)	(7,493)	-	(885)	(55,298)
Increase (decrease) in accrued salaries	(54,621)	2,329	-	854	(51,438)
Increase (decrease) in compensated absences	28,031	17,814	-	881	46,726
Increase (decrease) in liability for meter deposits	8,666	-	-	-	8,666
Total adjustments	(64,844)	178,137	1,442,441	(25,484)	1,530,250
Net cash provided (used) by operating activities	\$ (5,170,390)	\$ 436,901	\$ 6,406,471	\$ 58,563	\$ 1,731,545

**CITY OF YUKON
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2013**

	Total Agency Funds
Assets:	
Cash and cash equivalents	\$ 382,500
Total assets	<u>382,500</u>
Liabilities:	
Escrow liability	342,930
Due to other funds	<u>39,570</u>
Total liabilities	<u>\$ 382,500</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, 2013

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, 2013. The City operates under a charter with a Council-Manager form of government.

A. Reporting Entity

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

Fund Types and Major Funds

Major Governmental Funds

General Fund

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

Capital Projects Fund

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

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

Non-Major Governmental Funds

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

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

Yukon Community Support Fund – accounts for funds for community activities and events. This fund operates on a calendar year basis. Included in the City's statement is the trial balance for December 31, 2012.

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, 2013

Fiduciary Component Units (reported in fiduciary financial statements)

Agency Fund

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

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

B. Basic Financial Statements

The City's basic financial statements consist of government-wide statements, including a statement of net 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, 2013**

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, 2013

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

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

2. Restricted Assets

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

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

3. Fair Value of Financial Instruments

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

4. Estimates

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

5. Accounts Receivable

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

6. Capital Assets and Depreciation

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

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

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

CITY OF YUKON
Yukon, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013

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, 2013 are as follows:

Type	Weighted Average Maturity (Months)	Credit Rating	Market Value	Cost
Investments				
Money Market	N/A	AAAm	\$ 16,965,630	\$ 16,965,630
Certificate of deposit	8.57	N/A	9,640,997	9,640,997
Total investments			<u>\$ 26,606,627</u>	<u>\$ 26,606,627</u>

<u>Reconciliation to Statement of Net Position</u>	
Governmental activities	\$ 9,281,777
Business-type activities	17,324,850
	<u>\$ 26,606,627</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 June 30, 2012	Additions	Retirements/ Adjustments	Balance June 30, 2013
Capital assets				
Land	\$ 2,974,338	\$ -	\$ -	\$ 2,974,338
Construction in progress	8,022,227	489,780	-	8,512,007
Infrastructure	67,133,257	1,007,332	-	68,140,589
Buildings and improvements	12,635,133	-	-	12,635,133
Furniture, fixtures and equipment	5,390,401	571,862	-	5,962,263
Vehicles	5,011,756	1,339,187	-	6,350,943
Total capital assets	101,167,112	3,408,161	-	104,575,273
Less accumulated depreciation	(49,257,822)	(3,392,971)	-	(52,650,793)
Capital assets, net	<u>\$ 51,909,290</u>	<u>\$ 15,190</u>	<u>\$ -</u>	<u>\$ 51,924,480</u>

Business-type Activities

	Balance June 30, 2012	Additions	Retirements	Balance June 30, 2013
Capital assets				
Land	\$ 97,740	\$ -	\$ -	\$ 97,740
Construction in progress	327,401	-	-	327,401
Infrastructure	32,565,616	1,076,299	-	33,641,915
Buildings and improvements	141,002	-	-	141,002
Furniture, fixtures and equipment	824,071	1,057,705	-	1,881,776
Vehicles	1,249,170	986,984	-	2,236,154
Total capital assets	35,205,000	3,120,988	-	38,325,988
Less accumulated depreciation	(24,994,165)	(1,238,875)	-	(26,233,040)
Capital assets, net	<u>\$ 10,210,835</u>	<u>\$ 1,882,113</u>	<u>\$ -</u>	<u>\$ 12,092,948</u>

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Business-type Activities by Fund

June 30, 2013

	Yukon Municipal Authority	Sanitation Fund	Total
Capital assets			
Land	\$ 91,005	\$ 6,735	\$ 97,740
Construction in progress	327,401	-	327,401
Infrastructure	33,580,469	61,444	33,641,913
Buildings and improvements	141,002	-	141,002
Furniture, fixtures and equipment	298,134	1,583,642	1,881,776
Vehicles	1,659,172	576,982	2,236,154
Total capital assets	36,097,183	2,228,803	38,325,986
Less accumulated depreciation	(25,190,078)	(1,042,960)	(26,233,038)
Capital assets, net	<u>\$ 10,907,105</u>	<u>\$ 1,185,843</u>	<u>\$ 12,092,948</u>

