

COMMERCE INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2016

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COMMERCE INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2016

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CERTIFICATE OF BOARD

Commerce Independent School District
Name of School District

Hunt
County

116-903
Co.-Dist. Number

We, the undersigned, certify that the attached auditor's report of the above named school district was reviewed and X approved/ _____ disapproved for the year ended June 30, 2016, at a meeting of the board of school trustees of such school district on November 17, 2016



Signature of Board Secretary



Signature of Board President

If the auditor's report was checked above as disapproved, the reasons(s) therefore is/are (attached list if necessary):

INDEPENDENT AUDITOR'S REPORT

Members of the Board:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Commerce Independent School District (District), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Commerce Independent School District as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements as a whole. The schedules identified in the table of contents as other supplementary information are presented for the purpose of additional analysis, and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 11, 2016, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

November 11, 2016
Greenville, Texas



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

Members of the Board:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Commerce Independent School District (District), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 11, 2016.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* which is presented in the accompanying schedule of findings and questioned costs as item 2016-1.

Report on Internal Control – Continued

Purpose of this Report

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

November 11, 2016
Greenville, Texas

Rutherford, Taylor & Company PC

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Members of the Board:

Report on Compliance for Each Major Federal Program

We have audited Commerce Independent School District's (District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2016. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to each of its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. Code of *Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 the District'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 on compliance for each major federal program. However our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of 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, 2016.

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and

Internal Control over Compliance with the Uniform Guidance – Continued

report on internal control over compliance in accordance with the Uniform Guidance, 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 the District's internal control over compliance.

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

Our consideration of 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 material weaknesses, or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

November 11, 2016
Greenville, Texas

Rutherford, Taylor & Company PC

COMMERCE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016

Financial Statement Findings (Section II)

2016 – 1

Expenditures over Appropriations

Criteria: Texas Education Code, Section 44.002 through 44.006 establishes the legal basis for budget development in school districts. No funds may be expended in any manner other than as provided in the adopted budget. The Texas Education Agency has adopted regulations that require compliance at the functional expenditure level.

Condition Found: The District overexpended functional expenditure categories during the year and at the year end.

Questioned Costs/Basis: None

Instances/Universe: Expenditures of the legally required budgeted funds are distributed into nineteen functional expenditure categories. The District overexpended eight of the functional categories.

Effect: The District appears to not have been in compliance with Texas Education Code, Section 44.002 through 44.006.

Recommendation: The District should begin a monthly review of functional categories and anticipate necessary amendments. Management should bring these amendments to the board and request approval for authority to change the budget. Once approved all amendments should be posted to the general ledger to ensure compliance with state statutes.

COMMERCE INDEPENDENT SCHOOL DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016

Federal Award Findings and Questioned Costs (Section III)

NONE

COMMERCE INDEPENDENT SCHOOL DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016

Prior Year Findings (Section IV)

2015-1

Expenditures over Appropriations

The District continues to have expenditure accounts that exceed functional category classifications. The monthly review of budget activity has reduced the amount of overages. However, year end payables and salary accruals created overages in the current year.

Status: In Progress

COMMERCE INDEPENDENT SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
YEAR ENDED JUNE 30, 2016

Corrective Action Plan (Section V)

2016 – 1

Expenditures over Appropriations

The District will continue to monitor and amend the budget where and when needed. A monthly review process has been implemented to ensure budget amendments are made timely to allow for authorized expenditures. Extra emphasis will be made to ensure year end expenditures (accounts payable) are accurately reflected in the financial records.

Contact Person: John Walker, Director of Finance

COMMERCE INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016

This section of Commerce Independent School District's annual financial report presents our discussion and analysis of the District's financial performance during the year ended June 30, 2016. Please read it in conjunction with the District's basic financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

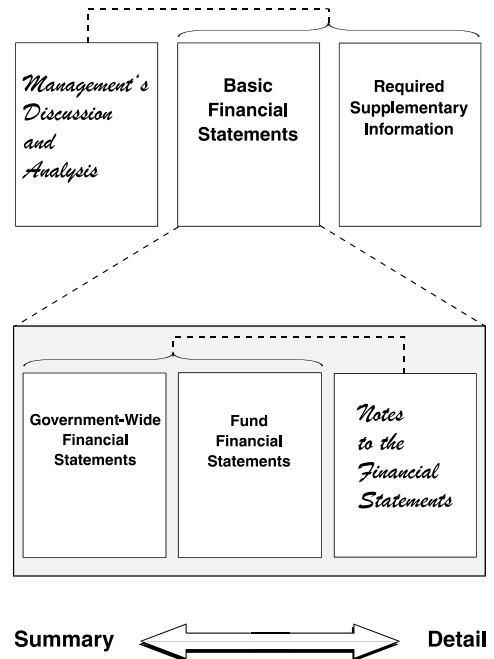
- The District's total combined net position was \$ 865,405 at June 30, 2016.
- During the year, the District's expenses were \$ 852,271 less than the \$ 20,531,442 generated in taxes and other revenues for governmental activities.
- The total cost of the District's programs was increased \$ 1,380,212 from the prior year amounts.
- The General Fund reported a fund balance this year of \$ 6,752,899.
- The District executed multiple lease agreements for facility improvements and equipment.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts—management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

Figure A-1, Required Components of the District's Annual Financial Report

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the government, reporting the District's operations in more detail than the government-wide statements.
- The governmental funds statements tell how general government services were financed in the short term as well as what remains for future spending.
- Proprietary fund statements offer short- and long-term financial information about the activities the government operates like businesses, such as the print shop.
- Fiduciary fund statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.



The basic financial statements also include notes that explain some of the information in the basic financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the basic financial statements. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

**COMMERCE INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

Figure A-2 summarizes the major features of the District's basic financial statements, including the portion of the District government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Figure A-2. Major Features of the District's Government-wide and Fund Financial Statements

| <i>Type of Statements</i> | Fund Statements | | | |
|---|--|--|--|---|
| | Government-wide | Governmental Funds | Proprietary Funds | Fiduciary Funds |
| <i>Scope</i> | Entire Agency's government (except fiduciary funds) and the Agency's component units | The activities of the district that are not proprietary or fiduciary | Activities the district operates similar to private businesses: self insurance | Instances in which the district is the trustee or agent for someone else's resources |
| <i>Required financial statements</i> | <ul style="list-style-type: none"> • Statement of net assets • Statement of activities | <ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures & changes in fund balances | <ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in fund net assets • Statement of cash flows | <ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets |
| <i>Accounting basis and measurement focus</i> | Accrual accounting and economic resources focus | Modified accrual accounting and current financial resources focus | Accrual accounting and economic resources focus | Accrual accounting and economic resources focus |
| <i>Type of asset/liability information</i> | All assets and liabilities, both financial and capital, short-term and long-term | Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included | All assets and liabilities, both financial and capital, and short-term and long-term | All assets and liabilities, both short-term and long-term; the Agency's funds do not currently contain capital assets, although they can |
| <i>Type of inflow/outflow information</i> | All revenues and expenses during year, regardless of when cash is received or paid | Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter | All revenues and expenses during year, regardless of when cash is received or paid | All revenues and expenses during year, regardless of when cash is received or paid |

GOVERNMENT-WIDE STATEMENTS

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are

accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the District's net assets and how they have changed. Net assets—the difference between the District's assets and liabilities—is one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the District, one needs to consider additional nonfinancial factors such as changes in the District's tax base and student population.

The government-wide financial statements of the District include the governmental activities. Most of the District's basic services are included here, such as instruction, extracurricular activities, curriculum and staff development, health services and general administration. Property taxes and grants finance most of these activities.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the District's most significant funds—not the District as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- The Board of Trustees establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The District has the following kinds of funds:

- Governmental funds—Most of the District's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information on the subsequent page that explains the relationship (or differences) between them.

COMMERCE INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016

- Proprietary funds—Services for which the District charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long-term and short-term financial information. We use internal service funds to report activities that provide supplies and services for the District's other programs and activities.
- Fiduciary funds—The District is the trustee, or fiduciary, for certain funds. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The District's combined net assets were \$ 865,405 at June 30, 2016.

| Commerce Independent School District's Net Position | | | Table A-1 |
|---|----------------------------|----------------------|-------------------------------|
| | Governmental Activities | | Total Percentage Change |
| | 2016 | 2015 | 2015-2016 |
| Assets | | | |
| Cash and Investments | \$ 7,020,211 | \$ 5,333,397 | 31.63% |
| Other Assets | 4,734,236 | 3,367,456 | 40.59% |
| Capital Assets less Accumulated Depreciation | 24,567,855 | 22,167,569 | 10.83% |
| Total Assets | \$ 36,322,302 | \$ 30,868,422 | 17.67% |
| | | | |
| Total Deferred Net Outflows of Resources: | \$ 2,447,737 | \$ 1,384,371 | 76.81% |
| Liabilities | | | |
| Current Liabilities | \$ 2,693,807 | \$ 1,931,223 | 39.49% |
| Long-term Liabilities | 34,916,851 | 29,633,545 | 17.83% |
| Total Liabilities | \$ 37,610,658 | \$ 31,564,768 | 19.15% |
| | | | |
| Total Deferred Net Inflows of Resources: | \$ 293,976 | \$ 674,891 | -56.44% |
| Net Position | | | |
| Net Investment in Capital Assets | \$ (5,694,464) | \$ (5,259,749) | 8.26% |
| Restricted | 1,780,213 | 1,433,855 | 24.16% |
| Unrestricted | 4,779,656 | 3,839,028 | 24.50% |
| Total Net Position | \$ 865,405 | \$ 13,134 | 6489.04% |

Approximately \$ 739,052 of the District's restricted net assets represent funds collected for debt retirement. These funds are restricted for retirement of tax supported debt. The unrestricted net asset represents resources available to fund the programs of the District next year.

CHANGES IN NET ASSETS

The District's total revenues were \$ 20,531,442. 30% of the District's revenue comes from local property taxes (See Table A-2). 65% comes from state aid and federal grants, while only 5% relates to charges for services and other sources including investment earnings.

The total cost of all programs and services was \$ 19,679,171. 51% of these costs are for instruction and instructional related student services.

The District's current tax collection rate (base tax only – current and delinquent) was 97.45%. The total collection rate (base tax and penalty and interest) was 99.16%.

