

**THE CITY OF COMMERCE,**  
**OKLAHOMA**  
**ANNUAL FINANCIAL STATEMENTS AND**  
**INDEPENDENT AUDITOR'S REPORTS**

**AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**CITY OF COMMERCE, OKLAHOMA  
ANNUAL FINANCIAL REPORT  
As of and for the Year Ended June 30, 2007**

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**CITY OF COMMERCE, OKLAHOMA**  
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**As of and for the Year Ended June 30, 2007**

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**INDEPENDENT AUDITOR'S REPORT**

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## INDEPENDENT AUDITOR'S REPORT

Mayor and City Council  
City of Commerce, Oklahoma

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Commerce, Oklahoma, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Commerce, Oklahoma's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, the City of Commerce, Oklahoma, prepares its financial statements on the modified cash basis, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position – modified cash basis of the governmental activities, the business-type activities each major fund, and the aggregate remaining fund information of the City of Commerce, Oklahoma as of June 30, 2007, and the respective changes in financial position – modified cash basis and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 19, 2013 on our consideration of the City of Commerce, Oklahoma'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The City of Commerce, Ottawa County, Oklahoma has not presented the Management's Discussion and Analysis required by the Governmental Accounting Standards Board (GASB) that the GASB has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Commerce, Oklahoma's basic financial statements.

TURNER & Associates, PLLC

Vinita, Oklahoma  
June 19, 2013



**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**

Mayor and City Council  
City of Commerce, Oklahoma

We have audited the financial statements of the business-type activities of the City of Commerce, Ottawa County, Oklahoma, as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements and have issued our report thereon dated June 19, 2013. The City of Commerce, Ottawa County, did not present the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to supplement, although not to be part of, the basic financial statements. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting, describe in the accompanying schedule of findings and questioned costs that we consider to be material weaknesses in internal control over financial reporting.

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

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.

## Compliance and Other Matters

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

We also noted certain additional matters that we reported to management of the City of Commerce, Oklahoma, in a separate letter dated June 19, 2013.

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

TURNER & ASSOCIATES, PLLC

Vinita, Oklahoma  
June 19, 2013



**CITY OF COMMERCE, OKLAHOMA  
ANNUAL FINANCIAL REPORT  
As of and for the Year Ended June 30, 2007**

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**BASIC FINANCIAL STATEMENTS – STATEMENT OF NET ASSETS AND ACTIVITIES**

**CITY OF COMMERCE, OKLAHOMA**  
**ANNUAL FINANCIAL REPORT**  
As of and for the Year Ended June 30, 2007

**Statement of Net Assets (Modified Cash Basis) – June 30, 2007**

	<u>Primary Government</u>			<u>Component Unit</u>
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>	<u>Mickey Mantle Memorial Trust Authority</u>
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents	\$ 250,775	\$ 240,528	\$ 491,303	\$ 169,714
Investments	533,832	28,188	562,020	-
Internal balances	(500)	500	-	-
Cash and cash equivalents-restricted	-	79,168	79,168	-
Capital assets:				
Land	50,000	-	50,000	50,000
Other capital assets, net of depreciation	1,627,529	1,428,214	3,055,743	-
Unamortized note issuance costs	-	2,041	2,041	-
Total assets	<u>\$ 2,461,636</u>	<u>\$ 1,778,639</u>	<u>\$ 4,240,275</u>	<u>\$ 219,714</u>
<b>LIABILITIES</b>				
Current liabilities				
Due to other governments	353	-	353	-
Deposits subject to refund	-	10,580	10,580	-
Long-term liabilities:				
Deposits subject to refund	-	42,323	42,323	-
Due within one year	266,492	628,322	894,814	-
Due in more than one year	338,676	414,036	752,712	-
Total liabilities	<u>605,521</u>	<u>1,095,261</u>	<u>1,700,782</u>	<u>-</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	1,072,361	385,856	1,458,217	50,000
Restricted for grant purposes	880,884	2,497	883,381	-
Restricted for capital projects	-	23,251	23,251	-
Restricted for debt service	-	60,038	60,038	-
Unrestricted	(97,130)	211,736	114,606	169,714
Total Net Assets	<u>\$ 1,856,115</u>	<u>\$ 683,378</u>	<u>\$ 2,539,493</u>	<u>\$ 219,714</u>

See accompanying notes to the basic financial statements.

**CITY OF COMMERCE, OKLAHOMA**  
**ANNUAL FINANCIAL REPORT**  
**As of and for the Year Ended June 30, 2007**

**Statement of Activities (Modified Cash Basis) – Year Ended June 30, 2007**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Unit Mickey Mantle Memorial Trust Authority
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	
<b>Primary Government:</b>								
Governmental activities:								
General Government	\$ 1,412,526	1,531,108	\$ -	\$ -	\$ 118,582	\$ -	\$ 118,582	\$ -
Public Safety	234,622	75,167	24,724	-	(134,731)	-	(134,731)	-
Highways and Streets	221,833	53,413	69,037	-	(99,383)	-	(99,383)	-
Culture and Recreation	3,033	-	-	-	(3,033)	-	(3,033)	-
Public Works	81,861	208,756	-	-	126,895	-	126,895	-
Interest on long-term debt	30,525	-	-	-	(30,525)	-	(30,525)	-
Total governmental activities	<u>1,984,400</u>	<u>1,868,444</u>	<u>93,761</u>	<u>0</u>	<u>(22,195)</u>	<u>-</u>	<u>(22,195)</u>	<u>-</u>
Business-type activities:								
Water and sewer	432,969	509,884	-	-	-	76,915	76,915	-
Total business-type activities	<u>432,969</u>	<u>509,884</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>76,915</u>	<u>76,915</u>	<u>-</u>
<b>Total primary government</b>	<u>\$ 2,417,369</u>	<u>\$ 2,378,328</u>	<u>\$ 93,761</u>	<u>\$ -</u>	<u>\$ (22,195)</u>	<u>76,915</u>	<u>54,720</u>	<u>-</u>
<b>Component Units:</b>								
Culture and Recreation	<u>\$ 26,498</u>		<u>\$ 176,863</u>					<u>\$ 150,365</u>
General revenues:								
Taxes:								
Sales tax					211,778	-	211,778	-
Franchise and public service taxes					50,723	-	50,723	-
Intergovernmental revenue not restricted to specific programs					17,800	-	17,800	-
Investment income					33,906	2,487	36,393	1,134
Miscellaneous					29,605	27,877	57,482	-
Transfers - internal activity					(6,688)	6,688	-	-
Total general revenues and transfers					<u>337,124</u>	<u>37,052</u>	<u>374,176</u>	<u>151,499</u>
Change in net assets					314,929	113,967	428,896	151,499
Net assets - beginning, restated					1,541,186	569,411	2,110,597	68,215
Net assets - ending					<u>\$ 1,856,115</u>	<u>\$ 683,378</u>	<u>\$ 2,539,493</u>	<u>\$ 219,714</u>

See accompanying notes to the basic financial statements.