Depreciation expense

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

Governmental activities:

General government	\$ 418,072
Public safety:	
Police	620,913
Fire	345,121
Animal control	16,984
Public service	1,595,202
Culture and recreation	396,679

Governmental activities depreciation expense 3,392,971

Business-type activities:

Water and sewer	1,015,180
Sanitation	223,695

Business-type activities depreciation expense 1,238,875

Total depreciation expense \$ 4,631,846

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013**

C. Long-term Debt and Capitalized Leases

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

Governmental Activities

Capitalized Leases

In March 2012, the City entered into a master lease agreement payable to Arvest bank in the amount of \$1,568,555 for the purchase of equipment. Terms of the lease are 60 monthly installments of \$28,359.49 at a stated interest of 3.25%.	\$ 1,199,947
In March 2012, the City entered into a capital lease agreement payable in the amount of \$1,700,000 for the purchase of sanitation equipment. Terms of the lease are 60 monthly installments of \$30,736 at a stated interest rate of 3.25%.	1,300,503
In May 2012, the City entered into a capital lease for the purchase of a new street sweeper. The total cost of the equipment was \$159,950, The City made an \$80,000 down payment. The remaining balance is financed over four years with annual payments at 2.75%.	<u>60,923</u>
Total Governmental Capital Leases Payable	<u>\$ 2,561,373</u>

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

Bonds Payable

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

\$ 2,620,000

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

2,465,000

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

3,160,000

Total Governmental Activities Bonds Payable \$ 8,245,000

Total Governmental Activities Long Term Debt \$ 10,806,373

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013**

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 three purchases issued totaling \$611,910 at a prevailing rate of 2.5% at June 30, 2013.

\$ 595,818

Total Notes Payable

\$ 595,818

Bonds Payable

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

\$ 5,090,000

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%.

5,615,000

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

3,095,000

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%.

6,960,000

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.

6,500,000

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%.

8,500,000

Total Bonds Payable

\$ 35,760,000

Total Business-type Activities Debt Payable

\$ 36,355,818

CITY OF YUKON
Yukon, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2013:

	Balance June 30, 2012	Issued	Retired	Balance June 30, 2013	Current Portion
Governmental Activities					
General obligation bonds	\$ 8,925,000	\$ -	\$ (680,000)	\$ 8,245,000	\$ 680,000
Lease obligations	3,383,070	-	(821,697)	2,561,373	657,077
Total Governmental Activities	12,308,070	-	(1,501,697)	10,806,373	1,337,077
Business-type Activities					
Revenue bonds	22,615,000	15,000,000	(1,855,000)	35,760,000	3,255,000
Notes payable	1,604,216	611,910	(1,620,308)	595,818	113,287
Total Business-type Activities	24,219,216	15,611,910	(3,475,308)	36,355,818	3,368,287
Total Primary Government Long-term debt	\$ 36,527,286	\$ 15,611,910	\$ (4,977,005)	\$ 47,162,191	\$ 4,705,364

Maturities of long-term debt are as follows:

Year Ending June 30,	Governmental Activities				
	Capital Leases Payable		Bonds Payable		Total
	Principal	Interest	Principal	Interest	
2014	\$ 657,077	\$ 73,728	\$ 680,000	\$ 24,488	\$ 1,435,293
2015	678,646	51,939	680,000	25,150	1,435,735
2016	700,923	29,662	680,000	25,828	1,436,413
2017	524,727	7,132	680,000	26,525	1,238,384
2018	-	-	680,000	26,965	706,965
2019-2023	-	-	3,400,000	139,608	3,539,608
2024-2026	-	-	1,445,000	59,513	1,504,513
	\$ 2,561,373	\$ 162,461	\$ 8,245,000	\$ 328,077	\$ 11,296,911

**CITY OF YUKON
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013**

Business Type Activities

Year Ending June 30,	Notes Payable		Bond Payable		Total
	Principal	Interest	Principal	Interest	
2014	113,287	13,603	2,870,000	1,110,383	4,107,273
2015	116,152	10,738	2,910,000	1,064,781	4,101,671
2016	119,089	7,801	2,985,000	987,356	4,099,246
2017	122,101	4,789	3,080,000	900,203	4,107,093
2018	125,189	1,702	3,160,000	815,858	4,102,749
2019-2023	-	-	16,415,000	2,602,564	19,017,564
2024-2028	-	-	2,745,000	784,588	3,529,588
2029-2031	-	-	1,595,000	167,117	1,762,117
	<u>\$ 595,818</u>	<u>\$ 38,633</u>	<u>\$ 35,760,000</u>	<u>\$ 8,432,850</u>	<u>\$ 44,827,301</u>

CITY OF YUKON
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NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013

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.

