



CITY OF COMMERCE, OKLAHOMA

ANNUAL FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORTS
AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2012

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

AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2012

CITY OF COMMERCE, OKLAHOMA
ANNUAL FINANCIAL REPORT
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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, 2012, 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, 2012, 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
January 16, 2015

**CITY OF COMMERCE, OKLAHOMA
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BASIC FINANCIAL STATEMENTS – STATEMENTS OF NET ASSETS AND ACTIVITIES

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Statement of Net Assets (Modified Cash Basis) – June 30, 2012

	<u>Primary Government</u>			<u>Component Unit</u>
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>	<u>Commerce Sports Authority</u>
ASSETS				
Cash and cash equivalents	\$ 340,627	\$ 78,518	\$ 419,145	\$ 12,388
Investments	6,744	36,142	42,886	-
Internal balances	9,249	(9,249)	-	-
Cash and cash equivalents-restricted	-	207,990	207,990	-
Total Assets	<u>\$ 356,620</u>	<u>\$ 313,401</u>	<u>\$ 670,021</u>	<u>\$ 12,388</u>
LIABILITIES				
Due to other governments	99,887	11,001	110,888	-
Deposits subject to refund - due in one year	-	10,798	10,798	-
Deposits subject to refund - due in more than one year	-	43,190	43,190	-
Total Liabilities	<u>99,887</u>	<u>64,989</u>	<u>164,876</u>	<u>-</u>
NET ASSETS				
Restricted for grant purposes	9	-	9	-
Restricted for capital projects	-	154,002	154,002	-
Unrestricted	256,724	94,410	351,134	12,388
Total Net Assets	<u>\$ 256,733</u>	<u>\$ 248,412</u>	<u>\$ 505,145</u>	<u>\$ 12,388</u>

See accompanying notes to the basic financial statements.

CITY OF COMMERCE, OKLAHOMA
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Statement of Activities (Modified Cash Basis) – Year Ended June 30, 2012

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	Commerce Sports Authority
Primary Government:								
Governmental activities:								
General Government	\$ 512,723	\$ 301,678	\$ 19,488	\$ -	\$ (191,557)	\$ -	\$ (191,557)	\$ -
Public Safety	293,124	55,706	13,463	-	(223,955)	-	(223,955)	-
Highways and Streets	79,469	-	16,977	-	(62,492)	-	(62,492)	-
Culture and Recreation	9,998	-	-	-	(9,998)	-	(9,998)	-
Public Works	177,242	243,522	-	-	66,280	-	66,280	-
Debt service:								
Principal on long-term debt	33,380	-	-	-	(33,380)	-	(33,380)	-
Interest on long-term debt	4,451	-	-	-	(4,451)	-	(4,451)	-
Total governmental activities	<u>1,110,387</u>	<u>600,906</u>	<u>49,928</u>	<u>-</u>	<u>(459,553)</u>	<u>-</u>	<u>(459,553)</u>	<u>-</u>
Business-type activities:								
Water and sewer	355,608	530,023	-	-	-	174,415	174,415	-
Total business-type activities	<u>355,608</u>	<u>530,023</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>174,415</u>	<u>174,415</u>	<u>-</u>
Total primary government	<u>\$ 1,465,995</u>	<u>\$ 1,130,929</u>	<u>\$ 49,928</u>	<u>\$ -</u>	<u>(459,553)</u>	<u>174,415</u>	<u>(285,138)</u>	<u>-</u>
Component Unit:								
Culture and Recreation	<u>\$ 23,380</u>							(23,380)
General revenues:								
Taxes:								
Sales tax					253,509	-	253,509	-
Franchise and public service taxes					63,503	-	63,503	-
Intergovernmental revenue not restricted to specific programs					14,602	-	14,602	-
Investment income					2,847	567	3,414	63
Proceeds from sale of capital assets					11,300	-	11,300	-
Miscellaneous					35,193	-	35,193	12,128
Transfers - internal activity					117,673	(117,673)	-	-
Total general revenues and transfers					<u>498,627</u>	<u>(117,106)</u>	<u>381,521</u>	<u>12,191</u>
Change in net assets					39,074	57,309	96,383	(11,189)
Net assets - beginning					217,659	191,103	408,762	23,577
Net assets - ending					<u>\$ 256,733</u>	<u>\$ 248,412</u>	<u>\$ 505,145</u>	<u>\$ 12,388</u>

See accompanying notes to the basic financial statements.