**CITY OF COMMERCE, OKLAHOMA  
ANNUAL FINANCIAL REPORT  
As of and for the Year Ended June 30, 2007**

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**BASIC FINANCIAL STATEMENTS – GOVERNMENTAL FUNDS**

**CITY OF COMMERCE, OKLAHOMA  
ANNUAL FINANCIAL REPORT  
As of and for the Year Ended June 30, 2007**

**Governmental Funds Balance Sheet (Modified Cash Basis) – June 30, 2007**

	<b>General Fund</b>	<b>OCC SE Fund</b>	<b>ODEQ Fund</b>	<b>Other Governmental Funds</b>	<b>Totals</b>
<b>ASSETS</b>					
Cash and cash equivalents	\$ -	\$ 25,545	\$ 296,243	\$ 36,214	\$ 358,002
Investments	-	50,000	450,000	33,832	533,832
Due from other funds	-	-	1,614	-	1,614
<b>Total Assets</b>	<b>\$ -</b>	<b>\$ 75,545</b>	<b>\$ 747,857</b>	<b>\$ 70,046</b>	<b>\$ 893,448</b>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Cash overdraft	107,227	-	-	-	107,227
Accounts payable	-	-	-	-	-
Due to other funds	2,114	-	-	-	2,114
Due to other governments	353	-	-	-	353
<b>Total Liabilities</b>	<b>109,694</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>109,694</b>
Fund Balances:					
Unreserved (deficit)	(109,694)	75,545	747,857	70,046	783,754
<b>Total Fund Balances</b>	<b>(109,694)</b>	<b>75,545</b>	<b>747,857</b>	<b>70,046</b>	<b>783,754</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ -</b>	<b>\$ 75,545</b>	<b>\$ 747,857</b>	<b>\$ 70,046</b>	<b>\$ 893,448</b>

See accompanying notes to the basic financial statements.

**CITY OF COMMERCE, OKLAHOMA**  
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**Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances**  
**(Modified Cash Basis) – Year Ended June 30, 2007**

	<u>General Fund</u>	<u>OCC SE Fund</u>	<u>ODEQ Fund</u>	<u>Other Governmental Funds</u>	<u>Totals</u>
<b>Revenues:</b>					
Taxes	\$ 264,685	\$ -	\$ -	\$ -	\$ 264,685
Intergovernmental	37,559	-	47,093	-	84,652
Charges for services	208,756	249,925	1,357,121	6,169	1,821,971
Fines & forfeitures	52,642	-	-	-	52,642
Investment income	7,607	5,673	19,929	697	33,906
Miscellaneous	43,184	-	495	6,982	50,661
<b>Total Revenues</b>	<b>614,433</b>	<b>255,598</b>	<b>1,424,638</b>	<b>13,848</b>	<b>2,308,517</b>
<b>Expenditures:</b>					
Current:					
General government	121,457	249,120	907,963	39,605	1,318,145
Sanitation	59,690	-	-	-	59,690
Police	180,619	-	-	7,156	187,775
Fire	19,753	-	-	9,536	29,289
Municipal court	21,392	-	-	-	21,392
Parks & recreation	1,542	-	-	-	1,542
City attorney	24,450	-	-	-	24,450
Street	166,916	-	-	-	166,916
City clerk	15,698	-	-	-	15,698
City treasurer	155	-	-	-	155
Managerial	3,450	-	-	-	3,450
Debt service:					
Principal retirement	48,373	-	163,256	32,507	244,136
Interest	6,998	-	18,164	5,363	30,525
Capital outlay	63,001	-	359,083	6,475	428,559
<b>Total Expenditures</b>	<b>733,494</b>	<b>249,120</b>	<b>1,448,466</b>	<b>100,642</b>	<b>2,531,722</b>
<b>Excess (deficiency) of revenues over expenditur</b>	<b>(119,061)</b>	<b>6,478</b>	<b>(23,828)</b>	<b>(86,794)</b>	<b>(223,205)</b>
<b>Other Financing Sources (Uses):</b>					
Loan proceeds	-	-	293,264	-	293,264
Transfers in	121,488	-	74,590	2,025	198,103
Transfer out	(38,176)	(76,615)	(90,000)	-	(204,791)
<b>Total Other Financing Sources (Uses)</b>	<b>83,312</b>	<b>(76,615)</b>	<b>277,854</b>	<b>2,025</b>	<b>286,576</b>
<b>Net change in fund balances</b>	<b>(35,749)</b>	<b>(70,137)</b>	<b>254,026</b>	<b>(84,769)</b>	<b>63,371</b>
<b>Fund balances (deficit), beginning</b>	<b>(68,075)</b>	<b>191,126</b>	<b>498,176</b>	<b>154,426</b>	<b>775,653</b>
Prior period adjustment (see note 5)	(5,870)	(45,444)	(4,345)	389	(55,270)
<b>Fund balances (deficit), ending</b>	<b>\$ (109,694)</b>	<b>\$ 75,545</b>	<b>\$ 747,857</b>	<b>\$ 70,046</b>	<b>\$ 783,754</b>

See accompanying notes to the basic financial statements.

**CITY OF COMMERCE, OKLAHOMA  
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**Reconciliation of Governmental Funds and Government-Wide Financial Statements:**

**Fund Balance – Net Assets Reconciliation:**

Fund balances of governmental funds	\$	783,754
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities of \$1,677,529 net of accumulated depreciation of \$641,705 are not financial resources and, therefore, are not reported in the funds.		1,677,529
Certain long-term liabilities are not due and payable from current financial resources and, therefore are not reported in the funds:		
Notes payable		(605,168)
Net assets of governmental activities	<u>\$</u>	<u>1,856,115</u>

**Changes in Fund Balances – Changes in Net Assets Reconciliation:**

Net changes in fund balances - total governmental funds	\$	63,371
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period.		
Capital asset purchases capitalized		437,642
Disposals of capital assets		(10,000)
Depreciation expense		(126,956)
Debt proceeds provide current financial resources to governmental funds, but issuing debt 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.		
Principal payments on long-term debt		244,136
Issuance of debt		(293,264)
Change in net assets of governmental activities	<u>\$</u>	<u>314,929</u>

See accompanying notes to the basic financial statements.