COMMERCE INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016

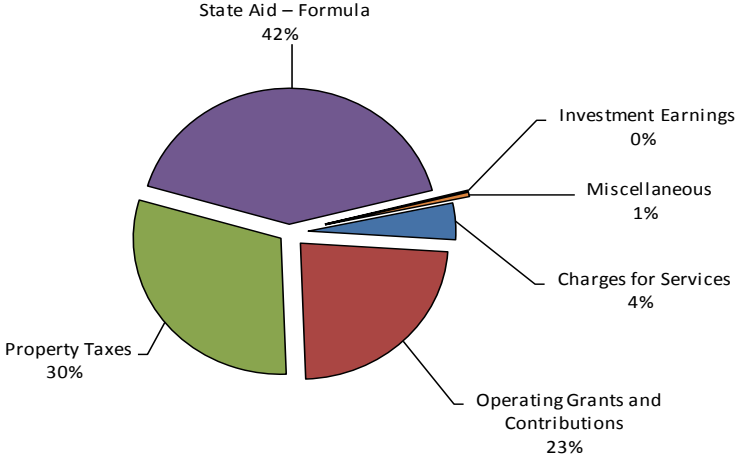
Table A-2

Changes in Commerce Independent School District's Net Position

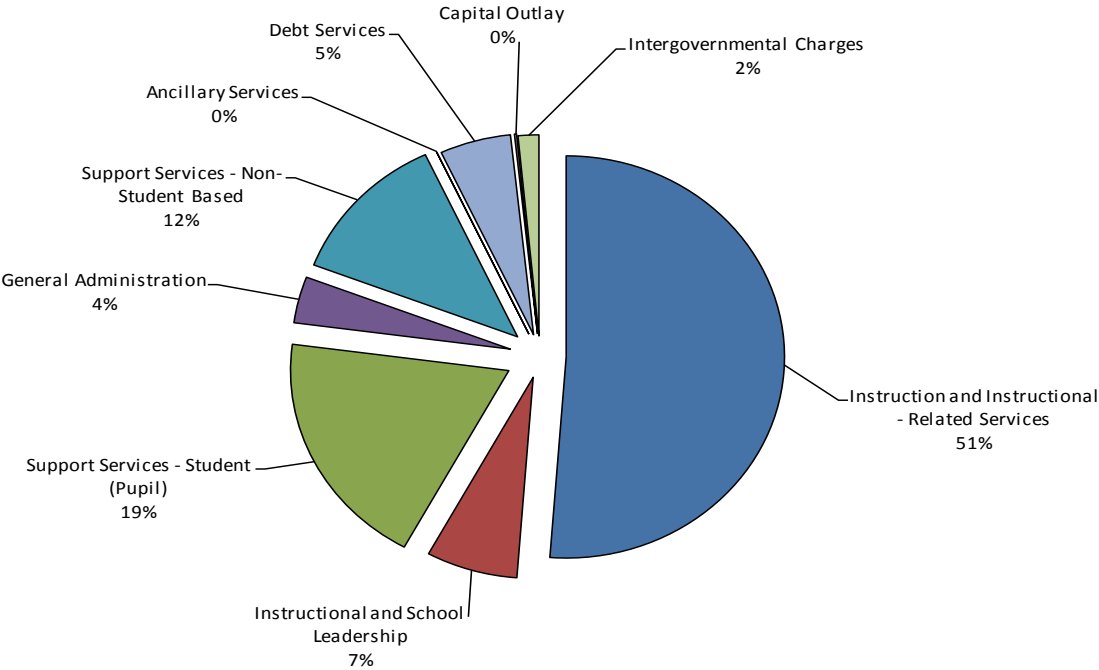
| | Governmental Activities | | Total Percentage Change |
|--|----------------------------|-----------------------|-------------------------------|
| | 2016 | 2015 | 2015 - 2016 |
| Program Revenues: | | | |
| Charges for Services | \$ 892,443 | \$ 1,013,457 | -11.94% |
| Operating Grants and Contributions | 4,807,351 | 3,841,294 | 25.15% |
| General Revenues: | | | |
| Property Taxes | 6,182,234 | 6,593,048 | -6.23% |
| State Aid – Formula | 8,509,559 | 7,492,451 | 13.58% |
| Investment Earnings | 31,207 | 58,679 | -46.82% |
| Miscellaneous | 108,648 | 65,430 | 66.05% |
| Total Revenues | <u>\$ 20,531,442</u> | <u>\$ 19,064,359</u> | 7.70% |
| Expenses: | | | |
| Instruction | \$ 9,584,485 | \$ 8,801,563 | 8.90% |
| Instructional Resources and Media Services | 110,455 | 162,984 | -32.23% |
| Curriculum and Staff Development | 379,123 | 271,237 | 39.78% |
| Instructional Leadership | 341,447 | 307,436 | 11.06% |
| School Leadership | 989,790 | 886,131 | 11.70% |
| Guidance, Counseling and Evaluation Services | 1,407,263 | 1,316,645 | 6.88% |
| Social Work Services | 137 | - | 100.00% |
| Health Services | 172,967 | 169,393 | 2.11% |
| Student (Pupil) Transportation | 663,099 | 644,278 | 2.92% |
| Food Services | 857,218 | 771,828 | 11.06% |
| Co-curricular/Extracurricular Activities | 665,662 | 570,878 | 16.60% |
| General Administration | 733,278 | 628,285 | 16.71% |
| Plant Maintenance and Operations | 1,705,215 | 1,705,768 | -0.03% |
| Security and Monitoring Services | 109,718 | 80,414 | 36.44% |
| Data Processing Services | 591,424 | 398,454 | 48.43% |
| Interest on Long Term Debt | 1,034,806 | 1,214,770 | -14.81% |
| Capital Outlay | 30,947 | 47,106 | -34.30% |
| Payments to Shared Service Arrangements | 168,236 | 186,655 | -9.87% |
| Other Intergovernmental Charges | 133,901 | 135,134 | -0.91% |
| Total Expenses | <u>\$ 19,679,171</u> | <u>\$ 18,298,959</u> | 7.54% |
| Special Item Inflow | <u>\$ -</u> | <u>\$ 578,574</u> | -100.00% |
| Excess (Deficiency) and Transfers | <u>\$ 852,271</u> | <u>\$ 1,343,974</u> | -36.59% |
| Increase (Decrease) in Net Position | <u>\$ 852,271</u> | <u>\$ 1,343,974</u> | -36.59% |
| Net Position - Beginning (July 1) | \$ 13,134 | \$ 1,200,294 | -98.91% |
| Prior Period Adjustment | - | (2,531,134) | -100.00% |
| Net Position - Beginning, as Restated | <u>\$ 13,134</u> | <u>\$ (1,330,840)</u> | -100.99% |
| Net Position - Ending (June 30) | <u>\$ 865,405</u> | <u>\$ 13,134</u> | 6489.04% |

COMMERCE INDEPENDENT SCHOOL DISTRICT
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 YEAR ENDED JUNE 30, 2016

Sources of Revenue for Fiscal Year 2016 - See Table A-2



Functional Expenses for Fiscal Year 2016 - See Table A-2



COMMERCE INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016

- Table A-3 presents the cost of selected District functions as well as the selected function's net cost (total cost less fees generated by the activities and intergovernmental aid). The net cost reflects what was funded by state revenues as well as local tax dollars.
- The cost of all governmental activities this year was \$ 19,679,171.
- However, the amount that our taxpayers paid for these activities through local property taxes was only \$ 6,182,234.
- Some of the cost was paid by those who directly benefited from the programs \$ 892,443, or
- By grants and contributions \$ 4,807,351.

| Commerce Independent School District Net Cost of Selected District Functions | | | | | | | Table A-3 |
|---|------------------------|--------------|---------|----------------------|--------------|---------|------------------|
| | Total Cost of Services | | % | Net Cost of Services | | % | |
| | 2016 | 2015 | | 2016 | 2015 | | Change |
| Instruction | \$ 9,584,485 | \$ 8,801,563 | 8.90% | \$ 7,107,855 | \$ 6,641,160 | 7.03% | |
| School Leadership | 989,790 | 886,131 | 11.70% | 941,507 | 848,791 | 10.92% | |
| Plant Maintenance and Operations | 1,705,215 | 1,705,768 | -0.03% | 1,600,885 | 1,520,316 | 5.30% | |
| Debt Service | 1,034,806 | 1,214,770 | -14.81% | 532,072 | 846,536 | -37.15% | |
| General Administration | 733,278 | 628,285 | 16.71% | 627,274 | 550,022 | 14.05% | |

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Revenues from governmental fund types totaled \$ 20,221,420 which is a \$ 1,156,577 increase from the prior year. The increase is representative of the state's increase in foundation aid for the current biennium.

Expenditures for governmental fund types totaled \$ 22,487,051 which is a \$ 4,012,715 increase from the prior year. The increase reflects typical cost of operation and economic adjustments to operating costs as well as facility upgrades and improvements.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the District revised its General Fund budget several times. With these adjustments, actual expenditures were \$ 3,042,557 below final General Fund budget amounts. The most significant positive variance resulted from reductions in the instruction and instructional related services functions and delayed capital projects.

Resources available were \$ 596,257 above the final General Fund budgeted amount. The favorable variance was the result of higher than anticipated state revenues due to enrollment and attendance numbers.

COMMERCE INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

At year end, the District had invested \$ 48,388,725 in a broad range of capital assets, including land, equipment, buildings, and vehicles (See Table A-4).

| Commerce Independent School District's Capital Assets | | | Table A-4 |
|--|-------------------------|----------------------|-------------------------------|
| | Governmental Activities | | Total Percentage Change |
| | 2016 | 2015 | 2015-2016 |
| Land | \$ 312,850 | \$ 312,850 | 0.00% |
| Construction in Progress | 2,992,526 | 21,033 | 14127.77% |
| Buildings and Improvements | 41,846,360 | 41,151,083 | 1.69% |
| Vehicles | 1,995,308 | 1,989,349 | 0.30% |
| Equipment | 1,241,681 | 1,177,166 | 5.48% |
| Totals at Historical Cost | \$ 48,388,725 | \$ 44,651,481 | 8.37% |
| Total Accumulated Depreciation | (23,820,870) | (22,483,912) | 5.95% |
| Net Capital Assets | <u>\$ 24,567,855</u> | <u>\$ 22,167,569</u> | 10.83% |

DEBT

At year end, the District had \$ 30,967,238 in debt outstanding as shown in Table A-5. More detailed information about the District's debt is presented in the notes to the basic financial statements.

Bond Ratings -
The District's bonds presently carry "AAA" ratings.

| Commerce Independent School District's Debt | | | Table A-5 |
|--|-------------------------|----------------------|-------------------------------|
| | Governmental Activities | | Total Percentage Change |
| | 2016 | 2015 | 2015-2016 |
| Bonds Payable | \$ 25,580,000 | \$ 26,495,000 | -3.45% |
| Capital Leases Payable | 4,724,385 | 234,340 | 1916.04% |
| Other Debt Payable | 662,853 | 697,978 | -5.03% |
| Total Debt Payable | <u>\$ 30,967,238</u> | <u>\$ 27,427,318</u> | 12.91% |

COMMERCE INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016

ECONOMIC FACTORS

The District's property valuation has dropped significantly due to vacated commercial property and foreclosures. Local property tax rates are restricted by state statute, without local elections, to \$ 1.04 for maintenance and operations. The state funding formula was changed to provide state funds to replace the lost local property tax revenue. The District's taxpayers approved a tax ratification election which allows the District to levy an additional 0.13 cents in property taxes. These additional tax funds are used to support the educational programs in the District. This change in funding and other legislative changes could impact the District's financial operations, including cash flows.

Student population has remained at a steady historical growth rate in the District. The economic outlook for the area is for growth to be relatively slow, as indicated by a drop in property values from prior year. Housing has not expanded at the rate of other north central Texas communities. These economic conditions allow the District to maintain constant funding and staffing levels.

The State has increased funding levels for the 2014-2016 biennium, which will affect the revenue levels of the District. With these increases in funding, the District anticipates monitoring expenditure levels to ensure financial stability remains strong.

A challenge to the State's funding system resulted in the system being held constitutional. Future legislative sessions could produce minor changes to funding for student populations. The legal process ended the challenges by the various interested parties including the State. State funding will continue under the present system until legislative changes occur.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact John Walker, Director of Finance of the District.

BASIC FINANCIAL STATEMENTS

COMMERCE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2016

| Data Control Codes | 1 | Governmental Activities |
|--|---|-----------------------------|
| ASSETS | | |
| 1110 | Cash and Investments | \$ 7,020,211 |
| 1225 | Property Taxes Receivable, Net | 664,398 |
| 1240 | Due from Other Governments | 3,940,576 |
| 1290 | Other Receivables, Net | 56,237 |
| 1300 | Inventories | 46,954 |
| 1410 | Unrealized Expenses | 26,071 |
| | Capital Assets: | |
| 1510 | Land | 312,850 |
| 1520 | Buildings and Improvements, Net | 20,828,416 |
| 1530 | Furniture and Equipment, Net | 434,063 |
| 1580 | Construction in Progress | <u>2,992,526</u> |
| 1000 | Total Assets | <u>\$ 36,322,302</u> |
| DEFERRED OUTFLOWS OF RESOURCES: | | |
| 1705 | Deferred Outflows - Pensions | \$ 1,565,476 |
| 1701 | Deferred Outflows - Refunding | <u>882,261</u> |
| 1700 | Total Deferred Outflows of Resources | <u>\$ 2,447,737</u> |
| LIABILITIES | | |
| 2110 | Accounts Payable | \$ 989,465 |
| 2140 | Interest Payable | 333,573 |
| 2165 | Accrued Liabilities | 1,340,875 |
| 2177 | Due to Fiduciary | 86 |
| 2300 | Unearned Revenues | 29,808 |
| | Noncurrent Liabilities: | |
| 2501 | Due within one year | 1,223,727 |
| 2502 | Due in more than one year | 29,743,511 |
| 2540 | Net Pension Liability | <u>3,949,613</u> |
| 2000 | Total Liabilities | <u>\$ 37,610,658</u> |
| DEFERRED INFLOWS OF RESOURCES: | | |
| 2605 | Deferred Inflows - Pensions | <u>\$ 293,976</u> |
| 2600 | Total Deferred Inflows of Resources | <u>\$ 293,976</u> |
| NET POSITION | | |
| 3200 | Net Investment in Capital Assets | \$ (5,694,464) |
| | Restricted For: | |
| 3850 | Debt Service | 739,052 |
| 3890 | Other Purposes | 1,041,161 |
| 3900 | Unrestricted | <u>4,779,656</u> |
| 3000 | Total Net Position | <u>\$ 865,405</u> |

The accompanying notes are an integral part of this statement.

COMMERCE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016

| Data Control Codes | Functions/Programs | 1 Expenses | 3 Charges for Services | 4 Operating Grants and Contributions | 6 Net (Expense) Revenue and Changes in Net Position |
|--------------------------|---|----------------------|---------------------------|---|--|
| | | Program Revenues | | | Governmental Activities |
| Governmental Activities: | | | | | |
| 11 | Instruction | \$ 9,584,485 | \$ 4,861 | \$ 2,471,769 | \$ (7,107,855) |
| 12 | Instructional Resources and Media Services | 110,455 | - | 5,209 | (105,246) |
| 13 | Curriculum and Staff Development | 379,123 | - | 103,555 | (275,568) |
| 21 | Instructional Leadership | 341,447 | - | 346,156 | 4,709 |
| 23 | School Leadership | 989,790 | - | 48,283 | (941,507) |
| 31 | Guidance, Counseling and Evaluation Services | 1,407,263 | 27,566 | 1,002,845 | (376,852) |
| 32 | Social Work Services | 137 | - | - | (137) |
| 33 | Health Services | 172,967 | - | 8,465 | (164,502) |
| 34 | Student (Pupil) Transportation | 663,099 | - | 29,759 | (633,340) |
| 35 | Food Services | 857,218 | 788,187 | - | (69,031) |
| 36 | Cocurricular / Extracurricular Activities | 665,662 | 71,619 | 32,218 | (561,825) |
| 41 | General Administration | 733,278 | - | 106,004 | (627,274) |
| 51 | Plant Maintenance and Operations | 1,705,215 | 210 | 104,120 | (1,600,885) |
| 52 | Security and Monitoring Services | 109,718 | - | 5,470 | (104,248) |
| 53 | Data Processing | 591,424 | - | 30,410 | (561,014) |
| 72 | Interest on Long-term Debt | 1,034,206 | - | 502,734 | (531,472) |
| 73 | Bond Issuance Costs and Fees | 600 | - | - | (600) |
| 81 | Capital Outlay | 30,947 | - | 1,628 | (29,319) |
| 93 | Payments Related to Shared Services Arrangements | 168,236 | - | 8,726 | (159,510) |
| 99 | Other Intergovernmental Charges | 133,901 | - | - | (133,901) |
| TG | Total Governmental Activities | <u>\$ 19,679,171</u> | <u>\$ 892,443</u> | <u>\$ 4,807,351</u> | <u>\$ (13,979,377)</u> |
| TP | Total Primary Government | <u>\$ 19,679,171</u> | <u>\$ 892,443</u> | <u>\$ 4,807,351</u> | <u>\$ (13,979,377)</u> |
| General Revenues: | | | | | |
| MT | Property Taxes, Levied for General Purpose | | | | \$ 4,507,085 |
| DT | Property Taxes, Levied for Debt Service | | | | 1,675,149 |
| IE | Investment Earnings | | | | 31,207 |
| GC | Grant and Contributions Not Restricted to Specific Programs | | | | 8,509,559 |
| MI | Miscellaneous | | | | 108,648 |
| TR | Total General Revenues | | | | <u>\$ 14,831,648</u> |
| CN | Change in Net Position | | | | \$ 852,271 |
| NB | Net Position - Beginning (July 1) | | | | <u>13,134</u> |
| NE | Net Position - Ending (June 30) | | | | <u>\$ 865,405</u> |

The accompanying notes are an integral part of this statement.

