CITY OF COMMERCE, GEORGIA

AUDITED FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

CITY OF COMMERCE, GEORGIA
AUDITED FINANCIAL STATEMENTS
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Independent Auditors' Report

To the Honorable Mayor and Members of the City Council
City of Commerce, Georgia

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Commerce, Georgia 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, Georgia'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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information for the City of Commerce, Georgia as of June 30, 2012, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund 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 November 20, 2012, on our consideration of the City of Commerce, Georgia's internal control over financial reporting and 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 assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 9 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.

To the Honorable Mayor and Members of the City Council
City of Commerce, Georgia

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Commerce, Georgia's financial statements as a whole. The combining and individual nonmajor fund financial statements, and the Schedules of Projects Constructed and Expenditures Incurred with Special Sales Tax Proceeds on pages 76 and 77 are presented for purpose of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* and is also not a required part of the financial statements. The combining and individual nonmajor fund financial statements, the schedule of expenditures of federal awards, and the Schedules of Projects Constructed and Expenditures Incurred with Special Sales Tax Proceeds are the responsibility of management and were derived from and related directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Wilcox & Bivings, P.C.

Suwanee, Georgia
November 20, 2012

CITY OF COMMERCE, GEORGIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012

Management of the City of Commerce, Georgia (the "City") provides this Management Discussion and Analysis, as prescribed by the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). This narrative overview and analysis of the City's primary government financial activities is for the fiscal year ending June 30, 2012. Please consider this information in conjunction with the City's basic financial statements, which follow.

FINANCIAL HIGHLIGHTS

- **The assets of the City exceeded its liabilities at the close of the most recent fiscal year by $50,740,907 (presented as "net assets"). Of this amount, $7,779,865 was reported as "unrestricted net assets". Unrestricted net assets represent the amount available to be used to meet the City's obligations to citizens and creditors. $34,276,384 of net assets consisted of investments in capital assets. The remainder of net assets consisted of amounts restricted by state law or debt agreements, and totaled $8,684,658.**

- **The City's total net assets decreased by $46,403 in fiscal year 2012.**

- **As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of $4,735,834. Of this amount, 28% or $1,335,741 is unassigned and available for use within the City's designation and policies.**

- **At the end of the current fiscal year, unassigned fund balance for the general fund was $1,366,410 or 29% of the total general fund expenditures.**

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's primary government financial statements. The City's primary government financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

<u>Government-wide financial statements</u>
The government-wide financial statements are designed to provide readers with a broad view of the City's finances, in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of the City's primary government assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the City's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods, such as uncollected property taxes and earned but unused compensated absences.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues ("governmental activities") from functions that are intended to recover all or a significant portion of their costs through user fees and charges ("business-type activities"). The governmental activities of the City include general government and administration, public safety, public services, library, parks and recreation, planning and development, and downtown development expenditures. The business-type activities of the City include the City's Natural Gas, Electric, Water and Sewer Systems operations, and Revolving Loan Activities.

The government-wide financial statements include not only the primary government, but also a legally separate authority, the Downtown Development Authority ("DDA"), for which the City is financially accountable. Financial information for this component unit is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 10 and 11 of this report.

Fund financial statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories – governmental funds and proprietary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term effect of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains seven governmental funds. Information is presented separately in the Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances for the General, Confiscated Assets, Fire District, SPLOST #4, SPLOST #5, Grant, and Library Expansion funds. The General Fund is the only major fund.

The basic governmental fund financial statements can be found on pages 12 to 16 of this report.

Proprietary Funds

The City maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its natural gas, electric, water and sewer system operations, and revolving loan activities.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the natural gas, electric, water and sewer funds, and revolving loan fund. The natural gas, electric, and water and sewer funds are considered to be major funds of the City.

The basic proprietary fund financial statements can be found on pages 17 to 20 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 21 to 59 of this report.

Other Information

In addition to the primary government financial statements and accompanying notes, this report also presents certain supplementary information. Supplementary information can be found on pages 60 to 77 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of government's financial position. In the case of the City's primary government financial statements, assets exceeded liabilities by $50,740,907 as of June 30, 2012 and by $50,787,310 as of June 30, 2011.

The largest portion of the City's net assets reflects its investments in capital assets (such as land, buildings and improvements, furniture, machinery and equipment, computer equipment, and vehicles); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

CITY OF COMMERCE, GEORGIA'S NET ASSETS – PRIMARY GOVERNMENT

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and other assets	$ 5,187,321	$ 5,734,817	$ 13,702,948	$ 12,591,933	$ 18,890,269	$ 18,326,750
Capital assets	15,830,961	15,895,800	36,086,108	36,890,684	51,917,069	52,786,484
Total assets	21,018,282	21,630,617	49,789,056	49,482,617	70,807,338	71,113,234
Long-term liabilities	217,924	279,741	17,339,749	18,053,781	17,557,673	18,333,522
Other liabilities	543,287	999,749	1,965,471	992,653	2,508,758	1,992,402
Total liabilities	761,211	1,279,490	19,305,220	19,046,434	20,066,431	20,325,924
Net assets:						
Invested in capital assets, net of related debt	15,615,086	15,641,372	18,661,298	18,891,072	34,276,384	34,532,444
Restricted	3,142,932	3,345,417	5,541,726	5,545,084	8,684,658	8,890,501
Unrestricted	1,499,053	1,364,338	6,280,812	6,000,027	7,779,865	7,364,365
Total net assets	$ 20,257,071	$ 20,351,127	$ 30,483,836	$ 30,436,183	$ 50,740,907	$ 50,787,310

An additional portion of the City's net assets (17.1%) represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets $7,779,865, may be used to meet the government's ongoing obligations to citizens and creditors.

As of June 30, 2012 and June 30, 2011, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate categories - governmental and business-type activities.

Analysis of the City's Operations

The following table provides a summary of the City's operations for the years ended June 30, 2012 and June 30, 2011. Governmental activities decreased the City's net assets by $94,056 for the year ended June 30 2012 and increased net assets by $164,307 for the year ended June 30, 2011. Business-type activities increased the City's net assets by $47,653 for the year ended June 30, 2012 and decreased the City's net assets by $339,691 for the year ended June 30, 2011.

CITY OF COMMERCE, GEORGIA'S CHANGES IN NET ASSETS – PRIMARY GOVERNMENT

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program revenues:						
Charges for services	$ 1,673,936	$ 1,690,112	$ 12,574,063	$ 13,260,303	$ 14,247,999	$ 14,950,415
Operating grants and Contributions	75,930	59,619	-	-	75,930	59,619
Capital grants and Contributions	782,120	831,356	493,885	145,533	1,276,005	976,889
General revenues:						
Taxes	2,286,591	2,096,869	-	-	2,286,591	2,096,869
Investment revenue	3,606	40,529	125,217	285,385	128,823	325,914
Gain on sale of assets	4,816	-	60,049	-	64,865	-
Other	151,501	107,487	-	-	151,501	107,487
Total revenues	4,978,500	4,825,972	13,253,214	13,691,221	18,231,714	18,517,193
Expenses:						
General government	362,992	327,785	-	-	362,992	327,785
Public safety	2,078,289	2,145,416	-	-	2,078,289	2,145,416
Public services	1,659,395	1,559,515	-	-	1,659,395	1,559,515
Library	220,733	215,079	-	-	220,733	215,079
Parks and recreation	554,676	505,524	-	-	554,676	505,524
Planning and Development	200,333	209,516	-	-	200,333	209,516
Downtown development	171,051	136,152	-	-	171,051	136,152
Interest	9,662	11,860	-	-	9,662	11,860
Water and sewer System	-	-	4,323,864	4,403,408	4,323,864	4,403,408
Electric system	-	-	5,513,333	5,409,325	5,513,333	5,409,325
Natural gas system	-	-	3,183,789	3,669,605	3,183,789	3,669,605
Revolving loan	-	-	-	99,392	-	99,392
Total expenses	5,257,131	5,110,847	13,020,986	13,581,730	18,278,117	18,692,577
Excess (deficiency) in net assets before transfers	(278,631)	(284,875)	232,228	109,491	(46,403)	(175,384)
Transfers	184,575	449,182	(184,575)	(449,182)	-	-
Change in net assets	(94,056)	164,307	47,653	(339,691)	(46,403)	(175,384)
Net assets July 1,	20,351,127	20,186,820	30,436,183	30,775,874	50,787,310	50,962,694
Net assets June 30	$ 20,257,071	$ 20,351,127	$ 30,483,836	$ 30,436,183	$ 50,740,907	$ 50,787,310

FINANCIAL ANALYSIS OF THE GOVERNMENTAL FUNDS

Governmental funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of $4,735,834. Approximately 28% of this total amount or $1,335,741 constitutes unassigned fund balance. The remainder of the fund balance is categorized as non-spendable, restricted, or assigned. The City had non-spendable fund balance of $247,161 which consisted of prepaid expenses of $205,317 and inventory of $41,844. Restricted fund balance consisted of amounts restricted for capital projects of $2,777,486, public safety of $355,446, and cemetery maintenance of $10,000. $10,000 of fund balance was assigned to budgeted reserves for the next fiscal year.

The General Fund is the chief fund of the City. At the end of the current fiscal year, unassigned fund balance of the General Fund was $1,366,410, while total fund balance reached $1,633,571. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to the fund's total operational expenditures. Unreserved fund balance represents 29% of total expenditures, while total fund balance represents 34% of that same amount.

The General Fund's fund balance increased by $43,040 during the current fiscal year. Key factors in this increase are as follows:

- **Total revenues increased by $271,687 for a percentage increase of 7.3%. This increase was mainly due to an increase in tax revenue of $208,321.**

- **Total expenditures increased by $126,632 for a percentage increase of 2.7%. This increase was mainly due to increases in public services expenditures of $70,986 and general government expenditures of $40,792.**

The other governmental funds' fund balances decreased by $116,032 during the current fiscal year. The decreases were mainly due to fund balance decreases in the Fire District Fund, SPLOST #4 Funds, and Grant Fund. The SPLOST #5 Fund had a significant increase. The decreases in these funds were due to the funds collecting lower revenues than expenditure spending on capital projects. The SPLOST #5 Fund increased due to revenues being collected during the year with only a very small amount of expenditures.

Proprietary funds

The City's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted fund net assets of the respective proprietary funds are Water and Sewer System - $2,130,760, Electric System - $2,658,529, Natural Gas System - $1,374,584, and Revolving Loan Fund - $116,939. The Water and Sewer System, Electric System, and Revolving Loan Fund had increases in fund net assets of $237,777, $44,273, and $4,339. The Natural Gas System had a decrease in fund net assets of $238,736. The decrease in fund net assets of the Natural Gas System was due to decreases in charges for services and utilities purchased for resale.

General Fund Budgetary Highlights

The City made revisions to the original appropriations approved by the City Council. Overall these changes resulted in an increase in budgeted revenues of $14,058 and an increase in budgeted expenditures of $14,058. The only budget revisions noted were for an increase in drainage improvements for the public works department of $14,058 and an increase in other revenues of $14,058. No other budget revisions were material.

CAPITAL ASSETS

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2012, amounts to $51,917,069 net of accumulated depreciation. This investment in capital assets includes land, buildings and improvements, furniture, machinery and equipment, computer equipment, utility infrastructure, infrastructure assets, and vehicles.

The City has implemented all phases of GASB Statement No. 34. GASB Statement No. 34 requires the reporting and depreciation of all of the City's governmental capital assets.

Major capital asset events during the current fiscal year included the following:

- **The City spent $243,656 on infrastructure.**
- **The City spent $148,970 on furniture, fixtures and equipment.**
- **The City spent $197,133 on vehicles.**
- **The City spent $146,307 on construction in progress for water and sewer system improvements.**
- **The City spent $796,663 on water and sewer system improvements.**
- **The City spent $129,190 on machinery and equipment.**

CAPITAL ASSETS AT YEAR-END
NET OF ACCUMULATED DEPRECIATION – PRIMARY GOVERNMENT

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	$ 2,817,024	$ 2,815,609	$ 319,770	$ 319,770	$ 3,136,794	$ 3,135,379
Construction in progress	254,033	206,892	575,298	528,123	829,331	735,015
Buildings and improvements	6,338,242	6,290,908	18,264,916	18,162,638	24,603,158	24,453,546
Utility system infrastructure	-	-	38,860,123	38,012,206	38,860,123	38,012,206
Furniture, fixtures and equipment	791,002	659,493	14,625	14,625	805,627	674,118
Machinery and equipment	-	-	900,153	3,102,283	900,153	3,102,283
Computers and equipment	319,452	347,838	328,302	469,759	647,754	817,597
Infrastructure	9,015,810	8,772,154	-	-	9,015,810	8,772,154
Vehicles	1,488,497	1,417,714	499,369	511,069	1,987,866	1,928,783
Accumulated depreciation	(5,193,099)	(4,614,808)	(23,676,448)	(24,229,789)	(28,869,547)	(28,844,597)
Total	$ 15,830,961	$ 15,895,800	$ 36,086,108	$ 36,890,684	$ 51,917,069	$ 52,786,484

Additional information on the City's capital assets can be found in note 5 of this report.

DEBT ADMINISTRATION

At the end of the current fiscal year, the City had $18,264,660 in outstanding debt consisting of revenue bonds, capital leases and notes payable. All of the debt was secured by specific revenue sources or capital assets.

CITY OF COMMERCE, GEORGIA'S OUTSTANDING DEBT – PRIMARY GOVERNMENT

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Capital leases payable	$ 203,161	$ 227,834	$ 3,062,589	$ 3,113,638	$ 3,265,750	$ 3,341,472
Notes payable	12,714	26,594	157,899	94,089	170,613	120,683
Revenue bonds	-	-	14,828,297	15,328,540	14,828,297	15,328,540
Total	$ 215,875	$ 254,428	$ 18,048,785	$ 18,536,267	$ 18,264,660	$ 18,790,695

The City's total debt (including compensated absences and other long-term operating liabilities) decreased by $546,599, during the current fiscal year mostly attributable to the repayment of long-term debt. Additional information on the City's long-term debt can be found in note 6.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In the 2012-2013 budget, General Fund revenues and transfers in are budgeted to increase by 20.0% from the 2011-2012 budget year with taxes making up about 38% of general fund budgeted revenues and transfers in. The 2012-2013 General Fund Budget includes $950,246 in indirect cost revenue which was formerly budgeted as a reduction in expenditures. The 2012-2013 budget also includes $1,031,912 in local option sales tax revenues, and $665,667 in property tax revenues. General Fund expenditures are budgeted to increase by 20.0% from the 2011-2012 budget due to indirect costs being recognized as revenue instead of as a reduction in expenditures as in prior years.

The City has budgeted $13,439,867 in revenues for its business-type activities for the 2012-2013 year. This is a decrease of 11.9% from the 2011-2012 budget year with charges for services making up 99% of budgeted revenues. The decrease in revenues is mostly attributable to a decrease in reserve usage and grant revenues. The City has budgeted $3,865,378 in expenditures in its Water and Sewer System Fund, $5,973,129 in expenditures for its Electric System Fund, and $3,775,421 in expenditures for its Natural Gas System Fund.

REQUEST FOR INFORMATION

This financial report is designed to provide our citizens, customers, investors and creditors with general overview of the City's primary government finances. If you have questions about this report or need any additional information, contact the Finance Director at P.O. Box 348, Commerce, Georgia 30529.

