



CITY OF COMMERCE, OKLAHOMA

ANNUAL FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORTS
AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2014

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

AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2014

CITY OF COMMERCE, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2014

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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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Commerce, Oklahoma, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position – modified cash basis of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Commerce, Oklahoma as of June 30, 2013, and the respective changes in financial position – modified cash basis and cash flows, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on page 32-33 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

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. The introductory section, combining and individual nonmajor fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

TURNER & ASSOCIATES, PLLC

Vinita, Oklahoma
March 31, 2015

**CITY OF COMMERCE, OKLAHOMA
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Management's Discussion and Analysis

**CITY OF COMMERCE, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2014**

The management of the City of Commerce is pleased to provide this annual financial report to its citizens, taxpayers and other report users to demonstrate its accountability and communicate the City's financial condition and activities as of and for the year ended June 30, 2014. Management of the City is responsible for the fair presentation of this annual report, for maintaining appropriate internal controls over financial reporting, and for complying with applicable laws, regulations, and provisions of grants and contracts. The City reports its financial statements and schedules on a modified cash basis which is a comprehensive basis of accounting other than generally accepted accounting principles. All of the financial analyses in this report must be considered within the context of the limitations of the modified cash basis of accounting.

FINANCIAL HIGHLIGHTS

- As reported on a modified cash basis, the City's total net position decreased by \$171,162. The assets of the City exceed its liabilities at June 30, 2014, by \$416,395 (net position). Of this amount, \$364,550 (unrestricted net position) is available to meet the government's ongoing needs.
- At June 30, 2014, the City's governmental funds reported combined ending fund balances on a modified cash basis of \$278,531.
- At the end of fiscal year 2014, unassigned fund balance on a modified cash basis for the General Fund was \$244,651, or 34.5% of annual General Fund revenues.

ABOUT THE CITY

The City of Commerce is an incorporated municipality with a population of approximately 2,473 located in Ottawa County in northeastern Oklahoma. The City is an aldermanic form of government that provides for three branches of government:

- Legislative – the City Council is an eight-member governing body elected by the citizens at large
- Executive – the Mayor is the Chief Executive Officer and is elected by the citizens
- Judicial – the Municipal Judge is a practicing attorney appointed by the City Council

The City provides typical municipal services such as public safety, cemetery, street and alley maintenance, parks and recreation, and utility services including water, wastewater, and sanitation.

The City's Financial Reporting Entity

This annual report includes all activities for which the City of Commerce City Council is financially accountable. These activities, defined as the City's financial reporting entity, are operated within two separate legal entities that make up the primary government.

The City's financial reporting entity includes the following separate legal entities.

- **The City of Commerce** – an incorporated City that operates the public safety, health and sanitation, streets and public works, culture and recreation, and administrative activities of the City – *reported as part of the primary government*

- **The Commerce Development Authority (the Authority)** – public trust created pursuant to 60 O.S. § 176 to operate the water and wastewater services of the City, with the City Council members serving as the trustees – *considered part of the primary government presentation for reporting purposes*

- **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 – *considered a discretely presented component unit.*

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements presented herein include all of the activities of the City of Commerce (the “City”), the Commerce Development Authority (the “CDA”), and the Commerce Sports Authority (the “CSA”). Included in this report are government-wide statements for each of the two categories of activities - governmental and business-type, in addition to a separate presentation for the discretely presented component unit.

The government-wide financial statements present the complete financial picture of the City using the modified cash basis of accounting. These statements include all assets of the City as well as all liabilities, resulting from modified cash transactions. They present governmental and business-type activities separately and combined. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City’s operations in more detail than the government-wide statements by providing information about the City’s most significant funds.

Reporting the City as a Whole

The Statement of Net Position and Statement of Activities

One of the most important questions to ask about the City’s finances is, “Has the City’s overall financial condition improved, declined or remained steady as a result of the year’s activities?” The Statement of Net Position and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. You will need to consider other non-financial factors, however, such as changes in the City’s sales tax base, the condition of the City’s roads, and quality of service to assess the overall health of the City. You will also need to keep in mind that these government-wide statements are prepared in accordance with the modified cash basis of accounting and include only those City assets and liabilities resulting from cash transactions.

In the Statement of Net Position and the Statement of Activities, we divide the City into two kinds of activities: *Governmental activities* - Most of the City’s basic services are reported here, including the police, fire, administration, and streets. Sales taxes, franchise fees, fines, and state and federal grants finance most of these activities; and *Business-type activities* – Activities where the City charges a fee to customers to help cover all or most of the cost of certain services it provides are reported here. The City’s water and sewer utilities are reported as business-type activities.

