

PORT NECHES-GROVES
INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED AUGUST 31, 2011

Port Neches-Groves Independent School District
Annual Financial Report
For The Year Ended August 31, 2011

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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, 2011, at a meeting of the board of trustees of such school district on the 9th day of January, 2012.



Signature of Board Secretary



Signature of Board President

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

Financial Section

WEST, DAVIS & COMPANY, LLP
11824 Jollyville Road, Suite 100
Austin, Texas 78759

Independent Auditor's Report on Financial Statements

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

Members of the Board of Trustees:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Port Neches-Groves Independent School District as of and for the year ended August 31, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Port Neches-Groves Independent School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

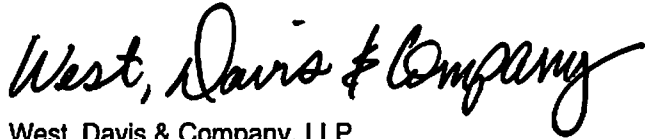
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Port Neches-Groves Independent School District as of August 31, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2011, on our consideration of Port Neches-Groves Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was performed for the purpose of forming opinions on the financial statements which collectively comprise the Port Neches-Groves Independent School District's basic financial statements. The accompanying schedule of expenditures of federal awards required by U. S. Office of Management and Budget Circular

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

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

West, Davis & Company, LLP
November 30, 2011

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, 2011. Please read it in conjunction with the independent auditors' report on page 2, and the District's Basic Financial Statements, which begin on page 10. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

USING THIS ANNUAL REPORT

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

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

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

Reporting the District as a Whole

The Statement of Net Assets and the Statement of Activities

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

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

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

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

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

Reporting the District's Most Significant Funds

Fund Financial Statements

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

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

The District as Trustee

Reporting the District's Fiduciary Responsibilities

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Net assets of the District's governmental activities decreased from \$39.7 million to \$35.5 million. Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – were \$18.1 million at August 31, 2011. This decrease in governmental net assets was the result of depreciation expense.

Table I
Port Neches-Groves Independent School District

NET ASSETS
in thousands

	Governmental Activities	
	2011	2010
Current and other assets	34,727	51,493
Capital assets	141,092	137,300
Total assets	<u>175,819</u>	<u>188,793</u>
Long-term liabilities	132,647	137,407
Other liabilities	7,636	11,725
Total liabilities	<u>140,283</u>	<u>149,132</u>
Net Assets:		
Invested in capital assets net of related debt	15,862	26,687
Restricted	1,607	1,285
Unrestricted	18,067	11,689
Total net assets	<u>35,536</u>	<u>39,661</u>

Table II
Port Neches-Groves Independent School District

CHANGES IN NET ASSETS
in thousands

	Governmental Activities	
	2011	2010
Revenues:		
Program Revenues:		
Charges for Services	1,901	2,002
Operating grants and contributions	6,865	4,264
General Revenues:		
Maintenance and operations taxes	26,779	27,236
Debt Service taxes	10,492	11,457
State aid - formula grants	5,080	10,900
Investment Earnings	79	262
Miscellaneous	2,042	2,736
Total Revenue	<u>53,238</u>	<u>58,857</u>
Expenses:		
Instruction, curriculum and media services	27,955	25,468
Instructional and school leadership	2,208	1,851
Student support services	3,103	2,727
Child nutrition	2,626	2,369
Extracurricular activities	1,964	1,857
General administration	1,209	1,017
Plant maintenance and security	9,321	10,474
Data processing services	701	510
Debt services	5,856	6,214
Recapture payments	1,899	5,489
Other Intergovernmental charges	521	513
Total Expenses	<u>57,363</u>	<u>58,489</u>
Increase in net assets	<u>(4,125)</u>	<u>368</u>
Net assets at Beginning	39,661	36,779
Prior Period Adjustment	0	2,514
Net Assets – Beginning, as Restated	<u>39,661</u>	<u>39,294</u>
Net assets at Ending	<u>35,536</u>	<u>39,661</u>

THE DISTRICT'S FUNDS

As the District completed this annual period, its governmental funds (as presented in the balance sheet on page 12) reported a combined fund balance of \$23.3 million, which is \$12.8 million less than last year's total of \$36.1 million. This was a result of some \$12 million in capital projects expenditures.