BASIC FINANCIAL STATEMENTS

CITY OF COMMERCE, GEORGIA
STATEMENT OF NET ASSETS
JUNE 30, 2012

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Downtown Development Authority
ASSETS				
Cash and investments	$ 1,105,112	$ 5,571,055	$ 6,676,167	$ 48,403
Receivables, net	381,313	908,739	1,290,052	-
Prepaid expenses	205,317	132,873	338,190	1,919
Inventory	41,844	-	41,844	-
Internal balances	287,348	(287,348)	-	-
Due from component unit	8,281	-	8,281	-
Restricted cash and investments	3,158,106	6,980,220	10,138,326	-
Long-term receivables	-	87,409	87,409	-
Unamortized portion of debt issue costs	-	310,000	310,000	-
Nondepreciable capital assets	3,071,057	895,068	3,966,125	319,907
Depreciable capital assets	12,759,904	35,191,040	47,950,944	605,166
Total assets	$ 21,018,282	$ 49,789,056	$ 70,807,338	$ 975,395
LIABILITIES				
Current liabilities:				
Accounts payable	$ 202,953	$ 764,811	$ 967,764	$ -
Accrued expenses	163,754	208,580	372,334	3,632
Deferred revenue	9,700	-	9,700	-
Due to related party	57,456	-	57,456	-
Due to primary government	-	-	-	8,281
Capital leases	96,710	218,938	315,648	-
Notes payable	12,714	157,899	170,613	46,367
Revenue bonds payable	-	615,243	615,243	-
Total current liabilities	543,287	1,965,471	2,508,758	58,280
Noncurrent liabilities:				
Customer deposits	-	209,749	209,749	-
Compensated absences	111,473	73,295	184,768	2,590
Capital leases	106,451	2,843,651	2,950,102	-
Notes payable	-	-	-	127,431
Revenue bonds payable	-	14,213,054	14,213,054	-
Total noncurrent liabilities	217,924	17,339,749	17,557,673	130,021
Total liabilities	761,211	19,305,220	20,066,431	188,301
NET ASSETS				
Invested in capital assets, net of related debt	15,615,086	18,661,298	34,276,384	751,275
Restricted for:				
Capital projects	2,777,486	-	2,777,486	-
Debt service	-	1,128,012	1,128,012	-
Restricted assets	-	4,413,714	4,413,714	-
Public safety	355,446	-	355,446	-
Cemetery	10,000	-	10,000	-
Unrestricted	1,499,053	6,280,812	7,779,865	35,819
Total net assets	20,257,071	30,483,836	50,740,907	787,094
Total liabilities and net assets	$ 21,018,282	$ 49,789,056	$ 70,807,338	$ 975,395

SEE NOTES TO FINANCIAL STATEMENTS.

CITY OF COMMERCE, GEORGIA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

Functions/Programs	Expenses	Indirect Expense Allocation	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions
Primary government				
Governmental activities:				
General government	$ 1,209,070	$(846,078)	$ 366,789	$ -
Public safety	2,190,218	(111,929)	734,902	75,930
Public services	1,659,395	-	473,370	-
Library	220,733	-	10,005	-
Parks and recreation	554,676	-	68,734	-
Planning and development	200,333	-	20,136	-
Downtown development authority	171,051	-	-	-
Interest	9,662	-	-	-
Total governmental activities	6,215,138	(958,007)	1,673,936	75,930
Business-type activities				
Water and sewer system	3,921,501	402,363	3,608,524	-
Electric system	5,235,511	277,822	5,811,662	-
Natural gas system	2,905,967	277,822	3,153,877	-
Revolving loan	-	-	-	-
Total business-type activities	12,062,979	958,007	12,574,063	-
Total primary government	$ 18,278,117	$ -	$ 14,247,999	$ 75,930
Component Unit				
Downtown Development Authority	$ 163,558	$ -	$ -	$ -

General revenues:
- **Taxes:**
  - Local option sales
  - Property
  - Insurance premium
  - Franchise
  - Beer and wine
  - Motor vehicle
  - Other
- **Payments from City of Commerce**
- **Investment return**
- **Gain on sale of assets**
- **Other**

Contributions

Transfers

Total general revenues, contributions and transfers

Change in net assets

Net assets – beginning

Net assets – ending

Net (Expense) Revenue and Changes in Net Assets				
Primary Government				Component Unit
Capital grants and Contributions	Governmental Activities	Business-Type Activities	Total	Downtown Development Authority
$ 772,932	$ 776,729	$ -	$ 776,729	$ -
-	(1,267,457)	-	(1,267,457)	-
-	(1,186,025)	-	(1,186,025)	-
9,188	(201,540)	-	(201,540)	-
-	(485,942)	-	(485,942)	-
-	(180,197)	-	(180,197)	-
-	(171,051)	-	(171,051)	-
-	(9,662)	-	(9,662)	-
782,120	(2,725,145)	-	(2,725,145)	-
493,885	-	(221,455)	(221,455)	-
-	-	298,329	298,329	-
-	-	(29,912)	(29,912)	-
-	-	-	-	-
493,885	-	46,962	46,962	-
$ 1,276,005	$(2,725,145)	$ 46,962	$(2,678,183)	$ -
$ -	$ -	$ -	$ -	$(163,558)
	$ 1,229,051	$ -	$ 1,229,051	$ -
	358,644	-	358,644	-
	306,941	-	306,941	-
	178,510	-	178,510	-
	168,964	-	168,964	-
	29,708	-	29,708	-
	14,773	-	14,773	-
	-	-	-	171,051
	3,606	125,217	128,823	60
	4,816	60,049	64,865	
	151,501	-	151,501	25,418
	-	-	-	4,569
	184,575	(184,575)	-	-
	2,631,089	691	2,631,780	201,098
	(94,056)	47,653	(46,403)	37,540
	20,351,127	30,436,183	50,787,310	749,554
	$ 20,257,071	$ 30,483,836	$ 50,740,907	$ 787,094

SEE NOTES TO FINANCIAL STATEMENTS.

CITY OF COMMERCE, GEORGIA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012

	General	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	$ 1,105,112	$ -	$ 1,105,112
Property taxes receivable	37,357	-	37,357
Other taxes receivable	137,807	-	137,807
Intergovernmental receivable	47,584	141,814	189,398
Other receivables	16,751	-	16,751
Prepaid expenses	205,317	-	205,317
Inventory	41,844	-	41,844
Due from other funds	503,851	2,500	506,351
Due from component unit	8,281	-	8,281
Restricted cash and cash equivalents	10,000	3,148,106	3,158,106
Total assets	$ 2,113,904	$ 3,292,420	$ 5,406,324
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	$ 202,953	$ -	$ 202,953
Accrued expenses	161,354	2,400	163,754
Deferred revenue	17,624	9,700	27,324
Due to other funds	40,946	178,057	219,003
Due to related party	57,456	-	57,456
Total liabilities	480,333	190,157	670,490
Fund balances:			
Non-spendable	247,161	-	247,161
Restricted for:			
Capital projects	-	2,777,486	2,777,486
Public safety	-	355,446	355,446
Cemetery	10,000	-	10,000
Assigned	10,000	-	10,000
Unassigned	1,366,410	(30,669)	1,335,741
Total fund balances	1,633,571	3,102,263	4,735,834
Total liabilities and fund balances	$ 2,113,904	$ 3,292,420	$ 5,406,324

SEE NOTES TO FINANCIAL STATEMENTS

CITY OF COMMERCE, GEORGIA
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2012

Total Governmental Fund Balances	**$**	**4,735,834**
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of $5,193,099.		**15,830,961**
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:		
Property taxes receivable		**17,624**
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
Compensated absences	**(**	**111,473)**
Capital leases payable	**(**	**203,161)**
Notes payable	**(**	**12,714)**
Net assets of governmental activities	**$**	**20,257,071**

SEE NOTES TO FINANCIAL STATEMENTS

CITY OF COMMERCE, GEORGIA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	General	Other Governmental Funds	Total Governmental Funds
REVENUES			
Taxes	$ 2,301,585	$ -	$ 2,301,585
Charges for services	580,092	176,906	756,998
Fines and forfeitures	502,392	52,221	554,613
Late payment fees	199,701	-	199,701
Licenses and permits	129,100	-	129,100
Intergovernmental	75,930	775,906	851,836
Other	185,025	-	185,025
Investment return	2,906	6,914	9,820
Total revenues	3,976,731	1,011,947	4,988,678
EXPENDITURES			
Current operating			
General government	298,482	-	298,482
Public safety	1,975,476	114,237	2,089,713
Public services	1,304,898	-	1,304,898
Library	206,483	-	206,483
Parks and recreation	503,194	-	503,194
Planning and development	191,676	-	191,676
Downtown development	171,051	-	171,051
Capital Outlay	-	863,324	863,324
Debt Service	117,251	-	117,251
Total expenditures	4,768,511	977,561	5,746,072
Excess (deficiency) of revenues over (under) expenditures	(791,780)	34,386	(757,394)
OTHER FINANCING SOURCES (USES)			
Proceeds from debt	98,566	-	98,566
Sales of surplus property	4,816	-	4,816
Transfers in	731,535	9,456	740,991
Transfers out	(97)	(159,874)	(159,971)
Net other financing sources (uses)	834,820	(150,418)	684,402
Net changes in fund balance	43,040	(116,032)	(72,992)
Fund balance - beginning of year	1,590,531	3,218,295	4,808,826
Fund balance - end of year	$ 1,633,571	$ 3,102,263	$ 4,735,834

SEE NOTES TO FINANCIAL STATEMENTS.

CITY OF COMMERCE, GEORGIA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

Amounts reported for governmental activities in the statement of activities are different because:		
Net change in fund balances – total governmental funds	**$(**	**72,992)**
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:		
Capital asset purchases capitalized		**701,652**
Depreciation expense	**(**	**766,491)**
A certain amount of property tax revenues in the statement of activities that does not provide current financial resources and is not reported as revenue in the funds	**(**	**14,994)**
Long-term compensated absences were reported in the statement of activities, but they did not require the use of current financial resources. Therefore, long-term compensated absences were not reported as expenditures in governmental funds		**20,216**
Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets:		
Capital leases payable		**123,239**
Notes payable		**13,880**
The issuance of long-term debt provides current financial resources to governmental funds, which increases long-term liabilities on the statement of activities:		
Capital leases payable	**(**	**98,566)**
Change in Net Assets of Governmental Activities	**$(**	**94,056)**

SEE NOTES TO FINANCIAL STATEMENTS

CITY OF COMMERCE, GEORGIA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2012

	General Fund			
	Original Budget	Final Budget	Actual	Variance with Final budget Over (Under)
REVENUES				
Taxes	$ 2,221,650	$ 2,221,650	$ 2,301,585	$ 79,935
Charges for services	564,000	564,000	580,092	16,092
Fines and forfeitures	558,000	558,000	502,392	(55,608)
Late payment fees	205,500	205,500	199,701	(5,799)
Licenses and permits	125,400	125,400	129,100	3,700
Intergovernmental	161,797	161,797	75,930	(85,867)
Other	171,964	186,022	185,025	(997)
Investment return	3,500	3,500	2,906	(594)
Total revenues	4,011,811	4,025,869	3,976,731	(49,138)
EXPENDITURES				
Current operating				
General government	427,275	427,275	298,482	128,793
Public safety	2,201,414	2,201,414	1,975,476	225,938
Public services	1,333,194	1,347,252	1,304,898	42,354
Library	203,532	203,532	206,483	(2,951)
Parks and recreation	495,063	495,063	503,194	(8,131)
Planning and development	205,524	205,524	191,676	13,848
Downtown development	170,810	170,810	171,051	(241)
Debt service	117,937	117,937	117,251	686
Total expenditures	5,154,749	5,168,807	4,768,511	400,296
Excess (deficiency) of revenues over (under) expenditures	(1,142,938)	(1,142,938)	(791,780)	351,158
OTHER FINANCING SOURCES (USES)				
Proceeds from debt	70,000	70,000	98,566	28,566
Sales of surplus property	5,000	5,000	4,816	(184)
Transfers in	1,067,938	1,067,938	731,535	(336,403)
Transfers out	-	-	(97)	(97)
Net other financing sources (uses)	1,142,938	1,142,938	834,820	(308,118)
Net change in fund balance	-	-	43,040	43,040
Fund balance - beginning of year	1,590,531	1,590,531	1,590,531	-
Fund balance - end of year	$ 1,590,531	$ 1,590,531	$ 1,633,571	$ 43,040

SEE NOTES TO FINANCIAL STATEMENTS.

CITY OF COMMERCE, GEORGIA
STATEMENT OF FUND NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2012

	BUSINESS-TYPE ACTIVITIES				
	WATER AND SEWER SYSTEM	ELECTRIC SYSTEM	NATURAL GAS SYSTEM	OTHER ENTERPRISE FUND REVOLVING LOAN FUND	TOTALS
ASSETS					
Current assets:					
Cash and investments	$ 1,213,497	$ 2,841,088	$ 1,516,470	$ -	$ 5,571,055
Accounts receivable, net	192,983	321,832	113,794	-	628,609
Intergovernmental receivable	250,600	-	-	-	250,600
Other receivables	-	-	-	292	292
Notes receivable	-	-	-	29,238	29,238
Prepaid expenses	71,718	30,698	30,457	-	132,873
Due from other funds	-	38,446	-	-	38,446
Total current assets	1,728,798	3,232,064	1,660,721	29,530	6,651,113
Noncurrent assets:					
Restricted cash and investments	2,406,588	4,305,111	65,980	202,541	6,980,220
Notes receivable	-	-	-	87,409	87,409
Unamortized portion of debt issue costs	290,476	-	19,524	-	310,000
Net capital assets	22,800,019	5,216,244	8,069,845	-	36,086,108
Total noncurrent assets	25,497,083	9,521,355	8,155,349	289,950	43,463,737
Total assets	$ 27,225,881	$ 12,753,419	$ 9,816,070	$ 319,480	$ 50,114,850
LIABILITIES					
Current liabilities:					
Accounts payable	$ 286,274	$ 387,575	$ 90,962	$ -	$ 764,811
Accrued expenses	170,479	10,348	27,753	-	208,580
Due to other funds	155,822	-	169,972	-	325,794
Capital leases	-	25,189	193,749	-	218,938
Note payable	157,899	-	-	-	157,899
Revenue bonds payable	615,243	-	-	-	615,243
Total current liabilities	1,385,717	423,112	482,436	-	2,291,265
Noncurrent liabilities:					
Customer deposits	49,831	93,938	65,980	-	209,749
Compensated absences	41,804	14,516	16,975	-	73,295
Capital leases	-	108,625	2,735,026	-	2,843,651
Revenue bonds payable	14,213,054	-	-	-	14,213,054
Total noncurrent liabilities	14,304,689	217,079	2,817,981	-	17,339,749
Total liabilities	15,690,406	640,191	3,300,417	-	19,631,014
FUND NET ASSETS					
Invested in capital assets, net of related debt	8,276,703	5,243,526	5,141,069	-	18,661,298
Restricted for debt service	1,128,012	-	-	-	1,128,012
Restricted for restricted assets	-	4,211,173	-	202,541	4,413,714
Unrestricted	2,130,760	2,658,529	1,374,584	116,939	6,280,812
Total fund net assets	11,535,475	12,113,228	6,515,653	319,480	30,483,836
Total liabilities and fund net assets	$ 27,225,881	$ 12,753,419	$ 9,816,070	$ 319,480	$ 50,114,850

SEE NOTES TO FINANCIAL STATEMENTS.