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Reporting the City's Most Significant Funds - Fund Financial Statements

Fund Financial Statements

The fund financial statements provide detailed information about the City's most significant (major) funds -- not the City as a whole. Some funds are required to be established by State law and by debt covenants. However, the City Council may also establish certain other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The City uses two kinds of funds – *governmental and proprietary*.

Governmental funds - All of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. Governmental funds report their activities on a modified cash basis of accounting. For example, these funds report the acquisition of capital assets and payments for debt principal as expenditures and not as changes to asset and debt balances. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine (through a review of changes to fund balance) whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. The differences of results in the governmental fund financial statements to those in the government-wide financial statements are explained in a reconciliation following each governmental fund financial statement.

Proprietary funds - When the City, through the Commerce Development Authority, charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are also reported on the modified cash basis of accounting. The City's proprietary fund is the Commerce Development Authority.

Notes to the Financial Statements

The notes provide additional information that is essential to gain an understanding of the data provided in the government-wide and fund financial statements. The Notes to the Financial Statements can be found on pages 26-38 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents Budgetary Comparison Schedules for the General Fund, combining and individual fund financial statements and schedules, and a federal and state grant awards schedule.

THE CITY AS A WHOLE

Following is a summary of Net Position reported on a modified cash basis for the City of Commerce for the past two fiscal years.

CITY OF COMMERCE, OKLAHOMA
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Table 1
NET POSITION - Modified Cash Basis (In Thousands)

	Governmental Activities		% Inc. (Dec.)	Business-Type Activities		% Inc. (Dec.)	Total		% Inc. (Dec.)
	2014	2013		2014	2013		2014	2013	
Current assets	\$ 384	\$ 520	-26%	\$ 226	\$ 185	22%	\$ 610	\$ 705	-13%
Total assets	<u>384</u>	<u>520</u>	-26%	<u>226</u>	<u>185</u>	22%	<u>610</u>	<u>705</u>	-13%
Current liabilities	105	48	119%	88	69	28%	193	117	65%
Total liabilities	<u>105</u>	<u>48</u>	119%	<u>88</u>	<u>69</u>	28%	<u>193</u>	<u>117</u>	65%
Net position									
Restricted	8	6	33%	44	84	-48%	52	90	-42%
Unrestricted	271	466	-42%	94	32	194%	365	498	-27%
Total net position	<u>\$ 279</u>	<u>\$ 472</u>	-41%	<u>\$ 138</u>	<u>\$ 116</u>	19%	<u>\$ 417</u>	<u>\$ 588</u>	-29%

In governmental activities, current assets decreased approximately \$136,000 or 26% due to the use of cash reserves for current year expenditures. Current liabilities increased approximately \$57,000 or 119% due to amounts owed for federal and state payroll tax and withholdings.

In business-type activities, current assets increased approximately \$41,000 or 22% due to a decrease in transfers to governmental activities. Current liabilities increased approximately \$19,000 or 28% due to amounts owed for federal and state payroll tax withholdings.

Table 2
CHANGES IN NET POSITION - Modified Cash Basis (In Thousands)

	Governmental Activities		% Inc. (Dec.)	Business-Type Activities		% Inc. (Dec.)	Total		% Inc. (Dec.)
	2014	2013		2014	2013		2014	2013	
Revenues									
Charges for service	\$ 239	\$ 904	-74%	\$ 542	\$ 492	10%	\$ 781	\$ 1,396	-44%
Operating grants and contributions	63	64	-2%	-	-	-	63	64	-2%
Capital grants and contributions	9	-	100%	-	-	-	9	-	100%
Taxes	334	325	3%	-	-	-	334	325	3%
Intergovernmental revenue	15	15	0%	-	-	-	15	15	0%
Investment income	1	2	-50%	-	-	-	1	2	-50%
Miscellaneous	50	43	16%	-	-	-	50	43	16%
Total revenues	<u>711</u>	<u>1,353</u>	-47%	<u>542</u>	<u>492</u>	10%	<u>1,253</u>	<u>1,845</u>	-32%
Expenses									
General government	356	607	-41%	-	-	-	356	607	-41%
Public safety	283	335	-16%	-	-	-	283	335	-16%
Highways and streets	110	93	18%	-	-	-	110	93	18%
Culture and recreation	23	18	28%	-	-	-	23	18	28%
Public works	175	189	-7%	-	-	-	175	189	-7%
Water and sewer	-	-	-	447	482	-7%	447	482	-7%
Principal on long-term debt	27	35	-23%	-	-	-	27	35	-23%
Interest on long-term debt	2	4	-50%	-	-	-	2	4	-50%
Total expenses	<u>976</u>	<u>1,281</u>	-24%	<u>447</u>	<u>482</u>	-7%	<u>1,423</u>	<u>1,763</u>	-19%
Excess (deficiency) before transfers	(265)	72	-468%	95	10	-850%	(170)	82	-307%
Transfers	73	142	-49%	(73)	(142)	49%	-	-	-
Change in net position	(192)	214	-190%	22	(132)	117%	(170)	82	-307%
Beginning net position	471	257	83%	116	248	-53%	587	505	16%
Ending net position	<u>\$ 279</u>	<u>\$ 471</u>	-41%	<u>\$ 138</u>	<u>\$ 116</u>	19%	<u>\$ 417</u>	<u>\$ 587</u>	-29%

