

PORT NECHES-GROVES
INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED AUGUST 31, 2013

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Port Neches-Groves Independent School District
Annual Financial Report
For The Year Ended August 31, 2013

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For The Year Ended August 31, 2013

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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, 2013, at a meeting of the board of trustees of such school district on the 13th day of January, 2014.



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 Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Port Neches-Groves Independent School District ("the District") as of and for the year ended August 31, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Port Neches-Groves Independent School District as of August 31, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note A to the financial statements, in 2013, Port Neches-Groves Independent School District adopted new accounting guidance, Government Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Port Neches-Groves Independent School District's basic financial statements. The introductory section and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not required parts of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The accompanying other supplementary information is presented for purposes of additional analysis and is also not a required part of the basic financial statements.

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Port Neches-Groves Independent School District's internal control over financial reporting and compliance.



West, Davis & Company, LLP
Austin, Texas
December 31, 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, 2013. Please read it in conjunction with the independent auditors' report on page 2, and the District's Basic Financial Statements, which begin on page 11. 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 Position and the Statement of Activities (on pages 11 and 12). 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 24) 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 Position and the Statement of Activities

The analysis of the District's overall financial condition and operations begins on page 11. 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 Position 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 position and changes in them. The District's net position (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 position 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 Position 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 13 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 Position 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 Position 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 Position and Changes in Fiduciary Net Position on pages 22 and 23. 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 position (Table I) and changes in net position (Table II) of the District's governmental and business-type activities.

Net position of the District's governmental activities increased from \$37.6 million to \$39.1 million. Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – were \$19.6 million at August 31, 2013. This decrease in governmental net position was the result of depreciation expense.

Table I
Port Neches-Groves Independent School District

	NET POSITION	
	in thousands	
	Governmental Activities	
	2013	2012
Current and other assets	31,152	30,744
Capital assets	133,851	138,116
Total assets	165,003	168,860
Long-term liabilities	122,056	127,474
Other liabilities	3,829	3,764
Total liabilities	125,885	131,238
Net position:		
Invested in capital assets, net of related debt	15,973	15,612
Restricted	3,540	1,348
Unrestricted	19,605	20,662
Total net position	39,118	37,622

Table II
Port Neches-Groves Independent School District

CHANGES IN NET POSITION
in thousands

	Governmental Activities	
	2013	2012
Revenues:		
Program revenues:		
Charges for services	1,855	1,849
Operating grants and contributions	3,018	3,780
General revenues:		
Maintenance and operations taxes	26,015	25,066
Debt service taxes	10,639	11,149
State aid - formula grants	6,295	9,714
Investment Earnings	46	53
Miscellaneous	5,429	4,215
Total Revenues	<u>53,297</u>	<u>55,826</u>
Expenses:		
Instruction, curriculum and media services	27,129	26,643
Instructional and school leadership	2,247	2,221
Student support services	3,071	3,112
Child nutrition	2,652	2,334
Extracurricular activities	1,984	1,830
General administration	936	1,069
Plant maintenance and security	7,316	6,688
Data processing services	591	1,060
Community services	24	0
Debt services	5,421	5,680
Recapture payments	0	1,928
Other Intergovernmental charges	430	403
Total Expenses	<u>51,801</u>	<u>52,968</u>
Increase in net position	<u>1,496</u>	<u>2,858</u>
Net position at Beginning	37,622	35,536
Prior Period Adjustment	-	(772)
Net Position - Beginning, as Restated	<u>37,622</u>	<u>34,764</u>
Net position at Ending	<u>39,118</u>	<u>37,622</u>

THE DISTRICT'S FUNDS

As the District completed this annual period, its governmental funds (as presented in the balance sheet on page 13) reported a combined fund balance of \$24.1 million, which is \$0.6 million more than last year's total of \$23.5 million. This was a result of some \$1.7 million increase in general fund balance offset by \$1 million increase in expenditures of capital project funds.

Included in this year's total change in fund balance is an increase of \$1.7 million in the District's General Fund. Total actual expenditures were \$0.9 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. State revenues were \$1 million more than budget.

Recapture payments for student attendance credits were less by \$1.9 million over last year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2013, the District had \$133.9 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 \$117.7 million in bonds outstanding versus \$123.1 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 2013-14 budget. These included the following:

- The District's enrollment is expected to remain constant.
- 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 1.90% to \$36.0 million. The largest decrease is attributable to a decrease in property tax revenue associated with a decline the property values. General Fund expenditures are budgeted to increase 2.67% to \$37.7 million. The largest increase is attributable to an average raise of 3% given to district employees and the addition of four teachers. The District has added no new major programs or initiatives to the 2013-14 budget. 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.

In September 2013, the District refunded \$7,415,000 Par Amount in bonds. The net present value savings amounted to \$519,464 or 7.0055590%.