Included in this year's total change in fund balance is a decrease of \$0.9 million in the District's General Fund. Total actual expenditures were \$1.6 million less than budgeted. Several factors contributed to the savings. Over the course of the year, the Board of Trustees revised the District's General Fund budget. Recapture payments for student attendance credits were also less by \$3.6 million due to an increase in WADA from more students on free lunch. State revenues were \$0.2 million less than budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2011, the District had \$141.1 million invested in a broad range of capital assets, including facilities and equipment for instruction, transportation, athletics, administration, and maintenance. More detailed information about the District's capital assets is presented in Note D to the financial statements.

Debt

At year-end, the District had \$128.3 million in bonds outstanding versus \$133.4 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 2011-12 budget. These included the following:

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

General Fund revenues are budgeted to increase 10.44% to \$38.0 million. The largest increase is attributable to the shifting by the Texas Education Agency of state revenues funded with federal stimulus funds in the previous year of about \$3.1 million. General Fund expenditures are budgeted to increase 1.09% to \$38.0 million. The largest increase is the shifting of salaries to the General Fund from the federal stimulus grant. The District has added no new major programs or initiatives to the 2011-12

budgets. During the budget process the district was able to absorb approximately 15 positions vacated by retiring personnel. Throughout the year, positions will continue to be reviewed and monitored and careful attention will be paid to the remaining budget as well. The district has completed three major construction projects funded with bond proceeds.

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

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's Business Manager at the Port Neches-Groves Independent School District, 620 Avenue C, Port Neches, Texas 77651.

Basic Financial Statements

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

STATEMENT OF NET ASSETS

AUGUST 31, 2011

Data Control Codes	1	Governmental Activities
ASSETS:		
1110	<i>Cash and Cash Equivalents</i>	\$ 1,542,718
1120	<i>Current Investments</i>	28,168,593
1225	<i>Property Taxes Receivable (Net)</i>	842,746
1240	<i>Due from Other Governments</i>	2,665,496
1250	<i>Accrued Interest</i>	8,465
1290	<i>Other Receivables (Net)</i>	31,298
1300	<i>Inventories</i>	52,356
1410	<i>Deferred Expenses</i>	611,744
1420	<i>Capitalized Bond and Other Debt Issuance Costs</i>	803,703
Capital Assets:		
1510	<i>Land</i>	1,217,227
1520	<i>Buildings and Improvements, Net</i>	133,686,625
1530	<i>Furniture and Equipment, Net</i>	6,188,067
1000	Total Assets	<u>175,819,038</u>
LIABILITIES:		
2110	<i>Accounts Payable</i>	4,793,674
2140	<i>Interest Payable</i>	250,901
2165	<i>Accrued Liabilities</i>	1,674,319
2180	<i>Due to Other Governments</i>	602,682
2300	<i>Unearned Revenue</i>	314,013
Noncurrent Liabilities:		
2501	<i>Due Within One Year</i>	5,240,000
2502	<i>Due in More Than One Year</i>	127,406,934
2000	Total Liabilities	<u>140,282,523</u>
NET ASSETS		
3200	Invested in Capital Assets, Net of Related Debt	15,862,134
Restricted For:		
3820	Federal and State Programs	676,242
3850	Debt Service	930,976
3900	Unrestricted	18,067,163
3000	Total Net Assets	<u>\$ 35,536,515</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, 2011

Data Control Codes	Functions/Programs	1 Expenses	3 Program Revenues		4 Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
			Charges for Services	Governmental Activities		
	Governmental Activities:					
11	Instruction	\$ 26,079,460	\$ 27,132	\$ 4,143,480	\$ (21,908,848)	
12	Instructional Resources and Media Services	751,012	--	46,118	(704,894)	
13	Curriculum and Staff Development	1,124,240	--	103,848	(1,020,392)	
23	School Leadership	2,207,905	--	--	(2,207,905)	
31	Guidance, Counseling, & Evaluation Services	1,629,980	--	76,025	(1,553,955)	
32	Social Work Services	9,042	--	--	(9,042)	
33	Health Services	670,433	--	--	(670,433)	
34	Student Transportation	777,917	--	--	(777,917)	
35	Food Service	2,625,719	1,557,722	1,070,689	2,692	
36	Cocurricular/Extracurricular Activities	1,964,474	308,060	13,379	(1,643,035)	
41	General Administration	1,209,464	--	--	(1,209,464)	
51	Plant Maintenance and Operations	9,205,933	7,989	1,396,082	(7,801,862)	
52	Security and Monitoring Services	114,641	--	--	(114,641)	
53	Data Processing Services	701,503	--	--	(701,503)	
61	Community Services	15,659	--	15,659	--	
72	Interest on Long-term Debt	5,811,651	--	--	(5,811,651)	
73	Bond Issuance Costs and Fees	43,888	--	--	(43,888)	
91	Contracted Instructional Services between Schools	1,898,669	--	--	(1,898,669)	
95	Payments to Juvenile Justice Alternative Ed. Programs	47,250	--	--	(47,250)	
99	Other Intergovernmental Charges	473,760	--	--	(473,760)	
TG	Total Governmental Activities	57,362,600	1,900,903	6,865,280	(48,596,417)	
TP	Total Primary Government	\$ 57,362,600	\$ 1,900,903	\$ 6,865,280	(48,596,417)	
	General Revenues:					
MT	Property Taxes, Levied for General Purposes				26,779,162	
DT	Property Taxes, Levied for Debt Service				10,491,604	
IE	Investment Earnings				78,829	
GC	Grants and Contributions Not Restricted to Specific Programs				5,080,138	
MI	Miscellaneous				2,041,785	
TR	Total General Revenues				44,471,518	
CN	Change in Net Assets				(4,124,899)	
NB	Net Assets - Beginning				39,661,414	
NE	Net Assets - Ending				\$ 35,536,515	