COMMERCE INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2016

| Data Control Codes | 10 General Fund | 50 Debt Service Fund | Other Governmental Fund | 98 Total Governmental Funds |
|--|----------------------------|-------------------------------|-------------------------------|--------------------------------------|
| ASSETS | | | | |
| 1110 Cash and Investments | \$ 4,203,635 | \$ 1,919,787 | \$ 896,789 | \$ 7,020,211 |
| 1225 Taxes Receivable, Net | 499,756 | 164,642 | - | 664,398 |
| 1240 Due from Other Governments | 3,196,761 | 133,196 | 610,619 | 3,940,576 |
| 1260 Due from Other Funds | 1,175,507 | - | - | 1,175,507 |
| 1290 Other Receivables | 56,175 | - | 62 | 56,237 |
| 1300 Inventories | 11,372 | - | 35,582 | 46,954 |
| 1410 Unrealized Expenditures | 26,071 | - | - | 26,071 |
| 1000 Total Assets | <u>\$ 9,169,277</u> | <u>\$ 2,217,625</u> | <u>\$ 1,543,052</u> | <u>\$ 12,929,954</u> |
| LIABILITIES | | | | |
| Current Liabilities: | | | | |
| 2110 Accounts Payable | \$ 932,879 | \$ - | \$ 56,586 | \$ 989,465 |
| 2120 Short-Term Debt Payable | 1,150 | - | - | 1,150 |
| 2150 Payroll Deductions & Withholdings | 79,500 | - | 33,904 | 113,404 |
| 2160 Accrued Wages Payable | 903,007 | - | 323,314 | 1,226,321 |
| 2170 Due to Other Funds | 86 | 1,145,000 | 30,507 | 1,175,593 |
| 2300 Unearned Revenues | - | - | 29,808 | 29,808 |
| 2000 Total Liabilities | <u>\$ 1,916,622</u> | <u>\$ 1,145,000</u> | <u>\$ 474,119</u> | <u>\$ 3,535,741</u> |
| DEFERRED INFLOWS OF RESOURCES: | | | | |
| 2600 Total Deferred Inflows of Resources | <u>\$ 499,756</u> | <u>\$ 164,642</u> | <u>\$ -</u> | <u>\$ 664,398</u> |
| FUND BALANCES | | | | |
| Nonspendable Fund Balances: | | | | |
| 3410 Inventories | \$ 11,373 | \$ - | \$ 10,979 | \$ 22,352 |
| 3430 Prepaid Items | 26,071 | - | - | 26,071 |
| Restricted Fund Balances: | | | | |
| 3450 Federal/State Funds Grant Restrictions | - | - | (10,979) | (10,979) |
| 3470 Capital Acquisitions & Contractual Obligations | 1,583,451 | - | - | 1,583,451 |
| 3480 Retirement of Long-Term Debt | - | 907,983 | - | 907,983 |
| 3490 Other Restrictions of Fund Balances | (13,260) | - | 1,041,160 | 1,027,900 |
| Committed Fund Balances: | | | | |
| 3545 Other Committed Fund Balances | - | - | 27,773 | 27,773 |
| 3600 Unassigned | 5,145,264 | - | - | 5,145,264 |
| 3000 Total Fund Balances | <u>\$ 6,752,899</u> | <u>\$ 907,983</u> | <u>\$ 1,068,933</u> | <u>\$ 8,729,815</u> |
| 4000 Total Liabilities, Deferred Inflows of Resources and Fund Balances | <u>\$ 9,169,277</u> | <u>\$ 2,217,625</u> | <u>\$ 1,543,052</u> | <u>\$ 12,929,954</u> |

The accompanying notes are an integral part of this statement.

COMMERCE INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET (GOVERNMENTAL FUNDS)
TO THE STATEMENT OF NET POSITION
JUNE 30, 2016

| | | |
|--|----|------------------|
| Total fund balances - Balance Sheet (governmental funds) | \$ | 8,729,815 |
| | | |
| Amounts reported for governmental activities in the statement of net position are different because: | | |
| | | |
| Capital assets used in governmental activities are not reported in the funds. | | 24,567,855 |
| Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds. | | 664,398 |
| Payables for bond principal which are not due in the current period are not reported in the funds. | | (25,580,000) |
| Payables for capital leases which are not due in the current period are not reported in the funds. | | (4,724,385) |
| Payables for bond interest which are not due in the current period are not reported in the funds. | | (333,573) |
| Other long-term liabilities which are not due and payable in the current period are not reported in the funds. | | 35,125 |
| Other long-term assets are not available to pay for current period expenditures and are deferred in the funds. | | 882,261 |
| Recognition of the District's proportionate share of the net pension liability is not reported in the funds. | | (3,949,613) |
| Deferred Resource Inflows related to the pension plan are not reported in the funds. | | (293,976) |
| Deferred Resource Outflows related to the pension plan are not reported in the funds. | | 1,565,476 |
| Bond Premiums are amortized in the SNA but not in the funds. | | <u>(697,978)</u> |
| | | |
| Net position of governmental activities - Statement of Net Position | \$ | <u>865,405</u> |

The accompanying notes are an integral part of this statement.

COMMERCE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2016

| Data Control Codes | 10 General Fund | 50 Debt Service Fund | Other Governmental Funds | 98 Total Governmental Funds | |
|---------------------------------------|---|-------------------------------|--------------------------------|--------------------------------------|----------------------|
| REVENUES | | | | | |
| 5700 | Local and Intermediate Sources | \$ 4,774,871 | \$ 1,680,857 | \$ 880,433 | \$ 7,336,161 |
| 5800 | State Program Revenues | 9,020,382 | 502,734 | 205,661 | 9,728,777 |
| 5900 | Federal Program Revenues | 221,262 | - | 2,935,220 | 3,156,482 |
| 5020 | Total Revenues | \$ 14,016,515 | \$ 2,183,591 | \$ 4,021,314 | \$ 20,221,420 |
| EXPENDITURES | | | | | |
| Current: | | | | | |
| 0011 | Instruction | \$ 6,454,622 | \$ - | \$ 1,647,135 | \$ 8,101,757 |
| 0012 | Instructional Resources and Media Services | 100,871 | - | - | 100,871 |
| 0013 | Curriculum and Staff Development | 274,615 | - | 90,821 | 365,436 |
| 0021 | Instructional Leadership | 3,541 | - | 325,689 | 329,230 |
| 0023 | School Leadership | 929,597 | - | 54 | 929,651 |
| 0031 | Guidance, Counseling and Evaluation Services | 352,542 | - | 987,467 | 1,340,009 |
| 0033 | Health Services | 163,272 | - | - | 163,272 |
| 0034 | Student (Pupil) Transportation | 574,243 | - | - | 574,243 |
| 0035 | Food Services | - | - | 815,941 | 815,941 |
| 0036 | Cocurricular / Extracurricular Activities | 583,816 | - | 51,830 | 635,646 |
| 0041 | General Administration | 665,860 | - | 39,371 | 705,231 |
| 0051 | Plant Maintenance and Operations | 1,693,790 | - | 22,411 | 1,716,201 |
| 0052 | Security and Monitoring Services | 104,973 | - | - | 104,973 |
| 0053 | Data Processing Services | 586,580 | - | - | 586,580 |
| 0071 | Principal on Long-term Debt | 103,960 | 915,000 | - | 1,018,960 |
| 0072 | Interest on Long-term Debt | 6,478 | 971,052 | - | 977,530 |
| 0073 | Debt Issuance Costs and Fees | - | 600 | - | 600 |
| 0081 | Capital Outlay | 3,718,783 | - | - | 3,718,783 |
| 0093 | Payments to Shared Service Arrangements | 168,236 | - | - | 168,236 |
| 0099 | Other Intergovernmental Charges | 133,901 | - | - | 133,901 |
| 6030 | Total Expenditures | \$ 16,619,680 | \$ 1,886,652 | \$ 3,980,719 | \$ 22,487,051 |
| 1100 | Excess (Deficiency) of Revenues Over Expenditures | \$ (2,603,165) | \$ 296,939 | \$ 40,595 | \$ (2,265,631) |
| OTHER FINANCING SOURCES (USES) | | | | | |
| 7913 | Issuance of Capital Leases | \$ 4,594,006 | \$ - | \$ - | \$ 4,594,006 |
| 7915 | Transfers In | - | - | 35,798 | 35,798 |
| 8911 | Transfers Out | (35,798) | - | - | (35,798) |
| 7080 | Net Other Financing Sources (Uses) | \$ 4,558,208 | \$ - | \$ 35,798 | \$ 4,594,006 |
| 1200 | Net Change in Fund Balances | \$ 1,955,043 | \$ 296,939 | \$ 76,393 | \$ 2,328,375 |
| 0100 | Fund Balances - Beginning (July 1) | 4,797,856 | 611,044 | 992,540 | 6,401,440 |
| 3000 | Fund Balances - Ending (June 30) | \$ 6,752,899 | \$ 907,983 | \$ 1,068,933 | \$ 8,729,815 |

The accompanying notes are an integral part of this statement.

COMMERCE INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016

Net change in fund balances - total governmental funds

| | |
|---|--------------------|
| Amounts reported for governmental activities in the statement of activities are different because: | 2,328,375 |
| Capital outlays are not reported as expenses in the SOA. | 3,752,351 |
| The depreciation of capital assets used in governmental activities is not reported in the funds. | (1,352,065) |
| Certain property tax revenues are deferred in the funds. This is the change in these amounts this year. | 10,952 |
| Revenues in the SOA not providing current financial resources are not reported as revenues in the funds. | 299,066 |
| Expenses not requiring the use of current financial resources are not reported as expenditures in the funds. | (8,362) |
| Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA. | 915,000 |
| Repayment of capital lease principal is an expenditure in the funds but is not an expense in the SOA. | 103,960 |
| (Increase) decrease in accrued interest expense from beginning of period to end of period. | (48,314) |
| Proceeds of leases do not provide revenue in the SOA, but are reported as current resources in the funds. | (4,594,005) |
| Implementing GASB 68 required certain expenditures to be de-expended and recorded as deferred resource outflow. | 330,847 |
| Pension contributions made after the measurement date but in current FY were de-expended and reduced NPO. | 3,685 |
| The District's share of the unrecognized deferred inflows and outflows for the pension plan was amortized. | 138,791 |
| Pension expense relating to GASB 68 is recorded in the SOA but not in the funds. | <u>(1,028,010)</u> |
| Change in net position of governmental activities - Statement of Activities | <u>\$ 852,271</u> |

The accompanying notes are an integral part of this statement.

COMMERCE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION - FIDUCIARY FUNDS
JUNE 30, 2016

| Data Control Codes | | Agency Funds |
|--------------------------|---------------------------|------------------|
| | | |
| | ASSETS | |
| 1110 | Cash and Investments | \$ 46,263 |
| 1260 | Due From Other Funds | 86 |
| 1290 | Other Receivables | 2,465 |
| | | 2,465 |
| 1000 | Total Assets | \$ 48,814 |
| | LIABILITIES | |
| 2110 | Accounts Payable | \$ 5,020 |
| 2190 | Due to Student Groups | 43,794 |
| | | 43,794 |
| 2000 | Total Liabilities | \$ 48,814 |
| | NET POSITION | |
| 3000 | Total Net Position | \$ - |

The accompanying notes are an integral part of this statement.

COMMERCE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

A. Summary of Significant Accounting Policies

The basic financial statements of the Commerce Independent School District (District) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) applicable to governmental units in conjunction with the Texas Education Agency's *Financial Accountability System Resource Guide (Guide)*. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

1. Reporting Entity

The Board of School Trustees (Board), a seven member group, has governance responsibilities over all activities related to public elementary and secondary education within the jurisdiction of the District. The Board is elected by the public and as a body corporate has the exclusive power and duty to govern and oversee the management of the public schools of the District. All powers and duties not specifically delegated by statute to the Texas Education Agency (Agency) or to the State Board of Education are reserved for the Board, and the Agency may not substitute its judgment for the lawful exercise of those powers and duties by the Board. The District is not included in any other governmental "reporting entity" as defined by GASB in its Statement No. 14, "The Financial Reporting Entity." There are no component units included within the reporting entity.

The District receives funding from local, state and federal government sources and must comply with the requirements of these funding source entities.

2. Basis of Presentation – Basis of Accounting

a. Basis of Presentation

Government-wide Statements – The statement of net assets (SNA) and the statement of activities include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues and other nonexchange transactions.

The statement of activities (SOA) presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The District does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, fines and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements – The fund financial statements provide information about the District's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

The District reports the following major governmental funds:

General Fund – This is the District's primary operating fund. It accounts for all financial resources of the District except those required to be accounted for in another fund.