The Board of Trustees adopted a policy several years ago 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 POSITION

AUGUST 31, 2013

Data Control Codes	1	Governmental Activities
ASSETS:		
1110	<i>Cash and Cash Equivalents</i>	\$ 1,839,265
1120	<i>Current Investments</i>	26,161,720
1225	<i>Property Taxes Receivable (Net)</i>	878,519
1240	<i>Due from Other Governments</i>	1,321,025
1250	<i>Accrued Interest</i>	2,842
1260	<i>Internal Balances</i>	--
1290	<i>Other Receivables (Net)</i>	34,723
1300	<i>Inventories</i>	54,747
1410	<i>Unrealized Expenses</i>	859,262
Capital Assets:		
1510	<i>Land</i>	1,217,224
1520	<i>Buildings and Improvements, Net</i>	128,157,680
1530	<i>Furniture and Equipment, Net</i>	4,476,695
1000	Total Assets	<u>165,003,702</u>
LIABILITIES:		
2110	<i>Accounts Payable</i>	802,690
2140	<i>Interest Payable</i>	258,041
2165	<i>Accrued Liabilities</i>	1,829,083
2180	<i>Due to Other Governments</i>	602,682
2300	<i>Unearned Revenue</i>	336,433
Noncurrent Liabilities:		
2501	<i>Due Within One Year</i>	5,223,539
2502	<i>Due in More Than One Year</i>	116,832,834
2000	Total Liabilities	<u>125,885,302</u>
NET POSITION		
3200	Net Investment in Capital Assets	15,972,671
Restricted For:		
3820	Federal and State Programs	893,171
3850	Debt Service	1,027,703
3860	Capital Projects	1,620,275
3900	Unrestricted	19,604,580
3000	Total Net Position	<u>\$ 39,118,400</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, 2013

Data Control Codes	Functions/Programs	1 Expenses	3 Program Revenues		4 Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
			Charges for Services	Governmental Activities		
	Governmental Activities:					
11	<i>Instruction</i>	\$ 25,433,091	\$ 58,142	\$ 1,825,126	\$ (23,549,823)	
12	<i>Instructional Resources and Media Services</i>	719,568	--	--	(719,568)	
13	<i>Curriculum and Staff Development</i>	976,696	--	41,470	(935,226)	
21	<i>Instructional Leadership</i>	20,418	--	20,418	--	
23	<i>School Leadership</i>	2,226,537	--	--	(2,226,537)	
31	<i>Guidance, Counseling, & Evaluation Services</i>	1,599,295	--	--	(1,599,295)	
33	<i>Health Services</i>	622,347	--	--	(622,347)	
34	<i>Student Transportation</i>	849,822	--	--	(849,822)	
35	<i>Food Service</i>	2,651,795	1,533,289	1,107,327	(11,179)	
36	<i>Cocurricular/Extracurricular Activities</i>	1,983,787	249,163	189	(1,734,435)	
41	<i>General Administration</i>	935,664	--	--	(935,664)	
51	<i>Facilities Maintenance and Operations</i>	7,207,923	14,238	--	(7,193,685)	
52	<i>Security and Monitoring Services</i>	108,492	--	--	(108,492)	
53	<i>Data Processing Services</i>	591,079	--	--	(591,079)	
61	<i>Community Services</i>	23,818	--	23,818	--	
72	<i>Interest on Long-term Debt</i>	5,410,325	--	--	(5,410,325)	
73	<i>Bond Issuance Costs and Fees</i>	10,400	--	--	(10,400)	
95	<i>Payments to Juvenile Justice Alternative Ed. Programs</i>	31,500	--	--	(31,500)	
99	<i>Other Intergovernmental Charges</i>	398,513	--	--	(398,513)	
TG	Total Governmental Activities	<u>51,801,070</u>	<u>1,854,832</u>	<u>3,018,348</u>	<u>(46,927,890)</u>	
TP	Total Primary Government	<u>\$ 51,801,070</u>	<u>\$ 1,854,832</u>	<u>\$ 3,018,348</u>	<u>(46,927,890)</u>	
	General Revenues:					
MT	<i>Property Taxes, Levied for General Purposes</i>				26,015,064	
DT	<i>Property Taxes, Levied for Debt Service</i>				10,639,030	
IE	<i>Investment Earnings</i>				45,445	
GC	<i>Grants and Contributions Not Restricted to Specific Programs</i>				6,295,101	
MI	<i>Miscellaneous</i>				5,429,252	
TR	Total General Revenues				<u>48,423,892</u>	
CN	Change in Net Position				<u>1,496,002</u>	
NB	Net Position - Beginning				38,393,953	
PA	Prior Period Adjustment				(771,555)	
	Net Position - Beginning, as Restated				37,622,398	
NE	Net Position - Ending				<u>\$ 39,118,400</u>	

The accompanying notes are an integral part of this statement.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS

AUGUST 31, 2013

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Governmental Funds	98 Total Governmental Funds
ASSETS:				
1110 Cash and Cash Equivalents	\$ 52,524	\$ 17,184	\$ 1,076,805	\$ 1,146,513
1120 Current Investments	23,570,872	985,675	1,605,173	26,161,720
1225 Taxes Receivable, Net	696,566	181,953	--	878,519
1240 Due from Other Governments	1,046,688	--	274,337	1,321,025
1250 Accrued Interest	2,791	--	51	2,842
1260 Due from Other Funds	149,348	--	--	149,348
1290 Other Receivables	23,141	6,582	5,000	34,723
1300 Inventories	--	--	54,747	54,747
1410 Unrealized Expenditures	859,262	--	--	859,262
1000 Total Assets	<u>26,401,192</u>	<u>1,191,394</u>	<u>3,016,113</u>	<u>30,608,699</u>
1000A Total Assets and Deferred Outflows of Resources	<u>\$ 26,401,192</u>	<u>\$ 1,191,394</u>	<u>\$ 3,016,113</u>	<u>\$ 30,608,699</u>
LIABILITIES:				
Current Liabilities:				
2110 Accounts Payable	\$ 730,497	\$ --	\$ 72,193	\$ 802,690
2150 Payroll Deductions & Withholdings	8,964	--	--	8,964
2160 Accrued Wages Payable	1,494,490	--	148,356	1,642,846
2170 Due to Other Funds	2,024,711	--	149,348	2,174,059
2180 Due to Other Governments	602,682	--	--	602,682
2200 Accrued Expenditures	102,273	--	--	102,273
2300 Unearned Revenue	917,266	169,116	78,023	1,164,405
2000 Total Liabilities	<u>5,880,883</u>	<u>169,116</u>	<u>447,920</u>	<u>6,497,919</u>
FUND BALANCES:				
Nonspendable Fund Balances:				
3410 Inventories	--	--	54,747	54,747
Restricted Fund Balances:				
3450 Federal/State Funds Grant Restrictions	--	--	893,171	893,171
3470 Capital Acquisitions & Contractual Obligations	--	--	1,620,275	1,620,275
3480 Retirement of Long-Term Debt	--	1,022,278	--	1,022,278
3600 Unassigned	20,520,309	--	--	20,520,309
3000 Total Fund Balances	<u>20,520,309</u>	<u>1,022,278</u>	<u>2,568,193</u>	<u>24,110,780</u>
4000 Total Liabilities and Fund Balances	<u>\$ 26,401,192</u>	<u>\$ 1,191,394</u>	<u>\$ 3,016,113</u>	<u>\$ 30,608,699</u>

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 POSITION**AUGUST 31, 2013*

Total fund balances - governmental funds balance sheet	\$ 24,110,780
Amounts reported for governmental activities in the Statement of Net Position ("SNP") are different because:	
Capital assets used in governmental activities are not reported in the funds.	133,851,601
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	827,972
The assets and liabilities of internal service funds are included in governmental activities in the SNP.	2,642,463
Payables for bond principal which are not due in the current period are not reported in the funds.	(117,691,077)
The accumulated accretion of interest on capital appreciation bonds is not reported in the funds.	(2,122,356)
Payables for bond interest which are not due in the current period are not reported in the funds.	(258,041)
Payables for compensated absences which are not due in the current period are not reported in the funds.	(434,815)
The deferred (gain)/loss on the refunding of bonds is amortized in the SNA but not in the funds.	48,600
Bond premium is deferred in the SNA but not in the funds.	(1,856,726)
Rounding difference	(1)
Net position of governmental activities - Statement of Net Position	<u>\$ 39,118,400</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, 2013

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Governmental Funds	98 Total Governmental Funds
REVENUES:				
5700 Local and Intermediate Sources	\$ 31,522,953	\$ 10,636,618	\$ 1,615,062	\$ 43,774,633
5800 State Program Revenues	6,176,141	--	177,546	6,353,687
5900 Federal Program Revenues	--	--	2,894,082	2,894,082
5020 Total Revenues	<u>37,699,094</u>	<u>10,636,618</u>	<u>4,686,690</u>	<u>53,022,402</u>
EXPENDITURES:				
Current:				
0011 Instruction	20,335,511	--	1,944,063	22,279,574
0012 Instructional Resources and Media Services	629,060	--	23	629,083
0013 Curriculum and Staff Development	817,619	--	41,470	859,089
0021 Instructional Leadership	--	--	20,418	20,418
0023 School Leadership	1,946,544	--	--	1,946,544
0031 Guidance, Counseling, & Evaluation Services	1,398,180	--	--	1,398,180
0033 Health Services	544,085	--	--	544,085
0034 Student Transportation	742,955	--	463,320	1,206,275
0035 Food Service	--	--	2,651,795	2,651,795
0036 Cocurricular/Extracurricular Activities	1,734,156	--	189	1,734,345
0041 General Administration	818,041	--	--	818,041
0051 Facilities Maintenance and Operations	5,957,345	--	--	5,957,345
0052 Security and Monitoring Services	94,858	--	--	94,858
0053 Data Processing Services	516,749	--	--	516,749
0061 Community Services	--	--	23,818	23,818
0071 Principal on Long-term Debt	--	5,395,000	--	5,395,000
0072 Interest on Long-term Debt	--	5,427,916	--	5,427,916
0073 Bond Issuance Costs and Fees	--	2,300	--	2,300
0081 Capital Outlay	--	--	777,016	777,016
0095 Payments to Juvenile Justice Alternative	--	--	--	--
0095 Education Programs	31,500	--	--	31,500
0099 Other Intergovernmental Charges	398,513	--	--	398,513
6030 Total Expenditures	<u>35,965,116</u>	<u>10,825,216</u>	<u>5,922,112</u>	<u>52,712,444</u>
1100 Excess (Deficiency) of Revenues Over (Under)				
1100 Expenditures	<u>1,733,978</u>	<u>(188,598)</u>	<u>(1,235,422)</u>	<u>309,958</u>
Other Financing Sources and (Uses):				
7912 Sale of Real or Personal Property	13,078	--	--	13,078
7949 Other Resources	--	--	235,000	235,000
7080 Total Other Financing Sources and (Uses)	<u>13,078</u>	<u>--</u>	<u>235,000</u>	<u>248,078</u>
1200 Net Change in Fund Balances	<u>1,747,056</u>	<u>(188,598)</u>	<u>(1,000,422)</u>	<u>558,036</u>
0100 Fund Balances - Beginning	18,773,253	1,210,876	3,568,615	23,552,744
3000 Fund Balances - Ending	<u>\$ 20,520,309</u>	<u>\$ 1,022,278</u>	<u>\$ 2,568,193</u>	<u>\$ 24,110,780</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, 2013*