CITY OF COMMERCE, GEORGIA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	BUSINESS-TYPE ACTIVITIES				
	WATER AND SEWER SYSTEM	ELECTRIC SYSTEM	NATURAL GAS SYSTEM	OTHER ENTERPRISE FUND REVOLVING LOAN FUND	TOTALS
OPERATING REVENUES					
Charges for services	$ 3,586,927	$ 5,798,305	$ 3,147,877	$ -	$ 12,533,109
Other	21,597	13,357	6,000	-	40,954
Total operating revenues	3,608,524	5,811,662	3,153,877	-	12,574,063
OPERATING EXPENSES					
Personal services	1,501,368	624,928	606,878	-	2,733,174
Contractual services	171,606	59,769	39,473	-	270,848
Utilities purchased for resale	-	4,355,973	1,892,798	-	6,248,771
Utilities	273,084	9,037	10,222	-	292,343
Repairs and maintenance	240,260	38,715	25,639	-	304,614
Materials and supplies	200,141	56,101	62,690	-	318,932
Depreciation	1,222,504	329,208	400,938	-	1,952,650
Bad debt	31,310	37,261	4,777	-	73,348
Total operating expenses	3,640,273	5,510,992	3,043,415	-	12,194,680
Operating income (loss)	(31,749)	300,670	110,462	-	379,383
NONOPERATING REVENUES (EXPENSES)					
Interest and investment earnings	2,738	115,780	2,360	4,339	125,217
Gain on sale of capital assets	60,049	-	-	-	60,049
Interest expense	(647,772)	(2,341)	(138,576)	-	(788,689)
Amortization	(35,819)	-	(1,798)	-	(37,617)
Total nonoperating revenues (expenses)	(620,804)	113,439	(138,014)	4,339	(641,040)
Income (loss) before contributions and transfers	(652,553)	414,109	(27,552)	4,339	(261,657)
CAPITAL CONTRIBUTIONS	890,330	-	-	-	890,330
TRANSFERS	-	(369,836)	(211,184)	-	(581,020)
Change in fund net assets	237,777	44,273	(238,736)	4,339	47,653
Total fund net assets – beginning	11,297,698	12,068,955	6,754,389	315,141	30,436,183
Total fund net assets – ending	$ 11,535,475	$ 12,113,228	$ 6,515,653	$ 319,480	$ 30,483,836

SEE NOTES TO FINANCIAL STATEMENTS.

CITY OF COMMERCE, GEORGIA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	BUSINESS-TYPE ACTIVITIES				
	WATER AND SEWER SYSTEM	ELECTRIC SYSTEM	NATURAL GAS SYSTEM	OTHER ENTERPRISE FUND REVOLVING LOAN FUND	TOTALS
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	$ 3,579,735	$ 5,796,662	$ 3,153,626	$ 26,302	$ 12,556,325
Payments to suppliers	(1,316,298)	(5,028,098)	(2,304,033)	-	(8,648,429)
Payments to employees	(786,636)	(227,598)	(250,018)	-	(1,264,252)
Net cash provided (used) by operating activities	1,476,801	540,966	599,575	26,302	2,643,644
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers to other funds	-	(369,836)	(211,184)	-	(581,020)
Net cash provided (used) by noncapital financing activities	-	(369,836)	(211,184)	-	(581,020)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Receipts of capital contributions	495,274	-	-	-	495,274
Proceeds from capital debt	-	160,998	-	-	160,998
Proceeds from sale of capital assets	60,049	-	-	-	60,049
Closing costs paid on capital debt	(9,583)	-	-	-	(9,583)
Purchases of capital assets	(622,597)	(9,226)	(63,541)	-	(695,364)
Principal paid on capital debt	(515,000)	(27,184)	(184,863)	-	(727,047)
Interest paid on capital debt	(649,232)	(2,059)	(139,987)	-	(791,278)
Net cash provided (used) by capital and related financing activities	(1,241,089)	122,529	(388,391)	-	(1,506,951)
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sales of investments	-	472,604	-	-	472,604
Purchase of investments	-	(699,040)	-	-	(699,040)
Investment earnings	2,738	94,802	2,360	4,071	103,971
Net cash provided (used) by investing activities	2,738	(131,634)	2,360	4,071	(122,465)
Increase (decrease) in cash and cash Equivalents	238,450	162,025	2,360	30,373	433,208
Cash and cash equivalents – beginning of year	3,381,635	419,594	1,580,090	172,168	5,553,487
Cash and cash equivalents – end of year	$ 3,620,085	$ 581,619	$ 1,582,450	$ 202,541	$ 5,986,695

SEE NOTES TO FINANCIAL STATEMENTS

CITY OF COMMERCE, GEORGIA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	BUSINESS-TYPE ACTIVITIES				
	WATER AND SEWER SYSTEM	ELECTRIC SYSTEM	NATURAL GAS SYSTEM	OTHER ENTERPRISE FUND REVOLVING LOAN FUND	TOTALS
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES					
Operating income (loss)	$(31,749)	$ 300,670	$ 110,462	$ -	$ 379,383
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Cash flows reported in other categories:					
Depreciation expense	1,222,504	329,208	400,938	-	1,952,650
Change in assets and liabilities:					
Accounts receivable	(25,049)	(10,612)	4,934	-	(30,727)
Notes receivable	-	-	-	26,302	26,302
Prepaid expenses	(22,821)	(4,584)	(4,413)	-	(31,818)
Accounts payable	222,669	387,575	90,962	-	701,206
Accrued expenses	4,494	1,233	(679)	-	5,048
Internal balances	111,254	(459,723)	3,730	-	(344,739)
Customer deposits	(3,740)	(4,388)	(5,185)	-	(13,313)
Compensated absences	(761)	1,587	(1,174)	-	(348)
Net cash provided by operating activities	$ 1,476,801	$ 540,966	$ 599,575	$ 26,302	$ 2,643,644
RECONCILIATION OF CASH AND INVESTMENTS TO STATEMENT OF NET ASSETS					
Cash and investments	$ 1,213,497	$ 2,841,088	$ 1,516,470	$ -	$ 5,571,055
Restricted cash and investments	2,406,588	4,305,111	65,980	202,541	6,980,220
Total cash and investments	3,620,085	7,146,199	1,582,450	202,541	12,551,275
Less: investments and restricted investments	-	(6,564,580)	-	-	(6,564,580)
Total cash and cash equivalents, end of year	$ 3,620,085	$ 581,619	$ 1,582,450	$ 202,541	$ 5,986,695
SUPPLEMENTAL DISCLOSURES					
Noncash capital and related financing activities:					
Property acquired through capital debt financing	$ 63,810	$ -	$ -	$ -	$ 63,810
Property acquired through capital contributions	$ 396,445	$ -	$ -	$ -	$ 396,445

SEE NOTES TO FINANCIAL STATEMENTS.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the primary government of the City have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting. Pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989 are not applied in the preparation of the financial statements in accordance with GASB Statement No. 20. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The more significant of these accounting policies are described below.

These financial statements are prepared in accordance with GASB issued Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments.* This Statement has established financial reporting requirements for state and local governments throughout the United States. As part of the implementation of GASB Statement No. 34, the City has prepared required supplementary information titled *Management's Discussion and Analysis, which* precedes the primary government financial statements.

REPORTING ENTITY

In evaluating the City as a reporting entity, management has addressed all potential component units (traditionally separate holding entities) for which the City may or not be financially accountable and, as such, be includable with the City's financial statements in accordance with generally accepted accounting principles. The City (the primary government) is financially accountable if it appoints a voting majority of the organization's governing board and (1) is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial benefit to or impose a specific financial burden on the City. Additionally, the primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Blended component units, although legally separate entities, are, in substance, part of the City's operations, and accordingly, data from these units are combined with data of the City. Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the government. The component unit discussed below should be included in the City's reporting entity because of its operational or financial relationship with the City.

Discretely Presented Component Unit

***Commerce Downtown Development Authority* - The Commerce Downtown Development Authority ("DDA") is governed by a board appointed by the City Council and Mayor. The DDA was created for the purpose of administering activities with regard to the revitalization and promotion of downtown Commerce. The DDA provides community promotions, streetscape maintenance, downtown beautification, and building oversight and maintenance for the City owned cultural center. The DDA is required to submit a budget to the City Council for approval. The City Council determines a monthly allocation that it pays to the DDA for its operations. The City also pays the salary and some other expenses related to downtown development. The DDA is a component unit of the City.**

The DDA did not issue separate financial statements for the year ended June 30, 2012.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

BASIS OF PRESENTATION

Government-wide Financial Statements

The government-wide financial statements (the statement of net assets and the statement of activities) report information of all the nonfiduciary activities of the primary government and its component unit. The effect of Interfund activity, within the governmental and business-type activities columns, has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given program and (2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements

The City segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental and proprietary activities. These statements present each major fund as a separate column on the fund financial statements.

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources. The City has presented the following major governmental funds:

***General Fund* - The General Fund is the main operating fund of the City. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.**

Proprietary funds

Proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position and cash flow. All assets and liabilities are included on the Statement of Net Assets. The City has presented the following major proprietary funds:

***Water and Sewer System Fund* - The Water and Sewer System Fund is used to account for the provision of water and sewer services to the residents of the City. Activities of the fund include administration, operations and maintenance of the water and sewer system and billing and collection activities. This fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for water and sewer system debt. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the funds.**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

BASIS OF PRESENTATION – Continued

Proprietary funds - continued

Electric System Fund **- The Electric System Fund is used to account for the provision of electricity services to the residents of the City. Activities of the fund include administration, operations and maintenance of the electric system and billing and collection activities. This fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for electric system debt. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the funds.**

Natural Gas System Fund **- The Natural Gas System Fund is used to account for the provision of natural gas services to the residents of the City. Activities of the fund include administration, operations and maintenance of the gas system and billing and collection activities. This fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for gas system debt. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the funds.**

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for the proprietary funds include the cost of personal and contractual services, supplies and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

MEASUREMENT FOCUS/BASIS OF ACCOUNTING

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net assets and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned. Expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon thereafter to be used to pay liabilities of the current period. The City considers property taxes as available if they are collected within 60 days after year-end. A one-year availability period is used for recognition of all other Governmental Fund revenues. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

The revenues susceptible to accrual are property taxes, franchise fees, licenses, charges for services, interest income and intergovernmental revenues. Sales taxes collected and held by the state at year-end on behalf of the government are also recognized as revenue. All other governmental fund revenues are recognized when received.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

BUDGETS AND BUDGETARY ACCOUNTING

Annual budgets are adopted for the General, Special Revenue, Debt Service and Proprietary (Enterprise) Funds. The budgets for the General Fund, Special Revenue, and Debt Service Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP). The budget for the Proprietary (Enterprise) Funds are adopted on a GAAP basis, except that long-term debt borrowings are budgeted as revenues and depreciation expense is not budgeted. Budget amounts are as originally adopted, or as amended by the Mayor and City Council. Some individual revisions were material in relation to the original appropriations.

A legally authorized, non-appropriated budget is prepared for the SPLOST #4, SPLOST #5, Grant, and Library Expansion Capital Project Funds. Expenditures for these funds are controlled on a project basis and are carried forward each year until the project is completed.

Budgeting Policy

- **The City Manager submits to the Mayor and City Council a proposed operating budget for the upcoming fiscal year. The operating budget includes proposed expenditures and revenues for the General Fund, Special Revenue, Debt Service and Proprietary (Enterprise) Funds.**
- **Public hearings are conducted to obtain taxpayer comments.**
- **The budget is then approved by the Mayor and City Council, and becomes the basis for the millage levied by them.**
- **Management may not make any budget revisions without the prior approval of the City Council. Budget revisions that alter the total expenditures of any department or line item within a department must be approved by the City Council.**
- **Formal budgetary integration is employed as a management control device during the year for the General, Special Revenue, Debt Service, and Proprietary (Enterprise) Funds.**
- **All appropriations lapse at the end of the fiscal year.**

Encumbrances

Encumbrances outstanding at year-end do not represent GAAP expenditures or liabilities but represent budgetary accounting controls. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of moneys are recorded in order to reserve that portion of the applicable appropriation, is not employed as an extension of formal budgetary integration in the General, Special Revenue, or Proprietary Funds. Encumbrances outstanding at year-end are reservations of fund balances since they do not constitute expenditures or liabilities. The City of Commerce has no recorded encumbrances at June 30, 2012.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

CASH AND CASH EQUIVALENTS AND INVESTMENTS

The City has defined cash and cash equivalents to include cash on hand, demand deposits, and cash with fiscal agents. Additionally, the City considers all highly liquid investments with original maturities of three months or less and certificates of deposit that are not restricted to be cash and cash equivalents. Investments are reported at fair value based on the last reported sales price as of the balance sheet date.

ACCOUNTS RECEIVABLE AND DEFERRED REVENUE

Accounts receivable are recorded in the General and Proprietary Funds. Receivables are stated at their net realizable value (face value less the allowance for uncollectible accounts). Delinquent taxes receivable are fully reserved by the deferral of the related revenues until payment is received. Utility receivables are recognized only when billed. No accrual of earned, but unbilled receivables is made at year-end. The City had no allowances for doubtful accounts at June 30, 2012.

PREPAID EXPENSES

Payments made for services that will benefit periods beyond June 30, 2012 are recorded as prepaid expenses.

RESTRICTED CASH AND INVESTMENTS

Certain funds are held by the General and Enterprise Funds in accounts restricted for customer deposits, debt service, capital expenditures, and the Municipal Competitive Trust Agreement with the Municipal Electric Authority of Georgia. These funds are held in cash and/or investments as allowed by State law and the requirements of the related debt agreements. The investments are stated at fair value and the City records all investment revenue earned on these investments in the appropriate Fund.

INVENTORIES

The governmental fund type fuel inventory is valued at cost using the first-in first-out or FIFO method with fuel inventory charged to expenditures when consumed. All other governmental fund type inventories are accounted for using the purchase method, whereby inventories are charged to expenditures when purchased.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

CAPITAL ASSETS

Capital assets which include land, buildings and improvements, furniture, machinery and equipment, office equipment, computer equipment, infrastructure assets, utility systems infrastructure, and vehicles. The City defines capital assets as assets with an initial individual cost of more than $5,000 and an estimated useful life of 5 years or more. Capital assets are recorded at historical cost, appraised value, or estimated historical cost or replacement cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated. Repairs and maintenance are recorded as expenditures; renewal and betterments are capitalized. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings	**20 - 40 years**
Natural Gas system	**10 - 40 years**
Electric system	**10 - 33 years**
Water and sewer system	**10 - 30 years**
Machinery and equipment	**5 - 10 years**
Furniture, fixtures and equipment	**10 - 15 years**
Computer equipment	**5 - 10 years**
Other infrastructure	**20 - 40 years**
Vehicles	**5 - 15 years**

The City has elected not to capitalize collections and works of art. Collections such as works of art and historical artifacts meet the definition of a capital asset. The requirement for capitalization is waived, however, for collections that meet the following conditions:

- **The collection is held for reasons other than financial gain.**
- **The collection is protected, kept unencumbered, cared for, and preserved.**
- **The collection is subject to an organizational policy requiring that the proceeds from sales of collection items be used to acquire other items for collections.**

The sale or disposal of capital assets is recorded by removing the cost and accumulated depreciation from the accounts and charging the resulting gain or loss to income.