COMMERCE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

A. Summary of Significant Accounting Policies (Continued)

Debt Service Fund – This fund is used to account for the accumulation of resources for, and the payment of general long-term debt principal, interest and related costs.

In addition, the District reports the following fund types:

Special Revenue Funds – The District accounts for resources restricted to or designated for specific purposes by the District or a grantor in a special revenue fund. Most Federal and some State financial assistance is accounted for in a special revenue fund, and sometimes unused balances must be returned to the grantor at the close of specified project periods. The Board can commit specific types of resources to specific purposes which are included as special revenue funds.

Agency Funds – These funds are used to report student activity funds and other resources held in a purely custodial capacity (assets equal liabilities). Agency funds typically involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments.

b. Measurement Focus – Basis of Accounting

Government-wide, Proprietary and Fiduciary Fund Financial Statements – These financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements – Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt and acquisitions under capital lease are reported as other financing sources.

When the District incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the District's policy to use restricted resources first, then unrestricted resources.

COMMERCE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

A. Summary of Significant Accounting Policies (Continued)

Under GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund accounting," all proprietary funds will continue to follow Financial Accounting Standards Board (FASB) standards issued on or before November 30, 1989. However, from that date forward, proprietary funds will have the option of either 1) choosing not to apply future FASB standards (including amendments of earlier pronouncements), or 2) continuing to follow new FASB pronouncements unless they conflict with GASB guidance. The District has chosen not to apply future FASB Standards.

3. Budgetary Data

The official budget was prepared for adoption for the general, food service and debt service funds. The following procedures are followed in establishing the budgetary data reflected in the basic financial statements:

- a. Prior to June 20 of the preceding fiscal year, the District prepares a budget for the next succeeding fiscal year beginning July 1.
- b. A meeting of the Board is called for the purpose of adopting the proposed budget with public notice given at least 10 days prior to the meeting.
- c. Prior to the expenditure of funds, the budget is adopted by the Board.

After adoption, the budget may be amended through action by the Board. Budget amendments are approved at the functional expenditure level. All amendments are before the fact and reflected in the official minutes of the Board. Budgets are controlled at the function level by personnel responsible for organizational financial reporting. All budget appropriations lapse at the year end. Budget amendments throughout the year were not significant.

4. Encumbrance Accounting

Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Texas law, appropriations lapse at June 30, and encumbrances outstanding at that time are to be either canceled or appropriately provided for in the subsequent year's budget. End-of-year outstanding encumbrances that were provided for in the subsequent year's budget are:

| | | |
|----------------------|----|-----|
| General Fund | \$ | -0- |
| Special Revenue Fund | | -0- |
| Debt Service Fund | | -0- |
| | | -0- |
| Total | \$ | -0- |

5. Financial Statement Amounts

Cash and Investments

The District pools cash resources of its various funds in order to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balance in the pooled accounts is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest-bearing securities and disclosed as a part of the District's cash and temporary investments.

For the purpose of the statement of cash flows, highly liquid investments are considered to be cash equivalents if they have a maturity of three months or less when purchased.

Accretion

Accretion is an adjustment of the difference between the price of a bond issued at an original discount and the par value of the bond. For governmental activities debt, the accreted value is recognized as it accrues by fiscal year.

COMMERCE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

A. Summary of Significant Accounting Policies (Continued)

Debt Issuance Costs

Debt issuance costs are included in noncurrent assets. Unamortized premiums or discounts and refunding gains or losses are reflected in net long-term obligations. Both debt issuance costs and other debts are amortized over the lives of the related debt issues using the straight line method.

Inventories

The purchase method is used to account for inventories of school supplies, athletic equipment and maintenance items. Under this method supplies and materials are debited as expenditures when purchased.

Fund Balance

Governmental funds utilize a fund balance presentation for equity. Fund balance is categorized as nonspendable, restricted, committed, assigned or unassigned.

Nonspendable fund balance – represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaids) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

Restricted fund balance – represents amounts with external constraints placed on the use of these resources (such as debt covenants, grantors, other governments, etc.) or imposed by enabling legislation. Restrictions may be changed or lifted only with the consent of resource providers.

Committed fund balance – represents amounts that can only be used for specific purposes imposed by a formal action of the District's highest level of decision-making authority, the Board. Committed resources cannot be used for any other purpose unless the Board removes or changes the specific use by taking the same formal action that imposed the constraint originally.

Assigned fund balance – represents amounts the District intends to use for specific purposes as expressed by the Board or an official delegated the authority. The Board has delegated the authority to assign fund balances to the Superintendent.

Unassigned fund balance – represents the residual classification for the general fund or deficit balances in other funds.

In circumstances where an expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended is as follows: restricted fund balance, followed by committed fund balance, assigned fund balance, and lastly, unassigned fund balance.

COMMERCE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

A. Summary of Significant Accounting Policies (Continued)

The following schedule provides information about the specific fund balance classification by fund:

| | General Fund | Debt Service Fund | Other Governmental Funds | Total |
|------------------------------|---------------------|----------------------|--------------------------------|---------------------|
| Nonspendable | | | | |
| Inventories | \$ 11,373 | \$ - | \$ 10,979 | \$ 22,352 |
| Prepays | 26,071 | - | - | 26,071 |
| Restricted | | | | |
| Child Nutrition Program | - | - | (10,979) | (10,979) |
| NETCAT SSA | - | - | 71,212 | 71,212 |
| Special Education SSA | - | - | 849,348 | 849,348 |
| Retirement of Long Term Debt | - | 907,983 | - | 907,983 |
| Scholarship Fund | - | - | 120,600 | 120,600 |
| Capital Projects | 1,583,451 | - | - | 1,583,451 |
| Education Foundation Grant | (13,260) | - | - | (13,260) |
| Committed | | | | |
| Campus Activity Funds | - | - | 27,773 | 27,773 |
| Unassigned | 5,145,264 | - | - | 5,145,264 |
| Totals | <u>\$ 6,752,899</u> | <u>\$ 907,983</u> | <u>\$ 1,068,933</u> | <u>\$ 8,729,815</u> |

Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. A capitalization threshold of \$ 5,000 is used.

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

| <u>Asset Class</u> | <u>Estimated Useful Lives</u> |
|----------------------------|-----------------------------------|
| Buildings and Improvements | 15-50 |
| Vehicles | 5-10 |
| Other Equipment | 3-15 |

6. Deferred Outflows and Inflows of Resources

The District implemented GASB Statement Number 68, *Accounting and Financial Reporting for Pensions*. In addition to assets and liabilities, the government-wide Statement of Net Position and governmental fund Balance Sheet report separate sections for deferred outflows and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position/fund balance that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred inflows of resources represent the acquisition of net position/fund balance that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. The district reports certain deferred inflows and outflows related to pensions on the government-wide Statement of Net Position. At the governmental fund level, earned but unavailable revenue is reported as a deferred inflow of resources. To the extent practical, this change in accounting principle is required to be reported as an adjustment to prior periods.

The District also implemented GASB Statement Number 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, which amends the transition provisions of GASB 68. GASB 71 requires that, at transition, governments recognize a beginning deferred outflow of resources for pension contributions made subsequent to the measurement date of the beginning Net Pension Liability. Implementation is reflected in the financial statements and the prior period adjustment.

COMMERCE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

A. Summary of Significant Accounting Policies (Continued)

7. Receivable and Payable Balances

The District believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances.

There are no significant receivables which are not scheduled for collection within one year of year end.

8. Interfund Activities

Interfund activity results from loans, service provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfer" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line of the government-wide statement of net assets.

9. Vacation, Sick Leave and Other Compensated Absences

District employees are entitled to certain compensated absences based on their length of employment. Sick leave accrues at various rates established by the State and adopted by the Board of Trustees. Sick leave does not vest but accumulates and is recorded as an expenditure as it is paid.

10. Pensions

The fiduciary net position of the Teacher Retirement System of Texas (TRS) has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Teacher Retirement System of Texas (TRS) and addition to/deductions from TRS's fiduciary net position have been determined on the same basis as they are reported by TRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

11. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of management's estimates and assumptions that effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

12. Data Control Codes

Data control codes refer to the account code structure prescribed by the Agency in the *Guide*. The Agency requires the District to display these codes in its financial statements filed with the Agency in order to ensure accuracy in building a statewide database for policy development and funding plans.

13. Accounting System

In accordance with Texas Education Code, Chapter 44, Subchapter A, the District adopted and implemented an accounting system which at least meets the minimum requirements prescribed by the State Board of Education and approved by the State Auditor. The District's accounting system uses codes and the code structure presented in the accounting code section of the *Guide*. Mandatory codes are utilized in the form provided in that section.

COMMERCE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

B. Deposits, Securities and Investments

The District's funds are deposited and invested under the terms of a depository contract. The contract requires the depository to pledge approved securities in an amount significant to protect the District's day-to-day balances. The pledge is waived only to the extent of the dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance. At June 30, 2016, all District cash deposits appear to have been covered by FDIC insurance or by pledged collateral held by the District's agent bank in the name of the District. Deposits appear to have been secured throughout the year.

The District's investment policies and types of investments are governed by the Public Funds Investment Act. The Act requires specific training, reporting and establishment of local policies. The District appears to have been in substantial compliance with the requirements of the Act.

State statutes and local policy authorize the District to invest in the following types of investment goods:

- a. obligations of the U.S. or its agencies or instrumentalities,
- b. obligations of the State of Texas or its agencies,
- c. obligations guaranteed by the U.S. or State of Texas or their agencies or instrumentalities,
- d. obligations of other states, agencies or political subdivisions having a national investment rating of "A" or greater,
- e. guaranteed or secured certificates of deposit issued by a bank domiciled in the State of Texas, or
- f. fully collateralized repurchase agreements.

District investments include investments in TexPool, an external investment pool. All TexPool investments are reported at share price (fair value) and are presented as cash and investments.

Texas Local Government Investment Pool (TexPool) has been organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. These two acts provide for the creation of public funds investment pools and permit eligible governmental entities to jointly invest their funds in authorized investments.

The Comptroller of Public Accounts (Comptroller) is the sole officer, director and shareholder of the Texas Treasury Safekeeping Trust Company, (Trust Company), which is authorized to operate TexPool. Pursuant to the TexPool Participation Agreement, administrative and investment services to TexPool are provided by Federated Investors, Inc. (Federated), under an agreement with the Comptroller, acting on behalf of the Trust Company.

The Comptroller maintains oversight of the services provided to TexPool by Federated. In addition, the TexPool Advisory Board advises on TexPool's Investment Policy and approves any fee increases. As required by the Public Funds Investment Act, the Advisory Board is composed equally of participants in TexPool and other persons who do not have a business relationship with TexPool who are qualified to advise TexPool.

The fund is rated AAAM by Standard & Poor's rating agency. This rating is the highest principal stability fund rating assigned by Standard & Poor's. This rating as well as the operational policies and procedures allow the fund to comply with the requirements of the Public Funds Investment Act.

The *Lone Star Investment Pool* is an investment pool available to governmental entities. The pool was established under the guidance of the Texas Public Funds Investment Act. A board of directors made up of members of the pool is responsible for the overall operation of the pool. The Board has employed various third party organizations to assist in the operations. These third parties are as follows: American Beacon Advisors and BNY Mellon Cash Investment Strategies – Investment Managers, RBC Wealth Management – Investment Consultant, Bank of New York Mellon – Custodian, First Public – Administration. In combination with these third party organizations, the pool has received a AAAM rating from Standard and Poor's. This rating allows the pool to meet the standards required by the Texas Public Funds Investment Act.

COMMERCE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

B. Deposits, Securities, and Investments (Continued)

The following table identifies the District's investment at year end:

| | <u>Credit Risk Rating</u> | <u>Fair Value</u> |
|--|-------------------------------|-----------------------|
| LoneStar | AAAm | \$ 170,341 |
| Guaranty Bond Bank – Certificate of Deposits | N/A | <u>142,536</u> |
| Total | | <u>\$ 312,877</u> |

In addition, the following is disclosed regarding coverage of combined cash balances on the date of highest balance:

- a. Name of bank: Guaranty Bond Bank, Commerce, Texas.
- b. Amount of bond and/or security pledged as of the date of the highest combined balance on deposit was \$ 6,931,327.
- c. Largest cash, savings and time deposit combined account balances amounted to \$ 6,976,643, and occurred during the month of February 2016.
- d. Total amount of FDIC coverage at the time of the highest combined balance was \$ 750,000.

GASB Statement No. 40 requires a determination as to whether the District was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

a. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized agencies are designed to give an indication of credit risk. At year end, the District was not significantly exposed to credit risk.

b. Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the District's name.

Investment securities are exposed to custodial risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the Districts' name. At year end, the District was not exposed to custodial credit risk.

c. Concentration of Credit Risk

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, the District was not exposed to concentration of credit risk.

d. Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year end, the District was not exposed to interest rate risk.

e. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the District was not exposed to foreign currency risk.

COMMERCE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

C. Property Taxes

Property taxes are levied by October 1, in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1, of the year following the October 1 levy date. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties and interest ultimately imposed. Property tax revenues are considered available when collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period.

Property taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectibles within the General and Debt Service Funds are based upon historical experience in collecting property taxes. Section 33.05, Property Tax Code, requires the tax collector for the District to cancel and remove from the delinquent tax rolls a tax on real property that has been delinquent for more than 20 years or a tax on personal property that has been delinquent for more than 10 years. Delinquent taxes meeting this criteria may not be canceled if litigation concerning these taxes is pending.