Net change in fund balances - total governmental funds	\$ 558,036
Amounts reported for governmental activities in the Statement of Activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	(10,243)
The depreciation of capital assets used in governmental activities is not reported in the funds.	(4,254,432)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	26,592
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	5,395,000
The accretion of interest on capital appreciation bonds is not reported in the funds.	(80,776)
(Increase) decrease in accrued interest from beginning of period to end of period.	(16,136)
The net revenue (expense) of internal service funds is reported with governmental activities.	(225,142)
Compensated absences are reported as the amount earned in the SOA but as the amount paid in the funds.	(3,302)
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	<u>2</u>
Change in net position of governmental activities - Statement of Activities	<u>\$ 1,496,002</u>

The accompanying notes are an integral part of this statement.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

STATEMENT OF NET POSITION

INTERNAL SERVICE FUND

AUGUST 31, 2013

Data Control Codes		Nonmajor Internal Service Fund <u>Workers' Compensation Insurance Fund</u>
ASSETS:		
Current Assets:		
1110	Cash and Cash Equivalents	\$ 692,752
Receivables:		
1260	Due from Other Funds	2,024,711
	Total Current Assets	<u>2,717,463</u>
1000	Total Assets	<u>2,717,463</u>
 LIABILITIES:		
Current Liabilities:		
2200	Accrued Expenses	\$ 75,000
	Total Current Liabilities	<u>75,000</u>
2000	Total Liabilities	<u>75,000</u>
 NET POSITION:		
3900	Unrestricted	2,642,463
3000	Total Net Position	<u>\$ 2,642,463</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 POSITION - INTERNAL SERVICE FUND
 FOR THE YEAR ENDED AUGUST 31, 2013

Data Control Codes		Nonmajor Internal Service Fund <u>Workers' Compensation Insurance Fund</u>
OPERATING REVENUES:		
5700	<i>Local and Intermediate Sources</i>	\$ 1
5020	Total Revenues	<u>1</u>
OPERATING EXPENSES:		
6400	<i>Other Operating Costs</i>	225,143
6030	Total Expenses	<u>225,143</u>
1300	Change in Net Position	(225,142)
0100	Total Net Position - Beginning	2,867,605
3300	Total Net Position - Ending	<u>\$ 2,642,463</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, 2013

	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>	\$ 200,000
<i>Cash Payments to Suppliers for Services</i>	<u>(177,303)</u>
Net Cash Provided (Used) by Operating Activities	<u>22,697</u>
Net Increase (Decrease) in Cash and Cash Equivalents	22,697
Cash and Cash Equivalents at Beginning of Year	670,055
Cash and Cash Equivalents at End of Year	<u>\$ 692,752</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income (Loss)	\$ (225,142)
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>	200,000
<i>Increase (Decrease) in Accounts Payable</i>	--
<i>Increase (Decrease) in Accrued Expenses</i>	<u>47,839</u>
Total Adjustments	<u>247,839</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 22,697</u>

The accompanying notes are an integral part of this statement.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET POSITION

FIDUCIARY FUNDS

AUGUST 31, 2013

Data Control Codes	Bequests	Agency Fund
	<u> </u>	<u> </u>
	Student Activity	<u> </u>
ASSETS:		
1110 <i>Cash and Cash Equivalents</i>	\$ --	\$ 716,330
1800 <i>Restricted Assets</i>	<u>22,026</u>	<u>--</u>
1000 Total Assets	<u>22,026</u>	<u>716,330</u>
LIABILITIES:		
Current Liabilities:		
2190 <i>Due to Student Groups</i>	\$ --	\$ 716,330
2000 Total Liabilities	<u>--</u>	<u>716,330</u>
NET POSITION:		
3800 <i>Held in Trust</i>	<u>22,026</u>	<u>--</u>
3000 Total Net Position	<u>\$ 22,026</u>	<u>\$ --</u>

The accompanying notes are an integral part of this statement.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

FIDUCIARY FUNDS

FOR THE YEAR ENDED AUGUST 31, 2013

	Private-purpose Trust Fund
	<u>Bequests</u>
Additions:	
Bequests	\$ --
Total Additions	<u>--</u>
Deductions:	
Athletic Facilities Improvements	<u>--</u>
Total Deductions	<u>--</u>
Change in Net Assets	--
Net Position-Beginning of the Year	22,026
Net Position-End of the Year	<u>\$ 22,026</u>

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, 2013

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, 2013

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.

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

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

b. **Measurement Focus, Basis of Accounting**

Government-wide, 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, 2013

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

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2013

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.

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 in 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.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2013

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 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.

k. Deferred Outflows and Inflows of Resources

In addition to assets, the statements of financial position (the government-wide Statement of Net Position and governmental funds balance sheet) will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position and/or fund balance that applies to one or more future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statements of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to one or more future periods and so will not be recognized as an inflow of resources (revenue) until that time.

l. Net Position Flow Assumption

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

m. Fund Balance Flow Assumptions

Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

*NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2013*

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, 2013, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$1,839,265 and the bank balance was \$2,134,484. The District's cash deposits at August 31, 2013 and during the year ended August 31, 2013, were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

2. Investments:

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

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

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

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2013

The District's investments at August 31, 2013 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	less than 60 days	AAA-m	\$ 7,621,090	29.13%
Texas Short Term Asset Reserve (TexSTAR) Investment Pool	less than 60 days	AAA-m	2,004,988	7.66%
Certificates of Deposit	N/A	N/A	16,535,642	63.21%
Total Investments			<u>\$ 26,161,720</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.

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

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2013

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, 2013, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
<u>Governmental activities:</u>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 1,217,224	\$ --	\$ --	\$ 1,217,224
Total capital assets not being depreciated	<u>1,217,224</u>	<u>--</u>	<u>--</u>	<u>1,217,224</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements	164,031,090	220,876	--	164,251,966
Equipment	6,788,198	102,497	369,258	6,521,437
Vehicles	3,926,980	523,295	482,497	3,967,778
Total capital assets being depreciated	<u>174,746,268</u>	<u>846,668</u>	<u>851,755</u>	<u>174,741,181</u>
Less accumulated depreciation for:				
Buildings and improvements	(32,200,605)	(3,893,681)	--	(36,094,286)
Equipment	(3,438,091)	(1,011,345)	(369,258)	(4,080,178)
Vehicles	(2,208,523)	(206,316)	(482,497)	(1,932,342)
Total accumulated depreciation	<u>(37,847,219)</u>	<u>(5,111,342)</u>	<u>(851,755)</u>	<u>(42,106,806)</u>
Total capital assets being depreciated, net	<u>136,899,049</u>	<u>(4,264,674)</u>	<u>--</u>	<u>132,634,375</u>
Governmental activities capital assets, net	<u>\$ 138,116,273</u>	<u>\$ (4,264,674)</u>	<u>\$ --</u>	<u>\$ 133,851,599</u>

Depreciation was charged to functions as follows:

Instruction	\$ 2,925,074
Instructional Resources and Media Services	90,485
Curriculum and Staff Development	117,607
School Leadership	279,993
Guidance, Counseling, & Evaluation Services	201,115
Health Services	78,262
Student Transportation	106,867
Extracurricular Activities	249,442
General Administration	117,623
Plant Maintenance and Operations	856,910
Security and Monitoring Services	13,634
Data Processing Services	74,330
	<u>\$ 5,111,342</u>

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2013

E. Interfund Balances and Activities

1. Due To and From Other Funds

Balances due to and due from other funds at August 31, 2013, consisted of the following:

Due To Fund	Due From Fund	Amount	Purpose
Internal Service-Workers' Comp.	General Fund	\$ 2,024,711	Cost of service allocations
Other Governmental Funds	General Fund	149,348	Short-term loans
	Total	<u>\$ 2,174,059</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, 2013, consisted of the following:

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

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, 2013, 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%	\$ 4,850,000	\$ --	\$ 1,000,000	\$ 3,850,000	\$ 975,000
2007	4.00-5.00%	17,368,539	--	975,000	16,393,539	718,539
2008	3.75-5.00%	55,435,000	--	1,530,000	53,905,000	1,610,000
2009	2.00-5.00%	42,107,538	--	1,410,000	40,697,538	1,445,000
2010	2.004.25%	3,325,000	--	480,000	2,845,000	475,000
		<u>123,086,077</u>	<u>--</u>	<u>5,395,000</u>	<u>117,691,077</u>	<u>5,223,539</u>
Accumulated Accretion-CAB's		2,041,580	80,776	--	2,122,356	--
Compensated absences *		431,513	3,301	--	434,814	--
Deferred Gain/(Loss) Refund		(56,700)	--	(8,100)	(48,600)	--
Premium on Bonds *		1,971,229	--	114,503	1,856,726	--
Total governmental activities		<u>\$ 127,473,699</u>	<u>\$ 84,077</u>	<u>\$ 5,501,403</u>	<u>\$ 122,056,373</u>	<u>\$ 5,223,539</u>

Per Statement of Net Position:

Due Within One Year	\$ 5,223,539
Due in More Than One Year	116,832,834
	<u>\$ 122,056,373</u>

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2013

* 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, 2013, are as follows:

Year Ending August 31,	Governmental Activities		
	Principal	Interest	Total
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	5,035,000	4,414,523	9,449,523
2019-2023	23,800,000	19,136,335	42,936,335
2024-2028	29,345,000	13,200,950	42,545,950
2029-2033	36,210,000	5,336,885	41,546,885
2034-2038	3,060,000	76,500	3,136,500
Totals	\$ 117,691,077	\$ 64,336,061	\$ 182,027,138

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, 2013, 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.

Bond Issue	Amount
Series 1998	\$ 4,000,000
Total	\$ 4,000,000

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 2013, 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.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2013

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, 2013, 2012 and 2011 were \$1,681,819, \$1,626,068 and \$1,691,152, 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, 2013, 2012 and 2011 were \$288,958, \$230,231 and \$284,893, respectively, and were equal to the required contributions for each year. The amount contributed by the State on behalf of the District was \$1,578,881 for the year ended August 31, 2013.

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 2013, 2012 and 2011. 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, 2013, 2012, and 2011, the State's contributions to TRS-Care were \$262,784, \$254,073, and \$264,243, respectively, the active member contributions were \$170,810, \$165,148, and \$171,758, respectively, and the District's contributions were \$144,530, \$139,740, and \$145,334, 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, 2013, 2012, and 2011, the subsidy payments received by TRS-Care on behalf of the District were \$69,778, \$65,855, and \$62,111, respectively.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2013

J. Employee Health Care Coverage

During the period ended August 31, 2013, employees of the District were covered by a state-wide plan, TRS Active Care. The District paid premiums of \$263 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, 2013.

L. Subsequent Event

In October 2013 (subsequent to year end) the District issued \$7.415 million in Unlimited Tax Refunding Bonds, Series 2013 to refund certain outstanding Building Bonds Series 2007. The proceeds of the refunding net of debt issuance costs of \$89 thousand amounted to \$8.2 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 \$682 thousand and realized an economic gain (difference between the present value of debt service payments on the old debt and new debt) of \$518 thousand.

M. Prior Period Adjustment

GASB Statement No. 65, Items Previously Reported as Assets and Liabilities

This resulted in an adjustment to the beginning net position in the amount of \$771,555 to remove deferred charges no longer required to be capitalized in accordance with GASB 65.

With the exception of prepaid insurance costs, costs related to the issuance of debt will be recorded as an expense in the period incurred. These include, but are not limited to, legal costs, costs of printing, insurance costs and various fees such as rating agency fees, trustee fees and administrative fees.

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, 2013

Data Control Codes	Budgeted Amounts			Variance with Final Budget Positive (Negative)	
	1	2	3		
	Original	Final	Actual		
REVENUES:					
5700	Local and Intermediate Sources	\$ 31,626,756	\$ 31,659,412	\$ 31,522,953	\$ (136,459)
5800	State Program Revenues	5,123,331	5,125,457	6,176,141	1,050,684
5020	Total Revenues	<u>36,750,087</u>	<u>36,784,869</u>	<u>37,699,094</u>	<u>914,225</u>
EXPENDITURES:					
Current:					
Instruction & Instructional Related Services:					
0011	Instruction	20,568,940	20,573,999	20,335,511	238,488
0012	Instructional Resources and Media Services	636,681	636,681	629,060	7,621
0013	Curriculum and Staff Development	877,720	867,820	817,619	50,201
	Total Instruction & Instr. Related Services	<u>22,083,341</u>	<u>22,078,500</u>	<u>21,782,190</u>	<u>296,310</u>
Instructional and School Leadership:					
0023	School Leadership	1,964,733	1,970,335	1,946,544	23,791
	Total Instructional & School Leadership	<u>1,964,733</u>	<u>1,970,335</u>	<u>1,946,544</u>	<u>23,791</u>
Support Services - Student (Pupil):					
0031	Guidance, Counseling and Evaluation Services	1,444,567	1,462,082	1,398,180	63,902
0033	Health Services	548,174	552,728	544,085	8,643
0034	Student (Pupil) Transportation	743,670	779,341	742,955	36,386
0036	Cocurricular/Extracurricular Activities	1,836,939	1,840,261	1,734,156	106,105
	Total Support Services - Student (Pupil)	<u>4,573,350</u>	<u>4,634,412</u>	<u>4,419,376</u>	<u>215,036</u>
Administrative Support Services:					
0041	General Administration	910,488	910,488	818,041	92,447
	Total Administrative Support Services	<u>910,488</u>	<u>910,488</u>	<u>818,041</u>	<u>92,447</u>
Support Services - Nonstudent Based:					
0051	Plant Maintenance and Operations	6,124,994	6,131,625	5,957,345	174,280
0052	Security and Monitoring Services	94,841	98,341	94,858	3,483
0053	Data Processing Services	542,864	542,864	516,749	26,115
	Total Support Services - Nonstudent Based	<u>6,762,699</u>	<u>6,772,830</u>	<u>6,568,952</u>	<u>203,878</u>
Intergovernmental Charges:					
0095	Payments to Juvenile Justice Alternative Education Programs	33,120	33,120	31,500	1,620
0099	Other Intergovernmental Charges	422,356	422,356	398,513	23,843
	Total Intergovernmental Charges	<u>455,476</u>	<u>455,476</u>	<u>430,013</u>	<u>25,463</u>
6030	Total Expenditures	<u>36,750,087</u>	<u>36,822,041</u>	<u>35,965,116</u>	<u>856,925</u>
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	--	(37,172)	1,733,978	1,771,150
Other Financing Sources (Uses):					
7912	Sale of Real or Personal Property	--	--	13,078	13,078
7080	Total Other Financing Sources and (Uses)	--	--	13,078	13,078
1200	Net Change in Fund Balance	--	(37,172)	1,747,056	1,784,228
0100	Fund Balance - Beginning	18,773,253	18,773,253	18,773,253	--
3000	Fund Balance - Ending	<u>\$ 18,773,253</u>	<u>\$ 18,736,081</u>	<u>\$ 20,520,309</u>	<u>\$ 1,784,228</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, 2013