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In governmental activities, charges for services decreased approximately \$665,000 or 74%. This is due to remediation services that were performed in the prior year, but were not performed in FY 2014. The expenditures for the remediation services were reported in general government. This accounts for the decrease in general government expenditures of approximately \$251,000 or 41%. Transfers between governmental and business-type activities decreased approximately \$69,000 or 49%. Operating transfers are made as needed and vary annually.

No significant variations were noted in business-type activities.

Governmental Activities

**Table 3
Net Revenue (Expense) of Governmental Activities
(In Thousands)**

	<u>Total Expense of Services</u>		<u>% Inc. (Dec.)</u>	<u>Net Revenue (Expense) of Services</u>		<u>% Inc. (Dec.)</u>
	<u>2014</u>	<u>2013</u>		<u>2014</u>	<u>2013</u>	
	General government	\$ 357		\$ 607	-41%	
Public safety	283	335	-16%	(222)	(267)	-17%
Highways and streets	111	93	19%	(87)	(76)	14%
Culture and recreation	23	18	28%	(6)	(2)	200%
Public works	175	189	-7%	34	57	-40%
Principal on long-term debt	27	35	-23%	(27)	(35)	-23%
Interest on long-term debt	<u>2</u>	<u>4</u>	-50%	<u>(2)</u>	<u>(4)</u>	-50%
Total	<u>\$ 978</u>	<u>\$ 1,281</u>	-24%	<u>\$ (666)</u>	<u>\$ (313)</u>	113%

Business-type Activities

**Table 4
Net Revenue (Expense) of Business-Type Activities
(In Thousands)**

	<u>Total Expense of Services</u>		<u>% Inc. Dec.</u>	<u>Net Revenue (Expense) of Services</u>		<u>% Inc. Dec.</u>
	<u>2014</u>	<u>2013</u>		<u>2014</u>	<u>2013</u>	
	Water and sewer	<u>\$ 447</u>		<u>\$ 482</u>	-7%	
Total	<u>\$ 447</u>	<u>\$ 482</u>	-7%	<u>\$ 95</u>	<u>\$ 10</u>	850%

**CITY OF COMMERCE, OKLAHOMA
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A FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As the City completed its 2014 fiscal year, the governmental funds reported a combined fund balance of \$278,531. For the year ended June 30, 2014, the General Fund's total fund balance decreased by \$192,578.

For proprietary funds, the City reports an increase in net position for the Commerce Development Authority of \$21,422.

Budgetary Highlights

For the year ended June 30, 2014, the General Fund reported actual budgetary basis revenues over final estimates by \$47,670 or a 5.9% positive variance. General Fund actual expenditures were over final appropriations by \$133,127 or a 16.5% negative variance.

ECONOMIC FACTORS AND NEXT YEAR'S ESTIMATES

The following information outlines significant known factors that will affect subsequent year finances:

- The FY 2015 budget is consistent with the prior year.
- The City will add a fire department fee to the water bills.
- The City is considering initiating to raise sales tax, property tax, and possibly issuing bonds in FY 2015.

Contacting the City's Financial Management

This report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Clerk's office at 618 Commerce Ave., Commerce, Oklahoma 74339 or telephone at 918-675-4373.

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

CITY OF COMMERCE, OKLAHOMA
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Statement of Net Position (Modified Cash Basis) – June 30, 2014

	<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	\$ 146,316	\$ 72,619	\$ 218,935	\$ 12,229
Investments	237,641	36,625	274,266	-
Cash and cash equivalents-restricted	-	116,890	116,890	-
Total Assets	<u>383,957</u>	<u>226,134</u>	<u>610,091</u>	<u>12,229</u>
LIABILITIES				
Due to other governments	105,426	15,096	120,522	-
Deposits subject to refund - due in one year	-	14,635	14,635	-
Deposits subject to refund - due in more than one year	-	58,539	58,539	-
Total Liabilities	<u>105,426</u>	<u>88,270</u>	<u>193,696</u>	<u>-</u>
NET POSITION				
Restricted for park and recreation	8,129	-	8,129	-
Restricted for capital projects	-	43,716	43,716	-
Unrestricted	270,402	94,148	364,550	12,229
Total Net Position	<u>\$ 278,531</u>	<u>\$ 137,864</u>	<u>\$ 416,395</u>	<u>\$ 12,229</u>

See accompanying notes to the basic financial statements.