The City capitalizes interest costs as part of the cost of construction of various construction projects when material.

GASB Statement No. 34 requires the City to report and depreciate new infrastructure assets. Infrastructure assets include roads, bridges, drainage, sidewalks, etc. The City fully implemented the provisions of GASB Statement No. 34 in the fiscal year ending June 30, 2007.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

INTEREST EXPENSE AND CAPITALIZED INTEREST

Interest expense on long-term debt has been included as a direct function expense in the governmental and business-type activities. Total interest expense from governmental activities was $9,662. Total interest expense from business-type activities was $788,689. Of this amount, $647,772 was charged to the water and sewer system, $2,341 was charged to the electric system, and $138,576 was charged to the natural gas system.

Interest costs are capitalized when incurred by proprietary funds on debt where proceeds were used to finance the construction of assets. Total interest costs incurred by the City's proprietary funds for the year ended June 30, 2012 were $792,938. Of this amount, $788,689 of interest costs were charged to expense, and $4,249 of interest costs were capitalized by the proprietary funds for the year ended June 30, 2012.

BOND DISCOUNTS AND ISSUANCE COSTS

Proprietary Fund bond discounts and issuance costs are deferred and amortized over the term of the bonds using the bonds-outstanding method, which approximates the effective interest method. Bond discounts are presented as unamortized portion of bond issue costs; whereas, issuance costs are recorded as deferred charges.

COMPENSATED ABSENCES

City employees are entitled to receive, upon termination of or retirement from employment, all accumulated annual leave up to 250 hours. The estimated portion of the liability for accumulated leave attributable to the City's governmental activities and business-type activities are recorded as long-term liabilities in the government-wide statement of net assets. Current amounts due are not recorded in the governmental-wide statement of net assets due to their immaterial nature. The amounts attributable to proprietary funds are charged to expense and a corresponding liability in the applicable fund. Estimated liabilities of required salary related payments are not recognized due to their immaterial nature.

LONG-TERM DEBT

Long-term debt is recorded on the statement of net assets in the government-wide and proprietary fund financial statements, and any related interest expense is recorded on the statement of activities in the government-wide financial statements and the statement of revenues, expenses, and changes in net assets in the proprietary fund financial statements.

Long-term liabilities expected to be financed from governmental fund types are not recorded in the governmental fund financial statements. Payments of principal and interest are recorded as expenditures on the statement of revenues, expenditures and changes in fund balance in the governmental fund financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

GOVERNMENTAL FUND BALANCES

In accordance with GASB Statement No. 54 Fund *Balance Reporting and Governmental Fund Type Definitions*, the City classifies governmental fund balances as follows:

***Non-spendable* – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.**

***Restricted* – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.**

***Committed* – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal voting action of the highest level of decision making authority, the Mayor and City Council, and does not lapse at year end.**

***Assigned* – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. The Mayor and City Council have authorized the City Manager to assign fund balance. Additionally, the Mayor and City Council may assign fund balance.**

***Unassigned* – includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.**

The City's non-spendable fund balance is comprised of amounts which are not in a spendable form. The City's non-spendable fund balance totaled $247,161 and is comprised of prepaid expenses of $205,317 and inventory of $41,844.

The City uses restricted/committed amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents or contracts that prohibit this, such as a grant agreement requiring dollar for dollar spending. Additionally, the City would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The City does not have a formal minimum fund balance policy.

The City's governmental fund balances follow:

	General	Other Governmental Funds	Total Governmental Funds
Fund Balances:			
Non-spendable			
Prepaid expenses	$ 205,317	$ -	$ 205,317
Inventory	41,844	-	41,844
Restricted for:			
Capital projects	-	2,777,486	2,777,486
Public safety	-	355,446	355,446
Cemetery	10,000	-	10,000
Assigned to:			
Budgeted reserves	10,000	-	10,000
Unassigned	1,366,410	(30,669)	1,335,741
Total fund balances	$ 1,633,571	$ 3,102,263	$ 4,735,834

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

INTERFUND TRANSACTIONS

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenditures or expenses during the reporting period. Accordingly, actual results could differ from those estimates.

USE OF RESTRICTED/UNRESTRICTED NET ASSETS

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the City's policy is to apply restricted net assets first.

REVENUE RECOGNITION

***Property Taxes* - City property tax revenues are recognized when levied to the extent that they result in current receivables. Receivables outstanding more than 60 days after year-end are recorded as deferred revenue. Property taxes attach as an enforceable lien on property 91 days after their due date. Taxes were levied on September 26, 2011, which is the date that the millage rate was established, and were billed in October 2011 and were payable by December 20, 2011. Jackson County bills and collects property taxes for the City. The millage rate for the 2011 tax digest was set at 2.306 mills.**

***Sales Taxes* - Sales tax is considered to be measurable when they have been collected by the State and are recognized as revenue at that time.**

***Licenses and Permits, Charges for Services, Fines and Forfeitures and Miscellaneous Revenues (Except Investment Earnings)* - are recorded as revenues when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned since they are measurable and available.**

ALLOCATION OF INDIRECT COSTS

The City allocates indirect costs for general government services, such as finance, personnel, purchasing, legal, technology, management, etc., to its business-type activities. Allocations are charged to programs based on use of general government services determined by various allocation methodologies. These charges are separately reported in the statement of activities.

NOTE 2 - CASH AND INVESTMENTS

Cash

Custodial credit risk **for cash deposits is the risk that in the event of a bank failure, the City's deposits may not be returned or the City will not be able to recover collateral securities in the possession of an outside party. State statutes require all deposits to be 110% collateralized by depository insurance, obligations of the United States or certain obligations guaranteed by the U.S. Government, obligations of the State of Georgia, or industrial revenue bonds or bonds of public or development authorities, counties, or municipalities of the State of Georgia. The collateral pledged by the banks' trust department but not in the City's name is composed of bonds of U.S. Government Agencies. The City has no policy on custodial credit risk other than it complies with the State of Georgia requirements.**

At June 30, 2012, the carrying amount of the City's cash was $10,249,912 and the bank balance was $10,334,777. The bank balances differ from the carrying amounts due to outstanding checks and deposits, and reconciling items. The City's deposits are covered by Federal Depository Insurance or by collateral held by pledging financial institution or it's agent in the City's name. The City has not adopted a formal deposit policy.

The carrying amounts of deposits for the Downtown Development Authority, a discretely presented component unit, were $48,403 and the bank balance was $48,403. The entire bank balance was covered by Federal Depository Insurance at June 30, 2012.

Investments

State statutes authorize the City to invest only in certificates of deposit of banks and savings and loan associations which have deposits insured by the FDIC with any uninsured amounts collateralized by direct obligations of the United States or the State of Georgia; obligations of the United States and of its agencies and instrumentalities; or bonds or certificates of indebtedness of the State of Georgia and of its agencies and its instrumentalities. The City has not adopted a formal investment policy.

As of June 30, 2012, the City had the following investments:

Investment	Rating	Maturity	Fair Value
Primary Government			
Business-type activities			
Federated US Treasury Cash Reserves SS	AAAm	07/05/12-11/30/12	$ 1,811,385
Total cash equivalents			$ 1,811,385
Municipal Competitive Trust:			
Short-term Portfolio	Not Rated	07/01/12-08/22/13	1,491,571
Intermediate Portfolio	Not Rated	07/01/12-10/01/40	3,342,623
Intermediate Tax Restricted Portfolio	Not Rated	07/01/12-04/01/18	1,730,386
Total investments			$ 6,564,580

NOTE 2 - CASH AND INVESTMENTS – Continued

The City is involved in an external investment pool, the Municipal Competitive Trust, which is administered by the Municipal Electric Authority of Georgia ("MEAG"), a governmental entity. Due to the anticipated deregulation of the retail sale of electricity in the state of Georgia, the City entered into a Municipal Competitive Trust agreement with the Municipal Electric Authority of Georgia ("MEAG"). The City purchases for resale, electric power from MEAG. The City is a beneficiary of this trust, and the City and MEAG deposit monies in the trust from time to time. All monies are held by the trustee, NC Shareholder Services, for the City's benefit and are invested in investment securities. The pool is not registered with the SEC as an investment company. The City has recorded the assets in the Electric System Enterprise Fund. The Municipal Competitive Trust permits the investment of funds in direct obligations of the United States Government, direct and general obligations of states, certain Federal agency discount notes and repurchase agreements collateralized by securities, which would otherwise by permissible under the laws of the State of Georgia. The fair value of the City's position in the pool changes with market conditions, and is calculated based on the fair market value of net assets held in the pool at the close of each business day. The pool determines participant's shares sold and redeemed based on the market value per share at the close of the business day of the sale or redemption.

Credit Risk. **The City has no policy regarding credit risk. The investment in the Federated US Treasury Cash Reserves SS is rated AAAm by Standard and Poor's. The City's investments in the Municipal Competitive Trust are not rated. The Municipal Competitive Trust permits the investment of funds in direct obligations of the United States Government, direct and general obligations of states, certain Federal agency discount notes and repurchase agreements collateralized by securities, which would otherwise by permissible under the laws of the State of Georgia.**

Custodial Credit Risk. **For an investment, the custodial risk is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's $1,811,385 investment in Federated US Treasury Cash Reserves SS is an investment in money market funds. An investment in money market funds is neither insured nor guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although money market funds seek to preserve the value of the investment at $1.00 per share, it is possible to lose money by investing in the funds. Fund shares are not guaranteed by the US Government. The fund is a managed portfolio and its holdings are subject to change. The fund shares are held in an investment account in the City's name. Custodial Credit Risk is not required for external investment pools; therefore, the Municipal Competitive Trust is exempt from this requirement. The City has no policy on custodial credit risk.**

Interest Rate Risk. **Interest rate risk is the risk that changes in interest rates may adversely affect an investment's fair value. Since the price of a bond fluctuates with market interest rates, the risk that an investor faces is that the price of a bond held in a portfolio will decline if market interest rates rise. The City uses the specific identification of maturity of its investments. The Federated US Treasury Cash Reserves SS maturity range is from 07/05/12 – 11/30/12, the Municipal Competitive Trust Short-term Portfolio maturity range is from 07/01/12 – 08/22/13, the Municipal Competitive Trust Intermediate Portfolio maturity range is from 07/01/12 – 10/01/40, and the Municipal Competitive Trust Intermediate Tax Restricted Portfolio maturity range is from 07/01/12 – 04/01/18.**

Concentration of Credit Risk. **The City places no limit on the amount that the City may invest in any one issuer. External investment pools are excluded from the concentration of credit risk requirement; therefore, the Municipal Competitive Trust is exempt from this requirement.**

Foreign Currency Risk. **The City has no foreign currency risk as all investments are in U.S. dollar-denominated assets.**

NOTE 2 - CASH AND INVESTMENTS – Continued

The City's cash and investments are reported as follows:

Cash and cash equivalents	**$ 10,249,912**
Investments	**6,564,580**
Total cash and investments	**$ 16,814,492**

	Governmental Activities	Business-Type Activities	Total Cash and Investments
Cash and investments	**$ 1,105,111**	**$ 5,571,055**	**$ 6,676,166**
Restricted cash and investments	**3,158,106**	**6,980,220**	**10,138,326**
Total	**$ 4,263,217**	**$ 12,551,275**	**$ 16,814,492**

NOTE 3 - RECEIVABLES

	Governmental Activities			
	General	Other Governmental Funds	Business-type Activities	Total
Current receivables:				
Property taxes	**$ 37,357**	**$ -**	**$ -**	**$ 37,357**
Other taxes	**137,807**	**-**	**-**	**137,807**
Accounts	**-**	**-**	**628,609**	**628,609**
Intergovernmental	**47,584**	**141,814**	**250,600**	**439,998**
Other	**16,751**	**-**	**292**	**17,043**
Notes	**-**	**-**	**29,238**	**29,238**
Total current	**239,499**	**141,814**	**908,739**	**1,290,052**
Long-term receivables:				
Notes	**-**	**-**	**87,409**	**87,409**
Total receivables	**$ 239,499**	**$ 141,814**	**$ 996,148**	**$ 1,377,461**

NOTE 3 – RECEIVABLES - Continued

The notes receivable in the business-type activities consisted of the following at June 30, 2012:

Note receivable made to a local business through the Community Development Block Grant – Employment Incentive Program. Original amount of note was $88,173. Payments receivable in monthly installments of $851 over 10 years, including interest at 3%. Collateralized by personal guarantees of the principals of the Company. The note matures February 1, 2020.	$	69,896
Note receivable made to a local business through the Community Development Block Grant – Employment Incentive Program. Original amount of note was $160,762. Payments receivable in monthly installments of $1,552 over 10 years, including interest at 3%. Collateralized by personal guarantees of the principals of the company. The note matures September 1, 2014.		40,481
Note receivable made to a local business through the Community Development Block Grant – Employment Incentive Program. Original amount Of note was $15,000. Payments receivable in monthly installments of $270 Over 5 years, including interest at 3%. Collateralized by personal property. The note matures May 20, 2014.		6,270
Total note receivable, net		116,647
Less: Current portion		(29,238)
Long-term portion	$	87,409

At June 30, 2012, scheduled maturities of the notes receivable were the following:

2013	$	29,238
2014		29,595
2015		13,375
2016		9,007
2017		9,281
2018 - 2020		26,151
Total maturities of note receivable	$	116,647

NOTE 4 - INTERFUND BALANCES

Interfund balances resulted from the time lag between the dates that Interfund goods and services are provided or reimbursable expenditures occur, transactions are recorded, and payment between funds are made.