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

CITY OF COMMERCE, OKLAHOMA
ANNUAL FINANCIAL REPORT
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Governmental Funds Balance Sheet (Modified Cash Basis) – June 30, 2012

	General Fund	Other Governmental Funds	Totals
ASSETS			
Cash and cash equivalents	\$ 339,566	\$ 1,061	\$ 340,627
Investments	6,744	-	6,744
Due from other funds	74,470	-	74,470
 Total Assets	\$ 420,780	\$ 1,061	\$ 421,841
 LIABILITIES AND FUND BALANCES			
Liabilities:			
Due to other funds	65,221	-	65,221
Due to other governments	99,887	-	99,887
 Total Liabilities	165,108	-	165,108
 Fund Balances:			
Restricted for:			
Grant purposes	-	9	9
Assigned for:			
Police purposes	-	1,052	1,052
Fire purposes	4,026	-	4,026
Capital projects	3,896	-	3,896
Unassigned	247,750	-	247,750
Total Fund Balances	255,672	1,061	256,733
 Total Liabilities and Fund Balances	\$ 420,780	\$ 1,061	\$ 421,841

See accompanying notes to the basic financial statements.

CITY OF COMMERCE, OKLAHOMA
ANNUAL FINANCIAL REPORT
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Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances
(Modified Cash Basis) – Year Ended June 30, 2012

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Totals</u>
Revenues:			
Taxes	\$ 315,172	\$ -	\$ 315,172
Intergovernmental	57,320	-	57,320
Charges for services	545,200	-	545,200
Fines & forfeitures	55,706	-	55,706
Investment income	2,847	-	2,847
Miscellaneous	40,537	3,706	44,243
Total Revenues	<u>1,016,782</u>	<u>3,706</u>	<u>1,020,488</u>
Expenditures:			
Current:			
General government	368,934	-	368,934
Sanitation	177,242	-	177,242
Police	263,704	3,447	267,151
Fire	25,973	-	25,973
Municipal court	20,547	-	20,547
Parks & recreation	9,738	-	9,738
Street	79,469	-	79,469
Managerial	18,870	-	18,870
Debt service:			
Principal retirement	33,380	-	33,380
Interest	4,451	-	4,451
Capital outlay	104,632	-	104,632
Total Expenditures	<u>1,106,940</u>	<u>3,447</u>	<u>1,110,387</u>
Excess (deficiency) of revenues over expenditures	(90,158)	259	(89,899)
Other Financing Sources (Uses):			
Proceeds from sale of capital assets	11,300	-	11,300
Transfers in	117,860	-	117,860
Transfer out	(187)	-	(187)
Total Other Financing Sources (Uses)	<u>128,973</u>	<u>-</u>	<u>128,973</u>
Net change in fund balances	38,815	259	39,074
Fund balances, beginning	216,857	802	217,659
Fund balances, ending	<u>\$ 255,672</u>	<u>\$ 1,061</u>	<u>\$ 256,733</u>

See accompanying notes to the basic financial statements.

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BASIC FINANCIAL STATEMENTS – PROPRIETARY FUND

CITY OF COMMERCE, OKLAHOMA
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Proprietary Fund Statement of Net Assets (Modified Cash Basis) – June 30, 2012

	<u>Commerce Development Authority</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 78,518
Investments	36,142
Due from other funds	32,312
Total current assets	<u>146,972</u>
Non-current assets:	
Restricted Assets:	
Cash and cash equivalents	207,990
Total non-current assets	<u>207,990</u>
Total Assets	<u>\$ 354,962</u>
 LIABILITIES	
Current liabilities:	
Deposits subject to refund	\$ 10,798
Due to other funds	41,561
Due to other governments	11,001
Total current liabilities	<u>63,360</u>
Non-current liabilities:	
Deposits subject to refund	43,190
Total non-current liabilities	<u>43,190</u>
Total Liabilities	<u>106,550</u>
 NET ASSETS	
Restricted for capital projects	154,002
Unrestricted	94,410
Total Net Assets	<u>\$ 248,412</u>

See accompanying notes to the basic financial statements.