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Statement of Activities (Modified Cash Basis) – Year Ended June 30, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			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	\$ 356,495	\$ -	\$ -	\$ -	\$ (356,495)	\$ -	\$ (356,495)	\$ -
Public Safety	283,229	29,299	21,853	9,818	(222,259)	-	(222,259)	-
Highways and Streets	110,694	-	23,782	-	(86,912)	-	(86,912)	-
Culture and Recreation	23,216	-	17,646	-	(5,570)	-	(5,570)	-
Public Works	175,692	209,427	-	-	33,735	-	33,735	-
Debt service:								
Principal on long-term debt	26,644	-	-	-	(26,644)	-	(26,644)	-
Interest on long-term debt	1,971	-	-	-	(1,971)	-	(1,971)	-
Total governmental activities	<u>977,941</u>	<u>238,726</u>	<u>63,281</u>	<u>9,818</u>	<u>(666,116)</u>	<u>-</u>	<u>(666,116)</u>	<u>-</u>
Business-type activities:								
Water and sewer	447,399	541,924	-	-	-	94,525	94,525	-
Total business-type activities	<u>447,399</u>	<u>541,924</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>94,525</u>	<u>94,525</u>	<u>-</u>
Total primary government	<u>\$ 1,425,340</u>	<u>\$ 780,650</u>	<u>\$ 63,281</u>	<u>\$ 9,818</u>	<u>(666,116)</u>	<u>94,525</u>	<u>(571,591)</u>	<u>-</u>
Component Unit:								
Culture and Recreation	<u>\$ 588</u>							<u>(588)</u>
General revenues:								
Taxes:								
Sales and use tax					258,154	-	258,154	-
Franchise and public service taxes					76,191	-	76,191	-
Intergovernmental revenue not restricted to specific programs					14,959	-	14,959	-
Investment income					1,282	293	1,575	14
Miscellaneous					49,550	-	49,550	207
Transfers - internal activity					73,396	(73,396)	-	-
Total general revenues and transfers					<u>473,532</u>	<u>(73,103)</u>	<u>400,429</u>	<u>221</u>
Change in net position					(192,584)	21,422	(171,162)	(367)
Net position - beginning					471,115	116,442	587,557	12,596
Net position - ending					<u>\$ 278,531</u>	<u>\$ 137,864</u>	<u>\$ 416,395</u>	<u>\$ 12,229</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
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Governmental Funds Balance Sheet (Modified Cash Basis) – June 30, 2014

	General Fund	(Non-Major) Police Reserve Fund	Totals
ASSETS			
Cash and cash equivalents	\$ 145,251	\$ 1,065	\$ 146,316
Investments	237,641	-	237,641
Total Assets	<u>\$ 382,892</u>	<u>\$ 1,065</u>	<u>\$ 383,957</u>
 LIABILITIES AND FUND BALANCES			
Liabilities:			
Due to other governments	\$ 105,426	\$ -	\$ 105,426
Total Liabilities	<u>105,426</u>	<u>-</u>	<u>105,426</u>
Fund Balances:			
Restricted for:			
Park and recreation purposes	8,129	-	8,129
Assigned for:			
Police purposes	-	1,065	1,065
Park and recreation purposes	7,884	-	7,884
Fire purposes	12,855	-	12,855
Capital projects	3,947	-	3,947
Unassigned	<u>244,651</u>	<u>-</u>	<u>244,651</u>
Total Fund Balances	<u>277,466</u>	<u>1,065</u>	<u>278,531</u>
Total Liabilities and Fund Balances	<u>\$ 382,892</u>	<u>\$ 1,065</u>	<u>\$ 383,957</u>

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, 2014

	General Fund	(Non-Major) Police Reserve Fund	Totals
Revenues:			
Taxes	\$ 332,320	\$ -	\$ 332,320
Intergovernmental	55,058	-	55,058
Charges for services	209,427	-	209,427
Fines & forfeitures	29,299	-	29,299
Investment income	1,282	-	1,282
Miscellaneous	82,943	1,632	84,575
Total Revenues	710,329	1,632	711,961
Expenditures:			
Current:			
General government	323,224	-	323,224
Sanitation	175,692	-	175,692
Police	247,316	1,638	248,954
Fire	34,275	-	34,275
Municipal court	16,572	-	16,572
Parks & recreation	23,216	-	23,216
Street	110,694	-	110,694
Managerial	16,699	-	16,699
Debt service:			
Principal retirement	26,644	-	26,644
Interest	1,971	-	1,971
Total Expenditures	976,303	1,638	977,941
Excess (deficiency) of revenues over expenditures	(265,974)	(6)	(265,980)
Other Financing Sources (Uses):			
Transfers in	84,451	-	84,451
Transfer out	(11,055)	-	(11,055)
Total Other Financing Sources (Uses)	73,396	-	73,396
Net change in fund balances	(192,578)	(6)	(192,584)
Fund balances, beginning	470,044	1,071	471,115
Fund balances, ending	\$ 277,466	\$ 1,065	\$ 278,531

See accompanying notes to the basic financial statements.