96 Sales Tax Capital Projects fund	\$	1,099,911	\$	-
Municipal Court		-		39,571
96 Sales Tax Capital Projects fund				
General Fund		-		1,099,911
Municipal Court				
General Fund		39,571		-
	\$	1,139,482	\$	1,139,482

		Transfers From		Transfers To
General Fund				
Water & Sewer	\$	1,903,165	\$	71,844
Sanitation		459,249		63,507
Stormwater		56,250		6,698
Yukon Municipal Authority		-		-
96 Sales Tax Capital Projects fund				
Yukon Municipal Authority		-		4,880,963
Water & Sewer				
General Fund		71,844		1,903,165
Yukon Municipal Authority		5,953,860		-
Sanitation		-		276,006
Sanitation				
General Fund		63,507		459,249
Water & Sewer		276,006		-
Yukon Municipal Authority		872,573		-
Yukon Municipal Authority				
Water & Sewer		-		5,953,860
Sanitation		-		872,573
96 Sales Tax Capital Projects fund		4,880,963		-
Stormwater				
General fund		6,698		56,250
Yukon Municipal Authority		-		-
	\$	14,544,115	\$	14,544,115

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013**

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, 2013, 134 active employees were participating in the plan and 99 non-active participants. The City's contribution to the fund for these participants was based on 22.21% of covered salaries and totaled \$1,593,368 for the year ended June 30, 2013. Employees have no contribution requirements.

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

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

Funding Status and Progress

As of March 2013, 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)
01/01/13	15,712,879	23,352,558	7,639,679	67.3%	6,361,555	120.1%
01/01/12	14,259,106	22,120,329	7,861,224	64.5%	5,653,615	139.0%

Oklahoma Police and Firefighter's Pension and Retirement Systems

Plan Description

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

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013

	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
Actuarial cost method	Individual entry age normal	Individual entry age

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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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, 2012, 12 retired employees are receiving benefits under this plan.

Funding Policy. The contribution requirement of the City is an implicit subsidy. The implicit subsidy is not a direct payment from the employer on behalf of the member but rather stems from retiree contribution levels that are less than the claims cost at retiree ages. Since claims experience for employees and non-Medicare eligible retirees are pooled when determining premiums, these retired members pay a premium based on a pool of members that, on average, are younger and healthier. There is an implicit subsidy from the employee group since the premiums paid by the retirees are lower than they would have been if the retirees were insured separately. The subsidies are valued using the difference between the age-based claims costs and the premium paid by the retiree. The amount required to fund the implicit rate is based on projected pay-as-you-go financing requirements. For fiscal year 2012, the City contributed 70% of premiums of 8 retirees and 0% of premiums of 4 retirees to the plan. Plan members receiving benefits contributed \$71,712, or approximately 50 percent of the total premiums, through their required contribution of \$636 per month for retiree-only coverage and \$1,502 for retiree and spouse medical coverage, these amounts include dental and vision coverage.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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Annual OPEB Cost and Net OPEB Obligation. The City's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. GASB 45 requires entities with over 200 employees to have the actuarial valuation performed biennially. The following table shows the components of the City's annual OPEB cost the amount actually contributed to the plan, and changes in the City's net OPEB obligation for the year ended June 30, 2011:

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

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

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

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

C. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; employee health benefits; unemployment; and natural disasters. The City has established a self insurance fund to cover deductibles on claims related to destruction, theft or damage of assets. Losses related to other risks or those exceeding deductibles are covered by commercial insurance. Management believes that such coverage is sufficient to preclude any significant uninsured losses to the City. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

CITY OF YUKON
Yukon, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013

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

As a member of the Plan, the City is required to pay fees set by the Plan according to an established payment schedule. A Loss Fund has been established from the proceeds of these fees for each participant in the Plan. The State Insurance Fund provides coverage in excess of the Loss Fund so the City's liability for claim loss is limited to the balance of that fund.