**CITY OF COMMERCE, OKLAHOMA  
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**BASIC FINANCIAL STATEMENTS – PROPRIETARY FUNDS**



**CITY OF COMMERCE, OKLAHOMA**  
**ANNUAL FINANCIAL REPORT**  
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**Proprietary Funds Statement of Net Assets (Modified Cash Basis) – June 30, 2007**

	<u>Commerce Development Authority</u>
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$ 240,528
Investments	28,188
Due from other funds	500
Total current assets	<u>269,216</u>
Non-current assets:	
Restricted Assets:	
Cash and cash equivalents	79,168
Capital Assets	
Property, plant and equipment, net of accumulated depreciation	1,428,214
Unamortized note issue costs	2,041
Total non-current assets	<u>1,509,423</u>
Total Assets	<u><u>\$ 1,778,639</u></u>
 <b>LIABILITIES</b>	
Current liabilities	
Deposits subject to refund	\$ 10,580
Notes payable	628,322
Total current liabilities	<u>638,902</u>
Non-current liabilities	
Deposits subject to refund	42,323
Notes payable	414,036
Total non-current liabilities	<u>456,359</u>
Total liabilities	<u>1,095,261</u>
 <b>NET ASSETS</b>	
Invested in capital assets, net of related debt	385,856
Restricted for debt service	60,038
Restricted for grants	2,497
Restricted for capital improvements	23,251
Unrestricted	211,736
Total net assets	<u><u>\$ 683,378</u></u>

See accompanying notes to the basic financial statements.

**CITY OF COMMERCE, OKLAHOMA**  
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**Proprietary Fund Statement of Revenues, Expenses and Changes in Net Assets (Modified Cash Basis) – Year Ended June 30, 2007**

	<b>Commerce Development Authority</b>
<b>Operating Revenues:</b>	
Charges for services:	
Water	\$ 304,958
Sewer	139,419
Waterworks improvement fees	65,507
Miscellaneous	27,877
Total Operating Revenues	537,761
 <b>Operating Expenses:</b>	
Water	273,853
Sewer operations	6,614
Administration	56,492
Depreciation	56,837
Amortization	125
Total Operating Expenses	393,921
Operating Income	143,840
 <b>Non-Operating Revenues (Expenses):</b>	
Investment income	2,487
Interest expense	(39,048)
Total Non-Operating Revenues (Expenses)	(36,561)
Income before contributions and transfers	107,279
Transfers in	38,176
Transfers out	(31,488)
Change in net assets	113,967
Total net assets - beginning	608,093
Prior period adjustment (see note 5)	(38,682)
Total net assets - ending	\$ 683,378

See accompanying notes to the basic financial statements.

**CITY OF COMMERCE, OKLAHOMA**  
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**Proprietary Funds Statement of Cash Flows (Modified Cash Basis) – Year Ended June 30, 2007**

	<u>Commerce Development Authority</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers	\$ 537,761
Payments to suppliers	(132,435)
Payments to employees	(204,524)
Due from other funds	(500)
Receipts of customer utility deposits	3,597
Net Cash Provided by Operating Activities	<u>203,899</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Transfers from other funds	38,176
Transfers to other funds	(31,488)
Net Cash Provided by Noncapital Financing Activities	<u>6,688</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Purchases of capital assets	(43,222)
Principal paid on capital debt	(50,931)
Proceeds from note	3,550
Interest and fiscal agent fees paid on capital debt	(39,048)
Net Cash Provided by (Used in) Capital and Related Financing Activities	<u>(129,651)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest and dividends	2,487
Purchase of investments	(1,147)
Net Cash Provided by Investing Activities	<u>1,340</u>
Net Increase in Cash and Cash Equivalents	82,276
Balance - beginning of the year	<u>237,420</u>
Balance - end of the year	<u>\$ 319,696</u>
<b>Reconciliation to Statement of Net Assets:</b>	
Cash and cash equivalents	\$ 240,528
Restricted cash and cash equivalents - current	<u>79,168</u>
Total cash and cash equivalents	<u>\$ 319,696</u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>	
Operating income	\$ 143,840
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	56,837
Amortization expense	125
Change in assets and liabilities:	
Due from other funds	(500)
Meter deposit liability	<u>3,597</u>
Net cash provided by operating activities	<u>\$ 203,899</u>

See accompanying notes to the basic financial statements.

**CITY OF COMMERCE, OKLAHOMA  
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As of and for the Year Ended June 30, 2007**

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**FOOTNOTES TO THE BASIC FINANCIAL STATEMENTS**

**1. Summary of Significant Accounting Policies**

**A. Financial Reporting Entity**

The City's financial reporting entity includes three separate legal entities reported as the primary government as follows:

- **The City of Commerce** – operates the public safety, health and sanitation, streets and public works, culture and recreation, and administrative activities of the City.
- **The Commerce Development Authority (the Authority)** – that operates the water, and wastewater services of the City. The City of Commerce is the beneficiary of the authority and the City Council serves as the governing body of the authority.
- **The Mickey Mantle Memorial Trust Authority** – operates to purchase and hold property for the establishment of a museum to house memorabilia of Mickey Mantle, a professional baseball player raised in the City of Commerce.

In determining the financial reporting entity, the City complies with the provisions of Governmental Accounting Standards Board Statement No. 14, "*The Financial Reporting Entity*" and includes all component units for which the City is financially accountable.

The component units and Public Trusts established pursuant to Title 60 of Oklahoma State law. A Public Trust (Trust) has no taxing power. The Trusts are generally created to finance City services through issuance of revenue bonds or other non-general obligation debt and to enable the City Council to delegate certain functions to the governing body (Trustees) of the Trusts. The Trust generally retain title to assets which are acquired or constructed with the Trusts debt or other Trust generated resources. In addition, the City has leased certain existing assets at the creation for the Trust to the Trustees on a long-term basis. The City, as beneficiary of the Public Trusts, receives title to any residual assets when a Public Trust is dissolved.

The component units have the City Council as their governing body (trustees) and the City is able to impose its will on the Trust through required approval of all debt obligations issued by these entities.

As required by state law, all debt obligations incurred by the above trusts must be approved by two-thirds vote of the City Council. This is considered sufficient imposition of will to demonstrate financial accountability and to include the trust within the City's financial reporting entity. The public trusts do not issue separate annual financial statements.

**B. Basis of Presentation and Accounting**

*Government-Wide Financial Statements:*

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The statement of net assets and activities are reported on a modified cash basis of accounting. The modified cash basis of accounting is based on the recording of cash and cash equivalents and changes therein, and only recognizes revenues, expenses, assets and liabilities resulting from cash transactions adjusted for modifications that have substantial support in generally accepted accounting principles. These modifications include adjustments for the following balances arising from cash transactions:

- capital assets and the depreciation of those assets, where applicable
- long-term debt
- cash-based interfund receivables and payables
- other cash-based receivables/payables
- investments
- utility deposit liabilities

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected, and accrued revenue and receivables) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

Program revenues within the statement of activities are derived directly from each activity or from parties outside the City's taxpayers. The City has the following program revenues in each activity:

- General government: License and permits and penalties
- Public safety: Fine revenue, fire runs and operating and capital grants
- Streets and highways: Gas excise and commercial vehicle taxes and capital grants
- Culture and recreation: Recreation fees and operating grants

For business-type activities, Financial Accounting Standard Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied as they apply to the modified cash basis, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

*Governmental Funds:*

**General Fund** – The General Fund is the primary operating fund of the City and always classified as a major fund. It is used to account for all financial resources not accounted for and reported in another fund.