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BASIC FINANCIAL STATEMENTS – PROPRIETARY FUND

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Proprietary Fund Statement of Net Position (Modified Cash Basis) – June 30, 2014

	Commerce Development Authority
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 72,619
Investments	36,625
Total current assets	<u>109,244</u>
Non-current assets:	
Restricted Assets:	
Cash and cash equivalents	116,890
Total non-current assets	<u>116,890</u>
Total Assets	<u>226,134</u>
 LIABILITIES	
Current liabilities:	
Deposits subject to refund	14,635
Due to other governments	15,096
Total current liabilities	<u>29,731</u>
Non-current liabilities:	
Deposits subject to refund	58,539
Total non-current liabilities	<u>58,539</u>
Total Liabilities	<u>88,270</u>
 NET POSITION	
Restricted for capital projects	43,716
Unrestricted	94,148
Total Net Position	<u>\$ 137,864</u>

See accompanying notes to the basic financial statements.

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Proprietary Fund Statement of Revenues, Expenses and Changes in Net Position (Modified Cash Basis) – Year Ended June 30, 2014

	Commerce Development Authority
Operating Revenues:	
Charges for services:	
Water	\$ 282,111
Sewer	125,006
Water and sewer taps	1,925
Waterworks improvement fees	70,278
Miscellaneous	62,604
Total Operating Revenues	541,924
Operating Expenses:	
Water	248,729
Sewer operations	19,606
Administration	146,279
Total Operating Expenses	414,614
Operating Income	127,310
Non-Operating Revenues (Expenses):	
Investment income	293
Debt service:	
Principal payments	(25,912)
Interest expense	(6,873)
Total Non-Operating Revenues (Expenses)	(32,492)
Income before transfers	94,818
Transfers in	11,055
Transfers out	(84,451)
Change in Net Position	21,422
Total Net Position - beginning	116,442
Total Net Position - ending	\$ 137,864

See accompanying notes to the basic financial statements.

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Proprietary Fund Statement of Cash Flows (Modified Cash Basis) – Year Ended June 30, 2014

	<u>Commerce Development Authority</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 541,924
Payments to suppliers	(252,038)
Payments to employees	(153,489)
Receipts of customer utility deposits	16,475
Refunds of customer utility deposits	(6,247)
	<u>146,625</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers from other funds	11,055
Transfers to other funds	(84,451)
	<u>(73,396)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal paid on capital debt	(25,912)
Interest and fiscal agent fees paid on capital debt	(6,873)
	<u>(32,785)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and dividends	293
Purchase of investments	(182)
	<u>111</u>
Net Increase in Cash and Cash Equivalents	40,555
Balance - beginning of the year	<u>148,954</u>
Balance - end of the year	<u>\$ 189,509</u>
Reconciliation to Statement of Net Position:	
Cash and cash equivalents	\$ 72,619
Restricted cash and cash equivalents - current	116,890
Total cash and cash equivalents	<u>\$ 189,509</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 127,310
Change in assets and liabilities:	
Due to other governments	9,087
Meter deposit liability	10,228
Net cash provided by operating activities	<u>\$ 146,625</u>

See accompanying notes to the basic financial statements.

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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*," as amended by GASB Statement 61, 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.

The City Council serves as the trustees of the Commerce Development Authority. The City Council appoints the trustees of the Commerce Sports Authority. The City is able to impose its will on these Trusts 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 trusts 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 statements of net position 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 and contributions
- 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.

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
Certain internal accounts are considered accounts of the General Fund:
 - ODEQ account
 - Volunteer Fire account
 - Capital Project account

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

Special Revenue Fund:

- 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 position, 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 Position

Fund Balances:

Governmental fund equity is classified as fund balance. 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 Position:

Net position is displayed in two components:

- a. *Restricted net position* - Consists of net position 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 position* - All other net position that does not meet the definition of “restricted.”

It is the City’s policy to first use restricted net position prior to the use of unrestricted net position when expenses are incurred for purposes for which both restricted and unrestricted net position 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 position 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, 2014, the City recognized \$1,575 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, 2014, the primary government held the following deposits and investments:

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Type	Carrying Value
Primary Government	
Deposits:	
Demand deposits	\$ 277,678
Time deposits-certificates of deposit	332,413
	\$ 610,091
Reconciliation to the Statement of Net Position:	
Cash and cash equivalents	\$ 218,935
Investments	274,266
Cash and cash equivalents - restricted	116,890
	\$ 610,091
Component Unit	
Commerce Sports Authority	
Deposits:	
Demand deposits	\$ 12,229
	\$ 12,229
Reconciliation to the Statement of Net Position:	
Cash and cash equivalents	\$ 12,229
	\$ 12,229

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, 2014, 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, 2014, 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 Position are comprised of amounts restricted for utility deposits and capital improvement projects. The restricted assets as of June 30, 2014 are as follows:

<u>Type of Restricted Assets</u>	<u>Non-Current Cash and Cash Equivalents</u>
Utility Deposits	\$ 73,174
Capital Improvement Projects	<u>43,716</u>
Total Proprietary Fund Restricted Assets	<u><u>\$ 116,890</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

Transfers:

Internal transfers between funds and activities for the year ended June 30, 2014, were as follows:

<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>	<u>Purpose of Transfer</u>
General Fund	CDA	\$ 11,055	Transfer of use tax revenue
CDA	General Fund	<u>84,451</u>	Operating subsidy
		<u><u>\$ 95,506</u></u>	

Reconciliation to Fund Financial Statements:			
	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Net Transfers</u>
Governmental Activities	\$ 84,451	\$ 11,055	\$ 73,396
Business-Type Activities	<u>11,055</u>	<u>84,451</u>	<u>(73,396)</u>
Total	<u><u>\$ 95,506</u></u>	<u><u>\$ 95,506</u></u>	<u><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

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 2012, 2013 and 2014, the City's annual required contribution was \$1,380, \$1,380 and \$840, respectively for the OFPRS plan and was equal to the City's actual contribution for each year.

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

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

OPPRS

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

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participate in the plan if they employ fulltime police officers. For 2012, 2013, and 2014, the City's annual required contribution was \$6,143, \$9,903, and \$11,512 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 8% and the City's contribution rate is 12%. For 2012, 2013, and 2014, the City's annual required contribution was \$22,996, \$24,750, and \$18,198 respectively, for the OPERS plan and was equal to the City's actual contribution for each year.

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

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

8. Commitments and Contingencies

For the year ended June 30, 2014, the reporting entity's long-term debt changed as follows:

	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2014</u>	<u>Amount Due</u> <u>Within One Year</u>
<i>Governmental:</i>					
Capital lease payable	\$ 43,069	\$ -	\$ 22,366	\$ 20,703	\$ 7,670
Total governmental activities	<u>43,069</u>	<u>-</u>	<u>22,366</u>	<u>20,703</u>	<u>7,670</u>
<i>Business-Type:</i>					
Notes payable	272,882	-	25,912	246,970	23,251
Total business-type activities	<u>272,882</u>	<u>-</u>	<u>25,912</u>	<u>246,970</u>	<u>23,251</u>
Total long-term debt	<u>\$ 315,951</u>	<u>\$ -</u>	<u>\$ 48,278</u>	<u>\$ 267,673</u>	<u>\$ 30,921</u>

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Governmental Activities:

At June 30, 2014, the governmental activities long-term payable from taxes and other general revenues include the following:

Capital Lease Obligations Payable:

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>\$ 20,703</u>
Total Capital Lease Payable	<u>\$ 20,703</u>
Current portion	\$7,670
Non-current portion	<u>13,033</u>
Total Capital Lease Payable	<u>\$ 20,703</u>

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, 2014, 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>\$ 246,970</u>
Total Notes Payable	<u>\$ 246,970</u>
Current portion	\$23,251
Non-current portion	<u>223,719</u>
Total Notes Payable	<u>\$ 246,970</u>

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

		<u>Governmental Activities</u>	
		Capital	
		<u>Lease Obligations</u>	
Year Ended	June 30,	<u>Principal</u>	<u>Interest</u>
	2015	\$ 7,670	\$ 730
	2016	8,003	397
	2017	5,030	26
Total		<u>\$ 20,703</u>	<u>\$ 1,153</u>

		<u>Business Type Activities</u>	
		<u>Notes Payable</u>	
		<u>Principal</u>	<u>Interest</u>
Year Ended	June 30,		
	2015	\$ 23,251	\$ 6,242
	2016	23,842	5,652
	2017	24,478	5,016
	2018	25,115	4,378
	2019	25,769	3,724
	2020-2024	124,515	8,209
Total		<u>\$ 246,970</u>	<u>\$ 33,221</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, 2014 was \$8,039 with \$7,049 payable from the General Fund and \$990 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.)

Outstanding court ordered judgments rendered against the City total \$563,455.

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 2014, 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.

Payroll Taxes:

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 \$119,778. This amount is reported as a liability under the caption "Due to Other Governments" along with the Cleet payable amount of \$744 for a total of \$120,522.

