

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

AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2010

CITY OF COMMERCE, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2010

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CITY OF COMMERCE, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2010

TABLE OF CONTENTS

Independent Auditor's Report on Financial Statements.....	5-6
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The Basic Financial Statements:

Government-Wide Financial Statements:

Statement of Net Assets (Modified Cash Basis).....	8
Statement of Activities (Modified Cash Basis).....	9

Governmental Funds Financial Statements:

Balance Sheet (Modified Cash Basis).....	11
Statement of Revenues, Expenditures and Changes in Fund Balances (Modified Cash Basis).....	12

Proprietary Funds Financial Statements:

Statement of Net Assets (Modified Cash Basis)	14
Statement of Revenues, Expenses and Changes in Net Assets (Modified Cash Basis).....	15
Statement of Cash Flows (Modified Cash Basis).....	16

Footnotes to the Basic Financial Statements	17-30
--	--------------

Supplementary Information:

Budgetary Comparison Information

Budgetary Comparison Schedule (Modified Cash Basis) – General Fund.....	32
Footnotes to Budgetary Comparison Schedules.....	33

Combining Non-Major Governmental Fund Statements

Combining Balance Sheet (Modified Cash Basis)	34
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances (Modified Cash Basis).....	35

Internal Control and Compliance over Financial Reporting

Independent Auditor's Report on Internal Control and Compliance.....	37-39
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CITY OF COMMERCE, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2010

INDEPENDENT AUDITOR'S REPORT



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, 2010, 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, 2010, 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
November 4, 2013

CITY OF COMMERCE, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2010

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, 2010

Statement of Net Assets (Modified Cash Basis) – June 30, 2010

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Mickey Mantle Memorial Trust Authority
ASSETS				
Current assets				
Cash and cash equivalents	\$ 73,690	\$ 217,132	\$ 290,822	\$ 68,556
Investments	287,181	35,308	322,489	-
Internal balances	(20)	20	-	-
Non current assets				
Cash and cash equivalents-restricted	-	57,867	57,867	-
Total assets	<u>\$ 360,851</u>	<u>\$ 310,327</u>	<u>\$ 671,178</u>	<u>\$ 68,556</u>
LIABILITIES				
Current liabilities				
Due to other governments	74,838	945	75,783	-
Deposits subject to refund	-	11,573	11,573	-
Long-term liabilities:				
Deposits subject to refund	-	46,294	46,294	-
Total liabilities	<u>74,838</u>	<u>58,812</u>	<u>133,650</u>	<u>-</u>
NET ASSETS				
Restricted for grant purposes	9	-	9	-
Restricted for capital projects	-	148,041	148,041	-
Unrestricted	286,004	103,474	389,478	68,556
Total Net Assets	<u>\$ 286,013</u>	<u>\$ 251,515</u>	<u>\$ 537,528</u>	<u>\$ 68,556</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, 2010

Statement of Activities (Modified Cash Basis) – Year Ended June 30, 2010

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Unit
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	Mickey Mantle Memorial Trust Authority
Primary Government:								
Governmental activities:								
General Government	\$ 275,474	59,901	\$ 45,881	\$ -	\$ (169,692)	\$ -	\$ (169,692)	\$ -
Public Safety	300,620	-	41,010	29,688	(229,922)	-	(229,922)	-
Highways and Streets	166,669	-	18,875	-	(147,794)	-	(147,794)	-
Culture and Recreation	2,189	3,612	-	-	1,423	-	1,423	-
Public Works	189,746	213,487	-	-	23,741	-	23,741	-
Debt Service:								
Principal on long-term debt	67,655	-	-	-	(67,655)	-	(67,655)	-
Interest on long-term debt	5,174	-	-	-	(5,174)	-	(5,174)	-
Total governmental activities	<u>1,007,527</u>	<u>277,000</u>	<u>105,766</u>	<u>29,688</u>	<u>(595,073)</u>	<u>-</u>	<u>(595,073)</u>	<u>-</u>
Business-type activities:								
Water	318,420	367,442	-	-	-	49,022	49,022	-
Sewer	61,026	147,126	-	-	-	86,100	86,100	-
Total business-type activities	<u>379,446</u>	<u>514,568</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>135,122</u>	<u>135,122</u>	<u>-</u>
Total primary government	<u>\$ 1,386,973</u>	<u>\$ 791,568</u>	<u>\$ 105,766</u>	<u>\$ 29,688</u>	<u>\$ (595,073)</u>	<u>135,122</u>	<u>(459,951)</u>	<u>-</u>
Component Units								
Culture and Recreation	<u>\$ 4,368</u>		<u>\$ 671</u>					<u>\$ (3,697)</u>
General revenues:								
Taxes:								
Sales tax					252,175	-	252,175	-
Franchise and public service taxes					50,358	-	50,358	-
Intergovernmental revenue not restricted to specific programs					13,798	-	13,798	-
Investment income					5,188	2,123	7,311	-
Miscellaneous					48,041	-	48,041	-
Transfers - internal activity					191,500	(191,500)	-	-
Total general revenues and transfers					<u>561,060</u>	<u>(189,377)</u>	<u>371,683</u>	<u>(3,697)</u>
Change in net assets					(34,013)	(54,255)	(88,268)	(3,697)
Net assets - beginning					320,026	305,770	625,796	72,253
Net assets - ending					<u>\$ 286,013</u>	<u>\$ 251,515</u>	<u>\$ 537,528</u>	<u>\$ 68,556</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, 2010**