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Proprietary Fund Statement of Revenues, Expenses and Changes in Net Assets (Modified Cash Basis) – Year Ended June 30, 2012

	Commerce Development Authority
Operating Revenues:	
Charges for services:	
Water	\$ 291,014
Sewer	134,736
Waterworks improvement fees	55,775
Miscellaneous	48,498
Total Operating Revenues	530,023
Operating Expenses:	
Water	106,431
Sewer operations	21,453
Administration	184,516
Total Operating Expenses	312,400
Operating Income	217,623
Non-Operating Revenues (Expenses):	
Investment income	567
Debt service:	
Principal payments	(34,454)
Interest expense	(8,754)
Total Non-Operating Revenues (Expenses)	(42,641)
Income before transfers	174,982
Transfers out	(117,673)
Change in Net Assets	57,309
Total Net Assets - beginning	191,103
Total Net Assets - ending	\$ 248,412

See accompanying notes to the basic financial statements.

CITY OF COMMERCE, OKLAHOMA
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Proprietary Fund Statement of Cash Flows (Modified Cash Basis) – Year Ended June 30, 2012

	<u>Commerce Development Authority</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 530,023
Payments to suppliers	(198,258)
Payments to employees	(119,265)
Due from other funds	(32,157)
Due to other funds	41,426
Receipts of customer utility deposits	450
Refunds of customer utility deposits	(6,503)
Net Cash Provided by Operating Activities	<u>215,716</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers to other funds	(117,673)
Net Cash Provided by (Used in) Noncapital Financing Activities	<u>(117,673)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal paid on capital debt	(34,454)
Interest and fiscal agent fees paid on capital debt	(8,754)
Net Cash Provided by (Used in) Capital and Related Financing Activities	<u>(43,208)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and dividends	567
Purchase of investments	(408)
Net Cash Provided by Investing Activities	<u>159</u>
Net Increase in Cash and Cash Equivalents	54,994
Balance - beginning of the year	<u>231,514</u>
Balance - end of the year	<u>\$ 286,508</u>
Reconciliation to Statement of Net Assets:	
Cash and cash equivalents	\$ 78,518
Restricted cash and cash equivalents - current	<u>207,990</u>
Total cash and cash equivalents	<u>\$ 286,508</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 217,623
Change in assets and liabilities:	
Due from other funds	(32,157)
Due to other funds	41,426
Due to other governments	(5,123)
Meter deposit liability	<u>(6,053)</u>
Net cash provided by operating activities	<u>\$ 215,716</u>

See accompanying notes to the basic financial statements.

**CITY OF COMMERCE, OKLAHOMA
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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 Commerce Sports 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 are 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 retains 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.

Trustees of the Commerce Development Authority are the City Council. The City is able to impose its will on the Trust through required approval of all debt obligations issued by these entities. The City Council appoints the trustees of the Commerce Sports Authority.

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, or held in escrow

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
- Utilities: water and sewer

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.

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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.

Major Funds:

- General Fund – accounts for all activities not accounted for in other special-purpose funds
With the implementation of GASB 54, certain internal accounts that are now considered accounts of the General Fund include:
 - ODEQ account
 - Volunteer Fire account
 - Capital Project account

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

Special Revenue Funds:

- EPA Fund – a special revenue fund used to account for expenditures related to EPA grant revenues.
- Police Fund – a special revenue fund used to account for activity related to reserve police officers.

The governmental funds are reported on a modified cash basis of accounting. 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 Fund:

The City's proprietary fund is comprised of the following:

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

The proprietary fund is reported on a modified cash basis, as defined above.

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.

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:

Governmental fund equity is classified as fund balance. Since the City has implemented GASB Statement 54, fund balance is further classified as nonspendable, restricted, committed, assigned, and unassigned. These classifications are defined as:

- a. Nonspendable – includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
- b. Restricted – consists of fund balance with constraints placed on the use of resources either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or (2) laws through constitutional provisions or enabling legislation.
- c. Committed – includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the City’s highest level of decision-making authority. The City’s highest level of decision-making authority is made by ordinance.

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- d. Assigned – includes amounts that are constrained by the City’s intent to be used for specific purposes but are neither restricted nor committed. Assignments of fund balance may be made by the City Council action or management decision when the City Council has delegated that authority. Assignments for transfers and interest income for governmental funds are made through the budgetary process.
- e. Unassigned – represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes within the general fund.