**Special Revenue Funds** – are used to account for and report the proceeds of specific revenue sources that are restricted to expenditures for specific purposes other than debt service or capital projects.

**Capital Project Funds** – are used to account for and report financial resources that are restricted for or intended for the expenditure of capital outlays, including the acquisition or construction of capital facilities and other capital assets.

*Proprietary Funds:*

Enterprise Funds – are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector.

The City’s governmental funds are comprised of the following:

**Major Funds:**

- General Fund – accounts for all activities not accounted for in other special-purpose funds
- DEQ Fund –a special revenue fund created to account for EPA & Oklahoma Department of Emergency Management grant revenues and related expenditures.
- OCC Fund – a special revenue fund created to account for OCC-SE EPA grant revenue and related expenditures.

**Non-Major Funds (Reported as Other Governmental Funds):**

Special Revenue Fund:

- EPA Fund – a special revenue fund used to account for expenditures related EPA grant revenues.
- Capital Project Fund –a capital project fund used to account for various capital projects within the city.
- Police Fund – a special revenue fund used to account for activity related to reserve police officers.
- Fire Fund – a special revenue fund used to account for activity related to volunteer firemen.

**Component Units:**

- Mickey Mantle Memorial Trust Authority – operates to purchase and hold property for the establishment of a museum to house memorabilia of Mickey Mantle, a professional baseball player raised in the City of Commerce.

The governmental funds are reported on a modified cash basis of accounting and current financial resources measurement focus. Only current financial assets and liabilities resulting from cash transactions are included on the fund balance sheets. The operating statements present sources and uses of available spendable financial resources during a given period. These fund financial statements use fund balance as their measure of available spendable financial resources at the end of the period. The reconciliation of the governmental funds financial statements to the governmental activities presentation in the government-wide financial statements is the result of the use of the economic resources measurement focus at the government-wide level.

*Proprietary Funds:*

The City's proprietary funds are comprised of the following:

- Commerce Development Authority Fund – accounts for the operation of the water and wastewater activities

For purposes of the statement of revenues, expenses and changes in fund net assets, operating revenues and expenses are considered those whose cash flows are related to operating activities, while revenues and expenses related to financing, capital and investing activities are reported as non-operating or transfers and contributions.

All of the above noted funds are legally required to adopt annual budgets or appropriations. The public trusts (or Trusts) are not required to adopt legal annual appropriations. While each trust develops an annual budget, it is for financial management purposes and does not constitute legal appropriations.

**C. Cash, Cash Equivalents, and Investments**

Cash and cash equivalents includes all demand and savings accounts, certificates of deposit, and any short-term investments with an original maturity of three months or less, and open-end government mutual funds. Investments consist of long-term certificates of deposits and are reported at cost.

**D. Capital Assets and Depreciation**

Reported capital assets are limited to those acquired with cash and cash equivalents consistent with the modified cash basis of accounting. The accounting treatment of property, plant and equipment (capital assets) depends on whether the assets are used in governmental fund type or proprietary fund operations and whether they are reported in the government-wide or fund financial statements. In the government-wide and proprietary fund financial statements, property, plant and equipment are accounted for as capital assets, net of accumulated depreciation where applicable. In the governmental fund financial statements, capital assets acquired are accounted for as capital outlay expenditures and not reported as capital assets.

Capital assets consist of land, buildings and building improvements, machinery and equipment, and infrastructure. A capitalization threshold of \$1,000 is used to report capital assets. Capital assets are valued at historical cost or estimated historical cost if actual is unavailable. Prior to July 1, 2001, governmental funds' infrastructure assets, such as streets, bridges, drainage systems, and traffic signal systems were not capitalized. Infrastructure assets acquired with cash since July 1, 2001 are recorded at cost.

Depreciable capital assets are depreciated on a straight-line basis over their estimated useful lives. The range of estimated useful lives by type of asset is as follows:

- Buildings 40 years
- Improvements 5-50 years



- Machinery and equipment 7-10 years
- Office Machinery and equipment 2-7 years
- Vehicles 5 years
- Infrastructure 25-50 years

**E. Long-Term Debt**

Reported long-term debt is limited to debt arising from cash transactions consistent with the modified cash basis of accounting. Accounting treatment of long-term debt varies depending upon whether source of repayment is from governmental fund types or proprietary fund type resources and whether they are reported in the government-wide or fund financial statements. All long-term debt resulting from cash transactions to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for the proprietary fund is the same in the fund statements as it is in the government-wide statements.

**F. Compensated Absences**

As a result of the use of the modified cash basis of accounting, liabilities related to accrued compensated absences are not recorded in the financial statements. Expenditures/expenses related to compensated absences are recorded when paid. The amount of accrued compensated absences for accumulated, unpaid compensatory time that would be due employees upon termination is reported as a commitment in Note 11.

**G. Fund Balances and Net Assets**

*Fund Balances:*

Fund balances generally reported in the governmental funds financial statements are displayed in two components:

*a. Reserved* – Consists of fund balances that are either legally restricted as to use (such as voter-restricted sales taxes), or fund balances that are not available for expenditure in the subsequent year (such as encumbrances).

*b. Unreserved* – All other fund balances not classified as “reserved”.

*Net Assets:*

Net assets are displayed in three components:

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

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

c. *Unrestricted net assets* - All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

It is the City’s policy to first use restricted net assets prior to the use of unrestricted net assets when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**H. Internal and Interfund Balances and Transfers**

The City’s policy is to eliminate interfund transfers and balances in the statement of activities and net assets to avoid the grossing up of balances. Only the residual balances transferred between governmental and business-type activities are reported as internal transfers and internal balances then offset in the total column in the government-wide statements. Internal transfers and balances between funds are not eliminated in the fund financial statements.

**I. Use of Estimates**

Certain estimates are made in the preparation of the financial statements, such as estimated lives for capital assets depreciation. Estimates are based on management’s best judgments and may vary from actual results.

**2. Deposits and Investments**

For the year ended June 30, 2007, the City recognized \$33,906 of investment income. Due to the minimal rates of return on allowable investments in the current environment, most of the City’s deposits are in demand and short-term time deposits with maturity dates of a year or less. At June 30, 2007, the primary government held the following deposits and investments:

Type	Carrying Value
<b>Primary Government</b>	
<b>Deposits:</b>	
Demand deposits	\$570,471
Time deposits-certificates of deposit	562,020
	\$ 1,132,491
<b>Reconciliation to the Statement of Net Assets:</b>	
Cash and cash equivalents	\$ 491,303
Investments	562,020
Cash and cash equivalents - restricted	79,168
	\$ 1,132,491
<b>Component Unit</b>	
<b>Mickey Mantle Memorial Trust Authority</b>	
<b>Deposits:</b>	
Demand deposits	\$ 169,714
	\$ 169,714
<b>Reconciliation to the Statement of Net Assets:</b>	
Cash and cash equivalents	\$ 169,714
	\$169,714

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*Custody Credit Risk* - Custodial credit risk is the risk that in the event of a bank failure, the government deposits may not be returned to it. The City is governed by the State Public Deposit Act which requires that the City obtain and hold collateral whose fair value exceeds the amount of uninsured deposits. Investment securities are exposed to custody credit risk if the securities are uninsured, are not registered in the name of the government, and if held by either a counterparty or a counterparty's trust, department or agent, but not in the government's name.