BASIC FINANCIAL STATEMENTS – GOVERNMENTAL FUNDS

CITY OF COMMERCE, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2010

Governmental Funds Balance Sheet (Modified Cash Basis) – June 30, 2010

	General Fund	ODEQ Fund	Other Governmental Funds	Totals
ASSETS				
Cash and cash equivalents	\$ -	\$ 67,667	\$ 10,665	\$ 78,332
Investments	2,801	280,573	3,807	287,181
Due from other funds	32,640	-	-	32,640
 Total Assets	 <u>\$ 35,441</u>	 <u>\$ 348,240</u>	 <u>\$ 14,472</u>	 <u>\$ 398,153</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Cash overdraft	4,642	-	-	4,642
Due to other funds	155	32,505	-	32,660
Due to other governments	74,838	-	-	74,838
 Total Liabilities	 <u>79,635</u>	 <u>32,505</u>	 <u>-</u>	 <u>112,140</u>
Fund Balances:				
Reserved for grant	-	-	9	9
Unreserved (deficit)	(44,194)	315,735	14,463	286,004
Total Fund Balances	<u>(44,194)</u>	<u>315,735</u>	<u>14,472</u>	<u>286,013</u>
 Total Liabilities and Fund Balances	 <u>\$ 35,441</u>	 <u>\$ 348,240</u>	 <u>\$ 14,472</u>	 <u>\$ 398,153</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, 2010

Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances
(Modified Cash Basis) – Year Ended June 30, 2010

	General Fund	ODEQ Fund	Other Governmental Funds	Totals
Revenues:				
Taxes	\$ 302,533	\$ -	\$ -	\$ 302,533
Intergovernmental	79,708	-	-	79,708
Charges for services	213,487	12,096	10,400	235,983
Fines & forfeitures	44,730	-	-	44,730
Licenses & permits	3,075	-	-	3,075
Investment income	57	5,018	113	5,188
Miscellaneous	75,187	-	16,610	91,797
Total Revenues	<u>718,777</u>	<u>17,114</u>	<u>27,123</u>	<u>763,014</u>
Expenditures:				
Current:				
General government	185,108	1,154	-	186,262
Sanitation	189,746	-	-	189,746
Police	251,064	-	6,422	257,486
Fire	25,313	-	7,545	32,858
Municipal court	22,967	-	-	22,967
Parks & recreation	2,189	-	-	2,189
City attorney	23,665	-	-	23,665
Street	166,669	-	-	166,669
City clerk	35,039	-	-	35,039
Managerial	7,541	-	-	7,541
Debt service:				
Principal retirement	67,655	-	-	67,655
Interest	5,174	-	-	5,174
Capital outlay	-	-	10,276	10,276
Total Expenditures	<u>982,130</u>	<u>1,154</u>	<u>24,243</u>	<u>1,007,527</u>
Excess (deficiency) of revenues over expenditures	(263,353)	15,960	2,880	(244,513)
Other Financing Sources (Uses):				
Loan proceeds	19,000	-	-	19,000
Transfers in	191,500	-	-	191,500
Total Other Financing Sources (Uses)	<u>210,500</u>	<u>-</u>	<u>-</u>	<u>210,500</u>
Net change in fund balances	(52,853)	15,960	2,880	(34,013)
Fund balances, beginning	8,659	299,775	11,592	320,026
Fund balances (deficit), ending	<u>\$ (44,194)</u>	<u>\$ 315,735</u>	<u>\$ 14,472</u>	<u>\$ 286,013</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, 2010