Year Ended August 31	Tax Rates		3 Assessed/Appraised Value For School Tax Purposes
	1	2	
	Maintenance	Debt Service	
2004 and Prior Years	\$ Various	\$ Various	\$ Various
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	1.04	.3965	2,509,824,504
2013 (School Year Under Audit)	1.04	.3481	2,631,336,575

1000 Totals

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

10 Beginning Balance 9/1/12	20 Current Year's Total Levy	31 Maintenance Collections	32 Debt Service Collections	40 Entire Year's Adjustments	50 Ending Balance 8/31/13
\$ 239,897	\$ --	\$ 938	\$ 74	\$ (3,934)	\$ 234,951
27,163	--	175	15	--	26,973
34,430	--	236	19	--	34,175
39,288	--	658	52	(205)	38,373
31,400	--	2,047	300	--	29,053
51,711	--	7,948	1,865	--	41,898
104,876	--	24,124	9,625	(1,272)	69,855
159,567	--	33,017	12,588	(2,940)	111,022
320,869	--	93,455	35,630	(25,315)	166,469
--	36,525,583	25,678,517	10,525,842	(17,078)	304,146
<u>\$ 1,009,201</u>	<u>\$ 36,525,583</u>	<u>\$ 25,841,115</u>	<u>\$ 10,586,010</u>	<u>\$ (50,744)</u>	<u>\$ 1,056,915</u>
\$ --	\$ --	\$ --	\$ --	\$ --	\$ --

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES FOR COMPUTATION OF INDIRECT COST FOR 2014-2015
 GENERAL AND SPECIAL REVENUE FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2013

EXHIBIT J-2

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

Account Number	Account Name	1 (702) School Board	2 (703) Tax Collection	3 (701) Supt's Office	4 (750) Indirect Cost	5 (720) Direct Cost	6 (Other) Misc.	7 Total
611X-6146	Payroll Costs	\$ --	\$ --	\$ 228,734	\$ 240,471	\$ 166,232	\$ --	\$ 635,437
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	--	--	7,850	--	--	--	7,850
6212	Audit Services	--	--	--	15,950	--	--	15,950
6213	Tax Appraisal and Collection	--	404,233	--	--	--	--	404,233
621X	Other Prof. Services	--	--	21,125	3,379	4,073	--	28,577
6220	Tuition and Transfer Payments	--	--	--	--	--	--	--
6230	Education Service Centers	1,500	--	2,000	--	290	--	3,790
6240	Contr. Maint. and Repair	--	--	--	--	--	--	--
6250	Utilities	--	--	--	--	--	--	--
6260	Rentals	--	--	2,237	5,604	3,314	--	11,155
6290	Miscellaneous Contr.	--	--	12,970	--	--	--	12,970
6310	Operational Supplies, Materials	--	--	--	--	--	--	--
6320	Textbooks and Reading	--	--	--	--	--	--	--
6330	Testing Materials	--	--	--	--	--	--	--
63XX	Other Supplies, Materials	564	--	986	19,512	6,105	--	27,167
6410	Travel, Subsistence, Stipends	2,992	--	8,283	5,710	3,157	--	20,142
6420	Ins. and Bonding Costs	--	--	--	13,450	--	--	13,450
6430	Election Costs	--	--	--	--	--	--	--
6490	Miscellaneous Operating	11,001	--	16,744	5,281	4,432	--	37,458
6500	Debt Service	--	--	--	--	--	--	--
6600	Capital Outlay	--	--	--	--	--	--	--

Total \$ 16,057 \$ 404,233 \$ 300,929 \$ 309,357 \$ 187,603 \$ -- \$ 1,218,179

Total Expenditures for General and Special Revenue Funds (9) \$ 40,646,892

LESS: Deductions of Unallowable Costs

FISCAL YEAR

Total Capital Outlay (6600)	(10)	\$ 481,903
Total Debt & Lease (6500)	(11)	\$ --
Plant Maintenance (Function 51, 6100-6400)	(12)	\$ 5,866,793
Food (Function 35, 6341 and 6499)	(13)	\$ 1,103,709
Stipends (6413)	(14)	\$ --
Column 4 (above) - Total Indirect Cost		\$ 309,357

Subtotal

7,761,762

Net Allowed Direct Cost

\$ 32,885,130

CUMULATIVE

Total Cost of Buildings Before Depreciation (1520)	(15)	\$ 164,251,966
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)	10,489,215
Historical Cost of Furniture & Equipment over 16 years old	(19)	695,191
Amount of Federal Money in Furniture & Equipment (Net of #19)	(20)	\$ 133,190

(8) Note A - \$1,625 in Function 53 expenditures and \$398,513 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, 2013

Data Control Codes	1	2	3
	Budget	Actual	Variance Positive (Negative)
REVENUES:			
5700 <i>Local and Intermediate Sources</i>	\$ 1,484,850	\$ 1,546,938	\$ 62,088
5800 <i>State Program Revenues</i>	57,915	58,586	671
5900 <i>Federal Program Revenues</i>	1,004,500	1,048,741	44,241
5020 Total Revenues	<u>2,547,265</u>	<u>2,654,265</u>	<u>107,000</u>
EXPENDITURES:			
Current:			
Support Services - Student (Pupil):			
0035 <i>Food Services</i>	2,716,574	2,651,795	64,779
Total Support Services - Student (Pupil)	<u>2,716,574</u>	<u>2,651,795</u>	<u>64,779</u>
6030 Total Expenditures	<u>2,716,574</u>	<u>2,651,795</u>	<u>64,779</u>
1100 Excess (Deficiency) of Revenues Over (Under)			
1100 Expenditures	(169,309)	2,470	171,779
1200 Net Change in Fund Balance	(169,309)	2,470	171,779
0100 Fund Balance - Beginning	945,448	945,448	--
3000 Fund Balance - Ending	<u>\$ 776,139</u>	<u>\$ 947,918</u>	<u>\$ 171,779</u>