The District levied taxes on property within the District at \$ 1.17 to fund general operations and \$ 0.4357 for the payment of principal and interest on long term debt. The rates were levied on property assessed totaling \$ 387,584,862.

D. Capital Assets

Capital asset activities during the year were as follows:

| | Beginning Balance | Increases | Decreases | Ending Balances |
|---|----------------------|--------------|-----------|--------------------|
| <u>Governmental Activities:</u> | | | | |
| Capital Assets not Being Depreciated: | | | | |
| Land | \$ 312,850 | \$ - | \$ - | \$ 312,850 |
| Construction in Progress | 21,033 | 2,992,526 | 21,033 | 2,992,526 |
| Total Capital Assets not being Depreciated | \$ 333,883 | \$ 2,992,526 | \$ 21,033 | \$ 3,305,376 |
| Capital Assets being Depreciated: | | | | |
| Building and Improvements | \$ 41,151,083 | \$ 695,277 | \$ - | \$ 41,846,360 |
| Equipment | 1,177,166 | 64,515 | - | 1,241,681 |
| Vehicles | 1,989,349 | 21,066 | 15,107 | 1,995,308 |
| Total Capital Assets being Depreciated | \$ 44,317,598 | \$ 780,858 | \$ 15,107 | \$ 45,083,349 |
| Less Accumulated Depreciation for : | | | | |
| Buildings and Improvements | \$ 19,777,358 | \$ 1,240,586 | \$ - | \$ 21,017,944 |
| Equipment | 1,089,780 | 24,939 | - | 1,114,719 |
| Vehicles | 1,616,774 | 86,540 | 15,107 | 1,688,207 |
| Total Accumulated Depreciation | \$ 22,483,912 | \$ 1,352,065 | \$ 15,107 | \$ 23,820,870 |
| Total Capital Assets being Depreciated, Net | \$ 21,833,686 | \$ (571,207) | \$ - | \$ 21,262,479 |
| Governmental Activities Capital Assets, Net | \$ 22,167,569 | \$ 2,421,319 | \$ 21,033 | \$ 24,567,855 |

COMMERCE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

D. Capital Assets (Continued)

Depreciation was charged to governmental activities functions as follows:

Depreciation was charged to functions as follows:

| | |
|--|---------------------|
| Instruction | \$ 1,180,051 |
| Instructional Resources and Media Services | 8,305 |
| Curriculum and Staff Development | 137 |
| Instructional Leadership | 137 |
| School Leadership | 16,155 |
| Guidance, Counseling and Evaluation Services | 1,195 |
| Social Work Services | 137 |
| Health Services | 2,419 |
| Student (Pupil) Transportation | 73,423 |
| Food Services | 29,238 |
| Co-Curricular/Extracurricular Activities | 15,783 |
| General Administration | 4,439 |
| Plant Maintenance and Operations | 18,378 |
| Security and Monitoring Services | 2,268 |
| | <hr/> |
| Totals | <u>\$ 1,352,065</u> |

E. Long Term Obligations

Long Term Obligation Activity

Long term obligation activities during the year were as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance | Amounts Due Within One Year |
|--------------------------------|----------------------|---------------------|---------------------|----------------------|-----------------------------------|
| General Obligation Bonds | \$ 26,495,000 | \$ - | \$ 915,000 | \$ 25,580,000 | \$ 945,000 |
| Capital Leases Payable | 234,340 | 4,594,005 | 103,960 | 4,724,385 | 278,727 |
| Unamortized Premium (Discount) | 697,978 | - | 35,125 | 662,853 | - |
| | <hr/> | | | | |
| Total Governmental Activities | <u>\$ 27,427,318</u> | <u>\$ 4,594,005</u> | <u>\$ 1,054,085</u> | <u>\$ 30,967,238</u> | <u>\$ 1,223,727</u> |

Bonds

The following issues are outstanding at year end:

| Description | Interest Rate | Original Issue | Obligations Outstanding |
|--|------------------|-------------------|----------------------------|
| Unlimited Tax School Building and Refunding Bonds, Series 2007 | 4.0 - 4.7% | \$ 26,268,397 | \$ 14,920,000 |
| Unlimited Tax Refunding Bonds, Series 2011 | 1.5 - 3.5% | 2,425,000 | 1,850,000 |
| Unlimited Tax Refunding Bonds, Series 2015 | 1.5 - 3.5% | 2,425,000 | 8,810,000 |
| | | | <hr/> |
| Total | | | <u>\$ 25,580,000</u> |

COMMERCE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

E. Long Term Obligations (Continued)

Debt service requirements on bonded debt at year end are as follows:

| Year Ending June 30 | Principal | Interest | Total Requirements |
|------------------------|----------------------|----------------------|-----------------------|
| 2017 | \$ 945,000 | \$ 1,065,379 | \$ 2,010,379 |
| 2018 | 980,000 | 1,028,081 | 2,008,081 |
| 2019 | 1,020,000 | 986,191 | 2,006,191 |
| 2020 | 1,065,000 | 940,571 | 2,005,571 |
| 2021 | 1,110,000 | 893,139 | 2,003,139 |
| 2022-2026 | 6,315,000 | 3,698,162 | 10,013,162 |
| 2027-2031 | 6,385,000 | 2,279,417 | 8,664,417 |
| 2032-2036 | 5,315,000 | 1,071,383 | 6,386,383 |
| 2037-2038 | 2,445,000 | 101,613 | 2,546,613 |
| Totals | <u>\$ 25,580,000</u> | <u>\$ 12,063,936</u> | <u>\$ 37,643,936</u> |

There are a number of limitations and restrictions contained in the general obligation bond indentures. The District appears to be in compliance with all significant limitations and restrictions as of June 30, 2016.

Capital Leases

The District is obligated under certain leases accounted for as capital leases. The leases recorded here meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee.

The District executed multiple agreements under Texas Education Code Section 45.108 to provide funds for facility improvements and upgrades as follows:

- a) Cypress Bank for Kubota tractor in the amount of \$ 37,150. The lease requires annual payments of principal and interest at 2.75%. The lease will mature on August 24, 2019.
- b) Cypress Bank for scissor lift in the amount of \$ 6,500. The lease requires annual payments of principal and interest at 2.5%. The lease will mature on August 24, 2017.
- c) Government Capital Corporation for energy conservation project in the amount of \$ 1,500,000. The lease requires annual payments of principal and interest at 4.07%. The lease will mature on December 14, 2035.
- d) Government Capital Corporation for energy conservation project in the amount of \$ 3,060,426. The lease requires annual payments of principal and interest at 4.17%. The lease will mature on December 1, 2035.

The following schedule lists personal property leased:

| Description | Implicit Interest Rate | Date of Agreement | Original Property Value |
|--|---------------------------|----------------------|----------------------------|
| Cypress Bank, FSB - BB/SB Scoreboard | 4.15% | 7/21/2010 | \$ 41,230 |
| Dailmer Leasing - School Buses | 2.60% | 2/17/2014 | 277,392 |
| Cypress Bank, FSB - Ag Truck | 2.25% | 1/10/2014 | 36,700 |
| Cypress Bank, Kubota Tractor | 2.75% | 8/17/2015 | 37,150 |
| Cypress Bank, Scissor Lift | 2.50% | 8/17/2015 | 6,500 |
| Government Capital, Electric Retrofit 7227 | 4.07% | 11/16/2015 | 1,500,000 |
| Government Capital, Electric Retrofit 7300 | 4.17% | 11/16/2015 | 3,060,426 |
| Totals | | | <u>\$ 4,959,398</u> |

COMMERCE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

E. Long Term Obligations (Continued)

The lease terms are for various years not exceeding twenty years. The terms call for annual payments over the life of the lease.

Commitments under capitalized lease agreements for facilities and equipment provide for minimum future lease payments as of year end, are as follows:

| <u>Year Ending June 30</u> | <u>Total Requirements</u> |
|---|-------------------------------|
| 2017 | \$ 459,246 |
| 2018 | 363,886 |
| 2019 | 351,583 |
| 2020 | 351,583 |
| 2021 | 338,737 |
| Thereafter | <u>5,081,056</u> |
| Total Minimum Lease Payment | \$ 6,946,091 |
| Less Amount Representing Interest | <u>(2,221,706)</u> |
| Present Value of Net Minimum Lease Paymen | <u>\$ 4,724,385</u> |

F. Pension Plan

1. Plan Description

The District contributes to the Teacher Retirement System of Texas (TRS), a cost-sharing multiple employer defined benefit pension plan. TRS's defined benefit pension plan operates primarily under the provision of the Texas Constitution, Article XVI, Sec. 67, and Texas Government Code, Title 8, Subtitle C. TRS also administers proportional retirement benefits and service credit transfer under Texas Government Code, title 8, Chapters 803 and 805, respectively. The pension trust fund is a qualified pension trust under Section 401(a) of the Internal Revenue Code. The Texas State Legislature has the authority to establish and amend benefit provisions of the pension plan and may, under certain circumstances, grant special authority to the TRS Board of Trustees. TRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report may be obtained by downloading the report from the TRS internet website, www.trs.texas.gov.

2. Benefits Provided

TRS administers retirement and disability annuities, and death survivor benefits to employees and beneficiaries of employees of the public school systems of Texas. Benefits are established or amended primarily under the authority of the provisions of the Texas Constitution, Article XVI, Section 67 and by the Legislature in the Texas Government Code, Title 8, Subtitle C. the pension's board of trustees does not have the authority to establish or amend benefits. The pension formula is calculated using 2.3 percent (multiplier) times the average of the five highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered, the three highest annual salaries are used. The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member's age and years of credited service equals or exceed 80 years. Reduced service retirement is at age 55 with 5 years of credited service and any age below 50 with 30 years of credited service. A member is fully vested after 5 years of creditable service and entitled to any benefit for which eligibility requirements have been met. The plan does not provide automatic cost of living adjustments (COLA's). Ad hoc post-employment benefits changes, including ad hoc COLA's can be granted by the Texas Legislature as noted in the Plan Description above.

COMMERCE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

F. Pension Plan (Continued)

3. Contributions

Contribution requirements are established or amended pursuant to the following state laws: (1) Article 16, Section 67 of the Texas Constitution requires the legislature to establish a member contribution rate of not less than 6% of the member's annual compensation and a state contribution rate of not less than 6% and not more than 10% of the aggregate annual compensation paid to members of the system during the fiscal year. Texas Government Code Section 821.006 prohibits benefit improvements, if as a result of the particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action. Actuarial implications of the funding provided in this manner are determined by the system's actuary. As the non-employer contributing entity, the State of Texas contributes to the retirement system an amount equal to the current employer contribution rate times the aggregate annual compensation of all members of the pension trust fund during that fiscal year reduced by the amounts described below which are paid by the employers. Employers (public school, junior college, other entities or the State of Texas as the employer for senior universities and medical schools) are required to pay the employer contribution rate in the following instances:

- On the portion of the member's salary that exceeds the statutory minimum for members entitled to the statutory minimum under Section 21.402 of the Texas Education Code.
- During a new member's first 90 days of employment.
- When any part or all of an employee's salary is paid by federal funding sources, a privately sponsored source, from non-educational and general, or local funds.

In addition to the employer contributions listed above, when employing a retiree of the Teacher Retirement System the employer shall pay both the member contribution and the state contribution as an employment after retirement surcharge. Employee contribution rates are set in state statute, Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 thru 2017. It also added a 1.5% contribution for employers not paying Old Age Survivor and Disability Insurance (OASDI) on certain employees effective for fiscal year 2015. The 83rd Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2014 and 2015. Contribution amounts are as follows:

| | | Contributions Required and Made | |
|------|--|--|---------|
| | | \$ | |
| 2016 | Member (Employee) | \$ | 690,224 |
| 2015 | Non-Employer Contributing Agency (State On Behalf) | \$ | 443,043 |
| 2016 | District (Employer) | \$ | 337,155 |

Contribution rates for the Plan fiscal year (September to August) 2015 and 2016 are as follows:

| | Contribution Rates Plan Fiscal Year | |
|--|--|-------------|
| | 2015 | 2016 |
| Member (Employee) | 6.7% | 7.2% |
| District (Employer) | 6.8% | 6.8% |
| Non-Employer Contributing Agency (State On Behalf) | 6.8% | 6.8% |

COMMERCE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

F. Pension Plan (Continued)

4. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At August 31, 2015, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

| | |
|---|---------------------|
| District's proportionate share of the net pension liability | \$ 3,949,613 |
| State's proportionate share of the net pension liability associated with the District | <u>5,287,441</u> |
| Total | <u>\$ 9,237,054</u> |

The net pension liability was measured as of August 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to the pension plan relative to the contributions of all participating entities. At August 31, 2015, the District's proportion was 0.0111733% which was an increase of 0.0029138% from its proportion measured as of August 31, 2014.

For the year ended August 31, 2015, the District recognized pension expense of \$ 753,375 and revenue of \$ 753,375 for support provided by the State.