It’s the City’s policy to first use restricted fund balance prior to the use of the unrestricted fund balance when an expenditure has been incurred for purposes for which both restricted and unrestricted fund balance are available. The City’s policy for the use of unrestricted fund balance amounts require that the committed amounts would be reduced first, followed by the assigned amounts and then the unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

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 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 expenses are 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, 2012, the City recognized \$3,414 of investment income. 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, 2012, the primary government held the following deposits and investments:

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<u>Type</u>	<u>Carrying Value</u>
Primary Government	
Deposits:	
Demand deposits	\$ 340,710
Time deposits-certificates of deposit	329,311
	<u>\$ 670,021</u>
Reconciliation to the Statement of Net Assets:	
Cash and cash equivalents	\$ 419,145
Investments	42,886
Cash and cash equivalents - restricted	207,990
	<u>\$ 670,021</u>
Component Unit	
Mickey Mantle Memorial Trust Authority	
Deposits:	
Demand deposits	\$ 12,388
	<u>\$ 12,388</u>
Reconciliation to the Statement of Net Assets:	
Cash and cash equivalents	\$ 12,388
	<u>\$ 12,388</u>

Custodial 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, 2012, 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, 2012, the City did not hold any securities with credit ratings since they are all non-negotiable time deposits.

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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 utility deposits and capital improvement projects. The restricted assets as of June 30, 2012 are as follows:

<u>Type of Restricted Assets</u>	<u>Current Cash and Cash Equivalents</u>
Utility Deposits	\$ 53,988
Capital Improvement Projects	<u>\$ 154,002</u>
Total Proprietary Fund Restricted Assets	<u><u>\$ 207,990</u></u>

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, 2012, were as follows:

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<u>Due From</u>	<u>Due To</u>	<u>Amount</u>	<u>Nature of Interfund Balance</u>
General Fund	CDA	\$ 155	Reclassifications
ODEQ	General Fund	\$ 32,909	Reclassifications
General Fund	CDA	32,157	Returned stale dated check
CDA	General Fund	41,426	Revenue deposited in wrong fund
CDA	General Fund	135	Reclassifications
		<u>\$ 106,782</u>	

Reconciliation to Fund Financial Statements:

	<u>Due From Other Funds</u>	<u>Due to Other Funds</u>	<u>Internal Balance</u>
Governmental Funds	\$ 74,470	(65,221)	\$ 9,249
Proprietary Funds	32,312	(41,561)	(9,249)
Total	<u>\$ 106,782</u>	<u>\$ (106,782)</u>	<u>\$ -</u>

Transfers:

Internal transfers between funds and activities for the year ended June 30, 2012, were as follows:

<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>	<u>Purpose of Transfer</u>
CDA	General Fund	117,673	Operating subsidy
		<u>\$ 117,673</u>	

Reconciliation to Fund Financial Statements:

	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Net Transfers</u>
Governmental Activities	\$ 117,673	\$ -	\$ 117,673
Business-Type Activities	-	117,673	(117,673)
Total	<u>\$ 117,673</u>	<u>\$ 117,673</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, including 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

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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 2011 and 2012, the City's annual required contribution was \$1,380 and \$1,380, respectively 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 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 participate in the plan if they employ fulltime police officers. For 2010, 2011, and 2012, the City's annual required contribution was \$6,804, \$6,642, and \$6,143 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 2010, 2011, and 2012, the City's annual required contribution was \$19,630, \$18,918, and \$22,996 respectively, for the OPERS plan and was equal to the City's actual contribution for each year.

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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, 2012, the reporting entity's long-term debt changed as follows:

	RESTATED Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012	Amount Due Within One Year
<i>Governmental:</i>					
Capital lease payable	\$ 115,292	\$ -	\$ 33,380	\$ 81,912	\$ 34,640
Total governmental activities	<u>\$ 115,292</u>	<u>\$ -</u>	<u>\$ 33,380</u>	<u>\$ 81,912</u>	<u>\$ 34,640</u>
<i>Business-Type:</i>					
Notes payable	\$ 335,972	\$ -	\$ 34,454	\$ 301,518	\$ 27,778
Total business-type activities	<u>335,972</u>	<u>-</u>	<u>34,454</u>	<u>301,518</u>	<u>27,778</u>
Total long-term debt	<u>\$ 451,264</u>	<u>\$ -</u>	<u>\$ 67,834</u>	<u>\$ 383,430</u>	<u>\$ 62,418</u>

Governmental Activities:

At June 30, 2012, 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.	\$30,879
Lease obligation for real property, payable in annual installments of \$4,000, with last payment due February 10, 2013.	4,000
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, 2013.	5,000
Lease obligation for 2008 Ford Explorer for police department, payable in monthly installments of \$528, interest of 3.29%, with last payment due July 15, 2013.	6,717

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Lease obligation for 2010 Kubota Mini Excavator for street department, payable in monthly installments of \$646, interest of 4.25%, with last payment due July 15, 2017.	<u>35,316</u>
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Total Capital Lease Payable	<u>\$81,912</u>
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Current portion	\$34,640
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Non-current portion	<u>47,272</u>
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Total Capital Lease Payable	<u>\$81,912</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, 2012, 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.	\$291,717
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Note payable for computers, payable in monthly installments of \$507, interest of 3.75%, with final payment February 17, 2014.	<u>9,801</u>
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Total Notes Payable	<u>\$301,518</u>
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Current portion	\$27,778
Non-current portion	<u>273,740</u>
Total Notes Payable	<u>\$301,518</u>

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

Year Ended June 30,	<u>Governmental Activities</u>	
	<u>Capital</u>	
	<u>Lease Obligations</u>	
	<u>Principal</u>	<u>Interest</u>
2013	34,640	2,895
2014	25,333	1,868
2015	6,689	1,060
2016	6,689	1,060
2017	6,689	1,060
2018	1,872	89
Total	\$ 81,912	\$ 8,032

Year Ended June 30,	<u>Business Type Activities</u>	
	<u>Notes Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2013	27,778	7,799
2014	26,770	7,093
2015	23,251	6,242
2016	23,842	5,652
2017	24,478	5,016
2018-2022	132,281	15,188
2023-2024	43,118	1,124
Total	\$ 301,518	\$ 48,114

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, 2012 was \$20,137 with \$16,891 payable from the General Fund and \$3,246 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.)

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.

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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 2012, the City's involvement in federal and state award programs was not 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.

Payroll Taxes:

During fiscal years 2009 through 2012, the City did not make timely payroll deposits of taxes withheld from wages, nor did the City file timely payroll reports. Currently, the exact amount that the City owes the various taxing agencies is undetermined, but the City has estimated their total liability in this matter to be \$110,165. This amount is reported as a liability under the caption "Due to Other Governments" along with the Cleet payable amount of \$723 for a total of \$110,888.

9. Subsequent Events

During fiscal years 2013 and 2014, the City did not make timely payroll deposits of taxes withheld from wages, nor did the City file timely payroll reports with such agencies.

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.

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SUPPLEMENTAL AND OTHER INFORMATION

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Budgetary Comparison Schedule (Modified Cash Basis) – Year Ended June 30, 2012

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
Beginning Budgetary Fund Balance:	\$ -	\$ -	\$ (66,039)	\$ (66,039)
Resources (Inflows):				
Taxes	328,455	328,455	315,172	(13,283)
Intergovernmental	30,500	30,500	52,907	22,407
Charges for services	224,000	224,000	243,522	19,522
Fines and forfeitures	45,000	45,000	55,706	10,706
Licenses and permits	2,000	2,000	-	(2,000)
Investment income	-	-	23	23
Miscellaneous	20,000	20,000	34,730	14,730
Transfers in	120,000	120,000	117,859	(2,141)
Total Resources (Inflows)	<u>769,955</u>	<u>769,955</u>	<u>819,919</u>	<u>49,964</u>
Amounts available for appropriation	<u>\$769,955</u>	<u>\$769,955</u>	<u>\$753,880</u>	<u>(\$16,075)</u>
Charges to Appropriations (Outflows):				
Managerial	-	-	18,870	(18,870)
City attorney	20,200	20,200	-	20,200
Municipal court	12,500	12,500	20,547	(8,047)
Police department	255,000	255,000	270,137	(15,137)
Fire department	25,580	25,580	31,655	(6,075)
Street & sanitation department	275,408	275,408	264,657	10,751
Park department	4,000	4,000	9,998	(5,998)
General government	169,000	169,000	188,071	(19,071)
Total Charges to Appropriations	<u>761,688</u>	<u>761,688</u>	<u>803,935</u>	<u>(42,247)</u>
Ending Budgetary Fund Balance (Deficit)	<u>\$ 8,267</u>	<u>\$ 8,267</u>	<u>\$ (50,055)</u>	<u>\$ (58,322)</u>
Reconciliation to Statement of Revenues, Expenditures and Changes in Fund Balance:				
ODEQ Account			297,805	
Volunteer Fire Account			4,026	
Capital Project Account			3,896	
Total General Fund Fund Balance			<u>\$ 255,672</u>	

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 its General Fund.
4. In the General Fund, the City had budget overages at the legal level of control in the following departments, in the following amounts:

General Fund – Managerial	\$ 18,870
General Fund – Municipal Court	8,047
General Fund – Police Department	15,137
General Fund – Fire Department	6,075
General Fund – Park Department	5,998
General Fund – General Government	19,071

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Combining Balance Sheet – Nonmajor Governmental Funds (Modified Cash Basis) – June 30, 2012

	<u>Special Revenue Funds</u>		<u>Totals</u>
	<u>EPA Fund</u>	<u>Police Reserve Fund</u>	
ASSETS			
Cash and cash equivalents	\$ 9	\$ 1,052	\$ 1,061
Total Assets	<u>9</u>	<u>1,052</u>	<u>1,061</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Due to other funds	-	-	-
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances:			
Restricted for:			
Grant purposes	9	-	9
Assigned for:			
Police	-	1,052	1,052
	<u>\$ 9</u>	<u>\$ 1,052</u>	<u>\$ 1,061</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, 2012

	<u>Special Revenue Funds</u>		<u>Totals</u>
	<u>EPA Fund</u>	<u>Police Reserve Fund</u>	
Revenues:			
Miscellaneous	\$ -	\$ 3,706	\$ 3,706
Total Revenues	<u>-</u>	<u>3,706</u>	<u>3,706</u>
Expenditures:			
Current:			
Police	-	3,447	3,447
Total Expenditures	<u>-</u>	<u>3,447</u>	<u>3,447</u>
Excess of revenues over expenditures	-	259	259
Net change in fund balances	-	259	259
Fund balances, beginning	9	793	802
Fund balances, ending	<u>\$ 9</u>	<u>\$ 1,052</u>	<u>\$ 1,061</u>

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Combining Balance Sheet – General Fund Accounts (Modified Cash Basis) – June 30, 2012

	<u>General Fund</u>	<u>ODEQ Account</u>	<u>Volunteer Fire Account</u>	<u>Capital Project Account</u>	<u>Totals</u>
ASSETS					
Cash and cash equivalents	\$ 4,826	\$ 330,714	\$ 4,026	\$ -	\$ 339,566
Investments	2,848	-	-	3,896	6,744
Due from other funds	74,470	-	-	-	74,470
Total Assets	<u>\$ 82,144</u>	<u>330,714</u>	<u>4,026</u>	<u>3,896</u>	<u>\$ 420,780</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Due to other funds	32,312	32,909	-	-	65,221
Due to other governments	99,887	-	-	-	99,887
Total Liabilities	<u>132,199</u>	<u>32,909</u>	<u>-</u>	<u>-</u>	<u>165,108</u>
Fund Balances:					
Assigned for:					
Fire purposes	-	-	4,026	-	4,026
Capital projects	-	-	-	3,896	3,896
Unassigned (deficit)	(50,055)	297,805	-	-	247,750
Total Fund Balances	<u>(50,055)</u>	<u>297,805</u>	<u>4,026</u>	<u>3,896</u>	<u>255,672</u>
Total Liabilities and Fund Balances	<u>\$ 82,144</u>	<u>\$ 330,714</u>	<u>\$ 4,026</u>	<u>\$ 3,896</u>	<u>\$ 420,780</u>

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**Combining Schedule of Revenues, Expenditures and Changes in Fund Balance – General Fund
Accounts (Modified Cash Basis) – Year Ended June 30, 2012**