9. Subsequent Event

Consent Order:

The City of Commerce is subject to an on-going Consent Order 15-002 issued by the Oklahoma Department of Environmental Quality, which was executed by the City on February 05, 2015. This consent order supersedes and closes Consent Order 08-299, Assessment Order 10-257, Notice of Violation No. S-21605-12-1 and Consent Order 13-072. This consent order also 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 Assessment Order 10-257. The ODEQ agreed to waive \$50,000 of this penalty based on the City's attempt to attain compliance and payment of ten (10) equal monthly payments of \$500 beginning February 1, 2015. Further, the ODEQ required four (4) tasks to be completed to bring the wastewater treatment plant into compliance with the Federal NPDES program. Due dates for completion of these tasks were established along with an allocation of 25% per task of the remaining \$15,000. The ODEQ will either be paid \$3,750 per task if each task completion date is not met or will waive 25% of the penalty if each task completion date is met.

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 a budget for its special revenue fund.

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SUPPLEMENTAL AND OTHER INFORMATION

**CITY OF COMMERCE, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2014**

Budgetary Comparison Schedule (Modified Cash Basis) – Year Ended June 30, 2014

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
Beginning Budgetary Fund Balance:	\$ -	\$ -	\$ (50,217)	\$ (50,217)
Resources (Inflows):				
Taxes	316,000	316,000	332,320	16,320
Intergovernmental	33,651	33,651	40,766	7,115
Charges for services	220,000	220,000	209,427	(10,573)
Fines and forfeitures	50,000	50,000	29,299	(20,701)
Investment income	-	-	9	9
Miscellaneous	79,000	79,000	67,196	(11,804)
Transfers in	120,000	120,000	237,521	117,521
Total Resources (Inflows)	<u>818,651</u>	<u>818,651</u>	<u>916,538</u>	<u>97,887</u>
Amounts available for appropriation	<u>\$818,651</u>	<u>\$818,651</u>	<u>\$866,321</u>	<u>\$47,670</u>
Charges to Appropriations (Outflows):				
Managerial	-	-	16,699	(16,699)
City attorney	20,000	20,000	-	20,000
Municipal court	22,500	22,500	16,572	5,928
Police department	270,000	270,000	248,150	21,850
Fire department	22,880	22,880	34,807	(11,927)
Street & sanitation department	293,000	293,000	295,437	(2,437)
Park department	5,600	5,600	23,216	(17,616)
General government	177,000	177,000	298,171	(121,171)
Transfers out	-	-	11,055	(11,055)
Total Charges to Appropriations	<u>810,980</u>	<u>810,980</u>	<u>944,107</u>	<u>(133,127)</u>
Ending Budgetary Fund Balance (Deficit)	<u>\$ 7,671</u>	<u>\$ 7,671</u>	<u>\$ (77,786)</u>	<u>\$ (85,457)</u>
Reconciliation to Statement of Revenues, Expenditures and Changes in Fund Balance:				
ODEQ Account			338,450	
Volunteer Fire Account			12,855	
Capital Project Account			3,947	
Total General Fund Fund Balance			<u>\$ 277,466</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	\$ 16,699
General Fund – Fire Department	11,927
General Fund – Street & Sanitation Department	2,437
General Fund – Park Department	17,616
General Fund – General Government	121,171
General Fund – Transfers Out	11,055

**CITY OF COMMERCE, OKLAHOMA
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Combining Balance Sheet – General Fund Accounts (Modified Cash Basis) – June 30, 2014

	<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	\$ 24,775	\$ 107,621	\$ 12,855	\$ -	\$ 145,251
Investments	2,865	230,829	-	3,947	237,641
Total Assets	<u>\$ 27,640</u>	<u>\$ 338,450</u>	<u>\$ 12,855</u>	<u>\$ 3,947</u>	<u>\$ 382,892</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Due to other governments	\$ 105,426	\$ -	\$ -	\$ -	\$ 105,426
Total Liabilities	<u>105,426</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>105,426</u>
Fund Balances:					
Restricted for parks and recreation	8,129	-	-	-	8,129
Assigned for:					
Parks and recreation	7,884	-	-	-	7,884
Fire purposes	-	-	12,855	-	12,855
Capital projects	-	-	-	3,947	3,947
Unassigned (deficit)	(93,799)	338,450	-	-	244,651
Total Fund Balances	<u>(77,786)</u>	<u>338,450</u>	<u>12,855</u>	<u>3,947</u>	<u>277,466</u>
Total Liabilities and Fund Balances	<u>\$ 27,640</u>	<u>\$ 338,450</u>	<u>\$ 12,855</u>	<u>\$ 3,947</u>	<u>\$ 382,892</u>