Interfund receivables and payables consisted of the following at June 30, 2012:

Fund	Interfund Receivables	Interfund Payables
GENERAL FUND		
Due from Confiscated Assets Fund	$ 1,233	$ -
Due to Fire District Fund	-	2,500
Due from SPLOST #4 Fund	146,155	-
Due from Grant Fund	30,669	-
Due from Water & Sewer System Fund	155,822	-
Due from Electric System Fund	-	38,446
Due from Natural Gas System Fund	169,972	-
Total General Fund	503,851	40,946
OTHER GOVERNMENTAL FUNDS		
Special Revenue Funds		
Confiscated Assets Fund		
Due to General Fund	-	1,233
Fire District Fund		
Due from General Fund	2,500	-
Capital Project Funds		
SPLOST #4 Fund		
Due to General Fund	-	146,155
Grant Fund		
Due to General Fund	-	30,669
Total Other Governmental Funds	2,500	178,057
Total Governmental Funds	$ 506,351	$ 219,003
PROPRIETARY FUNDS		
Water & Sewer System Fund		
Due to General Fund	$ -	$ 155,822
Total Water & Sewer System Fund	-	155,822
Electric System Fund		
Due from General Fund	38,446	-
Total Electric System Fund	38,446	-
Natural Gas System Fund		
Due to General Fund	-	169,972
Total Natural Gas System Fund	-	169,972
Total Proprietary Funds	$ 38,446	$ 325,794

NOTE 5 - CAPITAL ASSETS

GOVERNMENTAL ACTIVITIES

Following is a summary of changes in the capital assets of governmental activities:

	Balance July 1 2011	Increases	Decreases	Balance June 30, 2012
GOVERNMENTAL ACTIVITIES:				
Not being depreciated:				
Land	$ 2,815,609	$ 1,415	$ -	$ 2,817,024
Construction in progress	206,892	47,141	-	254,033
Subtotal	3,022,501	48,556	-	3,071,057
Other capital assets:				
Buildings and improvements	6,290,908	47,334	-	6,338,242
Infrastructure	8,772,154	243,656	-	9,015,810
Furniture, fixtures and equipment	659,493	148,970	(17,461)	791,002
Computer equipment and software	347,838	16,003	(44,389)	319,452
Vehicles	1,417,714	197,133	(126,350)	1,488,497
Subtotal	17,488,107	653,096	(188,200)	17,953,003
Accumulated depreciation:				
Buildings and improvements	(1,742,514)	(172,609)	-	(1,915,123)
Infrastructure	(1,498,150)	(306,708)	-	(1,804,858)
Furniture, fixtures and equipment	(370,509)	(79,189)	17,461	(432,237)
Computer equipment and software	(251,026)	(50,853)	44,389	(257,490)
Vehicles	(752,609)	(157,132)	126,350	(783,391)
Subtotal	(4,614,808)	(766,491)	188,200	(5,193,099)
Net other capital assets	12,873,299	(113,395)	-	12,759,904
Total governmental activities capital assets	$ 15,895,800	$(64,839)	$ -	$ 15,830,961

Depreciation was charged to functions as follows:

Governmental activities:	
General government	$ 96,512
Public safety	220,117
Public services	360,219
Library	22,706
Parks and recreation	57,231
Planning and development	9,706
Total governmental activities depreciation expense	$ 766,491

NOTE 5 - CAPITAL ASSETS - Continued

BUSINESS-TYPE ACTIVITIES

Following is a summary of changes in the capital assets of business-type activities:

	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012
BUSINESS-TYPE ACTIVITIES:				
Not being depreciated:				
Land	$ 319,770	$ -	$ -	$ 319,770
Construction in progress	528,123	146,307	(99,132)	575,298
Subtotal	847,893	146,307	(99,132)	895,068
Other capital assets:				
Buildings and improvements	18,162,638	102,278	-	18,264,916
Water and sewer system	18,664,952	796,663	-	19,461,615
Electric system	8,692,149	9,226	(21,514)	8,679,861
Natural gas system	10,655,105	63,542	-	10,718,647
Machinery and equipment	3,102,283	129,190	(2,331,320)	900,153
Furniture and fixtures	14,625	-	-	14,625
Computer equipment and software	469,759	-	(141,457)	328,302
Vehicles	511,069	-	(11,700)	499,369
Subtotal	60,272,580	1,100,899	(2,505,991)	58,867,488
Accumulated depreciation:				
Buildings and improvements	(4,758,181)	(509,467)	-	(5,267,648)
Water and sewer system	(10,108,112)	(646,421)	-	(10,754,533)
Electric system	(3,498,469)	(285,832)	21,514	(3,762,787)
Natural gas system	(2,433,112)	(370,411)	-	(2,803,523)
Machinery and equipment	(2,686,700)	(65,194)	2,331,320	(420,574)
Furniture and fixtures	(9,871)	(1,463)	-	(11,334)
Computer equipment and software	(297,847)	(49,343)	141,457	(205,733)
Vehicles	(437,497)	(24,519)	11,700	(450,316)
Subtotal	(24,229,789)	(1,952,650)	2,505,991	(23,676,448)
Net other capital assets	36,042,791	(851,751)	-	35,191,040
Net business-type activities capital assets	$ 36,890,684	$(705,444)	$(99,132)	$ 36,086,108

Depreciation was charged to functions as follows:

Business-type activities:	
Water and Sewer System	$ 1,222,504
Electric System	329,208
Natural Gas System	400,938
Total business-type activities depreciation expense	$ 1,952,650

NOTE 5 - CAPITAL ASSETS - Continued

COMPONENT UNIT ACTIVITIES

Following is a summary of changes in the capital assets of component unit activities:

	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012
COMPONENT UNIT:				
Not being depreciated:				
Land	$ 319,907	$ -	$ -	$ 319,907
Subtotal	319,907	-	-	319,907
Other capital assets:				
Buildings and improvements	717,359	-	-	717,359
Park improvements	78,646	-	-	78,646
Furniture, fixtures & equipment	8,746	-	-	8,746
Computer equipment	2,466	-	-	2,466
Subtotal	807,217	-	-	807,217
Accumulated depreciation:				
Buildings and improvements	(161,287)	(19,233)	-	(180,520)
Park improvements	(13,763)	(3,932)	-	(17,695)
Furniture, fixtures & equipment	(947)	(875)	-	(1,822)
Computer equipment	(1,521)	(493)	-	(2,014)
Subtotal	(177,518)	(24,533)	-	(202,051)
Net other capital assets	629,699	(24,533)	-	605,166
Net component unit capital assets	$ 949,606	$(24,533)	$ -	$ 925,073

Depreciation was charged to functions as follows:

Component unit:	
Downtown Development authority	$ 24,533
Total component unit depreciation expense	$ 24,533

NOTE 6 - LONG-TERM DEBT

The following is a summary of changes in long-term debt for the year ended June 30, 2012:

Type of Debt	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012	Amounts Due within One Year
Governmental activities:					
Capital lease obligations	$ 227,834	$ 98,566	$(123,239)	$ 203,161	$ 96,710
Notes payable	26,594	-	(13,880)	12,714	12,714
Compensated absences	131,689	-	(20,216)	111,473	-
Total general long-term debt	$ 386,117	$ 98,566	$(157,335)	$ 327,348	$ 109,424
Business-type activities:					
Revenue bonds payable	$ 15,435,000	$ -	$(515,000)	$ 14,920,000	$ 630,000
Less: unamortized discounts, premiums, and loss on advance refunding	(106,460)	14,757	-	(91,703)	(14,757)
Revenue bonds payable, net	15,328,540	14,757	(515,000)	14,828,297	615,243
Capital lease obligations	3,113,638	160,998	(212,047)	3,062,589	218,938
Notes payable	94,089	127,620	(63,810)	157,899	157,899
Compensated absences	73,643	-	(348)	73,295	-
Total proprietary fund debt	$ 18,609,910	$ 303,375	$(791,205)	$ 18,122,080	$ 992,080
Component Unit					
Notes payable	$ 212,266	$ -	$(38,468)	$ 173,798	$ 46,367
Compensated absences	863	1,727	-	2,590	-
Total component unit debt	$ 213,129	$ 1,727	$(38,468)	$ 176,388	$ 46,367

The reporting entity's long-term debt is segregated between the amounts to be repaid from governmental activities, amounts to be repaid from business-type activities, and amounts to be repaid from component units.

GOVERNMENTAL ACTIVITIES:

As of June 30, 2012, the governmental long-term debt of the financial reporting entity consisted of the following:

NOTE PAYABLE

Note payable to First Commerce Bank in the original amount of $26,594 dated June 17, 2011, unsecured, interest rate of 4.00% with final maturity dated June 30, 2012. The note was used to finance the replacement of the City Hall roof. This note was paid off in July 2012.	$ 12,714
Total note payable	$ 12,714
Current portion	$ 12,714
Noncurrent portion	-
Total note payable	$ 12,714

NOTE 6 - LONG-TERM DEBT - Continued

GOVERNMENTAL ACTIVITIES: - Continued:

CAPITAL LEASE OBLIGATIONS

The City has financed vehicles and equipment under capital lease agreements. In accordance with Financial Accounting Standards Board (FASB) Statement No. 23, the capital leases payable and the related assets have been recorded at the present value of the future minimum lease payments at the inception of the leases, which in these cases are $101,570, $37,876, $200,890, $28,405, and $70,161. The leases payable were incurred for the lease of vehicles and equipment in the original amounts of $101,570, $37,876, $200,890, $28,405, and $70,161. The following is a schedule of future minimum lease payments under these capital leases, and the present value of the net minimum lease payments at June 30, 2012:

June 30, 2013	$ 103,857
June 30, 2014	93,886
June 30, 2015	17,054
Total minimum lease payments	214,797
Amount representing interest	(11,636)
Present value of lease obligations for governmental activities	203,161
Less: current maturities	96,710
Long-term maturities	$ 106,451

Leased assets under capital leases in capital assets at June 30, 2012, include the following:

Vehicles	$ 401,026
Furniture, fixtures, & equipment	37,876
Less: accumulated depreciation	(103,765)
Total	$ 335,137

Total depreciation expense on the assets for the year ended June 30, 2012, was $39,344. This depreciation is included in the total depreciation expense shown in Note 5.

COMPENSATED ABSENCES

City employees are entitled to receive, upon termination of or retirement from employment, all accumulated annual leave as referred to in Note 1. The General Fund has been used to liquidate compensated absences from Governmental Activities in prior years.

Noncurrent portion	$ 111,473

NOTE 6 - LONG-TERM DEBT - Continued

BUSINESS-TYPE ACTIVITIES:

As of June 30, 2012, the long-term debt payable from proprietary fund resources consisted of the following:

REVENUE BONDS PAYABLE

Water and Sewerage Revenue Refunding and Improvement Bonds Series 2006:
On June 29, 2006, the City issued the City of Commerce, GA Water and Sewerage Revenue Refunding and Improvement Bonds Series 2006. The bonds bear interest at variable rates ranging from 3.625% to 5.00%, payable semi-annually on June 1 and December 1. Principal payments on the bonds are due each December 1.

The $12,770,000 original issue amount of bond proceeds of the City of Commerce, GA Water and Sewerage Revenue and Improvement Refunding Bonds Series 2006, along with a net premium of $180,787 on those bonds, were used as follows:

- **$1,546,673 was deposited in the Construction Fund.**
- **$10,064,218 was paid to the Georgia Environmental Facilities Authority to prepay outstanding loans.**
- **$959,807 was deposited in the Debt Service Reserve Account.**
- **$89,390 was retained by the Underwriter as the Bond discount.**
- **$123,090 was paid to the Bond Insurer as payment of the premium for the Policy.**
- **$167,609 was deposited in the Cost of Issuance Account to pay for Bond issuance costs.**

As part of the bond ordinance for the 2006 series bonds, the City is required to make monthly cash transfers to the Debt Service Account. The purpose of the debt service account is to pay principal and interest as they become due. As of June 30, 2012, all required transfers have been made to the sinking fund.

The bond ordinance also requires the City to maintain a debt service coverage ratio of at least 1.20 to 1.00. At June 30, 2012 the City's debt service coverage ratio was .95 to 1.00 leaving the City .25 to 1.00 under the required ratio.

Also, as part of the bond ordinance, the City has placed into effect a schedule of rates for the Water and Sewerage System and will revise them as necessary to (i) maintain and operate the System on a sound business like basis; (ii) to pay an amount equal to 100% of the principal of and interest on junior lien obligations referred to in the Bond Ordinance; (iii) to create and maintain a reserve therefore in the amount as required in the Bond Ordinance or such larger amounts as may be required in any proceedings authorizing such issue or issues of parity bonds; (iv)to make payments into the Sinking Fund equal to at least 120% of the amounts sufficient to discharge the payment of the principal of and the interest on the Series 2006 Bonds and the Series 2010 Bonds and any future parity issues as the same become due and payable in the then current Sinking Fund Year; and (v) to create and maintain a reserve for extensions and improvements to the System. At June 30, 2012, the City's has complied with these requirements. The City's water and sewerage revenues are used as security for the revenue bonds.

NOTE 6 - LONG-TERM DEBT - Continued

BUSINESS-TYPE ACTIVITIES - Continued:

REVENUE BONDS PAYABLE - Continued

Water and Sewerage Revenue Refunding Bonds Series 2010:
On December 9, 2010, the City issued the City of Commerce, GA Water and Sewerage Revenue Refunding Bonds Series 2010. The bonds bear interest at annual rate of 2.805%, payable semi-annually on June 1 and December 1. Principal payments on the bonds are due each December 1.

The $2,665,000 original issue amount of bond proceeds of the City of Commerce, GA Water and Sewerage Revenue Refunding Bonds Series 2010, were used as follows:

- **$2,577,590 was paid to U.S. Bank National Association, as paying agent to refund $2,575,000 of the Water and Sewerage Revenue Refunding Bonds Series 2002.**

  The City advance refunded the Water and Sewerage Revenue Refunding Bonds Series 2002 to reduce its total debt service payments over the next 10 years by $167,840. However, because the City advance refunding the bonds, it incurred a loss on the advance refunding as follows:

Reacquisition price of 2002 series bonds		**$ 2,575,000**
Net carrying amount of 2002 series bonds:		
Principal balance	**$ 2,575,000**	
Unamortized bond issue cost, bond discount, and deferred Loss on advance refunding	**(188,185)**	
		2,386,815
Loss on advance refunding		**$ 188,185**

- **$87,410 was deposited into the City of Commerce, GA Water and Sewerage Revenue Refunding Bonds Series 2010 Cost of Issuance Fund Account to pay issuance and other related costs.**

As part of the bond ordinance for the 2010 series bonds, the City is required to make monthly cash transfers to the City of Commerce, GA Water and Sewerage Refunding Bonds Series 2010 Debt Service Account. The purpose of the debt service account is to pay principal and interest as they become due. As of June 30, 2012, all required transfers have been made to the sinking fund.

The bond ordinance also requires the City to maintain a debt service coverage ratio of at least 1.20 to 1.00. At June 30, 2012 the City's debt service coverage ratio was .95 to 1.00 leaving the City .25 to 1.00 under the required ratio.

Also, as part of the bond ordinance, the City has placed into effect a schedule of rates for the Water and Sewerage System and will revise them as necessary to (a) operate and maintain said System on a sound business like basis (b) to make payments into the Sinking Fund equal to 120% of the amounts sufficient to discharge the payment of the principal of and the interest on the Series 2006 Bonds and the Series 2010 Bonds and any future parity issues as the same become due and payable in the then current Sinking Fund Year, (c) to pay an amount equal to 100% of principal of and interest on junior lien obligations, including, but not limited to any loans made by the Georgia Environmental Facilities Authority and the State Revolving Fund and any existing loans having a lien on the net revenues of the System, (d) to create and maintain a debt service reserve therefore in the amount as required by the debt service agreement in any proceedings authorizing any such issues of parity bonds, and (e) to create and maintain a reserve for extensions and improvements to the System. At June 30, 2012, the City has complied with these requirements. The City's water and sewerage revenues are used as security for the revenue bonds.