BASIC FINANCIAL STATEMENTS – PROPRIETARY FUND

CITY OF COMMERCE, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2010

Proprietary Fund Statement of Net Assets (Modified Cash Basis) – June 30, 2010

	<u>Commerce Development Authority</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 217,132
Investments	35,308
Due from other funds	155
Total current assets	<u>252,595</u>
Non-current assets:	
Restricted Assets:	
Cash and cash equivalents	<u>57,867</u>
Total non-current assets	<u>57,867</u>
Total Assets	<u><u>\$ 310,462</u></u>
LIABILITIES	
Current liabilities	
Deposits subject to refund	\$ 11,573
Due to other funds	135
Due to other governments	945
Total current liabilities	<u>12,653</u>
Non-current liabilities	
Deposits subject to refund	<u>46,294</u>
Total non-current liabilities	<u>46,294</u>
Total liabilities	<u><u>58,947</u></u>
NET ASSETS	
Restricted for capital projects	148,041
Unrestricted	<u>103,474</u>
Total net assets	<u><u>\$ 251,515</u></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, 2010

Proprietary Fund Statement of Revenues, Expenses and Changes in Net Assets (Modified Cash Basis) – Year Ended June 30, 2010

	Commerce Development Authority
Operating Revenues:	
Charges for services:	
Water	\$ 320,702
Sewer	144,083
Waterworks improvement fees	39,968
Reconnect fees	2,730
Miscellaneous	7,085
Total Operating Revenues	<u>514,568</u>
Operating Expenses:	
Water	196,746
Sewer operations	23,022
Administration	122,593
Total Operating Expenses	<u>342,361</u>
Operating Income	172,207
Non-Operating Revenues (Expenses):	
Investment income	2,123
Debt Service:	
Principal payments	(28,850)
Interest expense	(8,235)
Total Non-Operating Revenues (Expenses)	<u>(34,962)</u>
Income before transfers	137,245
Transfers out	(191,500)
Change in net assets	<u>(54,255)</u>
Total net assets - beginning	305,770
Total net assets - ending	<u><u>\$ 251,515</u></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, 2010

Proprietary Fund Statement of Cash Flows (Modified Cash Basis) – Year Ended June 30, 2010

	Commerce Development Authority
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 514,568
Payments to suppliers	(196,808)
Payments to employees	(144,608)
Due from other funds	(155)
Due to other funds	135
Receipts of customer utility deposits	4,800
Other	13,898
Net Cash Provided by Operating Activities	<u>191,830</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers to other funds	(191,500)
Net Cash Provided by (used in) Noncapital Financing Activities	<u>(191,500)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal paid on capital debt	(28,850)
Interest and fiscal agent fees paid on capital debt	(8,235)
Net Cash Provided by (Used in) Capital and Related Financing Activities	<u>(37,085)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and dividends	2,123
Net Cash Provided by Investing Activities	<u>2,123</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(34,632)
Balance - beginning of the year	<u>309,631</u>
Balance - end of the year	<u><u>\$ 274,999</u></u>
Reconciliation to Statement of Net Assets:	
Cash and cash equivalents	\$ 217,132
Restricted cash and cash equivalents	<u>57,867</u>
Total cash and cash equivalents	<u><u>\$ 274,999</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 172,207
Adjustments to reconcile operating income to net cash provided by operating activities:	
Other	13,898
Change in assets and liabilities:	
Due from other funds	(155)
Due to other funds	135
Due to other governments	945
Meter deposit liability	<u>4,800</u>
Net cash provided by operating activities	<u><u>\$ 191,830</u></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, 2010

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 of 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:

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:

- cash-based interfund receivables and payables
- assets that normally convert to cash or cash equivalents (certificates of deposit, marketable investments, and receivable resulting from cash)
- liabilities for cash (or cash equivalents) held on behalf of others, held in escrow, or received in advance of being earned

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, operating grants
- 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
- Public works: sanitation fees

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.

CITY OF COMMERCE, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2010

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 revenues 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 to 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.

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

The proprietary funds are reported on a modified cash basis, as defined above, and economic resources measurement focus.

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

CITY OF COMMERCE, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2010

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. Assets Other Than Cash

Assets other than cash are reported at the amount of cash and cash equivalents associated with the transaction or event that resulted in their acquisition.

E. 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 8.

F. 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 two components:

a. 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

CITY OF COMMERCE, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2010

governments, or 2) law through constitutional provisions or enabling legislation.

b. *Unrestricted net assets* - All other net assets that do not meet the definition of “restricted”.