	General Fund	ODEQ Account	Volunteer Fire Account	Capital Project Account	Totals
Revenues:					
Taxes	\$ 315,172	\$ -	\$ -	\$ -	\$ 315,172
Intergovernmental	52,907	-	4,413	-	57,320
Charges for services	243,522	301,678	-	-	545,200
Fines & forfeitures	55,706	-	-	-	55,706
Investment income	23	2,781	-	43	2,847
Miscellaneous	34,730	464	5,344	-	40,538
Total Revenues	702,060	304,923	9,757	43	1,016,783
Expenditures:					
Current:					
General government	179,071	189,863	-	-	368,934
Sanitation	177,242	-	-	-	177,242
Police	263,703	-	-	-	263,703
Fire	17,204	-	8,770	-	25,974
Municipal court	20,547	-	-	-	20,547
Parks & recreation	9,738	-	-	-	9,738
Street	79,469	-	-	-	79,469
Managerial	18,870	-	-	-	18,870
Debt service:					
Principal retirement	33,380	-	-	-	33,380
Interest	4,451	-	-	-	4,451
Capital outlay	260	104,372	-	-	104,632
Total Expenditures	803,935	294,235	8,770	-	1,106,940
Excess (deficiency) of revenues over expenditures	(101,875)	10,688	987	43	(90,157)
Other Financing Sources (Uses):					
Proceeds from sale of capital assets	-	11,300	-	-	11,300
Transfers in	117,859	-	-	-	117,859
Transfer out	-	(187)	-	-	(187)
Total Other Financing Sources (Uses)	117,859	11,113	-	-	128,972
Net change in fund balances	15,984	21,801	987	43	38,815
Fund balances, beginning	(66,039)	276,004	3,039	3,853	216,857
Fund balances, ending	\$ (50,055)	\$ 297,805	\$ 4,026	\$ 3,896	\$ 255,672

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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, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 16, 2015. 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 deficiencies, 2012-01 and 2012-02, described in the accompanying schedule of findings and responses to be material weaknesses.

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*.

City of Commerce's Response to Findings

The City of Commerce's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly we express no opinion on it.

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
January 16, 2015

City of Commerce, Oklahoma
Schedule of Findings and Responses (continued)
For the Year Ended June 30, 2012

2012-01 Overspent General Fund Department Budgets

Criteria:

State Statute 11 O.S. §17-201 through 17-218 states “If at any time during the budget year it appears probable that revenues available will be insufficient to meet the amount appropriated, or that due to unforeseen emergencies there is temporarily insufficient money to meet the requirements of appropriation, the governing body shall take action as it deems necessary through budget amendments”.

Condition:

Overall, the City’s General Fund operated within the budget; however, various departments within the General Fund exceeded approved budget appropriations by \$73,198. The General Fund’s expenditures for the following departments exceeded budget by:

Departments	
Managerial	\$ 18,870
Municipal Court	8,047
Police Dept.	15,137
Fire Dept.	6,075
Park Dept.	5,998
General Govt.	19,071
Total	\$ 73,198

Cause:

The City did not budget enough for various expenses in the General Fund for the specific departments or prepare budget amendments.

Effect:

Some of the City’s General Fund expenditures exceeded approved budgeted amounts.

Recommendation:

The City should examine the prior year’s General Fund expenses and anticipate expenses for the upcoming year to make informed decisions on expenses. Amendments to the General Fund budget should also be made in order to comply with State Statutes.

Client Response:

We are aware of the requirements to ensure that expenditures do not exceed appropriations and will make every effort to make sure this is corrected and that any budget amendments are made. Management has hired an outside accounting firm to assist in the financial information for future periods.

City of Commerce, Oklahoma
Schedule of Findings and Responses (continued)
For the Year Ended June 30, 2012

2012-02 General Fund Deficit

Criteria:

State Statute 11 O.S.§17-211 states “no expenditures may be incurred or made by any officer or employee which exceeds the fund balance for any fund. Any fund balance remaining in a fund at the end of the fiscal year shall be carried forward to the credit of the fund for the next fiscal year. No expenditure may be authorized or made by any officer or employee which exceeds the appropriation of any fund.

In addition, it states further “It shall be unlawful for any officer or employee of the municipality in any budget year to create or authorize creation of a deficit in any fund; or, to authorize, make or incur expenditures in excess of 90% of the appropriation for any fund of the budget as adopted or amended until revenues received, including the prior fiscal year’s fund balance carried forward, totals an amount equal to at least 90% of the appropriation for the fund. Expenditures may then be made and authorized so long as an expenditure does not exceed any fund balance.

Condition:

At June 30, 2012, the City’s General Fund has a deficit balance of \$50,055.

Cause:

The City did not have internal controls in place to ensure that expenditures in the General Fund did not exceed the appropriations.

Effect:

The General Fund has a deficit fund balance in violation of state statutes.

Recommendation:

The City’s officials should closely monitor appropriations and expenditures to ensure expenditures do not at any time exceed appropriations.

Client Response:

We are aware of the requirements to ensure that expenditures do not exceed appropriations and will make every effort to make sure this is corrected and that any budget amendments are made. Management has hired an outside accounting firm to assist in the financial information for future periods.