NOTE 6 - LONG-TERM DEBT - Continued

BUSINESS-TYPE ACTIVITIES - Continued:

REVENUE BONDS PAYABLE - Continued

The following is a summary of the maturity of revenue bonds and interest thereon:

	Revenue Bonds Series 2006	Revenue Bonds Series 2010	Total
Amount of original issue	$ 12,770,000	$ 2,665,000	$ 15,435,000
Less: amount redeemed	(375,000)	(140,000)	(515,000)
Amount outstanding June 30, 2012	12,395,000	2,525,000	14,920,000
Add: unamortized premium	131,907	-	131,907
Less: unamortized discount	(65,221)	-	(65,221)
Less: unamortized deferred loss on advance refunding	-	(158,389)	(158,389)
Net amount outstanding, June 30, 2012	12,461,686	2,366,611	14,828,297
Less: current maturities	384,062	231,181	615,243
Long-term maturities	$ 12,077,624	$ 2,135,430	$ 14,213,054

Year Ending June 30,	Principal	Interest	Total Debt Service Requirements
2013	$ 630,000	$ 629,935	$ 1,259,935
2014	655,000	608,322	1,263,322
2015	675,000	585,739	1,260,739
2016	695,000	561,946	1,256,946
2017	725,000	536,832	1,261,832
2018-2022	4,055,000	2,243,643	6,298,643
2023-2027	5,090,000	1,174,675	6,264,675
2028-2029	2,395,000	109,013	2,504,013
Totals	$14,920,000	$ 6,450,105	$ 21,370,105

NOTE 6 - LONG-TERM DEBT - Continued

BUSINESS-TYPE ACTIVITIES - Continued:

NOTES PAYABLE

Note payable to Georgia Environmental Facilities Authority in the original amount of $575,000, interest rate of 3.0%, secured by the City's full faith and credit and revenue raising power, accrued interest only due January 1, 2013. Draws on the note were $315,799 as of June 30, 2012. The note is 50% forgivable through 2010 GEFA Appropriations Language. Therefore, the note balance is stated at 50% of the original amount. Beginning January 1, 2013 the note is scheduled to be repaid in 11 monthly installments of principal and interest, however, the City expects to repay the loan as soon as the project is completed. Therefore, the outstanding note balance is being shown as being due short term. The note payable is being used for sewer repairs and leak detection.	$ 157,899
Total notes payable	157,899
Less: current maturities	157,899
Long-term maturities	$ -

CAPITAL LEASE OBLIGATIONS

The City has financed the construction of utility infrastructure and a vehicle under capital lease agreements. In accordance with Financial Accounting Standards Board (FASB) Statement No. 23, the capital lease payable and the related asset has been recorded at the present value of the future minimum lease payments at the inception of the leases, which in this case is $3,000,000, $1,000,000, and $160,998. The following is a schedule of future minimum lease payments under this capital lease, and the present value of the net minimum lease payments at June 30, 2012:

June 30, 2013	$ 354,092
June 30, 2014	354,093
June 30, 2015	354,092
June 30, 2016	354,093
June 30, 2017	354,092
June 30, 2018-2022	1,577,202
June 30, 2023-2025	615,377
Total minimum lease payments	3,963,041
Amount representing interest	(900,452)
Present value of lease obligations for business-type activities	3,062,589
Less: current maturities	218,938
Long-term maturities	$ 2,843,651

Leased equipment under capital leases in capital assets at June 30, 2012, include the following:

Utility infrastructure	$ 4,000,000
Vehicles	160,998
Less: accumulated depreciation	(641,667)
Total	$ 3,519,331

Total depreciation expense on the equipment for the year ended June 30, 2012, was $100,000. This depreciation is included in the total depreciation expense shown in note 5.

NOTE 6 - LONG-TERM DEBT - Continued

BUSINESS-TYPE ACTIVITIES - Continued:

COMPENSATED ABSENCES

City employees are entitled to receive, upon termination of or retirement from employment, all accumulated annual leave as referred to in Note 1. The Water and Sewer System Fund, Electric System Fund, and the Natural Gas System Fund have been used to liquidate compensated absences from Business-type Activities in prior years.

Noncurrent portion	**$ 73,295**

COMPONENT UNIT

NOTES PAYABLE

Note payable to Community Bank & Trust in the original amount of $103,312 dated October 21, 2011, secured by land, interest rate of 3.50% with final maturity dated October 21, 2014. The note payable was used to to finance the purchase of land.	**$ 103,312**
Note payable to Northeast Georgia Bank in the original amount of $70,486 dated January 17, 2012, secured by building and land, interest rate of 3.50% with maturity dated January 17, 2014. The note payable was used to finance the purchase of a building and land.	**70,486**
Total notes payable	**$ 173,798**
Current portion	**$ 46,367**
Noncurrent portion	**127,431**
Total note payable	**$ 173,798**

COMPENSATED ABSENCES

City employees are entitled to receive, upon termination of or retirement from employment, all accumulated annual leave as referred to in Note 1. The Downtown Development Authority has been used to liquidate compensated absences from Component Unit Activities in prior years.

Noncurrent portion	**$ 2,590**

NOTE 6 - LONG-TERM DEBT – Continued

ANNUAL DEBT SERVICE REQUIREMENTS

The annual debt service requirements to maturity, including principal and interest, for long-term debt as of June 30, 2012, are as follows:

NOTES PAYABLE

	Governmental Activities		Business-type Activities		
Year Ending June 30,	Principal	Interest	Principal	Interest	Total
2013	$ 12,714	$ 38	$ 157,899	$ 2,369	$ 173,020
Total	$ 12,714	$ 38	$ 157,899	$ 2,369	$ 173,020

	Component Unit		
Year Ending June 30,	Principal	Interest	Total
2013	$ 46,367	$ 6,083	$ 52,450
2014	90,936	4,530	95,466
2015	36,495	1,288	37,783
Total	$ 173,798	$ 11,901	$ 185,699

CAPITAL LEASES PAYABLE

	Governmental Activities		Business-type Activities		
Year Ending June 30,	Principal	Interest	Principal	Interest	Total
2013	$ 96,710	$ 7,147	$ 218,938	$ 135,154	$ 457,949
2014	90,085	3,802	228,739	125,354	447,980
2015	16,366	687	238,972	115,120	371,145
2016	-	-	249,451	104,642	354,093
2017	-	-	260,843	93,249	354,092
2018-2022	-	-	1,288,026	289,176	1,577,202
2023-2025	-	-	577,620	37,757	615,377
Total	$ 203,161	$ 11,636	$ 3,062,589	$ 900,452	$ 4,177,838

NOTE 6 - LONG-TERM DEBT – Continued

ANNUAL DEBT SERVICE REQUIREMENTS - Continued

REVENUE BONDS PAYABLE

	Business-type Activities		
Year Ending June 30,	Principal	Interest	Total
2013	$ 630,000	$ 629,935	$ 1,259,935
2014	655,000	608,322	1,263,322
2015	675,000	585,739	1,260,739
2016	695,000	561,946	1,256,946
2017	725,000	536,832	1,261,832
2018-2022	4,055,000	2,243,643	6,298,643
2023-2027	5,090,000	1,174,675	6,264,675
2028-2029	2,395,000	109,013	2,504,013
Total	$ 14,920,000	$ 6,450,105	$ 21,370,105

CONDUIT DEBT

COMPONENT UNIT

The Downtown Development Authority has issued multiple limited recourse promissory notes to provide financial assistance to local businesses for the purpose of financing capital improvements to the businesses property. The promissory notes are secured by the property financed and are payable by the revenues of the projects. The DDA is not obligated for the repayment of the notes. The DDA merely served as an intermediary to assist the local businesses in obtaining financing for its capital improvements. Accordingly, the notes are not reported as liabilities in these financial statements.

NOTE 7 - INTERFUND TRANSACTIONS AND BALANCES

	Transfers In	Transfers Out
General Fund:		
Electric System Fund	$ 369,836	$ -
Natural Gas System Fund	211,184	-
Fire District Fund	150,515	-
Library Expansion Fund	-	97
Total General Fund	731,535	97
SPLOST #4 Fund		
Library Expansion Fund	9,359	-
Total Confiscated Assets Fund	9,359	-
Fire District Fund:		
General Fund	-	150,515
Total Fire District Fund	-	150,515
Library Expansion Fund		
General Fund	97	-
SPLOST #4 Fund	-	9,359
Total Library Expansion Fund	97	9,359
Enterprise Funds:		
Natural Gas System Fund:		
General Fund	-	369,836
Electric System Fund:		
General Fund	-	211,184
Total Enterprise Funds	-	581,020
Totals	$ 740,991	$ 740,991

Transfers are primarily used to move funds from:

- **The proprietary funds to the General Fund for an allocated amount of information technology services and salaries and wages and related costs of personnel who perform administrative services.**
- **The Fire District Fund to subsidize the operations of the Fire Department.**
- **Between the General Fund and Library Expansion Fund to fund Library expansion.**
- **Between the Library Expansion Fund and the SPLOST #4 Fund to fund Library expansion.**

During the year ended June 30, 2012, the City made transfers of $150,515 from the Fire District Fund to the General Fund to subsidize Fire Department operations. The City made transfers of $211,184 from the Natural Gas System Fund and $369,836 from the Electric System Fund to subsidize information technology services and salaries and wages and related costs of personnel who perform administrative services. The City also made transfers of $97 from the General Fund to the Library Expansion Fund and $9,359 from the Library Expansion Fund to the SPLOST #4 Fund to fund the Library expansion capital outlay project.

NOTE 8 - RESTRICTED GOVERNMENT-WIDE CASH AND INVESTMENTS

Governmental activities

Restricted cash and investments are composed of the following at June 30, 2012:

	Cash	Total
SPLOST #4 Account	$ 1,972,231	$ 1,972,231
SPLOST #5 Account	511,225	511,225
GEFA Reserve Water Conservation Account	298,371	298,371
Confiscated Asset Accounts	256,827	256,827
Fire District Fees Account	109,452	109,452
Cemetery Maintenance Certificate of Deposit	10,000	10,000
Total	$ 3,158,106	$ 3,158,106

Business-type activities

Restricted cash and investments are composed of the following at June 30, 2012:

	Cash	Investments	Total
Municipal Competitive Trust Reserve Funded Debt Account	$ -	$ 1,730,386	$ 1,730,386
Municipal Competitive Trust Generation Trust Account	-	1,486,389	1,486,389
Water & Sewerage Bonds Debt Service Reserve Account	1,280,714	-	1,280,714
Municipal Competitive Trust Credit Support Operating Account	-	994,398	994,398
Water & Sewerage Bonds Debt Service Account	530,671	-	530,671
2006 Water and Sewerage Bonds Construction Account	462,879	-	462,879
Customer Deposits	209,749	-	209,749
Revolving Loan Fund Account	202,541	-	202,541
Retainage	82,493	-	82,493
Total	$ 2,769,047	$ 4,211,173	$ 6,980,220

NOTE 9 - RESTRICTED FUND CASH AND INVESTMENTS

Governmental funds

Restricted cash and investments are composed of the following at June 30, 2012:

	Cash	Total
General Fund		
Cemetery Maintenance Certificate of Deposit	$ 10,000	$ 10,000
Total General Fund	10,000	10,000
Fire District Fund		
Fire District Fees Account	109,452	109,452
Total Fire District Fund	109,452	109,452
Confiscated Assets Fund		
Federal Confiscations Account	191,687	191,687
State Confiscations Account	32,190	32,190
Safekeeping Account	32,700	32,700
Cash equivalents	250	250
Total Confiscated Assets Fund	256,827	256,827
SPLOST #4 Fund		
SPLOST #4 Account	1,972,231	1,972,231
GEFA Reserve Water Conservation Account	298,371	298,371
Total SPLOST #4 Fund	2,270,602	2,270,602
SPLOST #5 Fund		
SPLOST #5 Account	511,225	511,225
Total SPLOST #5 Fund	511,225	511,225
Total Governmental funds	$ 3,158,106	$ 3,158,106

NOTE 9 - RESTRICTED FUND CASH AND INVESTMENTS - Continued

Proprietary Funds

Restricted cash and investments are composed of the following at June 30, 2012:

	Cash	Investments	Total
Water and Sewer System			
Water & Sewerage Bonds Debt Service Reserve Acct	$ 1,280,714	$ -	$ 1,280,714
Water & Sewerage Bonds Debt Service Account	530,671	-	530,671
2006 Water & Sewerage Bonds Construction Account	462,879	-	462,879
Customer Deposits	49,831	-	49,831
Retainage	82,493	-	82,493
Total Water and Sewer System	2,406,588	-	2,406,588
Electric System			
Municipal Competitive Trust Reserve Funded Debt Account	-	1,730,386	1,730,386
Municipal Competitive Trust Generation Trust Account	-	1,486,389	1,486,389
Municipal Competitive Trust Credit Support Operating Acct	-	994,398	994,398
Customer Deposits	93,938	-	93,938
Total Electric System	93,938	4,211,173	4,305,111
Natural Gas System			
Customer Deposits	65,980	-	65,980
Total Natural Gas System	65,980	-	65,980
Revolving Loan Fund Account	202,541	-	202,541
Total Revolving Loan Fund	202,541	-	202,541
Total	$ 2,769,047	$ 4,211,173	$ 6,980,220

NOTE 10 - LIABILITIES PAYABLE FROM GOVERNMENT-WIDE RESTRICTED ASSETS:

Governmental activities

Liabilities payable from restricted assets are composed of the following at June 30, 2012:

Due to other funds	$ 147,388
Deferred revenue pending court	9,700
Accrued expenses	2,400
Total	$ 159,488

Business-type activities

Liabilities payable from restricted assets are composed of the following at June 30, 2012:

Current Portion of 2006 and 2010 Water and Sewerage Revenue Bonds	$ 630,000
Portion of 2006 Water and Sewerage Revenue Bonds Payable to be used for construction	462,879
Customer Deposits	209,749
Accrued Interest on 2006 and 2010 Water and Sewer Revenue Bonds	53,373
Retainage payable	82,493
Total	$ 1,438,494

NOTE 11 - RESTRICTED NET ASSETS

Governmental Activities

Restricted net assets are comprised of the following at June 30, 2012:

Restricted for:	
Capital projects	$ 2,777,486
Public Safety	355,446
Cemetery	10,000
Total net assets restricted for governmental activities	$ 3,142,932

Business-type Activities

Restricted net assets are comprised of the following at June 30, 2012:

Restricted for:	
Debt service	$ 1,128,012
Municipal Competitive Trust Agreement	4,211,173
Employment Incentive Program Revolving Loan	202,541
Total net assets restricted for business-type activities	$ 5,541,726

NOTE 12 - PENSION PLAN

Plan Description

The City's defined benefit pension plan, City of Commerce Retirement Plan ("CRP"), provides retirement and death benefits to plan members and beneficiaries. CRP plan is affiliated with the Georgia Municipal Employees Benefit System ("GMEBS"), an agent multiple-employer pension plan administered by the Georgia Municipal Association. The Georgia Municipal Association assigns the authority to establish and amend the benefit provisions of the plans that participate in GMEBS to the respective employer entities; for CRP, that authority rests with the City of Commerce. The Georgia Municipal Association issues a publicly available financial report that includes financial statements and required supplementary information for GMEBS. That report may be obtained by written request to Georgia Municipal Association, 201 Pryor Street, SW, Atlanta, Georgia 30303.

Funding Policy

CRP members are not required and do not contribute to CRP. CRP is a noncontributory plan. The City is required to contribute 100% of the amount necessary to fund CRP at an actuarially determined rate; the current rate is 9.24% of covered payroll. The contribution requirements of the City are established and may be amended by the GMEBS Board of Trustees.

The funding policy for the plan is to contribute an amount equal to the recommended contribution each year. The recommended contribution meets the guidelines for calculating an annual required contribution set forth in Paragraphs 9-10 of Statement No. 27. These contributions are determined under the projected unit credit actuarial cost method and the asset valuation method for developing the actuarial value of assets. The amortization of the unfunded actuarial accrued liability is level dollar over 30 years for the initial unfunded accrued liability, 15 years for actuarial gains and losses, 20 years for plan provisions and 30 years for actuarial assumptions and cost methods. The total amortization must be within a corridor of the 10-year and the 30-year amortization of the unfunded/(surplus) actuarial accrued liability. In a year when the 10-year or 30-year corridor applies, the following year, the prior year bases are combined into one 10-year or 30-year base. These amortization periods, if applicable, are closed for this plan year.