At August 31, 2015, the District report deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| Differences between expected and actual experience | \$ 28,376 | \$ 151,787 |
| Changes of actuarial assumptions | 119,267 | 140,905 |
| Net difference between projected and actual earnings on pension plan investments | 466,967 | - |
| Changes in proportion and differentials between District contributions and proportionate share of contributions | <u>666,085</u> | <u>1,284</u> |
| Total | <u>\$ 1,280,695</u> | <u>\$ 293,976</u> |

COMMERCE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

F. Pension Plan (Continued)

At June 30, 2016, the District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| Total Amounts per August 31, 2015 measurement date | \$ 1,280,695 | \$ 293,976 |
| Contribution paid to TRS subsequent to the measurement date | 284,781 | - |
| Total Financial Statement Amounts | <u>\$ 1,565,476</u> | <u>\$ 293,976</u> |

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| <u>Year Ending August 31</u> | <u>Amount</u> |
|----------------------------------|---------------|
| 2017 | \$ 167,504 |
| 2018 | 167,504 |
| 2019 | 167,504 |
| 2020 | 336,084 |
| 2021 | 91,134 |
| Thereafter | 56,990 |

5. Actuarial Assumptions

The total pension liability is determined by an annual actuarial valuation. The active mortality rates were based on the 1994 Group Annuity Mortality Table set back 6 years for both males and females. The Post-retirement mortality rates were based on client specific rates multiplied by 80%. The actuarial assumptions used in the valuation were based on the results of an actuarial experience study for the four-year period ending August 31, 2014 and adopted on September 24, 2015. With the exception of the post-retirement mortality rates for healthy lives and a minor change to the expected retirement age for inactive vested members stemming from the actuarial audit performed in the Summer of 2015, the assumptions and methods are the same as used in the prior valuation. When the mortality assumptions were adopted in 2015 they contained significant erosion of this margin to the point that the margin has been eliminated. Therefore, the post-retirement mortality rate for current and future retirees has decreased to add additional margin for future improvement in mortality in accordance with the Actuarial Standards Practice No. 35.

| | |
|--|-----------------------------------|
| Valuation Date | August 31, 2015 |
| Actuarial Cost Method | Individual Entry Age Normal |
| Amortization Method | Level Percentage of Payroll, Open |
| Remaining Amortization Period | 30 years |
| Asset Valuation Method | 5 year Smoothed Market |
| Actuarial Assumption: | |
| Discount Rate | 8.00% |
| Long-term expected Investment Rate of Return * | 8.00% |
| Salary Increases * | 3.50% to 9.50% |
| Payroll Growth Rate | 2.50% |

* Includes Inflation of 2.50%

COMMERCE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

F. Pension Plan (Continued)

6. Discount Rate

The discount rate used to measure the total pension liability was 8.0%. There was no change in the discount rate since the previous fiscal year. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary new position was projected to be available to make all future benefit payments of current plan members. Therefore, the long term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The long-term expected rate of return on pension plan investments is 8.0%. The long-term expected rate of return on pension plan investment was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class include the Systems target asset allocation as of August 31, 2015 are summarized below:

| Asset Class | Target Allocation | Real Return Geometric Basis | Long-Term Expected Portfolio Real Rate of Return * |
|-------------------------------|-------------------|-----------------------------|--|
| Global Equity | | | |
| U.S. | 18% | 4.6% | 1.0% |
| Non-U.S. Developed | 13% | 5.1% | 0.8% |
| Emerging Markets | 9% | 5.9% | 0.7% |
| Directional Hedge Funds | 4% | 3.2% | 0.1% |
| Private Equity | 13% | 7.0% | 1.1% |
| Stable Value | | | |
| U.S. Treasuries | 11% | 0.7% | 0.1% |
| Absolute Return | 0% | 1.8% | 0.0% |
| Stable Value Hedge Funds | 4% | 3.0% | 0.1% |
| Cash | 1% | -0.2% | 0.0% |
| Real Return | | | |
| Global Inflation Linked Bonds | 3% | 0.9% | 0.0% |
| Real Assets | 16% | 5.1% | 1.1% |
| Energy and Natural Resources | 3% | 6.6% | 0.2% |
| Commodities | 0% | 3.4% | 0.0% |
| Risk Parity | | | |
| Risk Parity | 5% | 8.9% | 0.3% |
| Inflation Expectation | | 6.7 | 2.2% |
| Alpha | | | 1.0% |
| Total | <u>100%</u> | | <u>8.7%</u> |

* The expected contribution to returns incorporates the volatility drag resulting from the conversion between arithmetic and geometric mean returns.

COMMERCE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

F. Pension Plan (Continued)

For the year ended August 31, 2015, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense was 16.9%. the money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

7. Discount Rate Sensitivity Analysis

The following presents the District's share of the net pension liability of the plan using the discount rate of 8%, as well as what the District's share of the net pension liability would be if it were calculated using a discount rate that is 1 – percentage point lower (7%) or 1 – percentage point higher (9%) than the current rate:

| | <u>1% Decrease</u> | <u>Current Rate</u> | <u>1% Increase</u> |
|--|--------------------|---------------------|--------------------|
| District's proportional share of the net pension liability | \$ 6,188,299 | \$ 3,949,613 | \$ 2,084,926 |

8. Pension Plan fiduciary Net Position

Detailed information about the Teacher Retirement System's fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at <http://www.trs.state.tx.us/about/documents/cafr.pdf#CAFR>; by writing to TRS at 1000 Red River Street, Austin, TX 78701-2698; or by calling (512) 542-6592. The information provided in the Notes to the Financial Statements in the 2014 Comprehensive Annual Financial Report for TRS provides the following information regarding the Pension Plan fiduciary net position as of August 31, 2015 and 2014.

| <u>Net Pension Liability</u> | <u>August 31, 2015</u> | <u>August 31, 2014</u> |
|---|--------------------------|--------------------------|
| Total Pension Liability | \$ 163,887,375,172 | \$ 159,496,075,886 |
| Less: Plan Fiduciary Net Position | (128,538,706,212) | (132,779,243,085) |
| Net Pension Liability | <u>\$ 35,348,668,960</u> | <u>\$ 26,716,832,801</u> |
| Net Position as percentage of Total Pension Liability | 78.43% | 83.25% |

G. School District Retiree Health Plan

1. Plan Description

The Commerce School District contributes to the Texas Public School Retired Employees Group Insurance Program (TRS-Care), a cost-sharing multiple-employer defined benefit post-employment health care plan administered by the Teacher Retirement System of Texas. TRS-Care provides health care coverage for certain persons (and their dependents) who retired under the Teacher Retirement System of Texas. The statutory authority for the program is Texas Insurance Code, Chapter 1575. Section 1575.052 grants the TRS Board of Trustees the authority to establish and amend basic and optional group insurance coverage for participants. The TRS issues a publicly available financial report that includes financial statements and required supplementary information for TRS-Care. That report may be obtained by visiting the TRS website at www.trs.texas.gov under the TRS Publications heading, by calling the TRS Communications Department at 1-800-223-8778, or by writing to the Communications Department of the Teacher Retirement System of Texas at 1000 Red River Street, Austin, Texas 78701.

COMMERCE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

G. School District Retiree Health Plan (Continued)

2. Funding Policy

Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203 and 204 establish state, active employee, and public school contributions, respectively. The State of Texas and active public school employees contributed amounts to the plan during the year. Per Texas Insurance Code, Chapters 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. Funding for optional coverage is provided by those participants selecting the optional coverage. Contribution rates are shown in the table below for fiscal years 2016-2014.

| Contribution Rates | | | |
|---------------------------|----------------------|--------------|-----------------|
| Year | Active Member | State | District |
| 2016 | 0.65% | 1.00% | 0.55% |
| 2015 | 0.65% | 1.00% | 0.55% |
| 2014 | 0.65% | 1.00% | 0.55% |

3. On Behalf Payments

In accordance with GASB Statement 24, "Accounting and Financial Reporting for Certain Grants and Other Financial Assistance," on-behalf payments (payments made by the State) of \$ 69,586 are reflected in the basic financial statements for Retiree Health Plan contributions. Additionally, the District benefited from payments made by the State totaling \$ 30,791 for subsidies for Medicare Part D and participation in the Early Retirement Reinsurance Program.

H. Risk Management

Health Care

During the year, employees of the Commerce Independent School District were covered by a health insurance plan (the Plan). The District paid premiums of \$ 250 per month per employee and employees, at their option, authorized payroll withholdings to provide dependents coverage under the Plan.

All premiums were paid to a TRS Activecare (Aetna). The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement.

The contract between the Commerce Independent School District and TRS Activecare (Aetna) is renewable September 1 of each year, and terms of coverage and premium costs are included in the contractual provisions.

Latest financial statements for Aetna are available for the year ended December 31, 2015, and have been filed with the Texas State Board of Insurance, Austin, Texas, and are public records.

Unemployment Compensation Pool

During the year, the District provided unemployment compensation coverage to its employees through participation in the TASB Risk Management Fund (the Fund). The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Local Government Code. The Fund's Unemployment Compensation Program is authorized by Section 22.005 of the Texas Education Code and Chapter 172 of the Texas Local Government Code. All members participating in the Fund execute interlocal agreements that define the responsibilities of the parties.

COMMERCE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

H. Risk Management (Continued)

The Fund meets its quarterly obligation to the Texas Workforce Commission. Expenses are accrued each month until the quarterly payment has been made. Expenses can be reasonably estimated; therefore, there is no need for specific or aggregate stop loss coverage for Unemployment Compensation pool members.

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each plan year on August 31. The audit is accepted by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2015, are available at the TASB offices and have been filed with the Texas Department of Insurance in Austin.

Other Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. During the 2016 fiscal period, the District purchased commercial insurance to cover these liabilities. There were significant reductions in coverage in the past fiscal period, and there were no settlements exceeding insurance coverage for each of the past three fiscal periods.

I. Litigation

The District does not appear to be involved in any litigation as of June 30, 2016.

J. Commitments and Contingencies

The District participates in numerous state and federal grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, if any, refunds of any money received may be required and the collectability of any related receivable at June 30, 2016, may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

K. Shared Services Arrangements

Shared Services Arrangement – Fiscal Agent The District is the fiscal agent for a Shared Services Arrangement ("SSA") which provides services to the member districts listed below. All services are provided by the fiscal agent. The member districts provide the funds to the fiscal agent. According to guidance provided in TEA's Resource Guide, the District has accounted for the fiscal agent's activities of the SSA in a special revenue fund and will be accounted for using Model 3 in the SSA section of the Resource Guide. Expenditures of the SSA are summarized on the next page:

COMMERCE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

K. Shared Services Arrangements (Continued)

Tri County Special Education SSA – (Special Education Program)

| Member Districts | County District Number | Fund 313 IDEA-B Formula | Fund 314 IDEA-B Preschool | Fund 437 Tri County Sp Ed Coop |
|------------------|------------------------|-------------------------------|---------------------------------|--------------------------------------|
| Bland ISD | 116915 | \$ 114,456 | \$ 3,491 | \$ 58,266 |
| Boles ISD | 116916 | 112,238 | 873 | 47,050 |
| Caddo Mills ISD | 116901 | 261,583 | 2,618 | 145,935 |
| Campbell ISD | 116910 | 84,795 | - | 35,078 |
| Celeste ISD | 116902 | 84,863 | 873 | 66,799 |
| Commerce ISD | 116903 | 347,993 | 3,055 | 136,369 |
| Cooper ISD | 060902 | 183,416 | 5,670 | 68,045 |
| Cumby ISD | 112905 | 81,222 | - | 49,097 |
| Lone Oak ISD | 116906 | 177,528 | 1,309 | - |
| Totals | | \$ 1,448,094 | \$ 17,889 | \$ 606,639 |

NetCAT SSA – (Career and Tech Programs)

| Member Districts | County District Number | Fund 331 Voc Ed Basic Grant | Fund 458 NetCAT Voc Coop |
|------------------|------------------------|-----------------------------------|--------------------------------|
| Bland ISD | 116910 | \$ 7,896 | \$ 1,285 |
| Boles ISD | 116915 | 1,919 | 1,433 |
| Caddo Mills ISD | 112905 | 14,456 | 2,619 |
| Campbell ISD | 116909 | 3,701 | 840 |
| Celeste ISD | 116901 | 6,133 | 1,284 |
| Commerce ISD | 116903 | 21,680 | 2,619 |
| Cooper ISD | 060902 | 9,949 | 1,581 |
| Cumby ISD | 091918 | 5,255 | 1,137 |
| Fannindel ISD | 060914 | 3,423 | 693 |
| Leonard ISD | 074909 | 6,944 | 1,878 |
| Lone Oak ISD | 116902 | 7,378 | 1,729 |
| Wolfe City ISD | 116906 | 5,383 | 1,285 |
| Totals | | \$ 94,117 | \$ 18,383 |

COMMERCE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

L. Revenue from Local and Intermediate Sources

During the year, the District received revenue from local and intermediate sources consisting of the following:

| | General | Debt Service | Other Governmental | Total |
|---|---------------------|---------------------|-----------------------|---------------------|
| Property Tax Collections | \$ 4,500,645 | \$ 1,670,638 | \$ - | \$ 6,171,283 |
| Shared Service Fees | - | - | 728,216 | 728,216 |
| Investment Income | 11,084 | 10,219 | 3,710 | 25,013 |
| Rent | 210 | - | - | 210 |
| Food Service Income | - | - | 104,527 | 104,527 |
| Gifts and Bequests | 119,849 | - | 1,938 | 121,787 |
| Cocurricular/Extracurricular Activities | 29,576 | - | - | 29,576 |
| Other | 113,508 | - | 42,043 | 155,551 |
| Total | \$ 4,774,872 | \$ 1,680,857 | \$ 880,434 | \$ 7,336,163 |

M. Receivables

Receivables at year end, for the District's individual major funds and aggregate non-major funds, including any applicable allowances for uncollectible accounts are as follows:

| | General | Debt Service | Other Governmental | Total |
|--|---------------------|-------------------|-----------------------|---------------------|
| Due from Other Governments | \$ 3,196,761 | \$ 133,196 | \$ 610,618 | \$ 3,940,575 |
| Property Taxes | 555,284 | 182,936 | - | 738,220 |
| Less Allowance for Uncollectible Property Taxes | (55,528) | (18,294) | - | (73,822) |
| Miscellaneous Other Receivables | 56,174 | - | 2,527 | 58,701 |
| Net Receivables | \$ 3,752,691 | \$ 297,838 | \$ 613,145 | \$ 4,663,674 |

N. Interfund Activities

Interfund Receivables and Payables

The composition of interfund balances as of year end, is as follows:

| Receivable Fund | Payable Fund | Amount |
|----------------------------|------------------------------|---------------------|
| General Fund | Debt Service Fund | \$ 1,145,000 |
| General Fund | SSA – Tri County Cooperative | 19,799 |
| Student Agency (Fiduciary) | General Fund | 86 |
| General Fund | Special Revenue Fund | 10,708 |
| Totals | | \$ 1,175,593 |

O. Subsequent Events

The District's management has evaluated subsequent events through November 11, 2016, the date which the financial statements were available for use.

COMMERCE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

P. Compliance, Stewardship, and Accountability

Expenditures over Appropriations

The following individual funds incurred expenditures in excess of appropriations at functional expenditure levels:

| | Budget | Actual | Excess |
|---|------------|------------|----------|
| General Fund: | | | |
| Health Service | \$ 162,002 | \$ 163,272 | \$ 1,270 |
| Curriculum and Staff Development | 528,443 | 574,243 | 45,800 |
| School Leadership | 266,244 | 274,615 | 8,371 |
| Student (Pupil) Transportation | 913,609 | 929,597 | 15,988 |
| Cocurricular/Extracurricular Activities | 524,165 | 583,816 | 59,651 |
| General Administration | 594,194 | 665,860 | 71,666 |
| Payment to Fiscal Agent | 162,760 | 168,236 | 5,476 |
| School Breakfast and National School Lunch Program: | | | |
| Food Service | 790,419 | 815,941 | 25,522 |

Q. State Aid Reconciliation

The State provides various types of funding for local school districts as provided for in state statute. The following reconciliation presents funding earned by the District in each category presented. Because of the State's delay in reconciling the funding to local districts, the summary below represents an estimate of earnings. The settleup with the State will occur some 9 to 10 months following the fiscal year end.

Funding is earned for: 1) Available – annual allocation based on prior year enrollment; 2) Foundation – annual allocation based on student attendance, property taxes collections and valuations, and special population; 3) Instructional Facilities Allotment – based on property wealth; and 4) Existing Debt Allotment – based on eligible debt, student attendance and property wealth. Various other sources are required but not reconciled here as these are the major sources of funding.

| | Available | Foundation | IFA | EDA |
|------------------------------|-------------------|---------------------|-------------------|-------------------|
| Current Year Earnings (SOF) | \$ 259,490 | \$ 8,391,666 | \$ 150,095 | \$ 354,406 |
| Prior Years Settle Up | 8,959 | (156,235) | 177 | (1,944) |
| Financial Statement Earnings | <u>\$ 268,449</u> | <u>\$ 8,235,431</u> | <u>\$ 150,272</u> | <u>\$ 352,462</u> |
| Financial Statement Amounts | | | | |
| SOF Receivable (Overpayment) | - | 1,059,975 | - | - |
| Scheduled Payments | 73,549 | 2,063,237 | (6,882) | (21,952) |

* Overpayments are represented in the financial statements as Unearned Revenue in both government-wide and fund financial statements.

COMMERCE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

R. Change in Accounting Principles

In fiscal year 2016, the District adopted three new statements of financial accounting standards issued by the Governmental Accounting Standards Board (GASB):

- Statement No. 72, *Fair Value Measurement and Application*
 - Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Government*
 - Statement No. 77, *Tax Abatement Disclosures*
- a) Statement No. 72 requires state and local governments to measure investments at fair value using a consistent definition and valuation techniques; also defines what assets and liabilities governments should measure at fair value and expands fair value disclosures in financial disclosure notes. While the Statement generally requires restatement of prior period balances in the year of implementation, the nature of the District's investments was such that their carrying amount was not affected.
- b) The GAAP hierarchy prioritizes guidance governments follow when preparing U.S. GAAP financial statements. Statement No. 76 reduces authoritative GAAP hierarchy from four categories to two and lists the order of priority for pronouncements to which a government should look for guidance.
- c) Statement No. 77 requires governments granting tax abatements to individuals and businesses to disclose program information in the notes to the financial statements through the agreement's duration and also requires disclosures about tax abatements entered into by other governments that reduce the reporting government's tax revenue. Prior year balances were not restated because there are no tax abatements associated with the District or any other government which affect the District's tax revenue.

REQUIRED SUPPLEMENTARY INFORMATION

COMMERCE INDEPENDENT SCHOOL DISTRICT
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2016

| Data Control Codes | 1 | | 2 | 3 | 4 |
|---|---|----------------------|----------------------|--|-----------------------|
| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) | |
| | Original | Final | | | |
| REVENUES | | | | | |
| 5700 | Local and Intermediate Sources | \$ 4,749,222 | \$ 4,752,722 | \$ 4,774,871 | \$ 22,149 |
| 5800 | State Program Revenues | 8,206,969 | 8,447,083 | 9,020,382 | 573,299 |
| 5900 | Federal Program Revenues | 40,000 | 220,453 | 221,262 | 809 |
| 5020 | Total Revenues | <u>\$ 12,996,191</u> | <u>\$ 13,420,258</u> | <u>\$ 14,016,515</u> | <u>\$ 596,257</u> |
| EXPENDITURES | | | | | |
| Instruction and Instructional Related Services: | | | | | |
| 0011 | Instruction | \$ 6,624,979 | \$ 6,709,966 | \$ 6,454,622 | \$ 255,344 |
| 0012 | Instructional Resources and Media Services | 209,455 | 209,455 | 100,871 | 108,584 |
| 0013 | Curriculum and Staff Development | 201,194 | 266,244 | 274,615 | (8,371) |
| | Total Instruction and Instr. Related Services | <u>\$ 7,035,628</u> | <u>\$ 7,185,665</u> | <u>\$ 6,830,108</u> | <u>\$ 355,557</u> |
| Instructional and School Leadership: | | | | | |
| 0021 | Instructional Leadership | \$ 5,150 | \$ 5,150 | \$ 3,541 | \$ 1,609 |
| 0023 | School Leadership | 913,609 | 913,609 | 929,597 | (15,988) |
| | Total Instructional and School Leadership | <u>\$ 918,759</u> | <u>\$ 918,759</u> | <u>\$ 933,138</u> | <u>\$ (14,379)</u> |
| Support Services - Student (Pupil): | | | | | |
| 0031 | Guidance, Counseling and Evaluation Services | \$ 361,238 | \$ 361,238 | \$ 352,542 | \$ 8,696 |
| 0033 | Health Services | 162,002 | 162,002 | 163,272 | (1,270) |
| 0034 | Student (Pupil) Transportation | 520,371 | 528,443 | 574,243 | (45,800) |
| 0036 | Cocurricular / Extracurricular Activities | 514,700 | 524,165 | 583,816 | (59,651) |
| | Total Support Services - Student (Pupil) | <u>\$ 1,558,311</u> | <u>\$ 1,575,848</u> | <u>\$ 1,673,873</u> | <u>\$ (98,025)</u> |
| Administrative Support Services: | | | | | |
| 0041 | General Administration | \$ 574,063 | \$ 594,194 | \$ 665,860 | \$ (71,666) |
| | Total Administrative Support Services | <u>\$ 574,063</u> | <u>\$ 594,194</u> | <u>\$ 665,860</u> | <u>\$ (71,666)</u> |
| Support Services - Nonstudent Based: | | | | | |
| 0051 | Plant Maintenance and Operations | \$ 1,829,529 | \$ 1,880,860 | \$ 1,693,790 | \$ 187,070 |
| 0052 | Security and Monitoring Services | 90,407 | 107,813 | 104,973 | 2,840 |
| 0053 | Data Processing Services | 432,680 | 608,352 | 586,580 | 21,772 |
| | Total Support Services - Nonstudent Based | <u>\$ 2,352,616</u> | <u>\$ 2,597,025</u> | <u>\$ 2,385,343</u> | <u>\$ 211,682</u> |
| Debt Service: | | | | | |
| 0071 | Principal on Long-term Debt | \$ 201,292 | \$ 211,442 | \$ 104,254 | \$ 107,188 |
| 0072 | Interest on Long-term Debt | 47,964 | 47,964 | 6,184 | 41,780 |
| | Total Debt Service | <u>\$ 249,256</u> | <u>\$ 259,406</u> | <u>\$ 110,438</u> | <u>\$ 148,968</u> |
| Capital Outlay: | | | | | |
| 0081 | Capital Outlay | \$ 29,251 | \$ 6,227,580 | \$ 3,718,783 | \$ 2,508,797 |
| | Total Capital Outlay | <u>\$ 29,251</u> | <u>\$ 6,227,580</u> | <u>\$ 3,718,783</u> | <u>\$ 2,508,797</u> |
| Intergovernmental Changes: | | | | | |
| 0093 | Payments to Fiscal Agent/Member Dist. - SSA | \$ 137,307 | \$ 162,760 | \$ 168,236 | \$ (5,476) |
| 0099 | Other Intergovernmental Charges | 141,000 | 141,000 | 133,901 | 7,099 |
| | Total Intergovernmental Charges | <u>\$ 278,307</u> | <u>\$ 303,760</u> | <u>\$ 302,137</u> | <u>\$ 1,623</u> |
| 6030 | Total Expenditures | <u>\$ 12,996,191</u> | <u>\$ 19,662,237</u> | <u>\$ 16,619,680</u> | <u>\$ 3,042,557</u> |
| 1100 | Excess (Deficiency) of Revenues Over Expenditures | \$ - | \$ (6,241,979) | \$ (2,603,165) | \$ 3,638,814 |
| OTHER FINANCING SOURCES (USES) | | | | | |
| 7913 | Issuance of Capital Leases | \$ - | \$ 5,604,076 | \$ 4,594,006 | \$ (1,010,070) |
| 8911 | Transfers Out | - | - | (35,798) | (35,798) |
| 7080 | Net Other Financing Sources (Uses) | <u>\$ -</u> | <u>\$ 5,604,076</u> | <u>\$ 4,558,208</u> | <u>\$ (1,045,868)</u> |
| 1200 | Net Change in Fund Balance | \$ - | \$ (637,903) | \$ 1,955,043 | \$ 2,592,946 |
| 0100 | Fund Balance - Beginning (July 1) | 4,797,856 | 4,797,856 | 4,797,856 | - |
| 3000 | Fund Balance - Ending (June 30) | <u>\$ 4,797,856</u> | <u>\$ 4,159,953</u> | <u>\$ 6,752,899</u> | <u>\$ 2,592,946</u> |

COMMERCE INDEPENDENT SCHOOL DISTRICT
 SCHEDULES OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
 TEACHER RETIREMENT SYSTEM OF TEXAS
 YEAR ENDED JUNE 30, 2016

| | <u>2016</u> | <u>2015</u> |
|--|---------------------|---------------------|
| District's proportion of the net pension liability | 0.0111733% | 0.0082595% |
| District's proportionate share of the net pension liability | \$ 3,949,613 | \$ 2,206,227 |
| State's proportionate share of the net pension liability associated with the District | <u>5,287,441</u> | <u>4,796,195</u> |
| Total | <u>\$ 9,237,054</u> | <u>\$ 7,002,422</u> |
| District's covered-employee payroll (for Measurement Year) | \$ 9,492,432 | \$ 8,037,017 |
| District's proportionate share of the net pension liability as a percentage of it's covered-employee payroll | 41.61% | 27.45% |
| Plan fiduciary net position as a percentage of the total pension liability | 78.43% | 83.25% |

Note: Only two years of data is presented in accordance with GASB 68, paragraph 138. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

COMMERCE INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF DISTRICT CONTRIBUTIONS
 TEACHER RETIREMENT SYSTEM OF TEXAS
 LAST 10 FISCAL YEARS

| | <u>2016</u> | <u>2015</u> |
|---|------------------|------------------|
| Contractually required contributions | \$ 337,155 | \$ 312,566 |
| Contributions in relations to the contractual required contributions | <u>(337,155)</u> | <u>(312,566)</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> |
| District's covered employee payroll | \$ 9,695,291 | \$ 9,513,291 |
| Contributions as a percentage of covered employee payroll | 3.48% | 3.29% |

GASB Statement 68, paragraph 81.2.b requires that the data in this schedule be presented as of the District's current fiscal year as opposed to the time period covered by the measurement date of September 1, 2014 - August 31, 2015.

Note: Only two years of date is presented in accordance with GASB 68, paragraph 138. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

COMMERCE INDEPENDENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2016

A. Budget

The official budget was prepared for adoption for all Government Fund Types. The budget was prepared in accordance with accounting practices generally accepted in the United States of America. The following procedures are followed in establishing the budgetary data reflected in the basic financial statements:

1. Prior to June 20 of the preceding fiscal year, the District prepares a budget for the next succeeding fiscal year beginning July 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget after ten days' public notice of the meeting has been given.
3. Prior to July 1, the budget is legally enacted through passage of a resolution by the Board.

Once a budget is approved, it can be amended at function and fund level only by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings.

Each amendment must have Board approval. Such amendments are made before the fact, are reflected in the official minutes of the Board and are not made after fiscal year end as required by law.

Each amendment is controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year end.

Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Texas law, appropriations lapse at June 30, and encumbrances outstanding at the time are to be either cancelled or appropriately provided for in the subsequent year's budget. There were no end-of-year outstanding encumbrances that were provided for in the subsequent year's budget.