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.

G. 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.

2. Deposits and Investments

For the year ended June 30, 2010, the City recognized \$7,311 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, 2010, the primary government held the following deposits and investments:

Type	Carrying Value
Primary Government	
Deposits:	
Demand deposits	\$348,689
Time deposits-certificates of deposit	322,489
	<u>\$ 671,178</u>
Reconciliation to the Statement of Net Assets:	
Cash and cash equivalents	\$ 290,822
Investments	322,489
Cash and cash equivalents - restricted	57,867
	<u>\$ 671,178</u>
Component Unit	
Mickey Mantle Memorial Trust Authority	
Deposits:	
Demand deposits	\$ 68,556
	<u>\$ 68,556</u>
Reconciliation to the Statement of Net Assets:	
Cash and cash equivalents	\$ 68,556
	<u>\$68,556</u>

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

CITY OF COMMERCE, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2010

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, 2010, 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, 2010, 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, 2010 are as follows:

<u>Type of Restricted Assets</u>	<u>Current</u>
	<u>Cash and Cash Equivalents</u>
Utility Deposits	<u>\$ 57,867</u>
Total Proprietary Fund Restricted Assets	<u><u>\$ 57,867</u></u>

CITY OF COMMERCE, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2010

3. 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.

4. 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.

5. Internal and Interfund Balances and Transfers

Balances:

Interfund balances between activities at June 30, 2010, were as follows:

<u>Due From</u>	<u>Due To</u>	<u>Amount</u>	<u>Nature of Interfund Balance</u>
General Fund	CDA	\$ 155	Correction of error
General Fund	ODEQ	32,505	Grant revenue
CDA	General Fund	135	
		<u>\$ 32,795</u>	

Reconciliation to Fund Financial Statements:

	<u>Due From Other Funds</u>	<u>Due to Other Funds</u>	<u>Internal Balance</u>
Governmental Funds	\$ 32,640	(32,660)	\$ (20)
Proprietary Funds	155	(135)	20
Total	<u>\$ 32,795</u>	<u>\$ (32,795)</u>	<u>\$ -</u>

Transfers:

Internal transfers between funds and activities for the year ended June 30, 2010, were as follows:

<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>	<u>Purpose of Transfer</u>
CDA	General Fund	\$ 191,500	Expense reimbursement
		<u>\$ 191,500</u>	

Reconciliation to Fund Financial Statements:

	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Net Transfers</u>
Governmental Activities	\$ 191,500	\$ -	\$ 191,500
Business-Type Activities	-	191,500	(191,500)
Total	<u>\$ 191,500</u>	<u>\$ 191,500</u>	<u>\$ -</u>

6. 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.

7. 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 2009, the City's annual required contribution was \$, \$1,140 for the OFPRS plan and was equal to the City's actual contribution for each year. Due to the timing of payments, the City did not make payments during FY 2008 and FY 2010.

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

CITY OF COMMERCE, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2010

participate in the plan if they employ fulltime police officers. For 2008, 2009, and 2010, the City's annual required contribution was \$2,732, \$6,611 and \$6,804, 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. 63rd, 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 2008, 2009, and 2010, the City's annual required contribution was \$15,188, \$32,293, and \$19,630, respectively, for the OPERS 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:

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

8. Commitments and Contingencies

For the year ended June 30, 2010, the reporting entity's long-term debt changed as follows:

	Balance July 1, 2009	Additions	Deductions	Balance June 30, 2010	Amount Due Within One Year
<i>Governmental:</i>					
Capital lease payable	\$ 125,334	\$ 19,000	\$ 67,654	\$ 76,680	\$ 20,570
Total governmental activities	<u>\$ 125,334</u>	<u>\$ 19,000</u>	<u>\$ 67,654</u>	<u>\$ 76,680</u>	<u>\$ 20,570</u>
<i>Business-Type:</i>					
Notes payable	\$ 378,267	\$ -	\$ 28,850	\$ 349,417	\$ 28,850
Total business-type activities	<u>\$ 378,267</u>	<u>\$ -</u>	<u>\$ 28,850</u>	<u>\$ 349,417</u>	<u>\$ 28,850</u>
Total long-term debt	<u>\$ 503,601</u>	<u>\$ 19,000</u>	<u>\$ 96,504</u>	<u>\$ 426,097</u>	<u>\$ 49,420</u>

CITY OF COMMERCE, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2010

Governmental Activities:

At June 30, 2010, 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.	\$54,680
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Lease obligation for real property, payable in annual installments of \$4,000, with last payment due February 10, 2013.	\$12,000
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Lease obligation with Commerce Industrial Development Corporation for purchase of real property payable in 5 annual installments of \$5,000, with last payment due April 1, 2012.	<u>\$10,000</u>
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Total Capital Lease Payable	<u>\$76,680</u>
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Current portion	\$20,570
-----------------	----------

Non-current portion	<u>56,110</u>
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Total Capital Lease Payable	<u>\$76,680</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, 2010, includes the following:

Notes Payable:

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>\$349,417</u>
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Total Notes Payable	<u>\$349,417</u>
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Current portion	\$28,850
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Non-current portion	<u>320,567</u>
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Total Notes Payable	<u>\$349,417</u>
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Long-term debt service requirements to maturity are as follows:

CITY OF COMMERCE, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2010

Year Ended June 30,	<u>Governmental Activities</u>	
	Capital	
	<u>Lease Obligations</u>	
	<u>Principal</u>	<u>Interest</u>
2011	20,570	2,882
2012	21,231	2,220
2013	16,931	1,521
2014	17,948	782
Total	<u>\$ 76,680</u>	<u>\$ 7,405</u>

Year Ended June 30,	<u>Business Type Activities</u>	
	<u>Notes Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2011	28,850	8,879
2012	28,850	8,186
2013	22,086	7,408
2014	22,661	6,832
2015	23,251	6,242
2016-2020	125,637	21,832
2021-2025	98,082	5,147
Total	<u>\$ 349,417</u>	<u>\$ 64,526</u>

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, 2010 was \$18,640 with \$15,683 payable from the General Fund and \$2,957 payable from the CDA.

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.

CITY OF COMMERCE, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2010

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 2010, the City's involvement in federal and state award programs was significant. 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.

9. 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.

10. Subsequent Events

- 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.
- 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 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.

CITY OF COMMERCE, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2010

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.
- On July 22, 2011, a court ordered judgment was rendered against the City in the amount of \$267,000, and an additional court ordered judgment was rendered against the City December 10, 2013 in the amount of \$173,061. The City's counsel plans on filing an application to assess and levy a property tax to pay this judgment.

CITY OF COMMERCE, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2010

SUPPLEMENTAL INFORMATION

CITY OF COMMERCE, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2010

Budgetary Comparison Schedule (Modified Cash Basis) – Year Ended June 30, 2010 (Unaudited)

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
Beginning Budgetary Fund Balance:	\$ -	\$ -	\$ 8,659	\$ 8,659
Resources (Inflows):				
Taxes	264,560	264,560	302,533	37,973
Intergovernmental	24,810	24,810	79,708	54,898
Charges for services	174,330	174,330	213,487	39,157
Fines and forfeitures	41,195	41,195	44,730	3,535
Licenses and permits	7,520	4,400	3,075	(1,325)
Investment income	1,720	1,720	57	(1,663)
Miscellaneous	14,812	14,812	75,187	60,375
Transfers in	91,959	91,959	191,500	99,541
Loan proceeds	-	-	19,000	19,000
Total Resources (Inflows)	<u>620,906</u>	<u>617,786</u>	<u>929,277</u>	<u>311,491</u>
Amounts available for appropriation	<u>\$620,906</u>	<u>\$617,786</u>	<u>\$937,936</u>	<u>\$320,150</u>
Charges to Appropriations (Outflows):				
Managerial	3,600	-	7,541	(7,541)
City clerk	27,665	27,665	35,039	(7,374)
City treasurer	4,800	4,800	-	4,800
Professional services	31,000	31,000	23,665	7,335
Municipal court	19,995	19,995	22,967	(2,972)
Police department	152,961	152,961	251,064	(98,103)
Fire department	17,906	17,906	40,487	(22,581)
Street & sanitation department	225,292	225,292	385,793	(160,501)
Park department	1,671	1,671	2,189	(518)
General government	136,016	136,016	213,385	(77,369)
Transfers out	-	-	-	-
Total Charges to Appropriations	<u>620,906</u>	<u>617,306</u>	<u>982,130</u>	<u>(364,824)</u>
Ending Budgetary Fund Balance (Deficit)	<u>\$ -</u>	<u>\$ 480</u>	<u>\$ (44,194)</u>	<u>\$ (44,674)</u>

CITY OF COMMERCE, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2010

Footnotes to Budgetary Comparison Schedules:

Budget Law

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.