Annual Pension Cost

For the current year, the City's annual pension cost of $321,341 for CRP was equal to the City's required and actual contributions. The required contribution was determined as part of the January 1, 2012 actuarial valuation based on the projected unit credit actuarial cost method and the asset valuation method for developing the actuarial value of assets. The actuarial assumptions included the following:

- **Rate of return on investment — 7.75% per year**
- **Projected salary increases — 3.50% per year plus age and service based merit increases**
- **Cost of living adjustments — 3.50% per year**

Three-Year Trend Information for CRP

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
06/30/10	$300,606	100%	$0
06/30/11	$315,885	100%	$0
06/30/12	$321,341	100%	$0

NOTE 12 - PENSION PLAN - Continued

REQUIRED SUPPLEMENTARY INFORMATION
Schedule of Funding Progress for CRP

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) – Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
01/01/10	$6,842,600	$6,976,340	$133,740	98.08%	$3,569,712	3.75%
01/01/11	$7,330,626	$7,445,515	$114,889	98.46%	$3,520,890	3.26%
01/01/12	$7,677,891	$7,902,699	$224,808	97.16%	$3,418,337	6.58%

The schedule of funding progress for CRP presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

Effect of Plan Changes on the Actuarial Accrued Liability

The plan provisions valued and the actuarial assumptions are the same as those used in the preceding valuation.

Effect of Plan Changes on Recommended Contributions

The plan provisions valued and the actuarial assumptions and cost methods are the same as those used to determine the contribution requirement for the preceding year.

Method Used to Determine the Actuarial Value of Assets

Sum of the actuarial value at the beginning of year and the cash flow during year plus the assumed investment return, adjusted by 10% of the amount that the value exceeds or is less than the market value at end of year. The actuarial value is adjusted, if necessary, to be within 50% of market value for 2009, 44% of market value for 2010, 38% of market value for 2011, 32% of market value for 2012, 26% of market value for 2013, and 20% of market value for 2014 and later years.

NOTE 13 - DEFINED CONTRIBUTION PENSION PLAN

The City is a participant in the Georgia Municipal Association 401 (a) Defined Contribution Plan. The Georgia Municipal Association administers the plan. The City must abide by the terms of the plan and the trust made by the Trustees of the plan. The City may terminate its participation in the plan if it adopts a resolution terminating its participation in the plan, and the resolution must specify when the participation will end. Currently, the only eligible employee to participate in the plan is the City Manager. The City makes all contributions to the plan, and the employee participant makes no contributions. The City may amend its contribution requirements by submitting a resolution and adoption agreement to the Trustees for Trustee approval. The City's required contribution rate to the plan is 13% of the employee's gross salary, and the City contributed $14,279 to the plan for the year ended June 30, 2012.

NOTE 14 - DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Service Code 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years. Participation in the plan is optional. The deferred compensation plan is not available to employees until termination, retirement, death or unforeseeable emergencies.

In accordance with Section 457 of the Internal Revenue Code, plan assets are held in trust for the exclusive benefit of participants and their beneficiaries. Accordingly, the assets and liabilities of the deferred compensation plans are not included in the accompanying primary government financial statements.

NOTE 15 - EXCESS EXPENDITURES OR EXPENSES OVER APPROPRIATIONS

The City had expenditures over appropriations for the General Fund for Library of $2,951, Parks and Recreation of $8,131, and Downtown Development of $241 for the fiscal year ended June 30, 2012.

NOTE 16 - DEFICIT FUND BALANCES/NET ASSETS

The City had deficit fund balances/net assets in one of its nonmajor governmental funds at June 30, 2012. The Grant Fund had a deficit fund balance of $30,669. The deficit in the fund is the result of expenditures being made before any revenues being earned in the fund. In the near future, revenues will be earned in the fund which should eliminate the deficit.

NOTE 17 - LITIGATION

The City is a party to legal proceedings, which normally occur, in governmental operations. It is the opinion of the City attorney that these legal proceedings are not likely to have a material adverse impact on the affected funds of the City, and accordingly, no provision for losses has been recorded.

NOTE 18 - COMMITMENTS AND CONTINGENT LIABILITIES

The City has *Potential* Liability *under MEAG and MGAG Contracts* as follows:

Electrical System

The City has entered into Power Sales Contracts with the Municipal Electric Authority of Georgia ("MEAG") pursuant to which the City purchases electric power and energy for resale to its customers. MEAG was created by the State of Georgia for the purpose of owning and operating electric generation and transmission facilities to supply bulk electric power to political subdivisions of Georgia which owned and operated electric distribution systems as of March 18, 1975.

Under the terms of its Power Sales Contracts with MEAG, the City is obligated to take from MEAG, and MEAG is obligated to provide, all electric power and energy required by the City in excess of the amount received by the City as an allotment from federally owned projects through the Southeastern Power Administration ("SEPA"). An allotment of SEPA power has been assigned by the City to MEAG and is transmitted to the City by MEAG through Georgia's Integrated Transmission System for a separate charge. Under its Power Sales Contracts with MEAG, the City has the right to receive additional power as needed from the Integrated Transmission System.

The price paid by the City to MEAG under its Power Sales Contracts is intended to cover the City's share of all the costs of MEAG, including debt service on MEAG's long-term debt. The amounts required to be paid to MEAG under the Power Sales Contracts are payable first from revenues of the City's electrical system. To the extent the required payments are not made from revenues of the City's electric system or other funds, the City is required to include in its general revenue or appropriation measure or annual tax levy amounts sufficient to make such payments. Payments by the City are required to be made by the City whether or not MEAG's facilities or any part thereof are operating or operable or the output therefrom is interrupted, interfered with, curtailed or terminated in whole or in part. In addition, the City may be obligated to purchase additional power, subject to contractual limitations, in the event other MEAG participants default.

The City is contingently liable for $54,260,753 of MEAG Power's principal bonds outstanding at June 30, 2012 in the event of default by MEAG Power.

Gas System

The City has entered into the Gas Supply Contract and certain Supplemental Gas Supply Contracts with the Municipal Gas Authority of Georgia ("MGAG") under which the City buys natural gas for resale to its customers. Under such contracts with MGAG, the City is obligated to take from MGAG, and MGAG is obligated to provide, all of the City's natural gas requirements. The price paid by the City to MGAG under its contracts is intended to cover the City's share of all the costs of MGAG, including scheduled debt service of MGAG. Such payments are required to be made by the City whether or not the MGAG's facilities or natural gas properties or any part thereof are operating or operable or the output therefrom is interrupted, interfered with, curtailed or terminated in whole or in part, or whether or not any of its natural gas suppliers or transporters defaults in its obligations under its gas supply or transportation contracts with MGAG. To the extent the required payments are not made from the revenues of the System or other funds, the City is required to include in its general revenue or appropriation measure or annual tax levy amounts sufficient to make such payments. The City is contingently liable for $8,000,041 of MGAG's outstanding debt at June 30, 2012 in the event of default by MGAG.

Water and Sewer System

The City is currently was approved for a Clean Water State Revolving Fund (CWSRF) loan of $575,000 and a CWSRF subsidy of $287,500 for improvements to the water and sewer system. The City had expended $315,799 of the funds from this project through June 30, 2012, leaving $255,201 remaining to be spent. The project was completed subsequent to year end and the final draw down was made in October 2012. The loan is being used to purchase leak equipment and replace meters.

Subsequent to year end, the City was awarded a $500,000 Community Development Block Grant for the purpose of rehabilitating the sewer collection system in southeast Commerce. The project is to eliminate sewer overflow and backup. The City is required to match $90,000 of the project.

NOTE 18 - COMMITMENTS AND CONTINGENT LIABILITIES - Continued

Library Expansion Fund

The City has entered into a contract with the Piedmont Regional Library System (the "System") for the design and construction of a library expansion project. The City is required to match up to a maximum of $583,036 of the project which will be paid to the System to be deposited into a project fund established by the System. As of June 30, 2012, the City has paid $223,364 in matching funds to the System.

Component Unit

The City could be considered a responsible party for two notes payable incurred by the Downtown Development Authority in the event that the DDA does not repay the notes. The total balances of the notes payable were $173,798, at June 30, 2012.

NOTE 19 - OPERATING LEASE COMMITMENTS

The City leases office equipment under capital leases. Future minimum rental commitments for equipment operating leases as of June 30, 2012 are as follows:

	General Fund	Component Unit
2013	$ 7,332	$ 1,639
2014	6,788	-
2015	3,870	-
2016	218	-
Total	$ 18,208	$ 1,639

Total rent expenditures under these operating leases for the year ended June 30, 2012 was $7,332 for the General Fund and $1,788 for the Downtown Development Authority Component Unit.

NOTE 20 - RISK MANAGEMENT

The City is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City has joined together with other municipalities in the state as part of the Georgia Interlocal Risk Management Agency (GIRMA) for property and liability insurance and the Workers' Compensation Self-Insurance Fund (WCSIF), public entity risk pools currently operating as common risk management and insurance program for member local governments. The Georgia Municipal Association (GMA) administers both risk pools.

As part of these risk pools, the City is obligated to pay all contributions and assessments as prescribed by the pools, to cooperate with the pools' agents and attorneys, to follow loss reduction procedures established by the funds, and to report as promptly as possible, and in accordance with any coverage descriptions issued, all incidents which could result in the funds being required to pay any claim of loss. The City is also to allow the pools' agents and attorneys to represent the City in investigation, settlement discussions and all levels of litigation arising out of any claim made against the Government within the scope of loss protection furnished by the funds.

The funds are to defend and protect the members of the funds against liability or loss as prescribed in the member governments' contracts and in accordance with the workers' compensation laws of Georgia. The funds are to pay all cost taxed against members in any legal proceeding defended by the members, all interest accruing after entry of judgment, and all expenses incurred for investigation, negotiation or defense.

NOTE 21 - RELATED ORGANIZATIONS AND RELATED PARTY TRANSACTIONS

The City of Commerce Housing Authority is a related organization of the City. The Housing Authority provides safe and sanitary dwelling accommodations for persons of low income. The City appoints a voting majority of the Housing Authority's board, but is not financially accountable for the Authority. The City has no significant influence over the management, budget, or policies of the Housing Authority. The Authority reports independently. The City received $3,380 for payment in lieu of taxes from the Housing Authority for the year ended June 30, 2012.

The Commerce Civic Center and Tourism Authority is a related organization of the City. The Civic Center and Tourism Authority was formed to acquire, construct, improve, equip, alter, repair, operate, and maintain public projects in the City of Commerce, embracing buildings and facilities to be used for amusement, recreational, civic, cultural, and educational purposes. The City is currently holding a bank account for the Civic Center and Tourism Authority as a reserve account for improvements to be made for the Civic Center building. At June 30, 2012 the City was holding $57,456, in cash payable to the Civic Center and Tourism Authority, which has been reflected as a related party payable in the General Fund.

NOTE 22 - JOINT VENTURE

Under Georgia law, the City, in conjunction with other cities and counties in the Northeast Georgia area, is a member of the Northeast Georgia Regional Commission ("NGRC"). The City paid $6,544 in annual dues to NGRC. Membership in a Regional Commission ("RC") is required by the Official Code of Georgia Annotated (OCGA) Section 50-8-34, which provides for the organizational structure of the RC in Georgia. The RC Board membership includes the chief elected official of each county and municipality of the area. OCGA 50-8-39.1 provides that the member governments are liable for any debts or obligations of an RC. Separate financial statements may be obtained from Northeast Georgia Regional Commission, 305 Research Drive, Athens, GA 30601.

NOTE 23 - GRANTS

In the normal course of operations, the City receives grant funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement, which may arise as the result of these audits is not believed to be material.

NOTE 24 - SPLOST #4

The City has entered into an agreement with Jackson County to adopt a 1 percent local option sales tax. The proceeds of the sales tax are to be used for: roads, streets and bridges, water and sewer capital outlay, and recreational capital outlay.

The following is a schedule of the activity relating to the SPLOST #4 for the year ending June 30, 2012:

	Water and Sewer	Roads, Streets, and Bridges	Recreation	Library	Total
Gross Special Sales Tax	$ -	$ -	$ -	$ -	$ -
Project Expenditures					
Capital expenditures	396,445	325,339	92,984	21,302	836,070
Total Project Expenditures	396,445	325,339	92,984	21,302	836,070
Net (over) under expended for year ended June 30, 2012	(396,445)	(325,339)	(92,984)	(21,302)	(836,070)
Investment return	4,330	1,362	247	247	6,186
Transfers in	-	-	-	9,359	9,359
Net changes in fund balances	(392,115)	(323,977)	(92,737)	(11,696)	(820,525)
Fund balance - July 1, 2011	1,831,420	1,003,378	98,438	11,736	2,944,972
Fund balance - June 30, 2012	$ 1,439,305	$ 679,401	$ 5,701	$ 40	$ 2,124,447

NOTE 25 - SPLOST #5

The City has entered into an agreement with Jackson County to adopt a 1 percent local option sales tax. The proceeds of the sales tax are to be used for: roads, streets and bridges, water and sewer capital outlay, and recreational capital outlay.

The following is a schedule of the activity relating to the SPLOST #5 for the year ending June 30, 2012:

	Water and Sewer	Roads, Streets, and Bridges	Recreation	Total
Gross Special Sales Tax	$ 345,023	$ 210,848	$ 210,847	$ 766,718
Project Expenditures				
Capital expenditures	-	-	1,415	1,415
Total Project Expenditures	-	-	1,415	1,415
Net (over) under expended for year ended June 30, 2012	345,023	210,848	209,432	765,303
Investment return	13	7	8	28
Net changes in fund balances	345,036	210,855	209,440	765,331
Fund balance - July 1, 2010	-	-	(112,292)	(112,292)
Fund balance - June 30, 2011	$ 345,036	$ 210,855	$ 97,148	$ 653,039

NOTE 26 - LANDFILL CLOSURE AND POST CLOSURE CARE

The solid waste landfill located at the end of MLK Drive was closed in the early 1980s. During that time, the City took corrective action at the closed landfill site by covering the site with a layer of dirt to stabilize it. The site has been stabilized since that time. The City now uses the site as an area to grind yard waste into mulch. The City keeps the site locked, and has no other plans for the site.

There is no recognition of a liability for closure and postclosure care costs based on landfill capacity used to date. The percentage of landfill capacity used to date is 100%, and it has an estimated remaining landfill life of zero years. There is no reported liability for closure and postclosure care at the balance sheet date. There is no estimated total current cost of closure and postclosure care remaining to be recognized. There are no assets restricted for payment of closure and postclosure care costs. Per City officials, the City will maintain the landfill site as an area to grind yard waste into mulch for the foreseeable future, and the City is not aware of any proposed changes in EPD legislation or regulations.