**CITY OF COMMERCE, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2014**

**Combining Schedule of Revenues, Expenditures and Changes in Fund Balance – General Fund
Accounts (Modified Cash Basis) – Year Ended June 30, 2014**

	<u>General Fund</u>	<u>ODEQ Account</u>	<u>Volunteer Fire Account</u>	<u>Capital Project Account</u>	<u>Totals</u>
Revenues:					
Taxes	\$ 332,320	\$ -	\$ -	\$ -	\$ 332,320
Intergovernmental	40,766	9,818	4,474	-	55,058
Charges for services	209,427	-	-	-	209,427
Fines & forfeitures	29,299	-	-	-	29,299
Investment income	9	1,253	-	20	1,282
Miscellaneous	67,196	-	15,747	-	82,943
Total Revenues	<u>679,017</u>	<u>11,071</u>	<u>20,221</u>	<u>20</u>	<u>710,329</u>
Expenditures:					
Current:					
General government	298,171	25,053	-	-	323,224
Sanitation	175,692	-	-	-	175,692
Police	247,316	-	-	-	247,316
Fire	16,077	-	18,198	-	34,275
Municipal court	16,572	-	-	-	16,572
Parks & recreation	23,216	-	-	-	23,216
Street	110,694	-	-	-	110,694
Managerial	16,699	-	-	-	16,699
Debt service:					
Principal retirement	26,644	-	-	-	26,644
Interest	1,971	-	-	-	1,971
Total Expenditures	<u>933,052</u>	<u>25,053</u>	<u>18,198</u>	<u>-</u>	<u>976,303</u>
Excess (deficiency) of revenues over expenditures	<u>(254,035)</u>	<u>(13,982)</u>	<u>2,023</u>	<u>20</u>	<u>(265,974)</u>
Other Financing Sources (Uses):					
Transfers in	84,451	-	-	-	84,451
Transfers out	(11,055)	-	-	-	(11,055)
Interaccount transfers in	153,070	-	-	-	153,070
Interaccount transfer out	-	(153,070)	-	-	(153,070)
Total Other Financing Sources (Uses)	<u>226,466</u>	<u>(153,070)</u>	<u>-</u>	<u>-</u>	<u>73,396</u>
Net change in fund balances	(27,569)	(167,052)	2,023	20	(192,578)
Fund balances, beginning	(50,217)	505,502	10,832	3,927	470,044
Fund balances, ending	<u>\$ (77,786)</u>	<u>\$ 338,450</u>	<u>\$ 12,855</u>	<u>\$ 3,947</u>	<u>\$ 277,466</u>

**CITY OF COMMERCE, OKLAHOMA
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Schedule of Expenditure of Federal and State Awards

Federal/State Grantor/Pass Through Agency Grantor/Program Title	Federal CFDA Number	Grant #	Award Amount	Awards Expended
FEDERAL AWARDS:				
<u>U.S. DEPARTMENT OF JUSTICE</u>				
Pass through Oklahoma District Attorney's Council:				
Local Law Enforcement Grant	16.738	A3L-2012-Commerce CIE-0003	9,818	9,818
Total Federal Awards			<u>\$ 9,818</u>	<u>\$ 9,818</u>
STATE AWARDS:				
<u>OKLAHOMA DEPARTMENT OF AGRICULTURE:</u>				
Fire Operating Grant	N/A	N/A	4,474	4,474
Total State Awards			<u>\$ 4,474</u>	<u>\$ 4,474</u>

**CITY OF COMMERCE, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2014**

INTERNAL CONTROL AND COMPLIANCE

**CITY OF COMMERCE, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2014**

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**INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Mayor and City Council
City of Commerce, Oklahoma

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Commerce, Oklahoma, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise City of Commerce, Oklahoma’s basic financial statements and have issued our report thereon dated March 31, 2015.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 described in the accompanying schedule of findings and questioned costs to be material weaknesses. [2014-01, 2014-02].

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. We found no instances of significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Commerce, Oklahoma's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. We found no instances of noncompliance.

City of Commerce, Oklahoma'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 of Commerce, Oklahoma'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.

Purpose of this Report

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

TURNER & Associates, PLLC

Vinita, Oklahoma
March 31, 2015

**City of Commerce, Oklahoma
Schedule of Findings and Responses
For the Year Ended June 30, 2014**

2014-01 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 \$180,905. This is a repeat finding. The General Fund’s expenditures for the following departments exceeded budget by:

<u>Departments</u>		
Managerial	\$	16,699
Fire Dept.		11,927
Street & Sanitation		2,437
Park Dept.		17,616
General Govt.		121,171
Transfers Out		11,055
Total	\$	<u>180,905</u>

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, 2014

2014-02 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, 2014, the City’s General Fund has a deficit balance of \$77,876. This is a repeat finding.

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.