B. Defined Benefit Pension Plan

A. Changes of Assumptions

Economic Assumptions

- a) The inflation assumption was decreased from 3.00% to 2.50%.
- b) The ultimate merit assumption for long-service employees was decreased from 1.25% to 1.00%.
- c) In accordance with the observed experience, there were small adjustments in the service-based promotional/longevity component of the salary scale.
- d) The payroll growth assumption was lowered from 3.50% to 2.50%.

COMMERCE INDEPENDENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2016

A. Changes of Assumptions (Continued)

Mortality Assumptions

- e) The post-retirement mortality tables for non-disabled retirees were updated to reflect recent TRS member experience. Mortality rates will be assumed to continue to improve in the future using a fully generational approach and Scale BB.
- f) The post-retirement mortality tables for disabled retirees were updated to reflect recent TRS member experience. Mortality rates will be assumed to continue to improve in the future using a fully generational approach and Scale BB.
- g) The pre-retirement mortality tables for active employees were updated to use 90% of the recently published RP-2014 mortality table for active employees. Mortality rates will be assumed to continue to improve in the future using a fully generational approach and Scale BB.

Other Demographic Assumptions

- h) Previously, it was assumed 10% of all members who had contributed in the past 5 years to be an active member. This was an implicit rehire assumption because teachers have historically had a high incidence of terminating employment for a time and then returning to the workforce at a later date. This methodology was modified to add a more explicit valuation of the rehire incidence in the termination liabilities, and therefore these 10% are no longer being counted as active members.
- i) There were adjustments to the termination patterns for members consistent with experience and future expectations. The termination patterns were adjusted to reflect the rehire assumption. The timing of termination decrement was also changed from the middle of the year to the beginning to match the actual pattern in the data.
- j) Small adjustments were made to the retirement patterns for members consistent with experience and future expectations.
- k) Small adjustments to the disability patterns were made for members consistent with experience and future expectations. Two separate patterns were created based on whether the member has 10 years of service or more.
- l) For members that become disabled in the future, it is assumed 20% of them will choose a 100% joint and survivor annuity option.

Actuarial Methods and Policies

- m) The method of using celled data in the valuation process was changed to now using individual data records to allow for better reporting of some items, such as actuarial gains and losses by source.

B. Changes of Benefit Terms

There were no changes of benefit terms that affected measurement of the total pension liability during the measurement period.

OTHER SUPPLEMENTARY INFORMATION

COMMERCE INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF DELINQUENT TAXES RECEIVABLE
 YEAR ENDED JUNE 30, 2016

| Tax Roll Year | Last Ten Periods Ended June 30 | 1 Tax Rates | | 3 Assessed/Appraised Value For School Tax Purposes | 10 Beginning Balance 7/1/2015 | 20 Current Year's Total Levy | 31 Maintenance Tax Collections | 32 Debt Service Tax Collections | 40 Entire Year's Adjustments | 50 Ending Balance 6/30/2016 |
|---------------|--------------------------------|----------------|-------------------|---|----------------------------------|---------------------------------|-----------------------------------|------------------------------------|---------------------------------|--------------------------------|
| | | Maintenance | 2 Debt Service | | | | | | | |
| XXXX | 2007 and Prior Years | Various | Various | Various | \$ 140,134 | \$ - | \$ 4,843 | \$ 980 | \$ (12,235) | \$ 122,076 |
| 2007 | 2008 | 1.040000 | 0.374300 | 428,728,841 | 20,356 | - | 616 | 88 | (2,094) | 17,558 |
| 2008 | 2009 | 1.040000 | 0.368200 | 474,576,971 | 29,096 | - | 244 | 448 | (3,919) | 24,485 |
| 2009 | 2010 | 1.040000 | 0.387200 | 460,208,305 | 33,953 | - | 1,265 | 850 | (5,154) | 26,684 |
| 2010 | 2011 | 1.170000 | 0.425100 | 425,231,429 | 44,531 | - | 2,293 | 1,073 | (5,766) | 35,399 |
| 2011 | 2012 | 1.170000 | 0.426500 | 421,283,515 | 53,277 | - | 2,958 | 2,364 | (6,838) | 41,117 |
| 2012 | 2013 | 1.170000 | 0.413400 | 425,427,128 | 70,151 | - | 6,484 | 3,677 | (7,301) | 52,689 |
| 2013 | 2014 | 1.170000 | 0.421400 | 419,188,073 | 98,401 | - | 20,846 | 7,483 | (1,220) | 68,852 |
| 2014 | 2015 | 1.170000 | 0.453500 | 402,067,244 | 236,153 | - | 65,792 | 25,472 | (45,813) | 99,076 |
| 2015 | 2016 | 1.170000 | 0.435700 | 387,584,862 | - | 6,223,450 | 4,313,497 | 1,603,569 | (56,100) | 250,284 |
| 1000 | TOTALS | | | | \$ 726,052 | \$ 6,223,450 | \$ 4,418,838 | \$ 1,646,004 | \$ (146,440) | \$ 738,220 |

COMMERCE INDEPENDENT SCHOOL DISTRICT
SCHOOL BREAKFAST AND NATIONAL SCHOOL LUNCH PROGRAM
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2016

| Data Control Codes | 1 | | 2 | 3 | 4 |
|---------------------------------------|---|-------------------|-------------------|---|--------------------|
| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) | |
| | Original | Final | | | |
| REVENUES | | | | | |
| 5700 | Local and Intermediate Sources | \$ 144,905 | \$ 144,905 | \$ 108,058 | \$ (36,847) |
| 5800 | State Program Revenues | 4,200 | 4,200 | 5,837 | 1,637 |
| 5900 | Federal Program Revenues | 671,599 | 671,599 | 677,823 | 6,224 |
| 5020 | Total Revenues | \$ 820,704 | \$ 820,704 | \$ 791,718 | \$ (28,986) |
| EXPENDITURES | | | | | |
| Current: | | | | | |
| Support Services - Student (Pupil): | | | | | |
| 0035 | Food Service | \$ 790,419 | \$ 790,419 | \$ 815,941 | \$ (25,522) |
| | Total Support Services - Student (Pupil) | \$ 790,419 | \$ 790,419 | \$ 815,941 | \$ (25,522) |
| 6030 | Total Expenditures | \$ 790,419 | \$ 790,419 | \$ 815,941 | \$ (25,522) |
| 1100 | Excess (Deficiency) of Revenues Over Expenditures | \$ 30,285 | \$ 30,285 | \$ (24,223) | \$ (54,508) |
| Other Financing Sources (Uses) | | | | | |
| 7915 | Transfers In | \$ - | \$ - | \$ 35,798 | \$ 35,798 |
| 7080 | Net Other Financing Sources (Uses) | \$ - | \$ - | \$ 35,798 | \$ 35,798 |
| 1200 | Net Change in Fund Balance | \$ 30,285 | \$ 30,285 | \$ 11,575 | \$ (18,710) |
| 0100 | Fund Balance - Beginning (July 1) | (11,575) | (11,575) | (11,575) | - |
| 3000 | Fund Balance - Ending (June 30) | \$ 18,710 | \$ 18,710 | \$ - | \$ (18,710) |

COMMERCE INDEPENDENT SCHOOL DISTRICT
DEBT SERVICE FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2016

| Data Control Codes | 1 | | 2 | 3 | Variance with Final Budget Positive (Negative) |
|--------------------------|---|---------------------|---------------------|---------------------|---|
| | Budgeted Amounts | | | Actual | |
| | Original | Final | Actual | | |
| REVENUES | | | | | |
| 5700 | Local and Intermediate Sources | \$ 1,645,118 | \$ 1,645,118 | \$ 1,680,857 | \$ 35,739 |
| 5800 | State Program Revenues | 430,392 | 430,392 | 502,734 | 72,342 |
| 5020 | Total Revenues | \$ 2,075,510 | \$ 2,075,510 | \$ 2,183,591 | \$ 108,081 |
| EXPENDITURES | | | | | |
| Debt Service: | | | | | |
| 0071 | Principal on Long-term Debt | \$ 915,000 | \$ 915,000 | \$ 915,000 | \$ - |
| 0072 | Interest on Long-term Debt | 1,159,010 | 1,159,010 | 971,052 | 187,958 |
| 0073 | Bond Issuance Costs and Fees | 1,500 | 1,500 | 600 | 900 |
| | Total Debt Service | \$ 2,075,510 | \$ 2,075,510 | \$ 1,886,652 | \$ 188,858 |
| 6030 | Total Expenditures | \$ 2,075,510 | \$ 2,075,510 | \$ 1,886,652 | \$ 188,858 |
| 1100 | Excess (Deficiency of Revenues Over Expenditures) | \$ - | \$ - | \$ 296,939 | \$ 296,939 |
| 1200 | Net Change in Fund Balance | \$ - | \$ - | \$ 296,939 | \$ 296,939 |
| 0100 | Fund Balance - Beginning (July 1) | 611,044 | 611,044 | 611,044 | - |
| 3000 | Fund Balance - Ending (June 30) | \$ 611,044 | \$ 611,044 | \$ 907,983 | \$ 296,939 |

COMMERCE INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF REQUIRED RESPONSES TO SELECTED SCHOOL FIRST INDICATORS
 AS OF JUNE 30, 2016

| <u>Data Control Codes</u> | | <u>Response</u> |
|-----------------------------------|---|-----------------|
| SF2 | Were there any disclosures in the Annual Financial Report and/or other Sources of information concerning nonpayment of any terms of any debt Agreement at fiscal year end? | No |
| SF4 | Was there an unmodified opinion in the annual Financial Report on the Financial statements as a whole? | Yes |
| SF5 | Did the Annual Financial Report disclose any instances of material Weaknesses in internal controls over financial reporting and compliance For local, state, or federal funds? | No |
| SF6 | Was there any disclosure in the Annual Financial Report of material noncompliance for grants, contracts, and laws related to local, state or federal funds? | No |
| SF7 | Did the school district make timely payments to the Teachers Retirement System (TRS), Texas Workforce Commission (TWC), Internal Revenue Service (IRS), and other government agencies? | Yes |
| SF8 | Did the school district not receive an adjusted repayment schedule for more Than one fiscal year for an over allocation of Foundation School Program (FSP) funds as a result of a financial hardship? | Yes |
| SF10 | Total accumulated accretion on CABs included in government-wide financial Statements at fiscal year-end. | \$ -0- |
| SF11 | Net Pension Assets (1920) at fiscal year-end. | \$ -0- |
| SF12 | Net Pension Liabilities (2540) at fiscal year-end. | \$ 3,949,613 |
| SF13 | Pension Expense (6147) at fiscal year-end. | \$ 255,618 |

FEDERAL AWARDS SECTION

COMMERCE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2016

| Federal Grantor/ Pass Through Grantor/ Program Title | (02) Federal CFDA Number | (02A) Pass-Through Grantor's Number | (03) Expenditures, Indirect Costs and Refunds |
|--|-----------------------------------|--|--|
| <u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u> | | | |
| Passed through Greenville Independent School District: | | | |
| Head Start | 93.600 | 87CH6997/16 | \$ 137,047 |
| Total Department of Health and Human Services | | | \$ 137,047 |
| <u>U.S. DEPARTMENT OF EDUCATION</u> | | | |
| Passed through the Texas Education Agency: | | | |
| ESEA Title I Part A - Improving Basic Programs | 84.010 | 16610101116903 | \$ 421,251 |
| IDEA-B Formula (A) * | 84.027 | 166600011169036600 | 1,448,095 |
| Career & Technology - Basic Grant | 84.048 | 16420006116903 | 94,117 |
| IDEA-B Preschool (A) * | 84.173 | 166610011169036610 | 17,889 |
| ESEA Title II Part A - Teacher & Principal Training | 84.367 | 16694501116903 | 76,108 |
| Total passed through the Texas Education Agency | | | \$ 2,057,460 |
| Passed through the Education Service Center, Region X: | | | |
| ESEA Title III Part A - LEP | 84.365 | 16671001057950 | 17,533 |
| Total Department of Education | | | \$ 2,074,993 |
| <u>U.S. DEPARTMENT OF AGRICULTURE</u> | | | |
| Passed through the Texas Department of Agriculture: | | | |
| School Breakfast Program (B) | 10.553 | 0600 | \$ 207,248 |
| National School Lunch Program (B) | 10.555 | 0600 | 416,253 |
| Commodity Food Distribution | 10.565 | 116005A | 54,322 |
| Total Department of Agriculture | | | \$ 677,823 |
| TOTAL EXPENDITURES OF FEDERAL AWARDS | | | \$ 2,889,863 |

* Indicates Major Program
A - Special Education Cluster
B - Child Nutrition Cluster

The accompanying notes to the Schedule of Expenditures of Federal Awards are an integral part of this statement.

COMMERCE INDEPENDENT SCHOOL DISTRICT
 NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED JUNE 30, 2016

A. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Commerce Independent School District and is presented on the modified accrual basis of accounting. Expenditures are recognized in the accounting period in which a fund liability occurs. Funds are considered earned to the extent of expenditures made.

The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

B. Food Distribution

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. No provision has been made for amounts on hand at June 30, 2016.

C. Reconciliation of Federal Revenue with Financial Statements

The District records amounts received from the federal government or other recipients of federal grant as federal revenue in the financial statements. This reconciliation identifies the difference between the financial statement revenues and the schedule of expenditures of federal awards:

| | | |
|--|--------|----------------------|
| Total Federal Expenditures (Exhibit K-1) | \$ | 2,889,863 |
| Indirect Cost | | |
| IDEA-B Formula (84.027) | | 26,767 |
| School Health and Resource | | 97,139 |
| Summer School LEP | | 2,226 |
| E-Rate Reimbursements | | <u>140,487</u> |
| Federal Revenue (Exhibit C-3) | \$ | <u>3,156,482</u> |