As of June 30, 2007, the City was not exposed to custodial credit risk as defined above.

*Investment Interest Rate Risk* - the City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Investment Credit Risk* - The City has no investment policy that limits its investment choices other than the limitations of state law that generally authorize investments in: (1) full faith and credit, direct obligations of the U. S. Government, its agencies and instrumentalities, and the State of Oklahoma and certain mortgage insured federal debt; (2) certificates of deposit or savings accounts that are either insured or secured with acceptable collateral; (3) negotiable certificates of deposit, prime bankers acceptances, prime commercial paper and repurchase agreements with certain limitations; (4) county, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district; and government money market funds regulated by the SEC. These investment limitations do not apply to the City's public trusts.

As of June 30, 2007, the City did not hold any securities with credit ratings since they are all non-negotiable time deposits.

*Concentration of Investment Credit Risk* - the City places no limit on the amount it may invest in any one issuer.

*Restricted Cash and Investments* – The amounts reported as restricted assets on the Proprietary Fund Statement of Net Assets are comprised of amounts restricted for debt service, debt reserve, and utility deposits. The restricted assets as of June 30, 2007 are as follows:

<u>Type of Restricted Assets</u>	<u>Current Cash and Cash Equivalents</u>
Utility Deposits	\$ 19,130
Debt Service	<u>60,038</u>
Total Proprietary Fund Restricted Assets	<u><u>\$ 79,168</u></u>

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**3. Capital Assets and Depreciation**

For the year ended June 30, 2007, capital assets balances changed as follows:

	Balance at July 1, 2006	Additions	Disposals	Balance at June 30, 2007
<b>Governmental:</b>				
Capital assets not being depreciated:				
Land	\$ 48,000	\$ 2,000	\$ -	\$ 50,000
Total capital assets not being depreciated	48,000	2,000	-	50,000
Other capital assets:				
Buildings	152,928	22,525	-	175,453
Machinery and Equipment	1,331,001	336,496	52,444	1,615,053
Infrastructure	402,107	76,622	-	478,729
Total other capital assets at historical cost	1,886,036	435,643	52,444	2,269,235
Less accumulated depreciation for:				
Buildings	29,134	3,657	-	32,791
Machinery and Equipment	511,397	111,795	42,444	580,748
Infrastructure	16,663	11,504	-	28,167
Total accumulated depreciation	557,194	126,956	42,444	641,706
Other capital assets, net	1,328,842	308,687	10,000	1,627,529
Governmental, net capital assets	<u>\$ 1,376,842</u>	<u>\$ 310,687</u>	<u>\$ 10,000</u>	<u>\$ 1,677,529</u>
<b>Business-type:</b>				
Capital assets not being depreciated:				
Land	\$ -	\$ -	\$ -	\$ -
Construction in progress	-	-	-	-
Total capital assets not being depreciated	-	-	-	-
Other capital assets:				
Buildings	701,044	-	-	701,044
Machinery and Equipment	185,513	6,773	-	192,286
Infrastructure	761,191	36,449	-	797,640
Total other capital assets at historical cost	1,647,748	43,222	-	1,690,970
Less accumulated depreciation for:				
Buildings	74,486	17,526	-	92,012
Machinery and Equipment	89,781	20,112	-	109,893
Infrastructure	41,651	19,200	-	60,851
Total accumulated depreciation	205,918	56,838	-	262,756
Other capital assets, net	1,441,830	(13,616)	-	1,428,214
Business-Type, net capital assets	<u>\$ 1,441,830</u>	<u>\$ (13,616)</u>	<u>\$ -</u>	<u>\$ 1,428,214</u>
<b>Component unit:</b>				
Capital assets not being depreciated:				
Land	\$ 50,000	\$ -	\$ -	\$ 50,000
Total capital assets not being depreciated	50,000	-	-	50,000
Component unit capital assets, net	<u>\$ 50,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 50,000</u>

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

<i>Governmental Activities:</i>		<i>Business-type Activities:</i>	
General government	\$ 28,673	Water	\$ 37,883
Public safety	14,558	Sewer	18,955
Highways and streets	37,951		
Sanitation	22,171		
Community improvement	23,603		
<b>Total depreciation</b>	<b><u>\$ 126,956</u></b>	<b>Total depreciation</b>	<b><u>\$ 56,838</u></b>

**4. Long-Term Debt and Debt Service Requirements**

For the year ended June 30, 2007, the reporting entity's long-term debt changed as follows:

	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007	Amount Due Within One Year
<i>Governmental:</i>					
Capital lease payable	\$ 556,041	\$ 293,264	\$ 244,137	\$ 605,168	\$ 266,492
Total governmental activities	<u>\$ 556,041</u>	<u>\$ 293,264</u>	<u>\$ 244,137</u>	<u>\$ 605,168</u>	<u>\$ 266,492</u>
<i>Business-Type:</i>					
Notes payable	\$ 1,081,241	\$ -	\$ 41,250	\$ 1,039,991	\$ 625,955
Capital lease payable	8,497	3,550	9,680	2,367	2,367
Total business-type activities	<u>1,089,738</u>	<u>3,550</u>	<u>50,930</u>	<u>1,042,358</u>	<u>628,322</u>
Total long-term debt	<u>\$ 1,645,779</u>	<u>\$ 296,814</u>	<u>\$ 295,067</u>	<u>\$ 1,647,526</u>	<u>\$ 894,814</u>

*Governmental Activities:*

At June 30, 2007, the governmental activities long-term payable from taxes and other general revenues include the following:

Capital Lease Obligations Payable:

Lease obligation for purchase of a fire truck, payable in annual installments of \$14,451, interest of 5.00%, with last payment due December 1, 2015. \$85,769

Lease obligation for real property, payable in annual installments of \$4,000, with last payment due February 10, 2013. \$28,000