REQUIRED AND OTHER SUPPLEMENTARY INFORMATION

NONMAJOR GOVERNMENTAL FUNDS

CITY OF COMMERCE, GEORGIA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2012

	SPECIAL REVENUE		CAPITAL PROJECTS				
	Confiscated Assets	Fire District	SPLOST #4	SPLOST #5	Grant	Library Expansion	Totals
ASSETS							
Intergovernmental receivable	$ -	$ -	$ -	$ 141,814	$ -	$ -	$ 141,814
Due from other funds	-	2,500	-	-	-	-	2,500
Restricted cash and investments	256,827	109,452	2,270,602	511,225	-	-	3,148,106
Total assets	$ 256,827	$ 111,952	$ 2,270,602	$ 653,039	$ -	$ -	$ 3,292,420
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accrued expenses	$ 2,400	$ -	$ -	$ -	$ -	$ -	$ 2,400
Deferred revenue	9,700	-	-	-	-	-	9,700
Due to other funds	1,233	-	146,155	-	30,669	-	178,057
Total liabilities	13,333	-	146,155	-	30,669	-	190,157
Fund balances:							
Restricted for:							
Capital projects	-	-	2,124,447	653,039	-	-	2,777,486
Public safety	243,494	111,952	-	-		-	355,446
Unassigned	-	-	-	-	(30,669)	-	(30,669)
Total fund balances	243,494	111,952	2,124,447	653,039	(30,669)	-	3,102,263
Total liabilities and fund balances	$ 256,827	$ 111,952	$ 2,270,602	$ 653,039	$ -	$ -	$ 3,292,420

SEE INDEPENDENT AUDITORS' REPORT.

CITY OF COMMERCE, GEORGIA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	SPECIAL REVENUE		CAPITAL PROJECTS				
	Confiscated Assets	Fire District	SPLOST #4	SPLOST #5	Grant	Library Expansion	Totals
REVENUES							
Charges for services	$ -	$ 176,906	$ -	$ -	$ -	$ -	$ 176,906
Fines & forfeitures	52,221	-	-	-	-	-	52,221
Intergovernmental	-	-	-	766,718	-	9,188	775,906
Investment return	468	231	6,186	28	-	1	6,914
Total revenues	52,689	177,137	6,186	766,746	-	9,189	1,011,947
EXPENDITURES							
Current operating							
Public safety	61,138	53,099	-	-	-	-	114,237
Capital outlay	-	-	836,070	1,415	25,839	-	863,324
Total expenditures	61,138	53,099	836,070	1,415	25,839	-	977,561
Excess (deficiency) of revenues over (under) expenditures	(8,449)	124,038	(829,884)	765,331	(25,839)	9,189	34,386
OTHER FINANCING SOURCES (USES)							
Transfers in	-	-	9,359	-	-	97	9,456
Transfers out	-	(150,515)	-	-	-	(9,359)	(159,874)
Net other financing sources (uses)	-	(150,515)	9,359	-	-	(9,262)	(150,418)
Net changes in fund balances	(8,449)	(26,477)	(820,525)	765,331	(25,839)	(73)	(116,032)
Fund balance - beginning of year	251,943	138,429	2,944,972	(112,292)	(4,830)	73	3,218,295
Fund balance - end of year	$ 243,494	$ 111,952	$ 2,124,447	$ 653,039	$(30,669)	$ -	$ 3,102,263

SEE INDEPENDENT AUDITORS' REPORT.

CITY OF COMMERCE, GEORGIA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL (BUDGETARY BASIS) - CONFISCATED ASSETS FUND
FOR THE YEAR ENDED JUNE 30, 2012

	Confiscated Assets Fund			
	Original Budget	Final Budget	Actual	Variance with Final budget Over (Under)
REVENUES				
Fines & forfeitures	$ -	$ -	$ 52,221	$ 52,221
Investment return	2,000	2,000	468	(1,532)
Total revenues before budgeted surplus carryover	2,000	2,000	52,689	50,689
Budgeted surplus carryover	251,943	251,943	251,943	-
Total revenues and budgeted surplus Carryover	253,943	253,943	304,632	50,689
EXPENDITURES				
Current operating				
Public safety	253,943	253,943	61,138	192,805
Total expenditures	253,943	253,943	61,138	192,805
Excess (deficiency) of revenues over (under) expenditures (budgetary basis)	-	-	243,494	243,494
Adjustments				
To adjust for budgeted surplus carryover	-	-	(251,943)	(251,943)
Net change in fund balance	-	-	(8,449)	(8,449)
Fund balance - beginning of year	251,943	251,943	251,943	-
Fund balance - end of year	$ 251,943	$ 251,943	$ 243,494	$(8,449)

NOTE: The budgetary basis of accounting used is modified accrual.

CITY OF COMMERCE, GEORGIA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL (BUDGETARY BASIS) – FIRE DISTRICT FUND
FOR THE YEAR ENDED JUNE 30, 2012

	Fire District Fund			
	Original Budget	Final Budget	Actual	Variance with Final budget Over (Under)
REVENUES				
Charges for services	$ 205,000	$ 205,000	$ 176,906	$(28,094)
Investment return	-	-	231	231
Total revenues before budgeted surplus carryover	205,000	205,000	177,137	(27,863)
Budgeted surplus carryover	138,429	138,429	138,429	-
Total revenues and budgeted surplus Carryover	343,429	343,429	315,566	(27,863)
EXPENDITURES				
Current operating				
Public safety	192,275	192,275	53,099	139,176
Total expenditures	192,275	192,275	53,099	139,176
Excess (deficiency) of revenues over (under) expenditures (budgetary basis)	151,154	151,154	262,467	111,313
Adjustments				
To adjust for budgeted surplus carryover	-	-	(138,429)	(138,429)
Excess (deficiency) of revenue over (under) Expenditures (GAAP basis)	151,154	151,154	124,038	(27,116)
OTHER FINANCING SOURCES (USES)				
Transfers out	(151,154)	(151,154)	(150,515)	639
Net other financing sources (uses)	(151,154)	(151,154)	(150,515)	639
Net change in fund balance	-	-	(26,477)	(26,477)
Fund balance - beginning of year	138,429	138,429	138,429	-
Fund balance - end of year	$ 138,429	$ 138,429	$ 111,952	$(26,477)

NOTE: The budgetary basis of accounting used is modified accrual.

CITY OF COMMERCE, GEORGIA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL – SPLOST #4 FUND
FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2012

	SPLOST #4 Fund			
	Prior Years	Current Year	Total to Date	Original Amount Authorized
REVENUES				
Intergovernmental	$ 5,364,853	$ -	$ 5,364,853	$ 5,126,536
Investment return	203,048	6,186	209,234	-
Total revenues	5,567,901	6,186	5,574,087	5,126,536
EXPENDITURES				
Current operating				
Public services	135	-	135	-
Recreation	4	-	4	-
Library	4	-	4	-
Capital outlay	2,578,047	836,070	3,414,117	5,126,536
Total expenditures	2,578,190	836,070	3,414,260	5,126,536
Excess (deficiency) of revenues over (under) expenditures	2,989,711	(829,884)	2,159,827	-
OTHER FINANCING SOURCES (USES)				
Transfers in	-	9,359	9,359	-
Transfers out	(44,739)	-	(44,739)	-
Net other financing sources (uses)	(44,739)	9,359	(35,380)	-
Net change in fund balance	$ 2,944,972	(820,525)	$ 2,124,447	$ -
Fund balance - beginning of year		2,944,972		
Fund balance - end of year		$ 2,124,447		

NOTE: The budgetary basis of accounting used is modified accrual.

CITY OF COMMERCE, GEORGIA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL – SPLOST #5 FUND
FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2012

	SPLOST #5 Fund			
	Prior Years	Current Year	Total to Date	Original Amount Authorized
REVENUES				
Intergovernmental	$ -	$ 766,718	$ 766,718	$ 4,067,380
Investment return	-	28	28	-
Total revenues	-	766,746	766,746	4,067,380
EXPENDITURES				
Capital outlay	112,292	1,415	113,707	4,067,380
Total expenditures	112,292	1,415	113,707	4,067,380
Net change in fund balance	$ -	765,331	$ 653,039	$ -
Fund balance - beginning of year		(112,292)		
Fund balance - end of year		$ 653,039		

NOTE: The budgetary basis of accounting used is modified accrual.

CITY OF COMMERCE, GEORGIA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL – GRANT FUND
FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2012

	Grant Fund			
	Prior Years	Current Year	Total to Date	Original Amount Authorized
REVENUES				
Intergovernmental	$ -	$ -	$ -	$ 250,000
Investment return	-	-	-	-
Total revenues	-	-	-	250,000
EXPENDITURES				
Capital outlay	4,830	25,839	30,669	250,000
Total expenditures	4,830	25,839	30,669	250,000
Net change in fund balance	$(4,830)	(25,839)	$(30,669)	$ -
Fund balance - beginning of year		(4,830)		
Fund balance - end of year		$(30,669)		

NOTE: The budgetary basis of accounting used is modified accrual.

CITY OF COMMERCE, GEORGIA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL – LIBRARY EXPANSION FUND
FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2012

	Library Expansion Fund			
	Prior Years	Current Year	Total to Date	Original Amount Authorized
REVENUES				
Intergovernmental	$ 118,638	$ 9,188	$ 127,826	$ 82,015
Contributions	5,307	-	5,307	-
Investment return	3,778	1	3,779	-
Total revenues	127,723	9,189	136,912	82,015
EXPENDITURES				
Capital outlay	202,787	-	202,787	82,015
Total expenditures	202,787	-	202,787	82,015
Excess (deficiency) of revenues over (under) expenditures	(75,064)	9,189	(65,875)	-
OTHER FINANCING SOURCES (USES)				
Transfers in	75,137	97	75,234	
Transfers in	-	(9,359)	(9,359)	-
Net other financing sources (uses)	75,137	(9,262)	65,875	-
Net change in fund balance	$ 73	(73)	$ -	$ -
Fund balance - beginning of year		73		
Fund balance - end of year		$ -		

NOTE: The budgetary basis of accounting used is modified accrual.

REPORTS AND SCHEDULES REQUIRED BY GOVERNMENT AUDITING STANDARDS AND OMB CIRCULAR A-133

WILCOX & BIVINGS, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

4485 Tench Road, Suite 1320
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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Honorable Mayor
and Members of the City Council
City of Commerce, Georgia

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Commerce, Georgia, as of and for the year ended June 30, 2012, which collectively comprise the City of Commerce, Georgia's basic financial statements and have issued our report thereon dated November 20, 2012. 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

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

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. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Commerce, Georgia'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 one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2012-1.

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

Wilcox & Bivings, P.C.

Suwanee, Georgia
November 20, 2012

WILCOX & BIVINGS, P.C.
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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Honorable Mayor and Members of the City Council
City of Commerce, Georgia

Compliance

We have audited City of Commerce, Georgia's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of City of Commerce, Georgia's major federal programs for the year ended June 30, 2012. City of Commerce, Georgia's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of City of Commerce, Georgia's management. Our responsibility is to express an opinion on City of Commerce, Georgia's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Commerce, Georgia's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of City of Commerce, Georgia's compliance with those requirements.

In our opinion, City of Commerce, Georgia complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control over Compliance

Management of City of Commerce, Georgia is responsible for establishing and maintaining effective internal control over compliance with the laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered City of Commerce, Georgia's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Commerce, Georgia's internal control over compliance.

To the Honorable Mayor and Members of the City Council
City of Commerce, Georgia

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the internal control over compliance 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 compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

Wilcox & Bivings, P.C.

Suwanee, Georgia
November 20, 2012

CITY OF COMMERCE, GEORGIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

Federal Grantor/ Pass-through Grantor/ Program Title	Federal CFDA Number	Pass-through Grantors Number	Expenditures
United States Department of Housing and Development/ State of Georgia Department of Community Affairs/ Community Development Block Grants/State's Program And Non-Entitlement Grants in Hawaii	**14.228**	**10p-x-078-2-5231**	**$ 432,075**
United States Environmental Protection Agency/ Georgia Environmental Facilities Authority/ Capitalization Grant for Drinking Water State Revolving Fund	**66.458**	**DWSRF 10-023**	**131,363**
United States Department of Justice/ Community Oriented Policing Services/ COPS Hiring Program	**16.710**	**2010UMWX0086**	**42,444**
United States Department of the Interior National Park Service/ Georgia Department of Natural Resources State Parks & Historic Sites/ Land and Water Conservation Fund Grant	**15.916**	**13-00921**	**1,415**
Total Federal Awards Expended			**$ 607,297**

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Commerce, Georgia and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

CITY OF COMMERCE, GEORGIA
AUDITORS' SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012

SECTION I – SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued – unqualified opinion on primary government.

Internal control over financial reporting:

- **No material weaknesses identified.**
- **No significant deficiencies identified.**
- **One item of noncompliance noted – see finding 2012-1.**

Federal Awards

Internal control over major programs:

- **No material weaknesses identified.**
- **No significant deficiencies identified.**

Type of auditors' report issued on compliance for major programs - unqualified.

No audit findings disclosed that are required to be reported in accordance with Circular A-133, Section 510(a).

Identification of major programs:

- **United States Department of Housing and Urban Development/ Georgia Department of Community Affairs/ Community Development Block Grants/ State's Program and Non-Entitlement Grants in Hawaii.**

Dollar threshold used to distinguish between Type A and Type B programs - $300,000

Auditee qualifies as a low-risk auditee.

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding 2012-1
The City had expenditures over appropriations for three functions in the General Fund.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

- **No matters reported.**

CITY OF COMMERCE, GEORGIA
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012

The City had one instance of noncompliance for the year ended June 30, 2011 that is required to be reported on for the year ending June 30, 2012.

Finding 2011-1

The City's SPLOST #4 Fund transferred monies to the City's Library Expansion Fund to assist in financing the City's library expansion project. These SPLOST funds were used appropriately in that they were spent on the library expansion project for which the SPLOST funds were collected. However, State of Georgia law requires that when multiple funding sources are used to finance a capital project and SPLOST is one of the funding sources, the SPLOST fund must be used for the total financing of the project.

Action

The City accounted for its expenditures relating to the financing its library expansion in the SPLOST #4 Fund during the fiscal year ended June 30, 2012.

CITY OF COMMERCE, GEORGIA
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CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2012

Finding 2012-1
The City had expenditures over appropriations for three functions in the General Fund.

Recommendation
It is recommended that the City monitor its expenses and make budget amendments when needed.

Statement of Concurrence
The City concurs with this finding and recommendation.

Action
The City will monitor expenditures and make budget amendments as needed.

SCHEDULES REQUIRED BY THE STATE OF GEORGIA

CITY OF COMMERCE, GEORGIA
SCHEDULE OF PROJECTS CONSTRUCTED WITH SPECIAL PURPOSE LOCAL OPTION SALES TAX PROCEEDS
SPLOST #4
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Original Estimate Amount	Amount Expended In Prior Year	Amount Expended In Current Year	Total	Estimated Percentage of Completion
PROJECTS					
Water and Sewer System Improvements	$ 3,588,575	$ 2,066,628	$ 396,445	$ 2,463,073	69%
Road and Bridge Improvements	1,127,839	221,062	325,339	546,401	48%
Recreation Improvements	205,061	124,197	92,984	217,181	100%
Library Improvements	205,061	210,899	21,302	232,201	100%
Totals	$ 5,126,536	$ 2,622,786	$ 836,070	$ 3,458,856	

CITY OF COMMERCE, GEORGIA
SCHEDULE OF PROJECTS CONSTRUCTED WITH SPECIAL PURPOSE LOCAL OPTION SALES TAX PROCEEDS
SPLOST #5
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Original Estimate Amount	Amount Expended In Prior Year	Amount Expended In Current Year	Total	Estimated Percentage of Completion
PROJECTS					
Water and Sewer System Improvements	$ 1,830,320	$ -	$ -	$ -	0%
Road and Bridge Improvements	1,118,530	-	-	-	0%
Recreation Improvements	1,118,530	112,292	1,415	113,707	10%
Totals	$ 4,067,380	$ 112,292	$ 1,415	$ 113,707	