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

EXHIBIT J-4

DEBT SERVICE FUND
 BUDGETARY COMPARISON SCHEDULE
 FOR THE YEAR ENDED AUGUST 31, 2013

Data Control Codes	1	2	3
	Budget	Actual	Variance Positive (Negative)
REVENUES:			
5700 <i>Local and Intermediate Sources</i>	\$ 10,524,026	\$ 10,636,618	\$ 112,592
5020 <i>Total Revenues</i>	<u>10,524,026</u>	<u>10,636,618</u>	<u>112,592</u>
EXPENDITURES:			
Debt Service:			
0071 <i>Principal on Long-Term Debt</i>	5,395,000	5,395,000	--
0072 <i>Interest on Long-Term Debt</i>	5,427,916	5,427,916	--
0073 <i>Bond Issuance Costs and Fees</i>	5,000	2,300	2,700
<i>Total Debt Service</i>	<u>10,827,916</u>	<u>10,825,216</u>	<u>2,700</u>
6030 <i>Total Expenditures</i>	<u>10,827,916</u>	<u>10,825,216</u>	<u>2,700</u>
1100 <i>Excess (Deficiency) of Revenues Over (Under)</i>			
1100 <i>Expenditures</i>	(303,890)	(188,598)	115,292
1200 <i>Net Change in Fund Balance</i>	<u>(303,890)</u>	<u>(188,598)</u>	<u>115,292</u>
0100 <i>Fund Balance - Beginning</i>	1,210,876	1,210,876	--
3000 <i>Fund Balance - Ending</i>	<u>\$ 906,986</u>	<u>\$ 1,022,278</u>	<u>\$ 115,292</u>

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

Independent Auditors' 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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Port Neches-Groves Independent School District, as of and for the year ended August 31, 2013, and the related notes to the financial statements, which collectively comprise Port Neches-Groves Independent School District's basic financial statements, and have issued our report thereon dated December 31, 2013.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Port Neches-Groves Independent School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a

direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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



West, Davis & Company, LLP
Austin, Texas
December 31, 2013

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

Independent Auditors' Report on Compliance for Each Major Program and
on Internal Control Over Compliance Required by OMB Circular A-133

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

Members of the Board of Trustees:

Report on Compliance for Each Major Federal Program

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, 2013. 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.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Port Neches-Groves Independent School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 on compliance for each major federal program. However, our audit does not provide a legal determination of Port Neches-Groves Independent School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Port Neches-Groves Independent School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended August 31, 2013.

Report on 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 types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Port Neches-Groves Independent School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we considered to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



West, Davis & Company, LLP
Austin, Texas
December 31, 2013

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

*SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2013*

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued: Unmodified

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: Unmodified

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>
84.027A	IDEA-B Formula
84.027A	IDEA-B Discretionary
84.173A	IDEA-B Preschool
84.010A	Title I Part A - Improving Basic Programs

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, 2013

(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	12610101123908	\$ 6,144
<i>ESEA Title I Part A - Improving Basic Programs *</i>	84.010A	13610101123908	669,539
Total CFDA Number 84.010A			<u>675,683</u>
<i>IDEA-B Formula *</i>	84.027A	136600021239086600	735,594
<i>IDEA-B Discretionary *</i>	84.027A	13660002123908677	219,187
Total CFDA Number 84.027A			<u>954,781</u>
<i>Career and Technical - Basic Grant</i>	84.048A	13420006123908	52,269
<i>IDEA-B Preschool *</i>	84.173A	136610011239086610	30,403
<i>Title III Part A English Language Acquisition and Language Enhancement</i>	84.365A	1267100123908	68
<i>Title III Part A English Language Acquisition and Language Enhancement</i>	84.365A	1367100112398	18,930
Total CFDA Number 84.365A			<u>18,998</u>
<i>ESEA Title II Part A - Teacher & Principal Training & Recruiting</i>	84.367A	12694501123908	1,785
<i>ESEA Title II Part A - Teacher & Principal Training & Recruiting</i>	84.367A	13694501123908	111,267
Total CFDA Number 84.367A			<u>113,052</u>
<i>Education Jobs Fund</i>	84.410A	11550101123908	155
Total Passed Through State Department of Education			<u>1,845,341</u>
Total U. S. Department of Education			<u>1,845,341</u>
U. S. DEPARTMENT OF AGRICULTURE			
Passed Through State Department of Education:			
School Breakfast Program *	10.553	714013	168,799
National School Lunch Program *	10.555	713013	752,035
National School Lunch Program (Non-cash) *	10.555	123-908	127,907
Total CFDA Number 10.555			<u>879,942</u>
Total Passed Through State Department of Education			<u>1,048,741</u>
Total U. S. Department of Agriculture			<u>1,048,741</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ <u>2,894,082</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, 2013

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, 2013

<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 unmodified 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?	\$ 2,122,356