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Lease obligation with Bank of Commerce for purchase of an asphalt zipper, payable in annual installments of \$13,773, interest of 4.50% with last payment due March 16, 2009.	\$26,131
Lease obligation with Bank of Commerce for purchase of a sanitation truck, poly carts, and dumpsters payable in 60 monthly installments of \$2,925, interest of 4.95% with last payment due February 15, 2009.	\$60,932
Lease obligation with Welch State Bank for purchase of a backhoe And roller payable in 60 monthly installments of \$2,025, interest of 4.82% with last payment due April 12, 2010.	\$64,318
Lease obligation with Welch State Bank for purchase of a 2006 Sterling Dump truck payable in 30 monthly installments of \$2,356, interest of 5.30% with last payment due May 3, 2008.	\$25,187
Lease obligation with Welch State Bank for purchase of a 2006 Sterling Dump truck payable in 30 monthly installments of \$2,356, interest of 5.30% with last payment due May 3, 2008.	\$25,156
Lease obligation with Welch State Bank for purchase of a 2006 Sterling Dump truck payable in 30 monthly installments of \$2,356, interest of 5.30% with last payment due September 5, 2007.	\$27,466
Lease obligation with Welch State Bank for purchase of a 2006 Sterling Dump truck payable in 30 monthly installments of \$2,356, interest of 5.30% with last payment due November 26, 2007.	\$27,466
Lease obligation with Empire Financial Services for purchase of a 2007 Sterling Dump truck payable in 36 monthly installments of \$2,185, interest of 4.80% with last payment due August 19, 2009.	\$48,412
Lease obligation with John Deere Credit for purchase of a 2005 Dozer payable in 60 monthly installments of \$1,830, interest of 5.00% with last payment due August 18, 2011.	\$81,352
Lease obligation with John Deere Credit for purchase of an Excavator payable in 60 monthly installments of \$2,360, interest of 5.00% with last payment due August 18, 2011.	\$104,979
Total Capital Lease Payable	<u>\$605,168</u>
Current portion	\$266,492
Non-current portion	<u>338,676</u>
Total Capital Lease Payable	<u>\$605,168</u>

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*Business-Type Activities:*

Long-term commitments payable from net revenues generated by the utility resources or other resources pledged to the City's business-type activities at June 30, 2007, includes the following:

Capital Lease Obligations Payable:

Lease obligation with Sequoyah Software & Consulting, Inc. for purchase of Computer Software payable in 12 monthly installments of \$295.83 last payment due February 29, 2008.	<u>\$2,367</u>
Total Capital Lease Payable	<u>\$2,367</u>

Notes Payable:

2001 Series Clean Water ORF Promissory Note to Oklahoma Water Resources Board, original issue amount of \$655,000, secured by utilities revenues, payable in semi-annual installments, interest rate at 4.50%, paid in full August 9, 2007.	\$604,400
2003 Series Clean Water ORF Promissory Note to Oklahoma Water Resources Board, original issue amount of \$577,000, secured by utilities revenues, payable in semi-annual installments, interest rate at 2.55%, final maturity September 15, 2023.	<u>\$435,591</u>
Total Notes Payable	<u>\$1,039,991</u>
Current portion	\$625,955
Non-current portion	<u>414,036</u>
Total Notes Payable	<u>\$1,039,991</u>

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Long-term debt service requirements to maturity are as follows:

Year Ended June 30,	<u>Governmental Activities</u>	
	Capital	
	<u>Lease Obligations</u>	
	<u>Principal</u>	<u>Interest</u>
2008	\$ 266,492	\$ 17,090
2009	227,152	8,554
2010	44,843	3,562
2011	15,570	2,882
2012	16,231	2,220
2013-2014	34,880	2,303
<b>Total</b>	<b>\$ 605,168</b>	<b>\$ 36,611</b>

Year Ended June 30,	<u>Business Type Activities</u>			
	Capital			
	<u>Lease Obligations</u>		<u>Notes Payable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 2,367	\$ -	\$ 625,955	\$ 24,580
2009	-	-	22,108	10,427
2010	-	-	22,675	9,860
2011	-	-	23,257	9,278
2012	-	-	23,854	8,681
2013-2017	-	-	128,772	33,903
2018-2022	-	-	146,164	16,511
2023-2024	-	-	47,206	1,219
<b>Total</b>	<b>\$ 2,367</b>	<b>\$ -</b>	<b>\$ 1,039,991</b>	<b>\$ 114,459</b>

**5. Net Assets and Fund Balances Restatement**

Due to the change in the basis of accounting and presentation for the year ended June 30, 2007, the City has restated its beginning fund balances and net assets (previously reported on a budgetary basis) to implement the modified cash basis of accounting and presentation at the start of the year.

	<u>Fund Level</u>						<u>Government-Wide</u>		
	General Fund	OCC SE	ODEQ	EPA	Volunteer Fire	Police Reserve	Capital Projects	Governmental Activities	Business-type Activities
Beginning fund balance/net assets, as previously reported	(\$68,075)	\$191,126	\$498,176	\$139,018	\$6,028	\$174	\$9,206	\$ 775,653	\$ 608,093
Adjustment necessary for conversion to modified cash basis	(5,870)	(45,444)	(4,345)	389	-	-	-	\$ (55,270)	(38,682)
Beginning fund balance/net assets, restated	<u>(\$73,945)</u>	<u>\$145,682</u>	<u>\$493,831</u>	<u>\$139,407</u>	<u>\$6,028</u>	<u>\$174</u>	<u>\$9,206</u>	<u>\$720,383</u>	<u>\$569,411</u>



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**6. Sales Tax Revenue**

Sales tax revenue represents a 3 cent tax on each dollar of taxable sales. All three cents is recorded in the General Fund.

**7. Property Tax Levy**

The City presently levies no property tax. In accordance with state law, a municipality may only levy a property tax to retire general obligation debt approved by the voters and to pay judgments rendered against the City.

**8. Internal and Interfund Balances and Transfers**

*Balances:*

Interfund balances between activities at June 30, 2007, were as follows:

<u>Due From</u>	<u>Due To</u>	<u>Amount</u>	<u>Nature of Interfund Balance</u>
General Fund	CDA	\$ 500	Correction of error
General Fund	ODEQ	1,614	Grant revenue
		<u>\$ 2,114</u>	

**Reconciliation to Fund Financial Statements:**

	<u>Due From Other Funds</u>	<u>Due to Other Funds</u>	<u>Internal Balance</u>
Governmental Funds	\$ 1,614	(2,114)	\$ (500)
Proprietary Funds	500	-	500
Total	<u>\$ 2,114</u>	<u>\$ (2,114)</u>	<u>\$ -</u>

*Transfers:*

Internal transfers between funds and activities for the year ended June 30, 2007, were as follows:

<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>	<u>Purpose of Transfer</u>
General Fund	CDA	\$31,488	Expense reimbursement
General Fund	ODEQ Fund	90,000	Expense reimbursement
ODEQ Fund	OCC SE Fund	74,590	Debt payments
EPA Fund	OCC SE Fund	2,025	Expense reimbursement
CDA	General Fund	38,176	Expense reimbursement
		<u>\$ 236,279</u>	

**Reconciliation to Fund Financial Statements:**

	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Net Transfers</u>
Governmental Activities	\$ 198,103	\$ 204,791	\$ (6,688)
Business-Type Activities	38,176	31,488	6,688
Total	<u>\$ 236,279</u>	<u>\$ 236,279</u>	<u>\$ -</u>

## **9. Risk Management**

The City is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employee health and life; and natural disasters. The City manages these various risks of loss by securing commercial insurance for all risks, except for participation in the Oklahoma Municipal Assurance Group risk entity pool for certain coverage. Management believes such insurance 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.

## **10. Employee Retirement Plan Participation**

The City of Commerce participates in three pension or retirement plans:

- Oklahoma Firefighter's Pension and Retirement System (OFPRS) – a statewide cost-sharing plan
- Oklahoma Police Pension and Retirement System (OPPRS) – a statewide cost-sharing plan
- Oklahoma Public Employees Retirement System (OPERS) – a statewide cost-sharing plan

### *OFPRS*

The City of Commerce, as the employer, participates in a statewide cost-sharing multiple employer defined benefit pension plan through the Oklahoma Firefighter's Pension and Retirement System (OFPRS) as a result of the employment of paid and volunteer firefighters. The OFPRS defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Pursuant to the requirements of Title 11, section 22-102, the City must participate in the plan if they employ fulltime or volunteer firefighters. For 2007, 2006, and 2005, the City's annual required contribution was \$3,019, \$910, and \$1,819, respectively, for the OFPRS plan and was equal to the City's actual contribution for each year.

The OFPRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to:

OFPRS  
4545 N. Lincoln Blvd., Suite 265  
Oklahoma City, OK 73105-3414

### *OPPRS*

The City of Commerce, as the employer, participates in a statewide cost-sharing multiple employer defined benefit pension plan through the Oklahoma Police Pension and Retirement System (OPPRS) as a result of the employment of police officers. The OPPRS defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Pursuant to the requirements of Title 11, section 22-102, the City must participate in the plan if they employ fulltime police officers. For 2007, 2006, and 2005, the City's

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annual required contribution was \$8,045, \$1,459, and \$9,204, respectively, for the OPPRS plan and was equal to the City's actual contribution for each year.

The OPPRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to:

OPPRS  
1001 N.W. 63<sup>rd</sup>, Suite 605  
Oklahoma City, OK 73116-7335

*OPERS*

The City of Commerce, as the employer, participates in a statewide cost-sharing multiple employer defined benefit pension plan through the Oklahoma Public Employees Retirement System (OPERS) for all full-time employees with the exception of the fire and police department. The employee's contribution rate is 3.5% and the City's contribution rate is 15.5%. For 2007, 2006, and 2005, the City's annual required contribution was \$8,045, \$7,932, and \$13,495, respectively, for the OPERS plan and was equal to the City's actual contribution for each year.

The OPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to:

OPERS  
21011 N. Lincoln Blvd., Room 580  
Oklahoma City, OK 73105

## **11. Commitments and Contingencies**

*Compensated Absences:*

As a result of the City's use of the modified cash basis of accounting, accrued liabilities related to compensated absences (vacation and comp leave) earned but unpaid at year-end are not reflected in the basic financial statements. The compensated absence commitment at June 30, 2007 was unavailable, but we do not feel that the amount is significant.

*Litigation:*

The City and its public trusts are parties to various legal proceedings or have threatened litigation which normally occurs in the course of municipal governmental operations. The financial statements do not include accruals or provisions for loss contingencies that may result from these proceedings. State Constitution and statutes provide for the levy of an ad valorem tax over a three-year period by a Sinking Fund for the payment of any court assessed judgment rendered against the City. (This provision is not available to public trusts.) While the outcome of the above noted proceedings or threatened litigation cannot be predicted, due to the insurance coverage maintained by the City and the State statute relating to judgments, the City feels that any settlement

or judgment not covered by insurance would not have a material adverse effect on the financial condition of the City.

*Federal and State Award Programs:*

The City of Commerce participates in various federal or state grant/loan programs from year to year. In Fiscal Year 2007, the City's involvement in federal and state award programs was insignificant. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. The City has not been notified of any noncompliance with federal or state award requirements.

*Consent Order:*

The City of Commerce is subject to an on-going Consent Order issued by the Oklahoma Department of Environmental Quality, which was executed by the City on February 06, 2009. This consent order supersedes three previous consent orders, 01-067 (July 19, 2001), 01-067A (November 15, 2002), and 01-067B (January 24, 2006). The Consent Order addresses violations of the NPDES permit issued to the City to operate a wastewater treatment plant. These administrative proceedings relate to another proceeding, wherein the parties entered into a Consent Order on February 7, 1996. The City has been subject to a Consent Order since that time. The City is seeking to bring the publicly owned wastewater treatment plant into compliance with the NPDES permit and is working aggressively to negotiate a mutually acceptable compliance plan with the Department of Environmental Quality. The estimated cost of bringing the plant into compliance is \$900,000-\$3,500,000 depending on current negotiations with a land owner. In addition, the City has been ordered to pay \$70,000 for failing to comply with the task schedule as set forth in Consent Order, Case No. 08-229.

## **12. Budgetary Compliance**

The City was required to adopt appropriations for all funds of the City of Commerce's legal entity. The level at which expenditures should not exceed appropriations is at the department level within a fund as provided by the Municipal Budget Act. Transfers of appropriation may be approved by the City management; however, supplemental appropriations must be approved by the City Council and subsequently filed with the State Auditor's Office. The City did not prepare budgets for special revenue funds and the capital projects fund.

## **13. Subsequent Events**

- The City was granted 2008 Assistance to Firefighters Grant for \$20,900 on January 15, 2009.
- The City entered into a three year lease agreement for the purchase of a 2008 Ford Explorer SUV for \$19,004 with payments beginning August 15, 2010.

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- The City entered into a three and a half year lease agreement for the purchase of a computer server and hardware for \$21,291 with payments beginning September 17, 2010.
- The City entered into a seven year lease for the purchase of 2010 Kubota Mini Excavator for \$54,246 beginning August 15, 2010.
- On December 26, 2007, the City purchased property at 210 South Main for \$55,000, with a \$30,000 down payment on April 1, 2008 and \$5,000 annually until it is retired.
- On March 1, 2010, the City leased approximately 15,000 square feet of the Dumas Building located at 210 South Main and the lot to the south of the Dumas Building to a private business for \$21,000 annually. The lease is for five (5) years with an automatic renewal for an additional five (5) year term with the lease increasing to \$27,000 annually. Additionally, on March 1, 2012, the lot north of the aforementioned property at 210 South Main was leased to another private business for \$2,400 with a term of one (1) year.
- On March 18, 2011, the City purchased property at 219 Commerce Avenue for \$30,000 and transferred it to the Commerce Development Authority. This property was subsequently sold to a church for \$40,000, to be repaid on an installment basis, with the Commerce Development Authority carrying the note.
- The City paid the 2001 OWRB note off early with proceeds from the remediation project on August 9, 2007.