In addition to the Loss Fund, the City maintains an Escrow Fund that consists past refunds left on deposit with the Plan. Escrow funds earn interest and are readily available for use by the governing board. In accordance with GASB No. 10, the City reports the required contribution to the pool, net of refunds, as insurance expense. The balance in the Escrow Fund was \$25,173.

D. Commitments and Contingencies

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

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

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

The City is self-insured for employee health insurance claims in excess of \$45,000. The plan is administered by a third party who determines the appropriate insurance rate on each employee. The City remits payment on a monthly basis. Claims are submitted to and processed by the third party administrator. As June 30, 2013, \$1,440,519 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 December 31, 2013, 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, 2013

	<u>Original Budget</u>	<u>Revisions</u>	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
REVENUES					
Sales and use tax	\$ 9,973,974	\$ 124	\$ 9,974,098	\$ 10,227,190	\$ 253,092
Taxes	347,867	-	347,867	225,911	(121,956)
Intergovernmental	199,563	-	199,563	302,503	102,940
Franchise tax	1,230,672	-	1,230,672	1,122,657	(108,015)
Charges for services	586,721	-	586,721	236,524	(350,197)
Fines and forfeitures	873,033	-	873,033	1,149,117	276,084
Licenses and permits	247,938	-	247,938	268,037	20,099
Investment income	15,000	-	15,000	60,006	45,006
Rental and royalty income	6,368	-	6,368	54,943	48,575
Sale of property	50,000	-	50,000	75,500	25,500
Miscellaneous	100,925	-	100,925	319,769	218,844
Total revenues	<u>13,632,061</u>	<u>124</u>	<u>13,632,185</u>	<u>14,042,157</u>	<u>409,972</u>
EXPENDITURES					
General government	8,373,019	20,743	8,393,762	7,925,775	467,987
Public safety:					
Police	5,060,003	(195,426)	4,864,577	5,084,346	(219,769)
Municipal court	259,013	-	259,013	255,106	3,907
Fire	3,052,790	-	3,052,790	3,394,059	(341,269)
Public services	1,691,692	8,184	1,699,876	1,810,413	(110,537)
Cultural and recreation	2,575,755	14,221	2,589,976	2,544,508	45,468
Capital outlay	97,700	(96,200)	1,500	-	1,500
Total expenditures	<u>21,109,972</u>	<u>(248,478)</u>	<u>20,861,494</u>	<u>21,014,207</u>	<u>(152,713)</u>
Revenue over (under) expenditures	(7,477,911)	248,602	(7,229,309)	(6,972,050)	562,685
OTHER FINANCING SOURCES (USES)					
Operating transfers in/(out)	7,488,713	-	7,488,713	2,927,974	(4,560,739)
Net other financing sources (uses)	<u>7,488,713</u>	<u>-</u>	<u>7,488,713</u>	<u>2,927,974</u>	<u>(4,560,739)</u>
Net change in fund balance	10,802	248,602	259,404	(4,044,076)	(3,998,054)
Fund balance at beginning of year (Non-GAAP budgetary basis)				13,275,698	
Fund balance at end of year (Non-GAAP budgetary basis)				<u>\$ 9,231,622</u>	<u>\$ (3,998,054)</u>
ADJUSTMENTS TO GENERALLY ACCEPTED ACCOUNTING PRINCIPLES					
Revenue and transfer accruals				(1,396,717)	
Fund balance at end of year (GAAP basis)				<u>\$ 7,834,905</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, 2013

	<u>Budget</u>	<u>Revisions</u>	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
<u>REVENUES</u>					
Sales and use tax	\$ 4,372,174	\$ -	\$ 4,372,174	\$ 4,411,889	\$ 39,715
Hotel/motel tax	245,000	-	245,000	247,840	2,840
Investment income	8,096	-	8,096	18,051	9,955
Total revenues	<u>4,625,270</u>	<u>-</u>	<u>4,625,270</u>	<u>4,677,780</u>	<u>52,510</u>
<u>EXPENDITURES</u>					
Debt service	4,361,521	-	4,361,521	924,512	3,437,009
Capital outlay	1,206,854	-	1,206,854	950,910	255,944
Total expenditures	<u>5,568,375</u>	<u>-</u>	<u>5,568,375</u>	<u>1,875,422</u>	<u>3,692,953</u>
Revenue over (under) expenditures	(943,105)	-	(943,105)	2,802,358	(3,640,443)
<u>OTHER FINANCING SOURCES (USES)</u>					
Operating transfers in/(out)	368,832	-	368,832	(4,375,603)	(4,744,435)
Net other financing sources (uses)	<u>368,832</u>	<u>-</u>	<u>368,832</u>	<u>(4,375,603)</u>	<u>(4,744,435)</u>
Net change in fund balance	<u>(574,273)</u>	<u>-</u>	<u>(574,273)</u>	<u>(1,573,245)</u>	<u>(8,384,878)</u>
Fund balance at beginning of year (Non-GAAP budgetary basis)				3,885,231	
Fund balance at end of year (Non-GAAP budgetary basis)				<u>\$ 2,311,986</u>	<u>\$ (8,384,878)</u>
ADJUSTMENTS TO GENERALLY ACCEPTED ACCOUNTING PRINCIPLES					
Revenue and transfer accruals				-	
Fund balance at end of year (GAAP basis)				<u>\$ 2,311,986</u>	

**CITY OF YUKON
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2013**

	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	\$ 880,239	\$ 722,740	\$ 522,421	\$ (426,415)	\$ 1,698,985
Taxes receivable	4,530	-	-	-	4,530
Grants receivable	-	-	-	3,519	3,519
Total assets	\$ 884,769	\$ 722,740	\$ 522,421	\$ (422,896)	\$ 1,707,034
Liabilities					
Accounts payable	\$ -	\$ -	\$ -	\$ 25,952	\$ 25,952
Total liabilities	-	-	-	25,952	25,952
Fund balances:					
Restricted	884,769	-	-	(448,848)	435,921
Committed	-	-	522,421	-	522,421
Assigned	-	722,740	-	-	722,740
Total fund balances	884,769	722,740	522,421	(448,848)	1,681,082
Total liabilities and fund balances	\$ 884,769	\$ 722,740	\$ 522,421	\$ (422,896)	\$ 1,707,034

CITY OF YUKON
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2013

	Debt Service Fund	Special Revenue Fund	Yukon Community Support Fund	Community Development Block Grant Fund	Total Non-major Governmental Funds
Revenues:					
Taxes	\$ 984,869	\$ -	\$ -	\$ -	\$ 984,869
Charges for services	-	58,485	380	-	58,865
Investment income	2,883	23	-	-	2,906
Intergovernmental revenue	-	29,061	-	968,122	997,183
Rental income	-	1,719	-	-	1,719
Donations	-	419,555	92,443	-	511,998
Miscellaneous	-	1,210	3,564	-	4,774
Total revenues	987,752	510,053	96,387	968,122	2,562,314
Expenditures:					
General Government	-	170,785	-	936,598	1,107,383
Public Safety	-	73,536	-	-	73,536
Public Services	-	44,374	-	-	44,374
Cultural and Recreation	-	25,461	90,962	-	116,423
Capital Outlay	-	-	-	352,705	352,705
Debt Service:					
Pinciple and interest charges	1,031,885	-	-	-	1,031,885
Total Expenditures	1,031,885	314,156	90,962	1,289,303	2,726,306
Excess (deficiency) of revenues over expenditures	(44,133)	195,897	5,425	(321,181)	(163,992)
Net change in fund balances	(44,133)	195,897	5,425	(321,181)	(163,992)
Net assets - beginning of year	928,902	526,843	516,996	(127,667)	1,845,074
Prior period adjustment	-	-	-	-	-
Fund balances - end of year	\$ 884,769	\$ 722,740	\$ 522,421	\$ (448,848)	\$ 1,681,082

**CITY OF YUKON
 COMBINING STATEMENT OF FIDUCIARY NET ASSETS
 AGENCY FUNDS
 YEAR ENDED JUNE 30, 2013**

	Municipal Court Fund	Escrow Fund	Total Agency Funds
Assets:			
Cash and cash equivalents	\$ 62,648	\$ 319,852	\$ 382,500
Total assets	\$ 62,648	\$ 319,852	\$ 382,500
Liabilities:			
Escrow liability	\$ 23,078	\$ 319,852	\$ 342,930
Due to other funds	39,570	-	39,570
Total liabilities	\$ 62,648	\$ 319,852	\$ 382,500



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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, 2013, 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 December 31, 2013.

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

Woodward, OK

December 31, 2013