1. 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.
2. 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.
3. The City only prepared an annual budget for the General Fund and the CDA proprietary fund.
4. In the General Fund, the City had negative variances in the following departments and for the following amounts:

General Fund - Managerial Department	\$ 7,541
General Fund - City Clerk Department	7,347
General Fund - Municipal Court Department	2,972
General Fund - Police Department	98,103
General Fund - Fire Department	22,501
General Fund - Street & Sanitation Department	160,501
General Fund - Park Department	518
General Fund - General Government	77,369

CITY OF COMMERCE, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2010

Combining Balance Sheet – Nonmajor Governmental Funds (Modified Cash Basis) – June 30, 2010

	Special Revenue Funds				
	EPA Fund	Volunteer Fire Fund	Police Reserve Fund	Capital Projects Fund	Totals
ASSETS					
Cash and cash equivalents	\$ 9	\$ 9,175	\$ 1,481	\$ -	\$ 10,665
Investments	-	-	-	3,807	3,807
Due from other funds				-	-
Total Assets	<u>9</u>	<u>9,175</u>	<u>1,481</u>	<u>3,807</u>	<u>14,472</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances:					
Reserved for grant	9	-	-	-	9
Unreserved	-	9,175	1,481	3,807	14,463
	<u>\$ 9</u>	<u>\$ 9,175</u>	<u>\$ 1,481</u>	<u>\$ 3,807</u>	<u>\$ 14,472</u>

CITY OF COMMERCE, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2010

Combining Schedule of Revenues, Expenditures and Changes in Fund Balance – Nonmajor Governmental Funds (Modified Cash Basis) – Year Ended June 30, 2010

	<u>Special Revenue Funds</u>			<u>Capital Projects Fund</u>	<u>Totals</u>
	<u>EPA Fund</u>	<u>Volunteer Fire Fund</u>	<u>Police Reserve Fund</u>		
Revenues:					
Charges for services	\$ -	\$ -	\$ 10,400	\$ -	\$ 10,400
Investment income	-	-	-	113	113
Miscellaneous	-	11,910	4,700	-	16,610
Total Revenues	<u>-</u>	<u>11,910</u>	<u>15,100</u>	<u>113</u>	<u>27,123</u>
Expenditures:					
Current:					
Materials and supplies	-	7,445	6,347	-	13,792
Other services and charges	-	100	75	-	175
Capital outlay	-	3,176	7,100	-	10,276
Total Expenditures	<u>-</u>	<u>10,721</u>	<u>13,522</u>	<u>-</u>	<u>24,243</u>
Net change in fund balances	-	1,189	1,578	113	2,880
Fund balances (deficit), beginning	9	7,986	(97)	3,694	11,592
Fund balances, ending	<u>\$ 9</u>	<u>\$ 9,175</u>	<u>\$ 1,481</u>	<u>\$ 3,807</u>	<u>\$ 14,472</u>

CITY OF COMMERCE, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2010

INTERNAL CONTROL AND COMPLIANCE



**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, 2010, 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. We consider the deficiency, 2010-1 described in the accompanying schedule of findings and responses to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 November 4, 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
November 4, 2013

**City of Commerce, Oklahoma
Schedule of Findings and Responses
For the Year Ended June 30, 2010**

FINDINGS - FINANCIAL STATEMENT AUDIT

2010-1 Bank Reconciliations

Criteria:

Bank reconciliations are required under Generally Accepted Accounting Procedures (GAAP) and are the primary control over cash.

Condition:

The General Fund pooled cash bank reconciliation reflected outstanding checks in the amount of \$122,348.21 originally, resulting in a liability of \$68,596.88. The Enterprise Fund pooled cash bank reconciliation reflected outstanding checks in the amount of \$34,569.86, resulting in a cash balance of \$5,155.67. After discussion with management the corrected reconciliation for the General Fund outstanding amounts was reduced to \$35,878.57 resulting in a liability of \$4,642.39. The Enterprise Fund outstanding amounts was reduced to \$4,454.09 resulting in a cash balance of \$35,361.44

Cause:

The City did not perform monthly reconciliation on the pooled cash accounts, and the ones that were performed after the fact were not done correctly.

Effect:

The General Fund cash balance on the financial statements was understated \$63,954.49 and the Enterprise Fund cash balance was understated by \$30,205.77.

Recommendation:

The City should have controls in place that require monthly bank reconciliations on all cash and investment accounts. The reconciliations should be reviewed and approved by someone other than the preparer.

Client Response: