

West, Davis & Company

a limited liability partnership

January 8, 2013

Board of Trustees
Port Neches-Groves Independent School District
Port Neches, Texas

We have audited the August 31, 2012, financial statements of the Port Neches-Groves Independent School District (the District) and have issued our report thereon dated January 8, 2013. Professional standards require that we provide you with the following information related to our audit. We will be pleased to discuss the contents of this letter or any related questions of the Board of Trustees at your convenience.

This information is intended solely for the use of the District and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

RESPONSIBILITY OF INDEPENDENT ACCOUNTANTS

Our responsibility under auditing standards generally accepted in the United States of America is to express an opinion on the financial statements of the District based on our audit. In carrying out this responsibility, we assessed the risk that the financial statements may contain a material misstatement, either intentional or unintentional, and designed and conducted an audit to provide reasonable, but not absolute, assurance of detecting misstatements that are material to the financial statements. We have completed the audit of the District's financial statements in accordance with generally accepted auditing standards.

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the District's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement applicable to each of its major federal programs for the purpose of expressing an opinion on the District's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the District's compliance with those requirements.

REPORT ISSUED ON 2012 AUDIT

We have issued our report, dated January 8, 2013, on the August 31, 2012, financial statements of the District. Our report is unqualified as to scope and accounting.

INTERNAL ACCOUNTING CONTROL

We considered the internal control structure in order to gain a basic understanding of the internal control policies and procedures in order to design an effective and efficient audit approach, not for the purpose of providing assurance on the internal control structure. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our 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.

We have no comments regarding internal control or accounting procedures.

MANAGEMENT COOPERATION

We were given full access to accounting records, supporting documents and other information, which we requested.

ACCOUNTING PRINCIPLES

Management employed appropriate accounting principles as described in Note A to the financial statements and made all required disclosures in the financial statements. We noted no transactions entered into by the District during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

MANAGEMENT JUDGMENTS AND ACCOUNTING ESTIMATES

Significant judgments or estimates included in the financial statements are estimates of asset useful lives, depreciation expense, uncollectible receivables, certain liabilities including accrued expenses, claims and judgments.

SIGNIFICANT AUDIT ADJUSTMENTS

We made one significant adjustment to record food received under the Commodities Food Program in the amount of \$125,922. In addition, we made certain government-wide adjustments noted in the reconciliations in schedules C-1R and C-3. There were no uncorrected misstatements at August 31, 2012.

MAJOR ISSUES DISCUSSED WITH MANAGEMENT PRIOR TO RETENTION

There were no major issues discussed with management prior to our retention regarding the application of accounting principles and auditing standards.

DISAGREEMENTS WITH MANAGEMENT

We had no disagreements with management of the District regarding the application of accounting principles, the scope of our audit, disclosures to be included in the financial statements or the wording of our report on the financial statements.

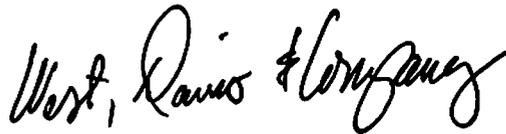
CONSULTATION WITH OTHER ACCOUNTANTS

Management informed us that there were no consultations with other independent accountants regarding the application of accounting or auditing matters during 2012.

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

None.

Very truly yours,

A handwritten signature in cursive script that reads "West, Davis & Company". The signature is written in black ink and is positioned below the typed name.

CERTIFICATE OF BOARD

Port Neches-Groves Independent School District
Name of School District

Jefferson
County

123-908
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 August 31, 2012, at a meeting of the board of trustees of such school district on the 14th day of January, 2013.



Signature of Board Secretary



Signature of Board President

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

PORT NECHES-GROVES
INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED AUGUST 31, 2012

Port Neches-Groves Independent School District
Annual Financial Report
For The Year Ended August 31, 2012

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Introductory Section

CERTIFICATE OF BOARD

Port Neches-Groves Independent School District
Name of School District

Jefferson
County

123-908
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 August 31, 2012, at a meeting of the board of trustees of such school district on the ____ day of _____, _____.

Signature of Board Secretary

Signature of Board President

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

Financial Section

West, Davis & Company, LLP
11824 Jollyville Road, Suite 100
Austin, Texas 78759

Independent Auditor's Report on Financial Statements

Board of Trustees
Port Neches-Groves Independent School District
Port Neches, Texas

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 Port Neches-Groves Independent School District as of and for the year ended August 31, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Port Neches-Groves 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 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 Port Neches-Groves Independent School District as of August 31, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 8, 2013, on our consideration of Port Neches-Groves 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and the budgetary comparison information identified as Required Supplementary Information in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements which collectively comprise the Port Neches-Groves Independent School District's basic financial statements. The accompanying

schedule of expenditures of federal awards required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations* and the supporting schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "West, Davis & Company".

West, Davis & Company, LLP
January 8, 2013

Port Neches-Groves Independent School District

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the Annual Financial and Compliance Report, we, the managers of Port Neches-Groves Independent School District (the District), discuss and analyze the District's financial performance for the fiscal year ended August 31, 2012. Please read it in conjunction with the independent auditors' report on page 2, and the District's Basic Financial Statements, which begin on page 10. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Assets and the Statement of Activities (on pages 10 and 11). These provide information about the activities of the District as a whole and present a longer-term view of the District's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise. Fund financial statements (starting on page 12) report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget. The remaining statements, fiduciary statements, provide financial information about activities for which the District acts solely as a trustee or agent for the benefit of those outside of the district.

The notes to the financial statements (starting on page 23) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

The sections labeled TEA Required Schedules and Federal Awards Section contain data used by monitoring or regulatory agencies for assurance that the District is using funds supplied in compliance with the terms of grants.

Reporting the District as a Whole

The Statement of Net Assets and the Statement of Activities

The analysis of the District's overall financial condition and operations begins on page 10. Its primary purpose is to show whether the District is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all the District's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the District's operations during the year. These apply the accrual basis of accounting which is the basis used by private sector companies.

All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The District's revenues are divided into those provided by outside parties who share the costs of some programs, such as grants provided by the U.S. Department of Education to assist children with disabilities or from disadvantaged backgrounds (program revenues), and revenues provided by the taxpayers or by TEA in equalization funding processes (general revenues). All the District's assets are reported whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current or future years.

These two statements report the District's net assets and changes in them. The District's net assets (the difference between assets and liabilities) provide one measure of the District's financial health, or financial position. Over time, increases or decreases in the District's net assets are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the District, however, you should consider nonfinancial factors as well, such as changes in the District's average daily attendance or its property tax base and the condition of the District's facilities.

In the Statement of Net Assets and the Statement of Activities, we classify the District's activities as Governmental activities:

- Governmental activities—Most of the District's basic services are reported here, including the instruction, counseling, co-curricular activities, food services, transportation, maintenance, community services, and general administration. Property taxes, tuition, fees, and state and federal grants finance most of these activities.

Reporting the District's Most Significant Funds

Fund Financial Statements

The fund financial statements begin on page 12 and provide detailed information about the most significant funds—not the District as a whole. Laws and contracts require the District to establish some funds, such as grants received under the No Child Left Behind Act from the U.S. Department of Education. The District's administration establishes many other funds to help it control and manage money for particular purposes (like campus activities). The District's two kinds of funds—governmental and proprietary—use different accounting approaches.

- Governmental funds—Most of the District's basic services are reported in governmental funds. These use modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the District's general operations and the basic services it provides. We describe the differences between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in reconciliation schedules following each of the fund financial statements.
- Proprietary funds—The District reports the activities for which it charges users (whether outside customers or other units of the District) in proprietary funds using the same accounting methods employed in the Statement of Net Assets and the Statement of Activities. The internal service funds report activities that provide supplies and services for the District's other programs and activities—such as the District's self-insurance programs. The District, at present, maintains one internal service fund, the Workers' Compensation Insurance Fund.

The District as Trustee

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for money raised by student activities and scholarship programs. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 21 and 22. We exclude these resources from the District's other financial statements because the District cannot use these assets to finance its operations. The District is only responsible for ensuring that the assets reported in these funds are used for their intended purposes.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Our analysis focuses on the net assets (Table I) and changes in net assets (Table II) of the District's governmental and business-type activities.

Net assets of the District's governmental activities increased from \$35.5 million to \$38.4 million. Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – were \$20.7 million at August 31, 2012. This decrease in governmental net assets was the result of depreciation expense.

Table I
Port Neches-Groves Independent School District

	NET ASSETS	
	in thousands	
	Governmental Activities	
	2012	2011
Current and other assets	31,516	34,727
Capital assets	138,116	141,092
Total assets	<u>169,632</u>	<u>175,819</u>
Long-term liabilities	127,474	132,647
Other liabilities	3,764	7,636
Total liabilities	<u>131,238</u>	<u>140,283</u>
Net assets:		
Invested in capital assets, net of related debt	15,612	15,862
Restricted	2,120	1,607
Unrestricted	20,662	18,067
Total net assets	<u>38,394</u>	<u>35,536</u>

Table II
Port Neches-Groves Independent School District

CHANGES IN NET ASSETS
in thousands

	Governmental Activities	
	2012	2011
Revenues:		
Program revenues:		
Charges for services	1,849	1,901
Operating grants and contributions	3,780	6,865
General revenues:		
Maintenance and operations taxes	25,066	26,779
Debt service taxes	11,149	10,492
State aid - formula grants	9,714	5,080
Investment Earnings	53	79
Miscellaneous	4,215	2,042
Total Revenues	<u>55,826</u>	<u>53,238</u>
Expenses:		
Instruction, curriculum and media services	26,643	27,955
Instructional and school leadership	2,221	2,208
Student support services	3,112	3,103
Child nutrition	2,334	2,626
Extracurricular activities	1,830	1,964
General administration	1,069	1,209
Plant maintenance and security	6,688	9,321
Data processing services	1,060	701
Debt services	5,680	5,856
Recapture payments	1,928	1,899
Other Intergovernmental charges	403	521
Total Expenses	<u>52,968</u>	<u>57,363</u>
Increase in net assets	<u>2,858</u>	<u>(4,125)</u>
Net assets at Beginning	35,536	39,661
Prior Period Adjustment	-	-
Net Assets - Beginning, as Restated	<u>35,536</u>	<u>39,661</u>
Net assets at Ending	<u>38,394</u>	<u>35,536</u>

THE DISTRICT'S FUNDS

As the District completed this annual period, its governmental funds (as presented in the balance sheet on page 12) reported a combined fund balance of \$23.6 million, which is \$0.3 million more than last year's total of \$23.3 million. This was a result of some \$2.2 million increase in general fund balance offset by \$2.2 in expenditures of capital project funds plus and increase of \$0.3 in debt service fund balance.

Included in this year's total change in fund balance is a increase of \$2.2 million in the District's General Fund. Total actual expenditures were \$1.5 million less than budgeted. Several factors contributed to the savings. Over the course of the year, the Board of Trustees revised the District's General Fund budget. Recapture payments for student attendance credits were also less by \$0.3 million. State revenues were \$0.3 million more than budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2012, the District had \$138.1 million invested in a broad range of capital assets, including facilities and equipment for instruction, transportation, athletics, administration, and maintenance. More detailed information about the District's capital assets is presented in Note D to the financial statements.

Debt

At year-end, the District had \$123.1 million in bonds outstanding versus \$128.3 million last year. More detailed information about the District's long-term liabilities is presented in Note F to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District's Board of Trustees and Superintendent considered many factors when adopting the 2012-13 budget. These included the following:

- The District's enrollment is expected to increase slightly.
- The District's student attendance rate is expected to remain stable or increase slightly.
- Legislative Mandates
- The Economy
- Federal Grants

General Fund revenues are budgeted to decrease 3.35% to \$36.8 million. The largest decrease is attributable to a decrease in the amount of state aid the district is projecting to receive. General Fund expenditures are budgeted to decrease 3.35% to \$36.8 million. The largest decrease is attributable to the district not paying recapture to the state for the purchase of student attendance credits. The District has added no new major programs or initiatives to the 2012-13 budgets. During the budget process the district was able to absorb approximately 3 positions vacated by retiring personnel. Throughout the year, positions will continue to be reviewed and monitored and careful attention will be paid to the remaining budget as well. The district has completed three major construction projects funded with bond proceeds.

Financial forecasts for the State of Texas have the state having a large shortfall. The Board of Trustees adopted a policy for maintaining at least three month's operating expenditures in fund balance. Currently the district does have an excess of the three month's operating expenditures.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to show 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 Manager at the Port Neches-Groves Independent School District, 620 Avenue C, Port Neches, Texas 77651.

Basic Financial Statements

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT*STATEMENT OF NET ASSETS**AUGUST 31, 2012*

Data Control Codes	1	Governmental Activities
ASSETS:		
1110	<i>Cash and Cash Equivalents</i>	\$ 1,775,010
1120	<i>Current Investments</i>	24,946,208
1225	<i>Property Taxes Receivable (Net)</i>	840,125
1240	<i>Due from Other Governments</i>	2,201,477
1250	<i>Accrued Interest</i>	10,014
1290	<i>Other Receivables (Net)</i>	46,957
1300	<i>Inventories</i>	52,115
1410	<i>Deferred Expenses</i>	854,120
1420	<i>Capitalized Bond and Other Debt Issuance Costs</i>	771,555
1490	<i>Other Current Assets</i>	17,800
	Capital Assets:	
1510	<i>Land</i>	1,217,225
1520	<i>Buildings and Improvements, Net</i>	131,830,485
1530	<i>Furniture and Equipment, Net</i>	5,068,563
1000	Total Assets	<u>169,631,654</u>
LIABILITIES:		
2110	<i>Accounts Payable</i>	817,597
2140	<i>Interest Payable</i>	241,905
2165	<i>Accrued Liabilities</i>	1,804,987
2180	<i>Due to Other Governments</i>	602,682
2300	<i>Unearned Revenue</i>	296,834
	Noncurrent Liabilities:	
2501	<i>Due Within One Year</i>	5,395,000
2502	<i>Due in More Than One Year</i>	122,078,699
2000	Total Liabilities	<u>131,237,704</u>
NET ASSETS		
3200	Invested in Capital Assets, Net of Related Debt	15,611,782
	Restricted For:	
3820	Federal and State Programs	893,332
3850	Debt Service	1,226,586
3900	Unrestricted	20,662,250
3000	Total Net Assets	<u>\$ 38,393,950</u>

The accompanying notes are an integral part of this statement.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2012

Data Control Codes	Functions/Programs	1 Expenses	3 Program Revenues		4 Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
			Charges for Services	Governmental Activities		
	Governmental Activities:					
11	<i>Instruction</i>	\$ 24,936,782	\$ 53,930	\$ 2,601,267	\$ (22,281,585)	
12	<i>Instructional Resources and Media Services</i>	737,663	--	24,063	(713,600)	
13	<i>Curriculum and Staff Development</i>	968,810	--	105,902	(862,908)	
23	<i>School Leadership</i>	2,221,182	--	--	(2,221,182)	
31	<i>Guidance, Counseling, & Evaluation Services</i>	1,638,410	--	6,389	(1,632,021)	
33	<i>Health Services</i>	626,973	--	--	(626,973)	
34	<i>Student Transportation</i>	846,691	--	--	(846,691)	
35	<i>Food Service</i>	2,333,938	1,532,125	997,522	195,709	
36	<i>Cocurricular/Extracurricular Activities</i>	1,830,144	256,216	12,534	(1,561,394)	
41	<i>General Administration</i>	1,069,289	--	--	(1,069,289)	
51	<i>Plant Maintenance and Operations</i>	6,603,713	6,517	12,262	(6,584,934)	
52	<i>Security and Monitoring Services</i>	84,104	--	--	(84,104)	
53	<i>Data Processing Services</i>	1,059,560	--	--	(1,059,560)	
61	<i>Community Services</i>	19,598	--	19,598	--	
72	<i>Interest on Long-term Debt</i>	5,636,992	--	--	(5,636,992)	
73	<i>Bond Issuance Costs and Fees</i>	42,548	--	--	(42,548)	
91	<i>Contracted Instructional Services between Schools</i>	1,928,311	--	--	(1,928,311)	
95	<i>Payments to Juvenile Justice Alternative Ed. Programs</i>	47,250	--	--	(47,250)	
99	<i>Other Intergovernmental Charges</i>	336,234	--	--	(336,234)	
TG	Total Governmental Activities	<u>52,968,192</u>	<u>1,848,788</u>	<u>3,779,537</u>	<u>(47,339,867)</u>	
TP	Total Primary Government	<u>\$ 52,968,192</u>	<u>\$ 1,848,788</u>	<u>\$ 3,779,537</u>	<u>(47,339,867)</u>	
	General Revenues:					
MT	<i>Property Taxes, Levied for General Purposes</i>				25,066,270	
DT	<i>Property Taxes, Levied for Debt Service</i>				11,148,690	
IE	<i>Investment Earnings</i>				52,642	
GC	<i>Grants and Contributions Not Restricted to Specific Programs</i>				9,713,969	
MI	<i>Miscellaneous</i>				4,215,734	
TR	Total General Revenues				<u>50,197,305</u>	
CN	Change in Net Assets				<u>2,857,438</u>	
NB	Net Assets - Beginning				<u>35,536,512</u>	
NE	Net Assets - Ending				<u>\$ 38,393,950</u>	

The accompanying notes are an integral part of this statement.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS

AUGUST 31, 2012

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Governmental Funds	98 Total Governmental Funds	
ASSETS:					
1110	Cash and Cash Equivalents	\$ 2,500	\$ 19,483	\$ 1,082,972	\$ 1,104,955
1120	Current Investments	20,817,691	1,174,707	2,953,810	24,946,208
1225	Taxes Receivable, Net	665,243	174,882	--	840,125
1240	Due from Other Governments	1,919,362	--	282,115	2,201,477
1250	Accrued Interest	10,014	--	--	10,014
1260	Due from Other Funds	157,361	--	--	157,361
1290	Other Receivables	41,462	5,495	--	46,957
1300	Inventories	--	--	52,115	52,115
1410	Deferred Expenditures	854,120	--	--	854,120
1490	Other Current Assets	--	--	17,800	17,800
1000	Total Assets	\$ 24,467,753	\$ 1,374,567	\$ 4,388,812	\$ 30,231,132
LIABILITIES:					
Current Liabilities:					
2110	Accounts Payable	\$ 370,219	\$ --	\$ 447,378	\$ 817,597
2150	Payroll Deductions & Withholdings	4,453	--	--	4,453
2160	Accrued Wages Payable	1,529,384	--	131,780	1,661,164
2170	Due to Other Funds	2,224,711	--	157,361	2,382,072
2180	Due to Other Governments	602,682	--	--	602,682
2200	Accrued Expenditures	112,208	--	--	112,208
2300	Deferred Revenue	850,843	163,691	83,680	1,098,214
2000	Total Liabilities	5,694,500	163,691	820,199	6,678,390
FUND BALANCES:					
Nonspendable Fund Balances:					
3410	Inventories	--	--	52,115	52,115
Restricted Fund Balances:					
3450	Federal/State Funds Grant Restrictions	--	--	893,332	893,332
3470	Capital Acquisitions & Contractual Obligations	--	--	2,623,166	2,623,166
3480	Retirement of Long-Term Debt	--	1,210,876	--	1,210,876
3600	Unassigned	18,773,253	--	--	18,773,253
3000	Total Fund Balances	18,773,253	1,210,876	3,568,613	23,552,742
4000	Total Liabilities and Fund Balances	\$ 24,467,753	\$ 1,374,567	\$ 4,388,812	\$ 30,231,132

The accompanying notes are an integral part of this statement.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT*RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**TO THE STATEMENT OF NET ASSETS**AUGUST 31, 2012*

Total fund balances - governmental funds balance sheet	\$ 23,552,742
Amounts reported for governmental activities in the Statement of Net Assets ("SNA") are different because:	
Capital assets used in governmental activities are not reported in the funds.	138,116,274
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	801,380
The assets and liabilities of internal service funds are included in governmental activities in the SNA.	2,867,604
Payables for bond principal which are not due in the current period are not reported in the funds.	(123,086,077)
The accumulated accretion of interest on capital appreciation bonds is not reported in the funds.	(2,041,580)
Payables for bond interest which are not due in the current period are not reported in the funds.	(241,905)
Payables for compensated absences which are not due in the current period are not reported in the funds.	(431,513)
The deferred gain/(loss) on the refunding of bonds is capitalized in the SNA but not in the funds.	56,700
Bond premium is deferred in the SNA but not in the funds.	(1,971,229)
Bond issuance costs and similar items are capitalized in the SNA but not in the funds.	771,555
Rounding difference	(1)
Net assets of governmental activities - Statement of Net Assets	<u>\$ 38,393,950</u>

The accompanying notes are an integral part of this statement.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES

IN FUND BALANCES - GOVERNMENTAL FUNDS

FOR THE YEAR ENDED AUGUST 31, 2012

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Governmental Funds	98 Total Governmental Funds
REVENUES:				
5700 Local and Intermediate Sources	\$ 29,575,940	\$ 11,137,100	\$ 1,600,673	\$ 42,313,713
5800 State Program Revenues	9,137,421	--	560,240	9,697,661
5900 Federal Program Revenues	15,198	--	3,734,131	3,749,329
5020 Total Revenues	<u>38,728,559</u>	<u>11,137,100</u>	<u>5,895,044</u>	<u>55,760,703</u>
EXPENDITURES:				
Current:				
0011 Instruction	19,362,582	--	3,107,764	22,470,346
0012 Instructional Resources and Media Services	623,628	--	25,509	649,137
0013 Curriculum and Staff Development	750,936	--	105,902	856,838
0023 School Leadership	1,942,905	--	--	1,942,905
0031 Guidance, Counseling, & Evaluation Services	1,429,070	--	6,389	1,435,459
0033 Health Services	549,241	--	--	549,241
0034 Student Transportation	742,024	--	--	742,024
0035 Food Service	--	--	2,381,338	2,381,338
0036 Cocurricular/Extracurricular Activities	1,586,536	--	12,534	1,599,070
0041 General Administration	928,667	--	--	928,667
0051 Plant Maintenance and Operations	5,717,445	--	12,262	5,729,707
0052 Security and Monitoring Services	70,628	--	--	70,628
0053 Data Processing Services	539,633	--	--	539,633
0061 Community Services	--	--	19,598	19,598
0071 Principal on Long-term Debt	--	5,240,000	--	5,240,000
0072 Interest on Long-term Debt	--	5,623,160	--	5,623,160
0073 Bond Issuance Costs and Fees	--	2,300	--	2,300
0081 Capital Outlay	--	--	2,401,931	2,401,931
0091 Contracted Instructional Services				
Between Public Schools	1,928,311	--	--	1,928,311
0095 Payments to Juvenile Justice Alternative				
Education Programs	47,250	--	--	47,250
0099 Other Intergovernmental Charges	336,234	--	--	336,234
6030 Total Expenditures	<u>36,555,090</u>	<u>10,865,460</u>	<u>8,073,227</u>	<u>55,493,777</u>
1100 Excess (Deficiency) of Revenues Over (Under)				
1100 Expenditures	2,173,469	271,640	(2,178,183)	266,926
1200 Net Change in Fund Balances	<u>2,173,469</u>	<u>271,640</u>	<u>(2,178,183)</u>	<u>266,926</u>
0100 Fund Balances - Beginning	16,599,784	939,236	5,746,796	23,285,816
3000 Fund Balances - Ending	<u>\$ 18,773,253</u>	<u>\$ 1,210,876</u>	<u>\$ 3,568,613</u>	<u>\$ 23,552,742</u>

The accompanying notes are an integral part of this statement.

PORT NECHES-GROVES 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 AUGUST 31, 2012*

Net change in fund balances - total governmental funds	\$ 266,926
Amounts reported for governmental activities in the Statement of Activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	2,017,804
The depreciation of capital assets used in governmental activities is not reported in the funds.	(4,993,449)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	64,927
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	5,240,000
Bond issuance costs and similar items are amortized in the SOA but not in the funds.	(32,148)
The accretion of interest on capital appreciation bonds is not reported in the funds.	(137,331)
(Increase) decrease in accrued interest from beginning of period to end of period.	8,996
The net revenue (expense) of internal service funds is reported with governmental activities.	351,147
Compensated absences are reported as the amount earned in the SOA but as the amount paid in the funds.	(35,838)
Bond premiums are reported in the funds but not in the SOA.	114,503
The deferred gain/(loss) on the refunding of bonds is amortized in the SOA but not in the funds.	(8,100)
Rounding difference	1
Change in net assets of governmental activities - Statement of Activities	<u>\$ 2,857,438</u>

The accompanying notes are an integral part of this statement.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

STATEMENT OF NET ASSETS

INTERNAL SERVICE FUND

AUGUST 31, 2012

Data Control Codes		Nonmajor Internal Service Fund <u>Workers' Compensation Insurance Fund</u>
ASSETS:		
Current Assets:		
1110	Cash and Cash Equivalents	\$ 670,055
Receivables:		
1260	Due from Other Funds	<u>2,224,711</u>
	Total Current Assets	<u>2,894,766</u>
1000	Total Assets	<u>\$ 2,894,766</u>
LIABILITIES:		
Current Liabilities:		
2200	Accrued Expenditures/Expenses	\$ <u>27,162</u>
	Total Current Liabilities	<u>27,162</u>
2000	Total Liabilities	<u>27,162</u>
NET ASSETS:		
3900	Unrestricted Net Assets	351,147
3000	Total Net Assets	<u>\$ 2,867,604</u>

The accompanying notes are an integral part of this statement.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES
 IN FUND NET ASSETS - INTERNAL SERVICE FUND
 FOR THE YEAR ENDED AUGUST 31, 2012

Data Control Codes		Nonmajor Internal Service Fund <u>Workers' Compensation Insurance Fund</u>
	OPERATING REVENUES:	
5700	<i>Local and Intermediate Sources</i>	\$ 400,502
5020	Total Revenues	<u>400,502</u>
	OPERATING EXPENSES:	
6400	<i>Other Operating Costs</i>	49,355
6030	Total Expenses	<u>49,355</u>
1300	Change in Net Assets	351,147
0100	Total Net Assets - Beginning	2,516,457
3300	Total Net Assets - Ending	<u>\$ 2,867,604</u>

The accompanying notes are an integral part of this statement.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

FOR THE YEAR ENDED AUGUST 31, 2012

	Nonmajor Internal Service Fund <u>Workers' Compensation Insurance Fund</u>
Cash Flows from Operating Activities:	
<i>Cash Receipts (Payments) for Quasi-external Operating Transactions with Other Funds</i>	\$ 69,166
<i>Cash Payments to Suppliers for Services</i>	<u>(61,125)</u>
Net Cash Provided (Used) by Operating Activities	<u>8,041</u>
Net Increase (Decrease) in Cash and Cash Equivalents	8,041
Cash and Cash Equivalents at Beginning of Year	662,014
Cash and Cash Equivalents at End of Year	<u>\$ 670,055</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income (Loss)	\$ 351,147
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
<i>Depreciation</i>	--
<i>Provision for Uncollectible Accounts</i>	--
Change in Assets and Liabilities:	
<i>Decrease (Increase) in Receivables</i>	(331,336)
<i>Increase (Decrease) in Accounts Payable</i>	(5,524)
<i>Increase (Decrease) in Accrued Expenses</i>	<u>(6,246)</u>
Total Adjustments	<u>(343,106)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 8,041</u>

The accompanying notes are an integral part of this statement.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS

FIDUCIARY FUNDS

AUGUST 31, 2012

Data Control Codes		<u>Bequests</u>
	ASSETS:	
1800	<i>Restricted Assets</i>	\$ 22,025
1000	Total Assets	<u>\$ 22,025</u>
	LIABILITIES:	
2000	Total Liabilities	<u>--</u>
	NET ASSETS	
3800	<i>Held in Trust</i>	\$ 22,025
3000	Total Net Assets	<u>\$ 22,025</u>

The accompanying notes are an integral part of this statement.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FIDUCIARY FUNDS

FOR THE YEAR ENDED AUGUST 31, 2012

Private-purpose
Trust
FundBequests**Additions:**

Bequests

\$ --

Total Additions

--**Deductions:**

Athletic Facilities Improvements

11,229

Total Deductions

11,229**Change in Net Assets**

(11,229)

Net Assets-Beginning of the Year

33,254

Net Assets-End of the Year

\$ 22,025

The accompanying notes are an integral part of this statement.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2012

A. Summary of Significant Accounting Policies

The basic financial statements of Port Neches-Groves 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.

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

The District reports the following major governmental funds:

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

Debt Service Fund: This fund accounts for the payment of bonded debt principal and interest payments and the resultant property taxes.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2012

In addition, the District reports the following fund types:

Internal Service Funds: These funds are used to account for revenues and expenses related to services provided to parties inside the District. These funds facilitate distribution of support costs to the users of support services on a cost-reimbursement basis. Because the principal users of the internal services are the District's governmental activities, this fund type is included in the "Governmental Activities" column of the government-wide financial statements.

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.

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

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

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

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2012

3. Financial Statement Amounts

a. Cash and Cash Equivalents

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

b. 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 payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the fiscal year.

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.

c. 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.

d. 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	20
Vehicles	2-15
Office Equipment	3-15
Computer Equipment	3-15

e. 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.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2012

f. Compensated Absences

On retirement of certain employees, the District pays any accrued local sick leave in a lump case payment to such employee.

g. 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.

h. Use of Estimates

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

i. 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.

j. Fund Balances - Governmental Funds

Fund balances of the governmental funds are classified as follows:

Nonspendable Fund Balance - represents amounts that cannot be spent because they are either not spendable form (such as inventory or prepaid insurance) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

Restricted Fund Balance - represents amounts that are constrained by external parties, constitutional provisions or enabling legislation.

Committed Fund Balance - represents amounts that can only be used for a specific purpose because of a formal action by the District's governing board. Committed amounts cannot be used for any other purpose unless the governing board removes those constraints by taking the same type of formal action. Committed fund balance amounts may be used for other purposes with appropriate due process by the governing board. Commitments are typically done through adoption and amendment of the budget. Committed fund balance amounts differ from restricted balances in that the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.

Assigned Fund Balance - represents amounts which the District intends to use for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the governing board or by an official or body to which the governing board delegates the authority. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service or permanent fund are assigned for purposes in accordance with the nature of their fund type or the fund's primary purpose. Assignments within the general fund conveys that the intended use of those amounts is for a specific purpose that is narrower than the general purposes of the District itself.

Unassigned Fund Balance - represents amounts which are unconstrained in that they may be spent for any purpose. Only the general fund reports a positive unassigned fund balance. Other governmental

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

*NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2012*

funds might report a negative balance in this classification because of overspending for specific purposes for which amounts had been restricted, committed or assigned.

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.

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>
None reported	Not applicable

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

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 August 31, 2012, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$1,775,010 and the bank balance was \$8,166,360. The District's cash deposits at August 31, 2012 and during the year ended August 31, 2012, 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

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

*NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2012*

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 August 31, 2012 are shown below.

<u>Investment or Investment Type</u>	<u>Maturity</u>	<u>Ratings</u>	<u>Fair Value</u>	<u>Percentage</u>
Lone Star Investment Pool-Govt. Overnight	34 days average	AAA-m	\$ 10,352,953	41.50%
Texas Short Term Asset Reserve (TexSTAR) Investment Pool	49 days average	AAA-m	8,546,080	34.26%
Certificates of Deposit	N/A	N/A	6,047,175	24.24%
Total Investments			<u>\$ 24,946,208</u>	<u>100.00%</u>

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.

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.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

*NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2012*

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.

Public Funds Investment Pools

Public funds investment pools in Texas ("Pools") are established under the authority of the Interlocal Cooperation Act, Chapter 79 of the Texas Government Code, and are subject to the provisions of the Public Funds Investment Act (the "Act"), Chapter 2256 of the Texas Government Code. In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires Pools to: 1) have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool; 2) maintain a continuous rating of no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service; and 3) maintain the market value of its underlying investment portfolio within one half of one percent of the value of its shares.

The District's investments in Pools are reported at an amount determined by the fair value per share of the pool's underlying portfolio, unless the pool is 2a7-like, in which case they are reported at share value. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

D. Capital Assets

Capital asset activity for the year ended August 31, 2012, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
<u>Governmental activities:</u>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 1,217,225	\$ --	\$ --	\$ 1,217,225
Total capital assets not being depreciated	<u>1,217,225</u>	<u>--</u>	<u>--</u>	<u>1,217,225</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements	162,105,587	1,925,503	--	164,031,090
Equipment	6,695,897	92,301	--	6,788,198
Vehicles	3,926,979	--	--	3,926,979
Total capital assets being depreciated	<u>172,728,463</u>	<u>2,017,804</u>	<u>--</u>	<u>174,746,267</u>
Less accumulated depreciation for:				
Buildings and improvements	(28,418,962)	(3,781,643)	--	(32,200,605)
Equipment	(2,436,682)	(1,001,409)	--	(3,438,091)
Vehicles	(1,998,126)	(210,397)	--	(2,208,523)
Total accumulated depreciation	<u>(32,853,770)</u>	<u>(4,993,449)</u>	<u>--</u>	<u>(37,847,219)</u>
Total capital assets being depreciated, net	<u>139,874,693</u>	<u>(2,975,645)</u>	<u>--</u>	<u>136,899,048</u>
Governmental activities capital assets, net	<u>\$ 141,091,918</u>	<u>\$ (2,975,645)</u>	<u>\$ --</u>	<u>\$ 138,116,273</u>

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2012

Depreciation was charged to functions as follows:

Instruction	\$ 2,781,746
Instructional Resources and Media Services	88,526
Curriculum and Staff Development	111,972
School Leadership	278,277
Guidance, Counseling, & Evaluation Services	202,951
Health Services	77,732
Student Transportation	104,667
Extracurricular Activities	241,723
General Administration	140,622
Plant Maintenance and Operations	874,006
Security and Monitoring Services	13,476
Data Processing Services	77,751
	<u>\$ 4,993,449</u>

E. Interfund Balances and Activities

1. Due To and From Other Funds

Balances due to and due from other funds at August 31, 2012, consisted of the following:

<u>Due To Fund</u>	<u>Due From Fund</u>	<u>Amount</u>	<u>Purpose</u>
Internal Service-Workers' Comp.	General Fund	\$ 2,224,711	Short-term loans
Other Governmental Funds	General Fund	157,361	Short-term loans
	Total	<u>\$ 2,382,072</u>	

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

2. Transfers To and From Other Funds

Transfers to and from other funds at August 31, 2012, consisted of the following:

<u>Transfers From</u>	<u>Transfers To</u>	<u>Amount</u>	<u>Reason</u>
None	None	\$ --	N/A
	Total	<u>\$ --</u>	

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2012

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 August 31, 2012, are as follows:

Series	Interest Rates	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
<u>Governmental activities:</u>						
2005	3.875-4.50%	\$ 5,850,000	\$ --	\$ 1,000,000	\$ 4,850,000	\$ 1,000,000
2007	4.00-5.00%	18,328,539	--	960,000	17,368,539	975,000
2008	3.75-5.00%	56,890,000	--	1,455,000	55,435,000	1,530,000
2009	2.00-5.00%	43,447,538	--	1,340,000	42,107,538	1,410,000
2010	2.004.25%	3,810,000	--	485,000	3,325,000	480,000
		128,326,077	--	5,240,000	123,086,077	5,395,000
Accumulated Accretion-CAB's		1,904,249	137,331	--	2,041,580	--
Compensated absences *		395,676	35,837	--	431,513	--
Deferred Gain/(Loss) Refund		(64,800)	--	(8,100)	(56,700)	--
Premium on Bonds *		2,085,732	--	114,503	1,971,229	--
Total governmental activities		\$ 132,646,934	\$ 173,168	\$ 5,346,403	\$ 127,473,699	\$ 5,395,000

* Other long-term liabilities

The funds typically used to liquidate other long-term liabilities in the past are as follows:

Liability	Activity Type	Fund
Compensated absences	Governmental	General Fund

2. Debt Service Requirements

Debt service requirements on long-term debt at August 31, 2012, are as follows:

Year Ending August 31,	Governmental Activities		
	Principal	Interest	Total
2013	\$ 5,395,000	\$ 5,427,916	\$ 10,822,916
2014	5,223,539	5,524,708	10,748,247
2015	5,610,000	5,043,841	10,653,841
2016	4,684,019	5,860,672	10,544,691
2017	4,723,519	5,741,647	10,465,166
2018-2022	23,740,000	20,147,476	43,887,476
2023-2027	28,000,000	14,516,513	42,516,513
2028-2032	35,580,000	7,094,953	42,674,953
2033-2037	10,130,000	406,250	10,536,250
Totals	\$ 123,086,077	\$ 69,763,976	\$ 192,850,053

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

*NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2012*

3. Advance Refunding of Debt

During 2010 the District issued \$4.375 million in Unlimited Tax Refunding Bonds to refund a portion of the District's Series 1998 bonds. The proceeds of the refunding bonds net of the related debt service costs of amounted to \$4.581 million and was deposited with an escrow agent to purchase direct obligations of the United States. As a result of the refunding, the District decreased its aggregate debt service payment to maturity by \$0.26 million and realized a economic gain (difference between the present value of debt service payments on the old debt and the new debt) of \$0.23 million. GASB Statement No. 7, "Advance Refundings Resulting in Defeasance of Debt," provides that refunded debt and assets placed in escrow for the payment of related debt service be excluded from the financial statements. As of August 31, 2012, outstanding balances of bond issues that have been refunded and defeased in-substance by placing existing assets and the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments are as follows.

<u>Bond Issue</u>	<u>Amount</u>
Series 1998	\$ 4,000,000
Total	<u>\$ 4,000,000</u>

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 2012, 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 (the "System"), a public employee retirement system. It is a cost-sharing, multiple-employer defined benefit pension plan with one exception: all risks and costs are not shared by the District, but are the liability of the State of Texas. The System provides service retirement and disability retirement benefits, and death benefits to plan members and beneficiaries. The System operates primarily under the provisions of the Texas Constitution and Texas Government Code, Title 8, Subtitle C. The Texas legislature has the authority to establish or amend benefit provisions. The System issues a publicly available financial report that includes financial statements and required supplementary information for the District. That report may be obtained by writing the Teacher Retirement System of Texas, 1000 Red River Street, Austin, TX 78701-2698 or by calling (800) 223-8778.

2. Funding Policy

Under provisions in State law, plan members are required to contribute 6.4% of their annual covered salary and the State of Texas contributes an amount equal to 6.58% of the District's covered payroll. The District's employees' contributions to the System for the years ending August 31, 2012, 2011 and 2010 were \$1,626,068, \$1,691,152 and \$1,688,391, respectively, and were equal to the required contributions for each year. Other contributions made from federal and private grants and from the District for salaries above the statutory minimum for the years ending August 31, 2012, 2011 and 2010 were \$230,231, \$284,893 and \$267,131, respectively, and were equal to the required contributions for each year. The amount contributed by the State on behalf of the District was \$1,507,943 for the year ended August 31, 2012.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2012

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 at www.trs.state.tx.us, by writing to the Communications Department of the Teacher Retirement 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 2012, 2011 and 2010. 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 August 31, 2012, 2011, and 2010, the State's contributions to TRS-Care were \$254,073, \$264,243, and \$263,811, respectively, the active member contributions were \$165,148, \$171,758, and \$171,477, respectively, and the District's contributions were \$139,740, \$145,334, and \$145,096, 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 August 31, 2012, 2011, and 2010, the subsidy payments received by TRS-Care on behalf of the District were \$65,855, \$71,243, and \$61,073, respectively.

3. Early Retiree Reinsurance Program (ERRP)

The Early Retiree Reinsurance Program (ERRP) is a provision of the Patient Protection and Affordable Care Act (PPACA) and provides reimbursement to plan sponsors for a portion of the cost of providing health benefits to retirees between the ages of 55-64 and their covered dependants regardless of age. An "early retiree" is defined as a plan participant aged 55-64 who is not eligible for Medicare and is not covered by an active employee of the plan sponsor.

This temporary program is available to help employers continue to provide coverage to early retirees. ERRP reimbursement is available on a first come, first served basis for qualified employers that apply and become certified for the program. TRS has been certified for this program and has received funds from the ERRP program. For the fiscal year ended June 30, 2012, the amount received by TRS-CARE on behalf of the District was \$60,659.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2012

J. Employee Health Care Coverage

During the period ended August 31, 2012, employees of the District were covered by a state-wide plan, TRS Active Care. The District paid premiums of \$229 per month per employee to the Plan with the State providing an additional \$75. Employees, at their option may authorize payroll withholdings to pay premiums for dependent coverage. The Teacher Retirement System of Texas (TRS) manages TRS Active Care. The Plan is administered by Blue Cross and Blue Shield of Texas, and Scott and White HMO for the medical plan while Medco Health was assigned the prescription drug plan.

The District's participation is renewable annually.

The latest financial information on the state-wide plan is available from TRS (see note G1).

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 August 31, 2012.

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.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

EXHIBIT G-1

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2012

Data Control Codes	Budgeted Amounts			Variance with Final Budget Positive (Negative)	
	1	2	3		
	Original	Final	Actual		
REVENUES:					
5700	Local and Intermediate Sources	\$ 29,180,814	\$ 29,222,674	\$ 29,575,940	\$ 353,266
5800	State Program Revenues	8,782,069	8,785,722	9,137,421	351,699
5900	Federal Program Revenues	--	15,198	15,198	--
5020	Total Revenues	<u>37,962,883</u>	<u>38,023,594</u>	<u>38,728,559</u>	<u>704,965</u>
EXPENDITURES:					
Current:					
Instruction & Instructional Related Services:					
0011	Instruction	19,625,874	19,638,028	19,362,582	275,446
0012	Instructional Resources and Media Services	624,959	624,959	623,628	1,331
0013	Curriculum and Staff Development	819,365	790,480	750,936	39,544
	Total Instruction & Instr. Related Services	<u>21,070,198</u>	<u>21,053,467</u>	<u>20,737,146</u>	<u>316,321</u>
Instructional and School Leadership:					
0023	School Leadership	1,941,837	1,964,523	1,942,905	21,618
	Total Instructional & School Leadership	<u>1,941,837</u>	<u>1,964,523</u>	<u>1,942,905</u>	<u>21,618</u>
Support Services - Student (Pupil):					
0031	Guidance, Counseling and Evaluation Services	1,424,232	1,432,751	1,429,070	3,681
0033	Health Services	540,787	548,760	548,758	2
0034	Student (Pupil) Transportation	721,846	738,907	737,002	1,905
0036	Cocurricular/Extracurricular Activities	1,704,491	1,706,469	1,586,536	119,933
	Total Support Services - Student (Pupil)	<u>4,391,356</u>	<u>4,426,887</u>	<u>4,301,366</u>	<u>125,521</u>
Administrative Support Services:					
0041	General Administration	990,996	992,735	928,667	64,068
	Total Administrative Support Services	<u>990,996</u>	<u>992,735</u>	<u>928,667</u>	<u>64,068</u>
Support Services - Nonstudent Based:					
0051	Plant Maintenance and Operations	6,170,136	6,170,136	5,722,950	447,186
0052	Security and Monitoring Services	94,437	95,137	70,628	24,509
0053	Data Processing Services	532,108	548,894	539,633	9,261
	Total Support Services - Nonstudent Based	<u>6,796,681</u>	<u>6,814,167</u>	<u>6,333,211</u>	<u>480,956</u>
Intergovernmental Charges:					
0091	Contracted Instr. Services Between Public Schools	2,248,047	2,248,047	1,928,311	319,736
0095	Payments to Juvenile Justice Alternative				
0095	Education Programs	47,250	47,250	47,250	--
0099	Other Intergovernmental Charges	476,518	476,518	336,234	140,284
	Total Intergovernmental Charges	<u>2,771,815</u>	<u>2,771,815</u>	<u>2,311,795</u>	<u>460,020</u>
6030	Total Expenditures	<u>37,962,883</u>	<u>38,023,594</u>	<u>36,555,090</u>	<u>1,468,504</u>
1100	Excess (Deficiency) of Revenues Over (Under)				
1100	Expenditures	--	--	2,173,469	2,173,469
1200	Net Change in Fund Balance	--	--	2,173,469	2,173,469
0100	Fund Balance - Beginning	16,599,784	16,599,784	16,599,784	--
3000	Fund Balance - Ending	<u>\$ 16,599,784</u>	<u>\$ 16,599,784</u>	<u>\$ 18,773,253</u>	<u>\$ 2,173,469</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.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

*SCHEDULE OF DELINQUENT TAXES RECEIVABLE
FOR THE YEAR ENDED AUGUST 31, 2012*

Year Ended August 31	1		2		3	
	Tax Rates				Assessed/Appraised Value For School Tax Purposes	
	Maintenance		Debt Service			
2003 and Prior Years	\$	Various	\$	Various	\$	Various
2004		1.50		.1333		2,594,166,526
2005		1.50		.1278		2,520,174,524
2006		1.50		.119		2,547,235,457
2007		1.37		.1083		2,786,936,542
2008		1.04		.1525		2,787,768,285
2009		1.04		.244		3,206,853,115
2010		1.04		.415		2,713,116,770
2011		1.04		.3965		2,602,981,065
2012 (School Year Under Audit)		1.04		.3965		2,509,824,504

1000 Totals

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

10 Beginning Balance 9/1/11	20 Current Year's Total Levy	31 Maintenance Collections	32 Debt Service Collections	40 Entire Year's Adjustments	50 Ending Balance 8/31/12
\$ 226,911	\$ --	\$ 1,279	\$ 120	\$ (8,924)	\$ 216,588
24,815	--	509	45	(952)	23,309
30,287	--	2,004	171	(949)	27,163
37,862	--	1,654	131	(1,647)	34,430
43,869	--	3,572	282	(727)	39,288
44,183	--	10,256	1,504	(1,023)	31,400
85,441	--	26,322	6,175	(1,233)	51,711
176,815	--	49,278	19,661	(3,000)	104,876
337,285	--	136,161	51,911	10,354	159,567
--	36,053,629	24,680,505	11,018,349	(33,906)	320,869
<u>\$ 1,007,468</u>	<u>\$ 36,053,629</u>	<u>\$ 24,911,540</u>	<u>\$ 11,098,349</u>	<u>\$ (42,007)</u>	<u>\$ 1,009,201</u>
\$ --	\$ --	\$ --	\$ --	\$ --	\$ --

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES FOR COMPUTATION OF INDIRECT COST FOR 2013-2014
 GENERAL AND SPECIAL REVENUE FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2012

EXHIBIT J-2

FUNCTION 41 - 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	\$ --	\$ --	\$ 223,427	\$ 269,159	\$ 246,691	\$ --	\$ 739,277
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	--	--	12,789	--	--	--	12,789
6212	Audit Services	--	--	--	15,950	--	--	15,950
6213	Tax Appraisal and Collection	--	341,925	--	--	--	--	341,925
621X	Other Prof. Services	--	--	20,900	1,949	4,566	--	27,415
6220	Tuition and Transfer Payments	--	--	--	--	--	--	--
6230	Education Service Centers	1,500	--	1,500	--	638	--	3,638
6240	Contr. Maint. and Repair	--	--	--	--	--	--	--
6250	Utilities	--	--	--	--	--	--	--
6260	Rentals	--	--	1,715	11,867	1,873	--	15,455
6290	Miscellaneous Contr.	--	--	--	--	--	--	--
6310	Operational Supplies, Materials	--	--	--	--	--	--	--
6320	Textbooks and Reading	--	--	--	--	--	--	--
6330	Testing Materials	--	--	--	--	--	--	--
63XX	Other Supplies, Materials	1,477	--	2,035	16,328	8,073	--	27,913
6410	Travel, Subsistence, Stipends	3,161	--	5,818	6,165	3,315	--	18,459
6420	Ins. and Bonding Costs	--	--	--	14,317	--	--	14,317
6430	Election Costs	11,740	--	--	--	--	--	11,740
6490	Miscellaneous Operating	11,995	--	13,938	5,903	4,187	--	36,023
6500	Debt Service	--	--	--	--	--	--	--
6600	Capital Outlay	--	--	--	--	--	--	--

Total \$ 29,873 \$ 341,925 \$ 282,122 \$ 341,638 \$ 269,343 \$ -- \$ 1,264,901

Total Expenditures for General and Special Revenue Funds (9) \$ 42,226,386

LESS: Deductions of Unallowable Costs

FISCAL YEAR

Total Capital Outlay (6600)	(10)	\$ 402,127
Total Debt & Lease (6500)	(11)	\$ --
Plant Maintenance (Function 51, 6100-6400)	(12)	\$ 5,701,559
Food (Function 35, 6341 and 6499)	(13)	\$ 1,048,052
Stipends (6413)	(14)	\$ --
Column 4 (above) - Total Indirect Cost		<u>\$ 341,638</u>

Subtotal 7,493,376

Net Allowed Direct Cost \$ 34,733,010

CUMULATIVE

Total Cost of Buildings Before Depreciation (1520)	(15)	\$ 164,031,090
Historical Cost of Buildings over 50 years old	(16)	17,089,462
Amount of Federal Money in Building Cost (Net of #16)	(17)	2,354,385
Total Cost of Furniture & Equipment Before Depreciation (1530 & 1540)	(18)	10,715,177
Historical Cost of Furniture & Equipment over 16 years old	(19)	1,311,362
Amount of Federal Money in Furniture & Equipment (Net of #19)	(20)	\$ 133,190

(8) Note A - No Function 53 expenditures and \$336,234 in Function 99 expenditures are included in this report on administrative costs.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

EXHIBIT J-3

NATIONAL SCHOOL BREAKFAST AND LUNCH PROGRAM
 BUDGETARY COMPARISON SCHEDULE
 FOR THE YEAR ENDED AUGUST 31, 2012

Data Control Codes	1	2	3
	Budget	Actual	Variance Positive (Negative)
REVENUES:			
5700 <i>Local and Intermediate Sources</i>	\$ 1,576,800	\$ 1,547,258	\$ (29,542)
5800 <i>State Program Revenues</i>	57,747	53,407	(4,340)
5900 <i>Federal Program Revenues</i>	1,006,500	997,522	(8,978)
5020 Total Revenues	<u>2,641,047</u>	<u>2,598,187</u>	<u>(42,860)</u>
EXPENDITURES:			
Current:			
Support Services - Student (Pupil):			
0035 <i>Food Services</i>	2,715,994	2,381,338	334,656
Total Support Services - Student (Pupil)	<u>2,715,994</u>	<u>2,381,338</u>	<u>334,656</u>
6030 Total Expenditures	<u>2,715,994</u>	<u>2,381,338</u>	<u>334,656</u>
1100 Excess (Deficiency) of Revenues Over (Under)			
1100 Expenditures	(74,947)	216,849	291,796
1200 Net Change in Fund Balance	(74,947)	216,849	291,796
0100 Fund Balance - Beginning	728,598	728,598	--
3000 Fund Balance - Ending	<u>\$ 653,651</u>	<u>\$ 945,447</u>	<u>\$ 291,796</u>

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

EXHIBIT J-4

*DEBT SERVICE FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED AUGUST 31, 2012*

Data Control Codes	1	2	3
	Budget	Actual	Variance Positive (Negative)
REVENUES:			
5700 <i>Local and Intermediate Sources</i>	\$ 10,870,160	\$ 11,137,100	\$ 266,940
5020 <i>Total Revenues</i>	<u>10,870,160</u>	<u>11,137,100</u>	<u>266,940</u>
EXPENDITURES:			
Debt Service:			
0071 <i>Principal on Long-Term Debt</i>	5,240,000	5,240,000	--
0072 <i>Interest on Long-Term Debt</i>	5,623,160	5,623,160	--
0073 <i>Bond Issuance Costs and Fees</i>	5,000	2,300	2,700
<i>Total Debt Service</i>	<u>10,868,160</u>	<u>10,865,460</u>	<u>2,700</u>
6030 <i>Total Expenditures</i>	<u>10,868,160</u>	<u>10,865,460</u>	<u>2,700</u>
1100 <i>Excess (Deficiency) of Revenues Over (Under)</i>			
1100 <i>Expenditures</i>	2,000	271,640	269,640
1200 <i>Net Change in Fund Balance</i>	2,000	271,640	269,640
0100 <i>Fund Balance - Beginning</i>	939,236	939,236	--
3000 <i>Fund Balance - Ending</i>	<u>\$ 941,236</u>	<u>\$ 1,210,876</u>	<u>\$ 269,640</u>

West, Davis & Company, LLP
11824 Jollyville Road, Suite 100
Austin, Texas 78759

Independent Auditors' 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
Port Neches-Groves Independent School District
Port Neches, Texas

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 Port Neches-Groves Independent School District as of and for the year ended August 31, 2012, which collectively comprise the Port Neches-Groves Independent School District's basic financial statements and have issued our report thereon dated January 8, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of Port Neches-Groves Independent School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Port Neches-Groves 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 Port Neches-Groves Independent School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Port Neches-Groves Independent School District's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Port Neches-Groves 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

A handwritten signature in black ink, appearing to read "West, Davis & Company". The signature is written in a cursive, flowing style.

West, Davis & Company, LLP
January 8, 2013

West, Davis & Company, LLP
11824 Jollyville Road, Suite 100
Austin, Texas 78759

Independent Auditors' 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
Port Neches-Groves Independent School District
Port Neches, Texas

Members of the Board of Trustees:

Compliance

We have audited Port Neches-Groves 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 Port Neches-Groves Independent School District's major federal programs for the year ended August 31, 2012. Port Neches-Groves 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 Port Neches-Groves Independent School District's management. Our responsibility is to express an opinion on Port Neches-Groves 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 Port Neches-Groves 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 Port Neches-Groves Independent School District's compliance with those requirements.

In our opinion, Port Neches-Groves 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 August 31, 2012.

Internal Control Over Compliance

Management of Port Neches-Groves 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 Port Neches-Groves 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 Port Neches-Groves 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.

The purpose of this report is solely to describe the scope of our testing of compliance with the types of compliance requirements applicable to each of Port Neches-Groves Independent School District's major programs and our testing of internal control over compliance and the results of our testing, and to provide an opinion on Port Neches-Groves Independent School District's compliance but not to provide an opinion on the effectiveness of Port Neches-Groves Independent School District's internal control over compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Port Neches-Groves Independent School District's compliance with requirements applicable to each major program and its internal control over compliance. Accordingly, this report is not suitable for any other purpose.



West, Davis & Company, LLP
January 8, 2013

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2012

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? Yes X 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? Yes X 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>
84.410A	Education Jobs Fund
10.550	Commodity Supplemental Food Program (Non-cash)
10.553	School Breakfast Program
10.555	National School Lunch Program

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

Auditee qualified as low-risk auditee? X Yes No

B. Financial Statement Findings
 NONE

C. Federal Award Findings and Questioned Costs
 NONE

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

EXHIBIT K-1

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2012

(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 EDUCATION			
Passed Through State Department of Education:			
<i>ESEA Title I Part A - Improving Basic Programs *</i>	84.010A	11610101123908	\$ 7,602
<i>ESEA Title I Part A - Improving Basic Programs *</i>	84.010A	12610101123908	505,511
Total CFDA Number 84.010A			<u>513,113</u>
<i>IDEA-B Formula *</i>	84.027A	116600011239086600	30,411
<i>IDEA-B Formula *</i>	84.027A	126600011239086600	923,609
<i>IDEA-B Discretionary *</i>	84.027A	126600021239086677	271,787
Total CFDA Number 84.027A			<u>1,225,807</u>
<i>Career and Technical - Basic Grant</i>	84.048A	12420006123908	38,157
<i>IDEA-B Preschool *</i>	84.173A	126610011239086610	30,193
Total CFDA Number 84.173A			<u>30,193</u>
<i>Title III Part A English Language Acquisition and Language Enhancement</i>	84.365A	112671001123908	1,248
<i>Title III Part A English Language Acquisition and Language Enhancement</i>	84.365A	1267100123908	25,670
Total CFDA Number 84.365A			<u>26,918</u>
<i>ESEA Title II Part A - Teacher & Principal Training & Recruiting</i>	84.367A	1169450112398	2,162
<i>ESEA Title II Part A - Teacher & Principal Training & Recruiting</i>	84.367A	12694501123908	165,449
Total CFDA Number 84.367A			<u>167,611</u>
<i>Fund 2892</i>	84.369A	69551102	1,110
<i>ARRA - ESEA, Title I, Part A - Improving Basic Programs *</i>	84.389A	10551001123908	155
<i>ARRA - IDEA-Part B Formula *</i>	84.391A	10554001123908	12,606
<i>ARRA of 2009 Title XIV State Fiscal Stabilization Fund *</i>	84.394A	11557001123908	12,262
<i>Education Jobs Fund</i>	84.410A	11550101123908	708,677
Total Passed Through State Department of Education			<u>2,736,609</u>
Total U. S. Department of Education			<u>2,736,609</u>
U. S. DEPARTMENT OF AGRICULTURE			
Passed Through State Department of Education:			
Commodity Supplemental Food Program (Non-cash)	10.550	123012A	125,922
School Breakfast Program *	10.553	71401101	158,990
National School Lunch Program *	10.555	71301101	712,611
Total Passed Through State Department of Education			<u>997,523</u>
Total U. S. Department of Agriculture			<u>\$ 997,523</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 3,734,132</u></u>

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

The accompanying notes are an integral part of this schedule.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2012

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Port Neches-Groves 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.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REQUIRED RESPONSES TO SELECTED SCHOOL FIRST INDICATORS
AS OF AUGUST 31, 2012

<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?	\$ 2,041,580