

COMMERCE INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2011

Commerce Independent School District
Annual Financial Report
For The Year Ended June 30, 2011

TABLE OF CONTENTS

	<u>Page</u>	<u>Exhibit</u>
INTRODUCTORY SECTION		
Certificate of Board.....	1	
FINANCIAL SECTION		
Independent Auditor's Report on Financial Statements.....	2	
Management's Discussion and Analysis (Required Supplementary Information).....	4	
<u>Basic Financial Statements</u>		
Government-wide Financial Statements:		
Statement of Net Assets.....	12	A-1
Statement of Activities.....	13	B-1
Fund Financial Statements:		
Balance Sheet - Governmental Funds.....	14	C-1
Reconciliation of the Governmental Funds		
Balance Sheet to the Statement of Net Assets.....	16	C-1R
Statement of Revenues, Expenditures, and Changes in		
Fund Balances - Governmental Funds.....	17	C-2
Reconciliation of the Statement of Revenues, Expenditures, and Changes in		
Fund Balances of Governmental Funds to the Statement of Activities.....	19	C-3
Statement of Fiduciary Net Assets - Fiduciary Funds.....	20	E-1
Statement of Changes in Fiduciary Net Assets - Fiduciary Funds.....	21	E-2
Notes to the Financial Statements	22	
<u>Required Supplementary Information:</u>		
Budgetary Comparison Schedules:		
General Fund.....	37	G-1
Notes to Required Supplementary Information.....	39	
<u>Budgetary Comparison Schedules as Supplementary Information:</u>		
Capital Projects Funds:		
Budgetary Comparison Schedule:		
Capital Projects Fund.....	40	H-1
OTHER SUPPLEMENTARY INFORMATION SECTION		
Schedule of Delinquent Taxes Receivable.....	41	J-1
Schedule of Expenditures for Computation of Indirect Cost for 2011-2012.....	43	J-2
Budgetary Comparison Schedules Required by the Texas Education Agency:		
National School Breakfast and Lunch Program.....	44	J-3

Commerce Independent School District
Annual Financial Report
For The Year Ended June 30, 2011

TABLE OF CONTENTS

	<u>Page</u>	<u>Exhibit</u>
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	45	
Report on Compliance with Requirements That Could Have a Direct and Material Effect on each Major Program and on Internal Control over Compliance In Accordance With OMB Circular A-133.....	47	
Schedule of Findings and Questioned Costs	49	
Summary Schedule of Prior Audit Findings.....	51	
Corrective Action Plan.....	52	
Schedule of Expenditures of Federal Awards	53	K-1
Notes to the Schedule of Expenditures of Federal Awards.....	54	
Schedule of Required Responses to Selected School First Indicators.....	55	K-2

Introductory Section

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 annual financial reports of the above named school district were reviewed and (check one) approved _____disapproved for the year ended June 30, 2011, at a meeting of the board of trustees of such school district on the 15th day of December, 2011.

Signature of Board Secretary

Signature of Board President

If the board of trustees disapproved of the auditor's report, the reason(s) for disapproving it is (are):
(attach list as necessary)

Financial Section

Malnory, McNeal & Company, PC

Certified Public Accountants

Mark W. Malnory, CPA
Johnna W. McNeal, CPA
Beverly Smith, CPA

Members of
American Institute of Certified Public Accountants
Texas Society of Certified Public Accountants
AICPA Governmental Audit Quality Center

Elizabeth Hamm, CPA
E. J. Musharbash, CPA
Melissa Darrow, CPA

Independent Auditor's Report on Financial Statements

Board of Trustees
Commerce Independent School District
PO Box 1251
Commerce, Texas 75429

Members of the Board of Trustees:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Commerce Independent School District as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Commerce Independent School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Commerce Independent School District as of June 30, 2011, and the respective changes in financial position, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2011, on our consideration of Commerce Independent School 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information identified as Required Supplementary Information in the table of contents 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commerce Independent School District's financial statements as a whole. The individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The accompanying other supplementary information is presented for purposes of additional analysis and is also not a required part of the financial statements. The individual nonmajor fund financial statements and other supplementary information 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Maloney, McNeal & Company PC

Certified Public Accountants

December 1, 2011
Paris, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Commerce Independent School District's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2011. Please read it in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

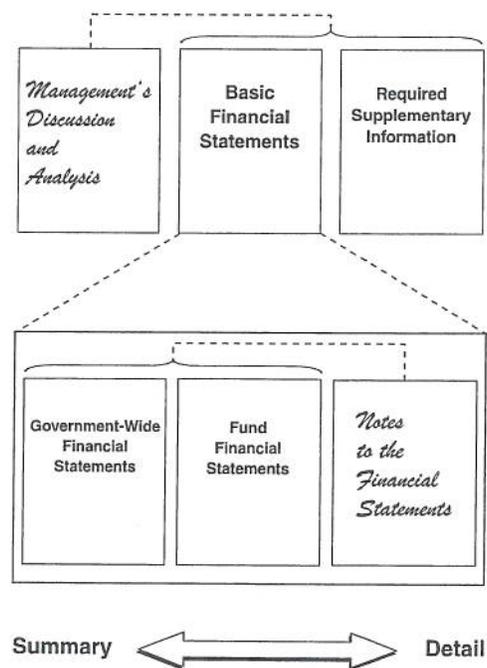
- The District's total combined net assets were \$1,507,854 at June 30, 2011.
- During the year, the District's expenses were \$511,938 more than the \$19,560,328 generated in taxes and other revenues for governmental activities.
- The total cost of the District's programs was virtually unchanged from last year, and no new programs were added this year.
- The general fund reported a fund balance this year of \$2,547,140.

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:

- 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.
- *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.

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



The financial statements also include notes that explain some of the information in the 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 financial statements. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

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

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 at the bottom of the governmental funds statement, or on the subsequent page, that explain the relationship (or differences) between them.

- *Fiduciary funds*—The District is the trustee, or *fiduciary*, for certain funds. It is also responsible for other assets that—because of a trust arrangement—can be used only for the trust beneficiaries. 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 and a statement of changes in 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

Net assets. The District's combined net assets were \$1,507,854 at June 30, 2011. (See Table A-1).

Table A-1
Commerce ISD's Net Assets

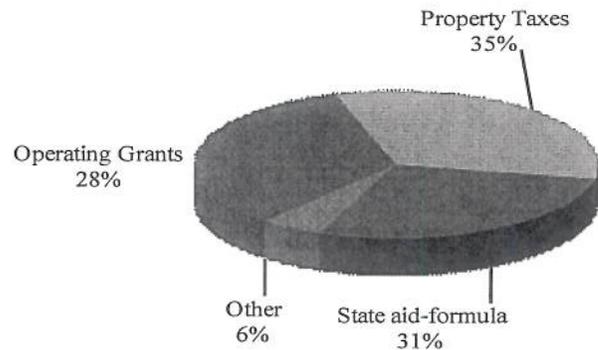
	<u>2011</u>	<u>Governmental Activities</u>	<u>2010</u>
Current assets:			
Cash and Cash Equivalents	\$1,275,848		\$1,279,339
Investments	3,033,459		4,013,645
Property Tax Receivable (Net)	676,966		697,118
Due from Other Governments	3,507,324		2,649,281
Internal Balances	--		212,415
Due From Fiduciary	--		347,629
Other Receivables	56,035		68,097
Inventories-Supplies and Materials	72,244		43,615
Deferred Expenses	1,630		920
Capitalized Bond & Other Debt Issuance Costs	305,520		317,271
Capital Assets:			
Land	312,850		312,850
Buildings and Improvements, Net	25,834,826		26,773,879
Furniture and Equipment, Net	986,856		1,157,005
Construction in Progress	--		56,154
Total Assets:	<u>36,063,558</u>		<u>37,929,218</u>
Current liabilities:			
Accounts Payable	285,717		500,449
Interest Payable	490,424		490,424
Accrued Wages and Liabilities Payable	1,532,113		1,536,712

Due to Fiduciary	--	560,045
Due to Other Governments	28,037	25,037
Unearned Revenue	5,146	
Long-term liabilities:		
Due within one year	3,351,384	991,541
Due in more than one year	28,862,883	32,000,860
Total Liabilities	<u>34,555,704</u>	<u>36,105,068</u>
Net Assets:		
Invested in capital assets	(3,880,928)	(2,164,704)
Restricted for:		
Federal and State Programs	17,201	--
Debt Service	2,805,421	2,795,950
Capital Projects	89,122	208,155
Other Purposes	208,155	--
Unrestricted	2,268,883	984,748
Total Net Assets	<u>\$1,507,854</u>	<u>\$ 1,824,149</u>

Changes in net assets. The District's total revenues were \$19,560,328. A significant portion, 35 percent, of the District's revenue comes from taxes. (See Figure A-2.) 31 percent comes from state aid – formula grants, and 28 percent is from operating grants. And another 6 relates to investment earnings and charges for services.

The total cost of all programs and services was 20,072,266; 50 percent of these costs are for instructional and student services.

Figure A-2 District Sources of Revenue for Fiscal Year 2011



Governmental Activities

- Property tax rates increased eleven percent due to the tax ratification election. This increase coupled with their decreasing values enabled an increase of tax revenues to \$6,867,559.
- The District remodeled an old elementary building into new offices for the administration, Tri-County Cooperative, technology and food service as well as relocating the DAEP and Summit Campuses.

Table A-2
Changes in Commerce ISD's Net Assets

	Governmental <u>Activities</u>	
	<u>2011</u>	<u>2010</u>
Program Revenues:		
Charges for Services	\$ 983,119	\$ 1,031,930
Operating Grants and Contributions	5,421,843	6,695,999
General Revenues		
Property Taxes	6,867,559	6,493,586
State Aid – Formula	6,088,125	5,592,215
Investment Earnings	19,789	22,303
Other	179,893	7,489
Total Revenues	<u>19,560,328</u>	<u>19,843,522</u>
Program Expenses:		
Instruction	9,832,085	11,483,798
Instructional Resources and Media Services	241,768	249,403
Curriculum Dev. And Instructional Staff Dev.	335,497	287,230
Instructional Leadership	305,585	284,981
School Leadership	916,272	996,882
Guidance, Counseling and Evaluation Services	1,421,298	1,463,370
Health Services	112,524	123,635
Student (Pupil) Transportation	634,052	568,311
Food Services	920,174	892,727
Curricular/Extracurricular Activities	529,279	536,442
General Administration	562,813	594,611
Plant Maintenance & Operations	1,937,712	1,947,899
Security & Monitoring Services	57,286	62,335
Data Processing Services	366,357	411,646
Interest on Long Term Debt	1,538,847	1,591,401
Bond Insurance Cost and Fees	14,841	14,817
Capital Outlay	30,923	74,239
Payments to Fiscal Agent/Member Dist. - SSA	191,892	261,247
Other Intergovernmental Charges	123,061	132,515
Total Expenses	<u>20,072,266</u>	<u>21,977,489</u>
Special and Extraordinary Items:		
Special Item Outflow	--	(253,655)
Excess (Deficiency) Before Other Resources	--	(2,387,622)
Increase (Decrease) in Net Assets	<u>\$ (511,938)</u>	<u>\$ (2,387,622)</u>

The Table A-3 presents the cost of each of the District’s largest functions as well as each 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 \$20,072,266.
- However, the amount that our taxpayers paid for these activities through property taxes was only \$6,867,559.
- Some of the cost was paid by those who directly benefited from the programs \$983,119 or by grants and contributions \$5,421,843.

**Table A-3
Net Cost of Selected District Functions**

	<u>Total Cost of Services</u>		<u>Net Cost of Services</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Instruction	\$9,832,085	\$11,483,798	(\$6,349,232)	(\$6,716,922)
Guidance, Counseling, & Evaluation Services	\$1,421,298	\$1,463,370	(\$370,841)	(\$332,193)
Plant Maintenance & Operations	\$1,937,712	\$1,947,899	(\$1,891,743)	(\$1,856,285)
Debt Service – Interest & Fiscal Charges	\$1,538,847	\$1,591,401	(\$1,305,000)	(\$1,518,626)

FINANCIAL ANALYSIS OF THE DISTRICT’S FUNDS

Revenues from governmental fund types totaled 19,560,328, a decrease of 1.4% under the preceding year. State revenues are estimated to decrease with fewer stimulus funds and if enrollment declines.

General Fund Budgetary Highlights

Over the course of the year, the District revised its budget numerous times. Even with these adjustments, actual expenditures were \$182,462 under final budget amounts. The most significant positive variance resulted from staffing. Staffing is budgeted for full employment throughout the full year. Budget amounts for vacant positions throughout the year are not eligible to budget revisions.

On the other hand, resources available were \$159,701 below the final budgeted amount. As noted earlier:

- Property tax collections were less than expected.
- Decreased average daily attendance caused state funding to fall below beginning budget amounts for the current year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2011, the District had invested \$27,134,532 in a broad range of capital assets, including land, equipment, buildings, and vehicles. (See Table A-4.)

Table A-4
District's Capital Assets

	Governmental Activities	
	2010	2009
Land	\$312,850	\$ 312,850
Construction in Progress	--	56,155
Buildings and improvements	40,703,273	40,509,946
Vehicles	1,562,525	1,562,525
Equipment	1,135,615	1,043,132
Totals at historical cost	<u>43,714,263</u>	<u>43,484,608</u>
Total accumulated depreciation	<u>16,579,731</u>	<u>15,184,720</u>
Net capital assets	<u>\$27,134,532</u>	<u>\$28,299,888</u>

Long Term Debt

At year-end the District had \$32 million in bonds and notes outstanding as shown in Table A-5. More detailed information about the District's debt is presented in the notes to the financial statements.

Table A-5
District's Outstanding Bonds and Notes Payable

	Governmental Activities	
	2010	2009
Bonds Payable	\$ 28,055,000	\$ 28,135,000
Capital Appreciation Bonds	261,772	459,552
Discount on Current Interest Bonds	(623,878)	(647,873)
Unamortized Gain (Loss) of Defeasance of Debt	(30,037)	(31,706)
Premium Capital Appreciation Bonds	821,765	1,208,477
Accretion on Appreciation Bonds	1,162,004	1,146,757
Capital Leases Payable	67,641	222,194
Note Payable	<u>2,500,000</u>	<u>2,500,000</u>
Total bonds & notes payable	<u>\$ 32,214,267</u>	<u>\$ 32,992,401</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Appraised value used for the 2012 budget preparation is down \$24.6 million, or 6% from the prior year.
- General operating fund spending per student increases in the 2012 budget from \$7,961 to \$8,146. This is a 2% increase. The general fund spending increased from \$11,803,981 in 2011 to \$12,077,875 in 2012. This is an increase of \$273,894.
- The District's 2012 refined average daily attendance is expected to remain steady.

These indicators were taken into account when adopting the general fund budget for 2012. Amounts available for appropriation in the general fund budget are \$12.2 million, a increase of 2.6 percent over the final 2011 budget of \$11.9 million. Property taxes will decrease due to the declining property values.

Expenditures are budgeted to increase 3.2 percent to \$12 million. The District has made no major program changes to the 2012 budget.

If these estimates are realized, the District's budgetary general fund balance is expected to increase by \$150,000 by the close of 2012.

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 the District's Business Services Department at the District's Administration Offices 903-886-3751.

Basic Financial Statements

COMMERCE INDEPENDENT SCHOOL DISTRICT*STATEMENT OF NET ASSETS**JUNE 30, 2011*

Data Control Codes	1	Governmental Activities
ASSETS:		
1110	<i>Cash and Cash Equivalents</i>	\$ 1,275,848
1120	<i>Current Investments</i>	3,033,459
1225	<i>Property Taxes Receivable (Net)</i>	676,966
1240	<i>Due from Other Governments</i>	3,507,324
1290	<i>Other Receivables (Net)</i>	56,035
1300	<i>Inventories</i>	72,244
1410	<i>Deferred Expenses</i>	1,630
1420	<i>Capitalized Bond and Other Debt Issuance Costs</i>	305,520
Capital Assets:		
1510	<i>Land</i>	312,850
1520	<i>Buildings and Improvements, Net</i>	25,834,826
1530	<i>Furniture and Equipment, Net</i>	986,856
1000	Total Assets	<u>36,063,558</u>
LIABILITIES:		
2110	<i>Accounts Payable</i>	285,717
2140	<i>Interest Payable</i>	490,424
2165	<i>Accrued Liabilities</i>	1,532,113
2180	<i>Due to Other Governments</i>	28,037
2300	<i>Unearned Revenue</i>	5,146
Noncurrent Liabilities:		
2501	<i>Due Within One Year</i>	3,351,384
2502	<i>Due in More Than One Year</i>	28,862,883
2000	Total Liabilities	<u>34,555,704</u>
NET ASSETS		
3200	Invested in Capital Assets, Net of Related Debt Restricted For:	(3,880,928)
3820	Federal and State Programs	17,201
3850	Debt Service	2,805,421
3860	Capital Projects	89,122
3890	Other Purposes	208,155
3900	Unrestricted	2,268,883
3000	Total Net Assets	<u>\$ 1,507,854</u>

The accompanying notes are an integral part of this statement.

COMMERCE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011

Data Control Codes	Functions/Programs	1	3	4	Net (Expense) Revenue and Changes in Net Assets
		Expenses	Program Revenues		Governmental Activities
			Charges for Services	Operating Grants and Contributions	
	Governmental Activities:				
11	Instruction	\$ 9,832,085	\$ 317,214	\$ 3,165,639	\$ (6,349,232)
12	Instructional Resources and Media Services	241,768	--	11,370	(230,398)
13	Curriculum and Staff Development	335,497	594	184,666	(150,237)
21	Instructional Leadership	305,585	220,357	83,942	(1,286)
23	School Leadership	916,272	--	55,484	(860,788)
31	Guidance, Counseling, & Evaluation Services	1,421,298	174,678	875,779	(370,841)
33	Health Services	112,524	--	6,597	(105,927)
34	Student Transportation	634,052	--	20,643	(613,409)
35	Food Service	920,174	143,943	689,048	(87,183)
36	Cocurricular/Extracurricular Activities	529,279	62,071	16,408	(450,800)
41	General Administration	562,813	42,894	43,197	(476,722)
51	Plant Maintenance and Operations	1,937,712	21,368	24,601	(1,891,743)
52	Security and Monitoring Services	57,286	--	3,189	(54,097)
53	Data Processing Services	366,357	--	7,389	(358,968)
72	Interest on Long-term Debt	1,538,847	--	233,847	(1,305,000)
73	Bond Issuance Costs and Fees	14,841	--	--	(14,841)
81	Capital Outlay	30,923	--	--	(30,923)
93	Payments Related to Shared Services Arrangements	191,892	--	27	(191,865)
99	Other Intergovernmental Charges	123,061	--	17	(123,044)
TG	Total Governmental Activities	<u>20,072,266</u>	<u>983,119</u>	<u>5,421,843</u>	<u>(13,667,304)</u>
TP	Total Primary Government	<u>\$ 20,072,266</u>	<u>\$ 983,119</u>	<u>\$ 5,421,843</u>	<u>(13,667,304)</u>
	General Revenues:				
MT	Property Taxes, Levied for General Purposes				5,043,022
DT	Property Taxes, Levied for Debt Service				1,824,537
IE	Investment Earnings				19,789
GC	Grants and Contributions Not Restricted to Specific Programs				6,088,125
MI	Miscellaneous				179,893
TR	Total General Revenues				<u>13,155,366</u>
CN	Change in Net Assets				(511,938)
NB	Net Assets - Beginning				1,824,148
PA	Prior Period Adjustment				195,644
	Net Assets - Beginning, as Restated				2,019,792
NE	Net Assets - Ending				<u>\$ 1,507,854</u>

The accompanying notes are an integral part of this statement.

COMMERCE INDEPENDENT SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2011

Data Control Codes	10 General Fund	IDEA-B Formula
ASSETS:		
1110 Cash and Cash Equivalents	\$ --	\$ 387,877
1120 Current Investments	900,893	--
1225 Taxes Receivable, Net	523,006	--
1240 Due from Other Governments	2,372,480	367,637
1260 Due from Other Funds	1,123,135	--
1290 Other Receivables	30,843	--
1300 Inventories	43,615	--
1410 Deferred Expenditures	800	--
1000 Total Assets	<u>\$ 4,994,772</u>	<u>\$ 755,514</u>
LIABILITIES:		
Current Liabilities:		
2110 Accounts Payable	\$ 198,378	\$ 3,672
2120 Short-Term Debt Payable	125,351	--
2150 Payroll Deductions & Withholdings	81,361	17,380
2160 Accrued Wages Payable	780,664	198,621
2170 Due to Other Funds	738,872	535,841
2180 Due to Other Governments	--	--
2300 Deferred Revenue	523,006	--
2000 Total Liabilities	<u>2,447,632</u>	<u>755,514</u>
FUND BALANCES:		
Nonspendable Fund Balances:		
3410 Inventories	43,615	--
3415 Long-Term Loans/Notes Receivable	--	--
Restricted Fund Balances:		
3450 Federal/State Funds Grant Restrictions	--	--
3470 Capital Acquisitions & Contractual Obligations	--	--
3490 Other Restrictions of Fund Balance	1,925	--
Committed Fund Balances:		
3545 Other Committed Fund Balance	--	--
3600 Unassigned	2,501,600	--
3000 Total Fund Balances	<u>2,547,140</u>	<u>--</u>
4000 Total Liabilities and Fund Balances	<u>\$ 4,994,772</u>	<u>\$ 755,514</u>

The accompanying notes are an integral part of this statement.

50 Debt Service Fund	Other Governmental Funds	98 Total Governmental Funds
\$ 729,772	\$ 158,200	\$ 1,275,849
2,075,649	56,917	3,033,459
153,960	--	676,966
--	767,207	3,507,324
--	521,112	1,644,246
--	25,192	56,035
--	28,629	72,244
--	830	1,631
<u>\$ 2,959,381</u>	<u>\$ 1,558,087</u>	<u>\$ 10,267,754</u>
\$ --	\$ 83,667	\$ 285,717
--	--	125,351
--	26,385	125,126
--	302,351	1,281,636
--	369,533	1,644,246
--	28,037	28,037
153,960	5,145	682,111
<u>153,960</u>	<u>815,118</u>	<u>4,172,224</u>
--	--	43,615
2,805,421	--	2,805,421
--	17,201	17,201
--	89,122	89,122
--	618,404	620,329
--	18,242	18,242
--	--	2,501,600
<u>2,805,421</u>	<u>742,969</u>	<u>6,095,530</u>
<u>\$ 2,959,381</u>	<u>\$ 1,558,087</u>	<u>\$ 10,267,754</u>

COMMERCE INDEPENDENT SCHOOL DISTRICT
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2011

Total fund balances - governmental funds balance sheet	\$ 6,095,530
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not reported in the funds.	27,134,532
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	676,965
Payables for bond principal which are not due in the current period are not reported in the funds.	(29,478,776)
Payables for capital leases which are not due in the current period are not reported in the funds.	(67,641)
Payables for bond interest which are not due in the current period are not reported in the funds.	(490,424)
Payables for notes which are not due in the current period are not reported in the funds.	(2,500,000)
Premiums on Capital Appreciation Bonds are capitalized and amortized over the life of the bonds.	(821,765)
Discounts on current interest bonds are capitalized and amortized over the life of the bonds.	623,878
Bond issuance costs are capitalized on the SOA and amortized over life of the bond.	305,520
Unamortized loss on defeasance of bonds is capitalized in the SNA.	30,035
	<hr/>
Net assets of governmental activities - Statement of Net Assets	\$ <u>1,507,854</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
FOR THE YEAR ENDED JUNE 30, 2011

Data Control Codes	10	General Fund	IDEA-B Formula
REVENUES:			
5700	<i>Local and Intermediate Sources</i>	\$ 5,276,887	\$ --
5800	<i>State Program Revenues</i>	6,508,679	--
5900	<i>Federal Program Revenues</i>	--	1,504,585
5020	Total Revenues	<u>11,785,566</u>	<u>1,504,585</u>
EXPENDITURES:			
Current:			
0011	<i>Instruction</i>	5,552,273	708,595
0012	<i>Instructional Resources and Media Services</i>	235,234	--
0013	<i>Curriculum and Staff Development</i>	84,969	--
0021	<i>Instructional Leadership</i>	5,845	49,263
0023	<i>School Leadership</i>	903,458	--
0031	<i>Guidance, Counseling, & Evaluation Services</i>	384,393	746,727
0033	<i>Health Services</i>	110,698	--
0034	<i>Student Transportation</i>	521,827	--
0035	<i>Food Service</i>	--	--
0036	<i>Cocurricular/Extracurricular Activities</i>	522,442	--
0041	<i>General Administration</i>	498,351	--
0051	<i>Plant Maintenance and Operations</i>	1,891,365	--
0052	<i>Security and Monitoring Services</i>	53,272	--
0053	<i>Data Processing Services</i>	335,312	--
0071	<i>Principal on Long-term Debt</i>	195,783	--
0072	<i>Interest on Long-term Debt</i>	11,344	--
0073	<i>Bond Issuance Costs and Fees</i>	--	--
0081	<i>Capital Outlay</i>	--	--
0093	<i>Payments to Shared Service Arrangements</i>	191,892	--
0099	<i>Other Intergovernmental Charges</i>	123,061	--
6030	Total Expenditures	<u>11,621,519</u>	<u>1,504,585</u>
1100	Excess (Deficiency) of Revenues Over (Under)		
1100	Expenditures	<u>164,047</u>	<u>--</u>
Other Financing Sources and (Uses):			
7912	<i>Sale of Real or Personal Property</i>	245	--
7913	<i>Proceeds from Capital Leases</i>	41,230	--
7915	<i>Transfers In</i>	--	--
8911	<i>Transfers Out</i>	(31,976)	--
7080	Total Other Financing Sources and (Uses)	<u>9,499</u>	<u>--</u>
1200	Net Change in Fund Balances	<u>173,546</u>	<u>--</u>
0100	Fund Balances - Beginning	2,177,950	--
1300	Prior Period Adjustment	195,644	--
	Fund Balances - Beginning, as Restated	2,373,594	--
3000	Fund Balances - Ending	<u>\$ 2,547,140</u>	<u>\$ --</u>

The accompanying notes are an integral part of this statement.

50 Debt Service Fund	Other Governmental Funds	98 Total Governmental Funds
\$ 1,844,036	\$ 949,345	\$ 8,070,268
233,845	147,307	6,889,831
--	3,115,552	4,620,137
<u>2,077,881</u>	<u>4,212,204</u>	<u>19,580,236</u>
--	2,470,114	8,730,982
--	--	235,234
--	250,528	335,497
--	250,477	305,585
--	--	903,458
--	289,331	1,420,451
--	--	110,698
--	--	521,827
--	896,483	896,483
--	23,534	545,976
--	62,486	560,837
--	23,196	1,914,561
--	--	53,272
--	--	335,312
277,780	--	473,563
1,873,304	--	1,884,648
3,090	--	3,090
--	168,095	168,095
--	--	191,892
--	--	123,061
<u>2,154,174</u>	<u>4,434,244</u>	<u>19,714,522</u>
<u>(76,293)</u>	<u>(222,040)</u>	<u>(134,286)</u>
--	--	245
--	--	41,230
--	31,976	31,976
--	--	(31,976)
<u>--</u>	<u>31,976</u>	<u>41,475</u>
<u>(76,293)</u>	<u>(190,064)</u>	<u>(92,811)</u>
2,881,714	933,033	5,992,698
--	--	195,644
2,881,714	933,033	6,188,341
<u>\$ 2,805,421</u>	<u>\$ 742,969</u>	<u>\$ 6,095,530</u>

COMMERCE INDEPENDENT SCHOOL DISTRICT
*RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2011*

Net change in fund balances - total governmental funds	\$ (92,811)
Amounts reported for governmental activities in the Statement of Activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	229,655
The depreciation of capital assets used in governmental activities is not reported in the funds.	(1,395,011)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	(20,153)
Expenses not requiring the use of current financial resources are not reported as expenditures in the funds.	(1,669)
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	277,780
Repayment of capital lease principal is an expenditure in the funds but is not an expense in the SOA.	195,783
Bond issuance costs and similar items are amortized in the SOA but not in the funds.	(11,751)
The accretion of interest on capital appreciation bonds is not reported in the funds.	(15,247)
Bond premiums are reported in the funds but not in the SOA.	362,717
Proceeds of leases do not provide revenue in the SOA, but are reported as current resources in the funds.	<u>(41,230)</u>
Change in net assets of governmental activities - Statement of Activities	<u>\$ (511,938)</u>

The accompanying notes are an integral part of this statement.

COMMERCE INDEPENDENT SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS

FIDUCIARY FUNDS

JUNE 30, 2011

Data Control Codes	Private-purpose Trust Fund	Agency Fund Student Activity
ASSETS:		
1110 <i>Cash and Cash Equivalents</i>	\$ (4,749)	\$ 48,577
1120 <i>Current Investments</i>	145,151	--
1290 <i>Other Receivables</i>	1,425	2,085
1000 Total Assets	<u>\$ 141,827</u>	<u>\$ 50,662</u>
LIABILITIES:		
Current Liabilities:		
2110 <i>Accounts Payable</i>	\$ --	\$ 6,144
2190 <i>Due to Student Groups</i>	--	44,518
2000 Total Liabilities	<u>--</u>	<u>50,662</u>
NET ASSETS		
3800 <i>Held in Trust</i>	141,827	--
3000 Total Net Assets	<u>\$ 141,827</u>	<u>\$ --</u>

The accompanying notes are an integral part of this statement.

COMMERCE INDEPENDENT SCHOOL DISTRICT

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FIDUCIARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2011

	Private- Purpose Trusts
Additions:	
Investment Income	\$ 240
Gifts and Bequests	1,470
Total Additions	<u>1,710</u>
Deductions:	
Scholarship Awards	<u>5,800</u>
Total Deductions	<u>5,800</u>
Change in Net Assets	(4,090)
Net Assets-Beginning of the Year	145,917
Net Assets-End of the Year	<u>\$ 141,827</u>

The accompanying notes are an integral part of this statement.

COMMERCE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

A. Summary of Significant Accounting Policies

The basic financial statements of Commerce Independent School District (the "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 ("Resource 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 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 ("TEA") or to the State Board of Education are reserved for the Board, and the TEA may not substitute its judgment for the lawful exercise of those powers and duties by the Board. The District receives funding from local, state and federal government sources and must comply with the requirements of those funding entities. However, the District is not included in any other governmental "reporting entity" as defined by the GASB in its Statement No. 14, "The Financial Reporting Entity," as revised by GASB Statement No. 39, and there are no component units included within the reporting entity.

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

Government-wide Financial Statements: The statement of net assets 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 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.

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.

IDEA-B Formula Special Revenue Fund-This fund is used to account for the federal grant proceeds and expenditures related to the IDEA-B Formula grant (CFDA #84.027). Revenue is recognized when grant money is expended.

Debt Service Fund: This fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

COMMERCE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

In addition, the District reports the following fund types:

Special Revenue Fund: 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 Federal Special Revenue Fund, and sometimes unused balances must be returned to grantor at the close of specified project periods.

Private-Purpose Trust Funds: These funds are used to report trust arrangements under which principal and income benefit individuals, private organizations, or other governments not reported in other fiduciary fund types.

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.

Fiduciary funds are reported in the fiduciary fund financial statements. However, because their assets are held in a trustee or agent capacity and are therefore not available to support District programs, these funds are not included in the government-wide statements.

b. Measurement Focus, Basis of Accounting

Government-wide and Fiduciary Fund Financial Statements: These financial statements are reported using the economic resources measurement focus. They 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 does not consider revenues collected after its year-end to be available in the current period. 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 general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases 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.

3. Financial Statement Amounts

a. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property 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 year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the

COMMERCE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available when they become due or past due and receivable within the current period.

Allowances for uncollectible tax receivables within the General and Debt Service Funds are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

b. Inventories and Prepaid Items

The District records purchases of supplies as expenditures, utilizing the purchase method of accounting for inventory in accordance with the Resource Guide.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

c. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed 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>
Infrastructure	30
Buildings	50
Building Improvements	5-20
Vehicles	2-15
Office Equipment	3-15
Computer Equipment	3-15

d. 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.

e. Interfund Activity

Interfund activity results from loans, services 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 "Transfers" 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.

COMMERCE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

f. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of management's estimates.

g. Data Control Codes

Data Control Codes appear in the rows and above the columns of certain financial statements. The TEA requires the display of these codes in the financial statements filed with TEA in order to insure accuracy in building a statewide database for policy development and funding plans.

h. Debt Related Intangibles

Bond issuance cost are amortized in the government wide financials over the life of the related bond using the straight line method. Premiums and discounts are amortized over the life of the related bond using the interest method or the straight line method if the straight line method does not materially differ from the interest method. The gain or loss on the defeasance of debt is amortized over the remaining life of the defeased debt or the life of the new debt, whichever is shorter, using the straight line method.

i. 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 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.

Committed Fund Balance - represents amounts that can be used for specific purposes imposed by a formal action of the District's highest level of decision-making authority, the board of trustees. Committed resources cannot be used for any other purpose unless the board removes or changes the specified use by the same type of actions previously used to commit those amounts, either by resolution or by ordinance. The board has committed the fund balance of fund 461 to Campus Activity.

Assigned Fund Balance - represents amounts the District intends to use for specific purposes as expressed by the District or an official delegated the authority to assign amounts. This is the residual classification for all governmental funds other than the general fund. The superintendent has been granted the ability to assign amounts to a specific purpose as part of the annual budget ordinance.

Unassigned Fund Balance - represents residual classification for the general fund or deficit balances in other funds.

Amounts are considered to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available. Unrestricted amounts are considered to have been spent when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

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

FOR THE YEAR ENDED JUNE 30, 2011

When an expenditure is incurred for a purpose for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

	General Fund	Debt Service	Other Governmental Funds	Total
Fund Balances:				
Nonspendable				
Inventory	\$ 43,615	\$ --	\$ --	\$ 43,615
Restricted Fund Balances:				
Long-Term Loans/Notes Receivable	--	2,805,421	--	2,805,421
Federal/State Funds Grant Restrictions	--	--	17,201	17,201
Capital Acquisitions & Contractual Obligations	--	--	89,122	89,122
Other Restrictions of Fund Balance	1,925	--	618,404	620,329
Committed Fund Balances:				
Other Committed Fund Balances	--	--	18,242	18,242
Unassigned	2,501,600	--	--	2,501,600
Total Fund Balances	<u>\$ 2,547,140</u>	<u>\$ 2,805,421</u>	<u>\$ 742,969</u>	<u>\$ 6,095,530</u>

Fund Balance Policy

The District will strive to maintain a yearly fund balance in the general operating fund in which the total fund balance is equal to approximately two months of the total operating expenditures.

B. Compliance and Accountability

1. Finance-Related Legal and Contractual Provisions

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

<u>Violation</u>	<u>Action Taken</u>
The budget was exceeded in the general fund by the following functions:	
33 \$4,357	Appropriately acknowledged
34 \$9,726	
36 \$3,184	
51 \$110,109	
99 \$22,761	

2. Deficit Fund Balance or Fund Net Assets of Individual Funds

Following are funds having deficit fund balances or fund net assets at year end, if any, along with remarks which address such deficits:

<u>Fund Name</u>	<u>Deficit Amount</u>	<u>Remarks</u>
None reported	Not applicable	Not applicable

COMMERCE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

C. Deposits and Investments

The District's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the District's agent bank approved pledged securities in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

1. Cash Deposits:

At June 30, 2011, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$1,251,104 and the bank balance was \$1,498,442. The District's cash deposits at June 30, 2011 and during the year ended June 30, 2011, were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

2. Investments:

The District is required by Government Code Chapter 2256, The Public Funds Investment Act, to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit.

The Public Funds Investment Act ("Act") requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the basic financial statements disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the District adhered to the requirements of the Act. Additionally, investment practices of the District were in accordance with local policies.

The Act determines the types of investments which are allowable for the District. These include, with certain restrictions, 1) obligations of the U.S. Treasury, U.S. agencies, and the State of Texas, 2) certificates of deposit, 3) certain municipal securities, 4) securities lending program, 5) repurchase agreements, 6) bankers acceptances, 7) mutual funds, 8) investment pools, 9) guaranteed investment contracts, and 10) commercial paper.

The District's investments at June 30, 2011 are shown below.

<u>Investment or Investment Type</u>	<u>Maturity</u>	<u>Fair Value</u>
TexPool	N/A	\$ 1,489,196
Chase		1,181,983
Lone Star		321,557
Wells Fargo		250,000
Total Investments		<u>\$ 3,242,736</u>

COMMERCE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

3. Analysis of Specific Deposit and Investment Risks

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 rating agencies are designed to give an indication of credit risk. At year end, the District was not significantly exposed to credit risk.

At June 30, 2011, the District's investments, other than those which are obligations of or guaranteed by the U. S. Government, are rated as to credit quality as follows:

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 credit 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 District's 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.

Investment Accounting Policy

The District's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

COMMERCE INDEPENDENT SCHOOL DISTRICT

*NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011*

D. Capital Assets

Capital asset activity for the year ended June 30, 2011, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
<i>Governmental activities:</i>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 312,850	\$ --	\$ --	\$ 312,850
Construction in progress	56,155	--	56,155	--
Total capital assets not being depreciated	<u>369,005</u>	<u>--</u>	<u>56,155</u>	<u>312,850</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements	40,509,946	193,327	--	40,703,273
Equipment	1,043,132	92,483	--	1,135,615
Vehicles	1,562,525	--	--	1,562,525
Total capital assets being depreciated	<u>43,115,603</u>	<u>285,810</u>	<u>--</u>	<u>43,401,413</u>
Less accumulated depreciation for:				
Buildings and improvements	(13,736,068)	(1,132,379)	--	(14,868,447)
Equipment	(408,501)	(146,328)	--	(554,829)
Vehicles	(1,040,151)	(116,304)	--	(1,156,455)
Total accumulated depreciation	<u>(15,184,720)</u>	<u>(1,395,011)</u>	<u>--</u>	<u>(16,579,731)</u>
Total capital assets being depreciated, net	<u>27,930,883</u>	<u>(1,109,201)</u>	<u>--</u>	<u>26,821,682</u>
Governmental activities capital assets, net	<u>\$ 28,299,888</u>	<u>\$ (1,109,201)</u>	<u>\$ 56,155</u>	<u>\$ 27,134,532</u>

Depreciation was charged to functions as follows:

Instruction	\$ 1,152,355
Instructional Resources and Media Services	6,534
School Leadership	12,814
Guidance, Counseling, & Evaluation Services	846
Health Services	1,826
Student Transportation	112,225
Food Services	23,691
Extracurricular Activities	24,533
General Administration	1,976
Plant Maintenance and Operations	23,151
Security and Monitoring Services	4,014
Data Processing Services	31,046
	<u>\$ 1,395,011</u>

E. Interfund Balances and Activities

1. Due To and From Other Funds

Balances due to and due from other funds at June 30, 2011, consisted of the following:

Due To Fund	Due From Fund	Amount	Purpose
General Fund	Other Governmental Funds	\$ 391,241	Short-term loans
Other Governmental Funds	General Fund	1,253,005	Short-term loans
	Total	<u>\$ 1,644,246</u>	

All amounts due are scheduled to be repaid within one year.

COMMERCE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

2. Transfers To and From Other Funds

Transfers to and from other funds at June 30, 2011, consisted of the following:

Transfers From	Transfers To	Amount	Reason
General fund	Special Revenue Funds	\$ 31,976	Supplement other funds sources
	Total	\$ 31,976	

F. Long-Term Obligations

The District has entered into a continuing disclosure undertaking to provide Annual Reports and Material Event Notices to the State Information Depository of Texas, which is the Municipal Advisory Council. This information is required under SEC Rule 15c2-12 to enable investors to analyze the financial condition and operations of the District.

1. Long-Term Obligation Activity

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the year ended June 30, 2011, are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Governmental activities:					
Unlimited Tax School Building & Refunding Bond, 2007	\$ 25,535,000	\$ --	\$ --	\$ 25,535,000	--
Capital Apprec Bonds 2007	459,552	--	197,780	261,772	127,088
Unlimited Tax School Building & Refunding Bonds Sr '98	2,600,000	--	80,000	2,520,000	85,000
Capital Lease--Bus	171,541	--	171,541	--	--
Capital Lease--Scoreboard	--	41,230	4,427	36,803	3,449
Capital Lease--Equipment	50,653	--	19,815	30,838	22,935
Unamortized Gain (Loss) of Defeasance of Debt	(31,706)	--	(1,669)	(30,037)	--
Accum. Accretion on Srs. 2007	1,146,757	557,467	542,220	1,162,004	612,912
Notes Payable	2,500,000	--	--	2,500,000	2,500,000
Premium Capital Apprec 2007	1,208,477	--	386,712	821,765	--
Discount on Current Interest Bonds 2007	(647,873)	--	(23,995)	(623,878)	--
Total governmental activities	\$ 32,992,401	\$ 598,697	\$ 1,376,831	\$ 32,214,268	\$ 3,351,384

COMMERCE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

2. Debt Service Requirements

Debt service requirements on long-term debt at June 30, 2011, are as follows:

Year Ending June 30,	Governmental Activities		
	Unlimited Tax Principal	School Building & Refunding Interest	Bonds Sr '98 Total
2012	\$ 85,000	\$ 125,066	\$ 210,066
2013	85,000	121,113	206,113
2014	90,000	117,076	207,076
2015	95,000	112,756	207,756
2016	100,000	108,125	208,125
2017	105,000	103,250	208,250
2018	110,000	98,000	208,000
2019	115,000	92,500	207,500
2020	120,000	86,750	206,750
2021	130,000	80,750	210,750
2022	135,000	74,250	209,250
2023	140,000	67,500	207,500
2024	150,000	60,500	210,500
2025	155,000	53,000	208,000
2026	165,000	45,250	210,250
2027	170,000	37,000	207,000
2028	180,000	28,500	208,500
2029	190,000	19,500	209,500
2030	200,000	10,000	210,000
Totals	\$ 2,520,000	\$ 1,440,886	\$ 3,960,886

Interest Rates vary 4.5 to 5.0%

Year Ending June 30,	Governmental Activities			
	Unlimited Tax School Building & Refunding Bond, 2007			
	Principal	Interest	Payment of Accumulated Accretion	Total
2012	\$ 127,088	\$ 1,148,448	\$ 612,912	\$ 1,888,448
2013	82,211	1,148,448	662,789	1,893,448
2014	52,473	1,148,448	687,527	1,888,448
2015	740,000	1,133,648	--	1,873,648
2016	770,000	1,103,448	--	1,873,448
2017	800,000	1,071,548	--	1,871,548
2018	835,000	1,037,513	--	1,872,513
2019	870,000	1,001,273	--	1,871,273
2020	910,000	962,548	--	1,872,548
2021	945,000	921,738	--	1,866,738
2022	985,000	878,785	--	1,863,785
2023	1,035,000	833,335	--	1,868,335
2024	1,075,000	785,322	--	1,860,322
2025	1,130,000	734,608	--	1,864,608
2026	1,180,000	681,330	--	1,861,330
2027	1,235,000	625,483	--	1,860,483
2028	1,290,000	566,609	--	1,856,609
2029	1,350,000	504,569	--	1,854,569
2030	1,415,000	440,122	--	1,855,122
2031	955,000	385,316	--	1,340,316

COMMERCE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

2032	1,000,000	340,107	--	1,340,107
2033	1,045,000	292,816	--	1,337,816
2034	1,090,000	244,125	--	1,334,125
2035	1,140,000	193,950	--	1,333,950
2036	1,195,000	141,413	--	1,336,413
2037	1,245,000	86,513	--	1,331,513
2038	1,300,000	29,250	--	1,329,250
Totals	<u>\$ 25,796,772</u>	<u>\$ 18,440,713</u>	<u>\$ 1,963,228</u>	<u>\$ 46,200,713</u>

Interest Rates vary 4.0-4.70%

3. Capital Leases

Commitments under capitalized lease agreements for scoreboards provide for minimum future lease payments as of June 30, 2011, as follows:

Year Ending June 30,	Principal	Interest	Total
2012	\$ 3,449	\$ 1,549	\$ 4,998
2013	3,594	1,403	4,997
2014	3,745	1,252	4,997
2015	3,903	1,095	4,998
2016	4,067	930	4,997
2017	4,238	759	4,997
2018	4,416	581	4,997
2019	4,602	395	4,997
2020	4,789	201	4,990
Totals	<u>\$ 36,803</u>	<u>\$ 8,165</u>	<u>\$ 44,968</u>

The effective interest rate on capital leases is 4.15%.

Texas Local Government Code Sec. 271.

Commitments under capitalized lease agreements for athletic equipment provide for minimum future lease payments as of June 30, 2011, as follows:

Year Ending June 30,	Principal	Interest	Total
2012	\$ 22,935	\$ 1,024	\$ 23,959
2013	7,903	83	7,986
Totals	<u>\$ 30,838</u>	<u>\$ 1,107</u>	<u>\$ 31,945</u>

The effective interest rate on capital leases is 5.00%.

Texas Local Government Code Sec. 271.

4. Note Payable

Year Ending June 30,	QAZB Note Issue, Series 2000		
	Principal	Interest	Total
2012	\$ 2,500,000	\$ 27,875	\$ 2,527,875
Totals	<u>\$ 2,500,000</u>	<u>\$ 83,625</u>	<u>\$ 2,583,625</u>

The effective interest rate is 2.23%.

Texas Education Code 45.104.

COMMERCE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

G. Risk Management

The District is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2011, the District purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

H. 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 administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems of Texas. It operates primarily under the provisions 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 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.state.tx.us, under the TRS Publications heading, by calling the TRS Communications Department at 1-800-223-8778, or by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701.

2. Funding Policy

Contribution requirements are not actuarially determined but are established and amended by the Texas state legislature. The state funding policy is as follows: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6.0% of the member's annual compensation and a state contribution rate of not less than 6.0% and not more than 10% of the aggregate annual compensation of all members of the system. (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of a 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. State law provides for a member contribution rate of 6.4% for fiscal years 2011, 2010, and 2009, and a state contribution rate of 6.644% for fiscal years 2011-2010 and 6.58% for fiscal year 2009. In certain instances the reporting district is required to make all or a portion of the state's 6.644% contribution, limited to 6.4% for the period of September through December 2009 and increased to 6.644% for the period of January 2010 through August 2011. State contributions to TRS made on behalf of the District's employees for the years ending June 30, 2011, 2010 and 2009 were \$629,063, \$645,923 and \$629,440, respectively. The District paid additional state contributions for the years ending June 30, 2011, 2010 and 2009 in the amount of \$212,499, \$214,974 and \$198,520, respectively, on portion of the employees' salaries that exceeded the statutory minimum.

I. Retiree Health Care Plan

1. Plan Description

The District contributes to the Texas Public School Retired Employees Group Insurance Program (TRS-Care), a cost-sharing multiple-employer defined benefit postemployment health care plan administered by the Teacher Retirement System of Texas (TRS). TRS-Care Retired Plan 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 web site

COMMERCE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

at www.trs.state.tx.us under the TRS Publications heading, by writing to the System of Texas at 1000 Red River Street, Austin, Texas 78701, or by calling 1-800-223-8778.

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 employee contribution rates were 1.0% and 0.65% of public school payroll, respectively, with school districts contributing a percentage of payroll set at 0.55% for fiscal years 2011, 2010 and 2009. Per Texas Insurance Code, Chapter 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. For the years ended June 30, 2011, 2010, and 2009, the State's contributions to TRS-Care were \$98,285, \$100,983, and \$98,350, respectively, the active member contributions were \$63,888, \$65,601, and \$63,928, respectively, and the District's contributions were \$54,060, \$55,508, and \$54,093, respectively, which equaled the required contributions each year.

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. For the fiscal years ended June 30, 2011, 2010, and 2009, the subsidy payments received by TRS-Care on behalf of the District were \$25,726, \$25,774, and \$22,418, respectively.

J. Employee Health Care Coverage

During the year ended June 30, 2011, employees of the District were covered by a health insurance plan (the Plan). The District paid premiums of \$175 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a licensed insurer. The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement.

The contract between the District and the licensed insurer is renewable September 1, 2011, and terms of coverage and premium costs are included in the contractual provisions.

Latest financial statements for the plan are available for the year ended August 31, 2010, have been filed with the Texas State Board of Insurance, Austin, Texas, and are public records.

K. Commitments and Contingencies

1. Contingencies

The District participates in 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, refunds of any money received may be required and the collectibility of any related receivable 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 basic financial statements for such contingencies.

2. Litigation

No reportable litigation was pending against the District at June 30, 2011.

COMMERCE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

L. Shared Services Arrangements

Shared Services Arrangement - Fiscal Agent

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 below:

Member Districts	Fund 313 IDEA-B Formula	Fund 314 IDEA-B Preschool	Fund 437 Local Special Ed	Fund 365 IDEA-B Preschool ARRA
Commerce ISD	\$ 366,759	\$ 3,772	\$ 173,769	\$ 7,639
Bland ISD	118,500	3,787	83,025	2,530
Boles ISD	119,648	1,095	64,626	2,383
Caddo Mills ISD	256,339	3,212	175,624	6,105
Campbell ISD	87,646	150	46,493	1,509
Celeste ISD	94,915	1,088	70,433	2,292
Cooper ISD	193,681	6,117	108,065	3,929
Cumby ISD	92,290	175	48,974	1,915
Lone Oak ISD	174,805	1,684	101,545	4,165
Totals	<u>\$ 1,504,583</u>	<u>\$ 21,080</u>	<u>\$ 872,554</u>	<u>\$ 32,467</u>

Member Districts	Fund 331 Voc Ed Basic Grant	Fund 458 Local Vocational	Fund 361 Title II Part D Enhancing Ed. Through Tech ARRA	Fund 364 IDEA-B Formula ARRA
Commerce ISD	\$ 19,603	\$ 3,003	\$ 90,172	\$ 55,632
Bland ISD	5,597	1,473	--	20,493
Bonham ISD	--	--	106,496	--
Boles ISD	1,397	1,644	--	10,108
Caddo Mills ISD	9,121	3,002	--	88,570
Campbell ISD	3,690	963	--	24,929
Celeste ISD	4,307	1,473	--	12,397
Cooper ISD	11,640	1,813	--	27,032
Cumby ISD	4,165	1,304	--	--
Fannindel ISD	3,152	795	--	--
Leonard ISD	8,056	2,154	--	--
Lone Oak ISD	6,822	1,982	--	--
Quinlan ISD	--	--	--	--
Wolfe City ISD	7,247	1,473	20,752	--
Tom Bean ISD	6,274	1,983	--	--
Totals	<u>\$ 91,071</u>	<u>\$ 23,062</u>	<u>\$ 217,420</u>	<u>\$ 239,161</u>

M. Subsequent Events

Management has evaluated subsequent events through December 15, 2011, the date the financials were available to be distributed. The following subsequent event was noted:

July 2011, the district transferred \$250,000 from the debt service interest and checking account to the payroll clearing checking account as a short-term loan. This is a prohibited transaction and has been addressed as a finding (2011-2) in the Schedule of Findings and Questioned Costs with this report.

COMMERCE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

N. Prior Period Adjustment

The District filed reports with the Texas Education Agency (TEA) allowing the District to receive funding from TEA to offset transportation related expenditures for the 2009/2010 school year. This funding was received in October 2011, but has been properly recorded as a receivable at June 30, 2011, and as an increase to the fund balance of June 30, 2010, because the funding was related to District expenditures during that fiscal year.

Required Supplementary Information

Required supplementary information includes financial information and disclosures required by the Governmental Accounting Standards Board but not considered a part of the basic financial statements.

COMMERCE INDEPENDENT SCHOOL DISTRICT

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED JUNE 30, 2011

EXHIBIT G-1

Page 1 of 2

Data Control Codes	Budgeted Amounts			Variance with Final Budget Positive (Negative)	
	1	2	3		
	Original	Final	Actual		
REVENUES:					
5700	Local and Intermediate Sources	\$ 4,621,041	\$ 5,235,905	\$ 5,276,887	\$ 40,982
5800	State Program Revenues	6,276,189	6,669,362	6,508,679	(160,683)
5900	Federal Program Revenues	40,000	40,000	--	(40,000)
5020	Total Revenues	<u>10,937,230</u>	<u>11,945,267</u>	<u>11,785,566</u>	<u>(159,701)</u>
EXPENDITURES:					
Current:					
Instruction & Instructional Related Services:					
0011	Instruction	5,651,568	5,604,930	5,552,273	52,657
0012	Instructional Resources and Media Services	250,308	248,828	235,234	13,594
0013	Curriculum and Staff Development	74,261	95,127	84,969	10,158
	Total Instruction & Instr. Related Services	<u>5,976,137</u>	<u>5,948,885</u>	<u>5,872,476</u>	<u>76,409</u>
Instructional and School Leadership:					
0021	Instructional Leadership	11,490	11,490	5,845	5,645
0023	School Leadership	903,291	926,421	903,458	22,963
	Total Instructional & School Leadership	<u>914,781</u>	<u>937,911</u>	<u>909,303</u>	<u>28,608</u>
Support Services - Student (Pupil):					
0031	Guidance, Counseling and Evaluation Services	376,603	385,182	384,393	789
0033	Health Services	104,363	106,341	110,698	(4,357)
0034	Student (Pupil) Transportation	498,931	512,101	521,827	(9,726)
0036	Cocurricular/Extracurricular Activities	459,705	519,258	522,442	(3,184)
	Total Support Services - Student (Pupil)	<u>1,439,602</u>	<u>1,522,882</u>	<u>1,539,360</u>	<u>(16,478)</u>
Administrative Support Services:					
0041	General Administration	579,850	564,686	498,351	66,335
	Total Administrative Support Services	<u>579,850</u>	<u>564,686</u>	<u>498,351</u>	<u>66,335</u>
Support Services - Nonstudent Based:					
0051	Plant Maintenance and Operations	1,729,404	1,781,256	1,891,365	(110,109)
0052	Security and Monitoring Services	78,846	78,846	53,272	25,574
0053	Data Processing Services	375,463	353,801	335,312	18,489
	Total Support Services - Nonstudent Based	<u>2,183,713</u>	<u>2,213,903</u>	<u>2,279,949</u>	<u>(66,046)</u>
Debt Service:					
0071	Principal on Long-Term Debt	189,205	217,165	195,783	21,382
0072	Interest on Long-Term Debt	--	--	11,344	(11,344)
	Total Debt Service	<u>189,205</u>	<u>217,165</u>	<u>207,127</u>	<u>10,038</u>
Capital Outlay:					
0081	Capital Outlay	--	83,050	--	83,050
	Total Capital Outlay	<u>--</u>	<u>83,050</u>	<u>--</u>	<u>83,050</u>
Intergovernmental Charges:					
0093	Payments to Fiscal Agent/Member Dist.-SSA	215,200	215,200	191,892	23,308
0099	Other Intergovernmental Charges	100,300	100,300	123,061	(22,761)
	Total Intergovernmental Charges	<u>315,500</u>	<u>315,500</u>	<u>314,953</u>	<u>547</u>
6030	Total Expenditures	<u>11,598,788</u>	<u>11,803,981</u>	<u>11,621,519</u>	<u>182,462</u>

COMMERCE INDEPENDENT SCHOOL DISTRICT

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2011

EXHIBIT G-1

Page 2 of 2

Data Control Codes	Budgeted Amounts			Variance with Final Budget Positive (Negative)	
	1	2	3		
	Original	Final	Actual		
1100	Excess (Deficiency) of Revenues Over (Under)				
1100	Expenditures	(661,558)	141,286	164,047	22,761
	Other Financing Sources (Uses):				
7912	Sale of Real or Personal Property	--	--	245	245
7913	Proceeds from Capital Leases	--	40,000	41,230	1,230
8911	Transfers Out	--	--	(31,976)	(31,976)
7080	Total Other Financing Sources and (Uses)	--	40,000	9,499	(30,501)
1200	Net Change in Fund Balance	(661,558)	181,286	173,546	(7,740)
0100	Fund Balance - Beginning	2,177,950	2,177,950	2,177,950	--
1300	Prior Period Adjustment	195,644	195,644	195,644	--
0100	Fund Balance - Beginning, as Restated	2,373,594	2,373,594	2,373,594	--
3000	Fund Balance - Ending	<u>\$ 1,712,036</u>	<u>\$ 2,554,880</u>	<u>\$ 2,547,140</u>	<u>\$ (7,740)</u>

COMMERCE INDEPENDENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2011

Budgetary Data

The official budget was prepared for adoption for the General Fund. The following procedures are followed in establishing the budgetary data reflected in the 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. The operating budget includes proposed expenditures and the means of financing them.
- b. A meeting of the Board is then called for the purpose of adopting the proposed budget. At least ten days' public notice of the meeting must have been given.
- c. 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 the 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. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end. During the year, the budget was amended as necessary. There were significant amendments passed during the school year.

Each budget 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.

The budget is prepared on the modified accrual basis.

Absence of Legally Adopted Budget

Excess of Expenditures Over Appropriations

The district expenditures exceeded appropriations in the following funds in the noted function:

<u>Fund</u>	<u>Function</u>
General Fund	33, 34, 36, 51

COMMERCE INDEPENDENT SCHOOL DISTRICT

EXHIBIT H-1

CAPITAL PROJECTS FUND
 BUDGETARY COMPARISON SCHEDULE
 FOR THE YEAR ENDED JUNE 30, 2011

Data Control Codes	1	2	3
	Budget	Actual	Variance Positive (Negative)
REVENUES:			
5700 <i>Local and Intermediate Sources</i>	\$ --	\$ 87	\$ 87
5020 <i>Total Revenues</i>	<u>--</u>	<u>87</u>	<u>87</u>
EXPENDITURES:			
Current:			
Instruction & Instructional Related Services:			
0011 <i>Instruction</i>	--	6,744	(6,744)
<i>Total Instruction & Instr. Related Services</i>	<u>--</u>	<u>6,744</u>	<u>(6,744)</u>
Capital Outlay:			
0081 <i>Capital Outlay</i>	186,000	112,376	73,624
<i>Total Capital Outlay</i>	<u>186,000</u>	<u>112,376</u>	<u>73,624</u>
6030 <i>Total Expenditures</i>	<u>186,000</u>	<u>119,120</u>	<u>66,880</u>
1100 <i>Excess (Deficiency) of Revenues Over (Under)</i>			
1100 <i>Expenditures</i>	(186,000)	(119,033)	66,967
1200 <i>Net Change in Fund Balance</i>	<u>(186,000)</u>	<u>(119,033)</u>	<u>66,967</u>
0100 <i>Fund Balance - Beginning</i>	208,155	208,155	--
3000 <i>Fund Balance - Ending</i>	<u>\$ 22,155</u>	<u>\$ 89,122</u>	<u>\$ 66,967</u>

Other Supplementary Information

This section includes financial information and disclosures not required by the Governmental Accounting Standards Board and not considered a part of the basic financial statements. It may, however, include information which is required by other entities.

COMMERCE INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF DELINQUENT TAXES RECEIVABLE

FOR THE YEAR ENDED JUNE 30, 2011

Year Ended June 30	1		2		3	
	Tax Rates				Assessed/Appraised Value For School Tax Purposes	
	Maintenance		Debt Service			
2002 and Prior Years	\$	Various	\$	Various	\$	Various
2003		1.50		.1695		261,133,388
2004		1.50		.1695		306,985,369
2005		1.50		.1945		343,338,802
2006		1.50		.1945		354,592,919
2007		1.37		.2291		369,239,005
2008		1.04		.3743		428,728,841
2009		1.04		.3682		474,576,971
2010		1.04		.3872		460,208,305
2011 (School Year Under Audit)		1.17		.4251		425,231,429

1000 Totals

9000 - Portion of Row 1000 for Taxes Paid into Tax Increment Zone Under Chapter 311, Tax Code

10 Beginning Balance 7/1/10	20 Current Year's Total Levy	31 Maintenance Collections	32 Debt Service Collections	40 Entire Year's Adjustments	50 Ending Balance 6/30/11
\$ 106,020	\$ --	\$ 1,089	\$ 177	\$ (4,430)	\$ 100,324
23,610	--	700	79	(2,083)	20,747
29,224	--	1,509	171	(3,202)	24,342
34,918	--	2,767	359	(2,210)	29,582
49,571	--	9,785	1,269	(2,857)	35,660
53,692	--	6,165	1,031	(5,090)	41,407
101,779	--	16,434	5,914	(6,157)	73,274
171,647	--	42,182	14,934	(791)	113,740
359,033	--	125,402	46,688	(23,835)	163,108
--	6,782,866	4,735,602	1,720,602	(26,223)	300,439
<u>\$ 929,492</u>	<u>\$ 6,782,866</u>	<u>\$ 4,941,633</u>	<u>\$ 1,791,224</u>	<u>\$ (76,878)</u>	<u>\$ 902,623</u>
\$ --	\$ --	\$ --	\$ --	\$ --	\$ --

COMMERCE INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES FOR COMPUTATION OF INDIRECT COST FOR 2012-2013
 GENERAL AND SPECIAL REVENUE FUNDS
 FOR THE YEAR ENDED JUNE 30, 2011

EXHIBIT J-2

FUNCTION 41 AND RELATED FUNCTION 53 - GENERAL ADMINISTRATION AND FUNCTION 99 - APPRAISAL DISTRICT COST

Account Number	Account Name	1 (702) School Board	2 (703) Tax Collection	3 (701) Supt's Office	4 (750) Indirect Cost	5 (720) Direct Cost	6 (Other) Misc.	7 Total
611X-6146	Payroll Costs	\$ --	\$ --	\$ 173,463	\$ 234,803	\$ --	\$ 41,713	\$ 449,979
6149	Fringe Benefits (Unused Leave for Separating Employees in Function 41 and Related 53)	--	--	--	--	--	--	--
6149	Fringe Benefits (Unused Leave for Separating Employees in all Functions except Function 41 and Related 53)	--	--	--	--	--	--	--
6211	Legal Services	--	--	17,214	--	--	--	17,214
6212	Audit Services	--	--	--	27,650	--	--	27,650
6213	Tax Appraisal and Collection	--	123,061	--	--	--	--	123,061
621X	Other Prof. Services	--	--	--	15,923	--	--	15,923
6220	Tuition and Transfer Payments	--	--	--	--	--	--	--
6230	Education Service Centers	--	--	--	--	--	--	--
6240	Contr. Maint. and Repair	--	--	--	--	--	--	--
6250	Utilities	--	--	--	--	--	--	--
6260	Rentals	--	--	--	10,686	--	--	10,686
6290	Miscellaneous Contr.	780	--	--	8,604	--	--	9,384
6310	Operational Supplies, Materials	--	--	--	--	--	--	--
6320	Textbooks and Reading	--	--	--	--	--	--	--
6330	Testing Materials	--	--	--	--	--	--	--
63XX	Other Supplies, Materials	4,071	--	3,126	18,622	--	--	25,819
6410	Travel, Subsistence, Stipends	--	--	3,061	3,461	--	--	6,522
6420	Ins. and Bonding Costs	--	--	--	--	--	--	--
6430	Election Costs	2,109	--	--	--	--	--	2,109
6490	Miscellaneous Operating	2,059	6,762	3,831	28,555	--	--	41,207
6500	Debt Service	--	--	--	--	--	--	--
6600	Capital Outlay	--	--	--	--	--	--	--

Total \$ 9,019 \$ 129,823 \$ 200,695 \$ 348,304 \$ -- \$ 41,713 \$ 729,554

Total Expenditures for General and Special Revenue Funds (9) \$ 17,441,228

LESS: Deductions of Unallowable Costs

FISCAL YEAR

Total Capital Outlay (6600)	(10)	\$ 141,458
Total Debt & Lease (6500)	(11)	\$ 207,127
Plant Maintenance (Function 51, 6100-6400)	(12)	\$ 1,914,561
Food (Function 35, 6341 and 6499)	(13)	\$ 365,957
Stipends (6413)	(14)	\$ 3,675
Column 4 (above) - Total Indirect Cost		\$ 348,304

Subtotal 2,981,082

Net Allowed Direct Cost \$ 14,460,146

CUMULATIVE

Total Cost of Buildings Before Depreciation (1520)	(15)	\$ 40,703,275
Historical Cost of Buildings over 50 years old	(16)	336,802
Amount of Federal Money in Building Cost (Net of #16)	(17)	--
Total Cost of Furniture & Equipment Before Depreciation (1530 & 1540)	(18)	2,698,140
Historical Cost of Furniture & Equipment over 16 years old	(19)	227,571
Amount of Federal Money in Furniture & Equipment (Net of #19)	(20)	\$ 153,705

(8) Note A - \$45,656 in Function 53 expenditures and \$123,061 in Function 99 expenditures are included in this report on administrative costs.

COMMERCE INDEPENDENT SCHOOL DISTRICT
NATIONAL SCHOOL BREAKFAST AND LUNCH PROGRAM
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2011

EXHIBIT J-3

Data Control Codes	1	2	3
	Budget	Actual	Variance Positive (Negative)
REVENUES:			
5700 <i>Local and Intermediate Sources</i>	\$ 204,761	\$ 144,534	\$ (60,227)
5800 <i>State Program Revenues</i>	17,000	10,354	(6,646)
5900 <i>Federal Program Revenues</i>	668,242	678,694	10,452
5020 Total Revenues	<u>890,003</u>	<u>833,582</u>	<u>(56,421)</u>
EXPENDITURES:			
Current:			
Support Services - Student (Pupil):			
0035 <i>Food Services</i>	846,636	896,483	(49,847)
Total Support Services - Student (Pupil)	<u>846,636</u>	<u>896,483</u>	<u>(49,847)</u>
6030 Total Expenditures	<u>846,636</u>	<u>896,483</u>	<u>(49,847)</u>
1100 Excess (Deficiency) of Revenues Over (Under)			
1100 Expenditures	<u>43,367</u>	<u>(62,901)</u>	<u>(106,268)</u>
Other Financing Sources (Uses):			
7915 <i>Transfers In</i>	--	31,976	31,976
7080 Total Other Financing Sources and (Uses)	<u>--</u>	<u>31,976</u>	<u>31,976</u>
1200 Net Change in Fund Balance	<u>43,367</u>	<u>(30,925)</u>	<u>(74,292)</u>
0100 Fund Balance - Beginning	<u>30,925</u>	<u>30,925</u>	<u>--</u>
3000 Fund Balance - Ending	<u>\$ 74,292</u>	<u>\$ --</u>	<u>\$ (74,292)</u>

Malnory, McNeal & Company, PC

Certified Public Accountants

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Members of
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Melissa Darrow, CPA

Independent Auditor's Report

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

Board of Trustees
Commerce Independent School District
PO Box 1251
Commerce, Texas 75429

Members of the Board of Trustees:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Commerce Independent School District as of and for the year ended June 30, 2011, which collectively comprise the Commerce Independent School District's basic financial statements and have issued our report thereon dated December 1, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Commerce Independent School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commerce Independent School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commerce Independent School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2011-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Commerce Independent School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not

express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item(s) 2011-2.

We noted certain matters that we reported to management of Commerce Independent School District in a separate letter dated December 1, 2011.

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

Malnary, McNeal & Company PC

Certified Public Accountants

December 1, 2011
Paris, Texas

Malnory, McNeal & Company, PC

Certified Public Accountants

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Independent Auditor's Report

Report on Compliance with Requirements That Could Have a Direct and Material Effect on each Major Program and on Internal Control Over Compliance In Accordance With OMB Circular A-133

Board of Trustees
Commerce Independent School District
PO Box 1251
Commerce, Texas 75429

Members of the Board of Trustees:

Compliance

We have audited Commerce Independent School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Commerce Independent School District's major federal programs for the year ended June 30, 2011. Commerce Independent School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Commerce Independent School District's management. Our responsibility is to express an opinion on Commerce Independent School District's compliance based on our audit.

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

In our opinion, Commerce Independent School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

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

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we considered to be material weaknesses, as defined above.

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

Macnary, McNeal & Company PC

Certified Public Accountants

December 1, 2011
Paris, Texas

COMMERCE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

One or more material weaknesses identified? X Yes No

One or more significant deficiencies identified that are not considered to be material weaknesses? Yes X None Reported

Noncompliance material to financial statements noted? X Yes No

2. Federal Awards

Internal control over major programs:

One or more material weaknesses identified? Yes X No

One or more significant deficiencies identified that are not considered to be material weaknesses? Yes X None Reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? Yes X No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.01	Title I Part A Improving Basic
84.389	Title I Part A ARRA Funds
84.027	IDEA-B
84.173	IDEA-B Preschool
84.391	ARRA IDEA-B Formula
84.392	ARRA IDEA-B Preschool
84.318	Title II Part D Technology
84.386A	ARRA Title II D Technology
84.394A	ARRA Title XIV State Fiscal Stabilization Fund

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? X Yes No

COMMERCE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011

B. Financial Statement Finding

2011-1

Criteria:

The District is to develop and maintain a system of internal controls that will allow employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements in the financial statements on a timely basis.

Condition:

Several accounts within the ledger were materially misstated prior to audit adjustments. These misstatements were not confined to one particular fund or issue but effected several areas of the ledger. Management was not aware of the misstatements therefore the misstatements were not detected timely during the normal course of job duties.

Cause:

The internal control procedures for month end as well as year end close appear to be non-existent or not functioning. While management appeared to be aware of some problems within the ledger the suspect accounts were not corrected nor had management sought out an actual correction to the root cause of the discrepancies in the ledger. Excessive use of borrowing between funds has aggravated the problem as well as holding of checks rather than depositing them timely.

Effect:

The general ledger contained material errors during the year and at the end of the fiscal year prior to the posting of audit adjusting entries.

Recommendation:

The District should develop and implement an internal control structure that will help to assure that all transactions of the District's are properly recorded to the general ledger within and appropriate time frame. The District should develop procedures to verify the validity of account balances so that erroneous entries do not remain on the ledger.

2011-2

Criteria:

The cash in the debt service funds is restricted for use in paying principal and interest on debt of the District. The District is prohibited from using this money for any other purpose.

Condition/Cause:

The District transferred \$250,000 from the debt service fund to the payroll clearing fund in July 2011. Just prior to the transfer the District had incurred overdraft fees in the payroll clearing account so the money was transferred to prevent additional overdraft charges.

Effect:

This transaction is outside of what is allowed by law and is a violation of debt covenants.

Recommendation:

We recommend the District never borrow money from any restricted accounts. Alternative cash management plans should be made such as liquidating investments.

C. Federal Award Findings and Questioned Costs

None

COMMERCE INDEPENDENT SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE YEAR ENDED JUNE 30, 2011

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
2010-01 Finding: The business manager does not have journal entries approved by Superintendent or other appropriate administrator. He prepares and posts them to the general ledger.	Corrected	

COMMERCE INDEPENDENT SCHOOL DISTRICT

CORRECTIVE ACTION PLAN

FOR THE YEAR ENDED JUNE 30, 2011

2011-1

Program: Not Applicable

Finding: The internal control procedures for month end and year end close appear to be non-existent or not functioning. Several accounts on the general ledger were materially misstated prior to audit adjustments. These misstatements were not confined to one particular fund or issue but effected several areas of the ledger.

Response/Plan of Action: The district is in the process of developing and implementing additional internal control procedures designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Reliability of financial reporting,
- Effectiveness and efficiency of operations,
- Compliance with applicable laws and regulations.

These additional procedures and programs will include but not be limited to:

- Written month and year end procedures,
- Improved process to reconcile payroll liabilities to the general ledger,
- Additional professional development relating to the accounting program to enhance the understanding of the program's functions and capabilities.

2011-2

Program: Not Applicable

Finding: The district transferred \$250,000 from the debt service fund into the payroll clearing fund in July 2011. This district is prohibited from using these funds for any other purpose than debt payments and it is a violation of the debt covenants.

Response/Plan of Action: The district will implement cash management procedures. Outside investments are being liquidated upon maturity and deposited locally due to more favorable depository contract conditions. Reimbursements from the state for expenditures driven grants are currently requested monthly and that procedures will be reviewed for adequacy.

COMMERCE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011

EXHIBIT K-1

(1)	(2)	(2A)	(3)
Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Direct Program:			
<i>Head Start *</i>	93.600	116-903	\$ 107,737
Total U. S. Department of Health and Human Services			<u>107,737</u>
U. S. DEPARTMENT OF EDUCATION			
Passed Through State Department of Education:			
<i>ESEA Title I Part A - Improving Basic Programs *</i>	84.010A	0810101116903	412,831
<i>SSA IDEA-B Formula *</i>	84.027	076600011169036600	1,501,344
<i>SSA IDEA-B Formula *</i>	84.027	086610011169036610	3,241
Total CFDA Number 84.027			<u>1,504,585</u>
<i>SSA Career and Technical - Basic Grant</i>	84.048	08420006116903	91,072
<i>SSA IDEA-B Preschool *</i>	84.173	086610011169036610	21,081
<i>ESEA Title IV Part A-Safe & Drug-Free Schools & Communities Act</i>	84.186A	08691001116903	501
<i>ESEA Title II Part A - Teacher & Principal Training & Recruiting</i>	84.367A	08694501116903	103,502
<i>Summer School LEP</i>	84.369A	69550702	1,105
<i>ARRA - Title II Part D Subpart 1-Enhancing Education Through Technology*</i>	84.386	10553001116903	1,669
<i>ARRA - SSA Title II Part D Subpart 1-Enhancing Education Through Technology*</i>	84.386	105530027110035	217,420
Total CFDA Number 84.386			<u>219,089</u>
<i>ARRA - SSA IDEA-Part B Formula *</i>	84.391	10554001116903	239,162
<i>ARRA - SSA IDEA Part B, Preschool *</i>	84.392	10555001116903	32,467
<i>ARRA of 2009 Title XIV State Fiscal Stabilization Fund *</i>	84.394	10557001116903	1,023,585
Total Passed Through State Department of Education			<u>3,648,980</u>
Passed Through Region X Education Service Center:			
<i>Title III Part A English Language Acquisition and Language Enhancement</i>	84.365A	116-903	9,054
Passed Through Region X:			
<i>ARRA - ESEA, Title I, Part A - Improving Basic Programs *</i>	84.389	116-903	154,460
Total U. S. Department of Education			<u>3,812,494</u>
U. S. DEPARTMENT OF AGRICULTURE			
Passed Through State Department of Education:			
School Breakfast Program *	10.553	116-903	202,927
National School Lunch Program *	10.555	116-903	428,100
Commodity Supplemental Food Program (Non-cash)	10.565	116-903	47,667
Total Passed Through State Department of Education			<u>678,694</u>
Total U. S. Department of Agriculture			\$ 678,694
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 4,598,925</u>

* Indicates clustered program under OMB Circular A-133 Compliance Supplement

The accompanying notes are an integral part of this schedule.

COMMERCE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011

Basis of Presentation

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

Federal grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant and accordingly when such funds are received, they are recorded as deferred revenues until earned.

Commodity Supplement (CFDA 10.565) received like-kind goods, and grant revenue received was reported on the schedule for the monetary value of these goods. The monetary value of these goods was \$47,667 for the year ended June 30, 2011.

The District participates in numerous state and federal grant programs 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, 2011, 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 basic financial statements for such contingency.

Reconciliation of Federal Awards

The following reconciles federal expenditures per the Schedule of Expenditures of Federal Awards (SEFA) to the federal revenue reported on Exhibit C-2:

Federal expenditures per SEFA	\$	4,598,925
SHARS		21,211
Federal revenue per Exhibit C-2	\$	<u>4,620,136</u>

COMMERCE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REQUIRED RESPONSES TO SELECTED SCHOOL FIRST INDICATORS
AS OF JUNE 30, 2011

<u>Data Control Codes</u>		<u>Responses</u>
SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning default on bonded indebtedness obligations?	No
SF4	Did the district receive a clean audit? - Was there an unqualified opinion in the Annual Financial Report?	Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls?	No
SF9	Was there any disclosure in the Annual Financial Report of material noncompliance?	No
SF10	What was the total accumulated accretion on capital appreciation bonds included in the government-wide financial statements at fiscal year-end?	\$ 1,162,004