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**REQUIRED SUPPLEMENTAL INFORMATION**

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**Budgetary Comparison Schedule (Modified Cash Basis) – Year Ended June 30, 2007 (Unaudited)**

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Beginning Budgetary Fund Balance:</b>	\$ 38,231	\$ 38,231	\$ (73,945)	\$ (112,176)
<b>Resources (Inflows):</b>				
Taxes	304,559	304,559	264,685	(39,874)
Intergovernmental	21,496	21,496	37,559	16,063
Charges for services	210,001	210,001	208,756	(1,245)
Fines and forfeitures	47,032	47,032	52,642	5,610
Licenses and permits	5,187	5,187		(5,187)
Investment income	5,801	5,801	7,607	1,806
Miscellaneous	58,724	58,724	43,184	(15,540)
Transfers in	37,813	37,813	121,488	83,675
<b>Total Resources (Inflows)</b>	<u>690,613</u>	<u>690,613</u>	<u>735,921</u>	<u>45,308</u>
<b>Amounts available for appropriation</b>	<u>\$728,844</u>	<u>\$728,844</u>	<u>\$661,976</u>	<u>(\$66,868)</u>
<b>Charges to Appropriations (Outflows):</b>				
Managerial	3,600	3,600	3,450	150
City clerk	20,800	20,800	15,698	5,102
City treasurer	4,800	4,800	155	4,645
Professional services	34,000	34,000	24,450	9,550
Municipal court	21,414	21,414	21,392	22
Police department	119,040	119,040	193,109	(74,069)
Fire department	33,718	33,718	34,204	(486)
Street & sanitation department	262,847	262,847	316,546	(53,699)
Park department	10,500	10,500	3,033	7,467
General government	179,894	179,894	121,457	58,437
Transfers out			38,176	(38,176)
<b>Total Charges to Appropriations</b>	<u>690,613</u>	<u>690,613</u>	<u>771,670</u>	<u>(81,057)</u>
<b>Ending Budgetary Fund Balance</b>	<u>\$ 38,231</u>	<u>\$ 38,231</u>	<u>\$ (109,694)</u>	<u>\$ (147,925)</u>

**Footnotes to Budgetary Comparison Schedules:**

**Budget Law**

1. The city prepares its annual operating budget under the provisions of the Municipal Budget Act of 1979 (the "Budget Act"). In accordance with those provisions, the following process is used to adopt the annual budget:
  - a. Prior to June 1, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1.
  - b. Public hearings are conducted to obtain citizen comments. At least one public hearing must be held no later than 15 days prior to July 1.
  - c. Subsequent to the public hearings but no later than seven days prior to July 1, the budget is adopted by resolution of the City Council.
  - d. By July 1, the adopted budget is filed with the Office of State Auditor and Inspector.

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2. All funds of the city with revenues and expenditures are required to have annual budgets under this section of the state law, except funds of public trusts or authorities. The legal level of control at which expenditures may not legally exceed appropriations is the department within a fund.
3. Transfers of appropriations between departments and supplemental appropriations require City Council approval. The City Manager may transfer appropriations between object categories within a department without City Council approval. Supplemental appropriations must also be filed with the Office of State Auditor and Inspector.
4. The City only prepared an annual budget for the General Fund and the CDA proprietary fund.
5. In the General Fund, the City had negative variances in the following departments and for the following amounts:

General Fund – Police Department	\$74,069
General Fund – Fire Department	486
General Fund – Street and Sanitation Department	53,699
General Fund – Transfers Out	38,176



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**SUPPLEMENTAL INFORMATION**

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**Combining Balance Sheet – Nonmajor Governmental Funds (Modified Cash Basis) – June 30, 2007**

	<u>Special Revenue Funds</u>				<u>Totals</u>
	<u>EPA Fund</u>	<u>Volunteer Fire Fund</u>	<u>Police Reserve Fund</u>	<u>Capital Projects Fund</u>	
<b>ASSETS</b>					
Cash and cash equivalents	\$ 23,650	\$ 2,661	\$ -	\$ 9,903	\$ 36,214
Investments	33,832	-	-	-	33,832
Total Assets	<u>57,482</u>	<u>2,661</u>	<u>-</u>	<u>9,903</u>	<u>70,046</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Due to other funds	-	-	-	-	-
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances:					
Reserved for grant	57,482	-	-	-	57,482
Unreserved	-	2,661	-	9,903	12,564
	<u>\$ 57,482</u>	<u>\$ 2,661</u>	<u>\$ -</u>	<u>\$ 9,903</u>	<u>\$ 70,046</u>

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**Combining Schedule of Revenues, Expenditures and Changes in Fund Balance – Nonmajor Governmental Funds (Modified Cash Basis) – Year Ended June 30, 2007**

	Special Revenue Funds				Totals
	EPA Fund	Volunteer Fire Fund	Police Reserve Fund	Capital Projects Fund	
<b>Revenues:</b>					
Charges for services	\$ -	\$ 6,169	\$ -	\$ -	\$ 6,169
Investment income	-	-	-	697	697
Miscellaneous	-	-	6,982	-	6,982
<b>Total Revenues</b>	<b>-</b>	<b>6,169</b>	<b>6,982</b>	<b>697</b>	<b>13,848</b>
<b>Expenditures:</b>					
Current:					
Personal services	223	-	-	-	223
Materials and supplies	39,082	9,536	7,156	-	55,774
Other services and charges	300	-	-	-	300
Debt service:					
Principal retirement	32,507	-	-	-	32,507
Interest	5,363	-	-	-	5,363
Capital outlay	6,475	-	-	-	6,475
<b>Total Expenditures</b>	<b>83,950</b>	<b>9,536</b>	<b>7,156</b>	<b>-</b>	<b>100,642</b>
<b>Excess of revenues over expenditures</b>	<b>(83,950)</b>	<b>(3,367)</b>	<b>(174)</b>	<b>697</b>	<b>(86,794)</b>
<b>Other Financing Sources (Uses):</b>					
Transfers in	2,025	-	-	-	2,025
<b>Total Other Financing Sources (Uses)</b>	<b>2,025</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,025</b>
<b>Net change in fund balances</b>	<b>(81,925)</b>	<b>(3,367)</b>	<b>(174)</b>	<b>697</b>	<b>(84,769)</b>
<b>Fund balances, beginning</b>	<b>139,018</b>	<b>6,028</b>	<b>174</b>	<b>9,206</b>	<b>154,426</b>
Prior period adjustment	389				389
<b>Fund balances, ending</b>	<b>\$ 57,482</b>	<b>\$ 2,661</b>	<b>\$ -</b>	<b>\$ 9,903</b>	<b>\$ 70,046</b>

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**INTERNAL CONTROL AND COMPLIANCE**

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