The accompanying notes are an integral part of this statement.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS

AUGUST 31, 2011

Data Control Codes	10 General Fund	50 Debt Service Fund
ASSETS:		
1110	\$ 500	\$ 21,781
1120	18,184,508	888,367
1225	676,470	166,276
1240	1,659,711	--
1250	8,465	--
1260	679,837	--
1290	29,111	2,187
1300	--	--
1410	611,744	--
1000	<u>\$ 21,850,346</u>	<u>\$ 1,078,611</u>
LIABILITIES:		
Current Liabilities:		
2110	\$ 347,284	\$ --
2150	58,036	--
2160	1,320,221	--
2170	2,013,324	--
2180	602,682	--
2200	102,525	--
2300	806,491	139,374
2000	<u>5,250,563</u>	<u>139,374</u>
FUND BALANCES:		
Nonspendable Fund Balances:		
3410	--	--
Restricted Fund Balances:		
3450	--	--
3470	--	--
3480	--	939,237
3600	16,599,783	--
3000	<u>16,599,783</u>	<u>939,237</u>
4000	<u>\$ 21,850,346</u>	<u>\$ 1,078,611</u>

The accompanying notes are an integral part of this statement.

60 Capital Projects Series 2009	Other Governmental Funds	98 Total Governmental Funds
\$ --	\$ 858,423	\$ 880,704
8,475,783	619,935	28,168,593
--	--	842,746
--	1,005,785	2,665,496
--	--	8,465
--	119,948	799,785
--	--	31,298
--	52,356	52,356
--	--	611,744
<u>\$ 8,475,783</u>	<u>\$ 2,656,447</u>	<u>\$ 34,061,187</u>
\$ 4,095,176	\$ 345,690	\$ 4,788,150
--	--	58,036
--	160,129	1,480,350
--	679,836	2,693,160
--	--	602,682
--	--	102,525
--	104,601	1,050,466
<u>4,095,176</u>	<u>1,290,256</u>	<u>10,775,369</u>
--	52,357	52,357
--	676,242	676,242
4,380,607	637,592	5,018,199
--	--	939,237
--	--	16,599,783
<u>4,380,607</u>	<u>1,366,191</u>	<u>23,285,818</u>
<u>\$ 8,475,783</u>	<u>\$ 2,656,447</u>	<u>\$ 34,061,187</u>

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT*RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**TO THE STATEMENT OF NET ASSETS**AUGUST 31, 2011*

Total fund balances - governmental funds balance sheet	\$ 23,285,818
Amounts reported for governmental activities in the Statement of Net Assets ("SNA") are different because:	
Capital assets used in governmental activities are not reported in the funds.	141,091,919
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	736,453
The assets and liabilities of internal service funds are included in governmental activities in the SNA.	2,516,457
Payables for bond principal which are not due in the current period are not reported in the funds.	(128,326,077)
The accumulated accretion of interest on capital appreciation bonds is not reported in the funds.	(1,904,249)
Payables for bond interest which are not due in the current period are not reported in the funds.	(250,901)
Payables for compensated absences which are not due in the current period are not reported in the funds.	(395,675)
The deferred gain/(loss) on the refunding of bonds is capitalized in the SNA but not in the funds.	64,800
Bond premium is deferred in the SNA but not in the funds.	(2,085,732)
Bond issuance costs and similar items are capitalized in the SNA but not in the funds.	803,703
Rounding difference	(1)
Net assets of governmental activities - Statement of Net Assets	<u>\$ 35,536,515</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, 2011

Data Control Codes	10 General Fund	50 Debt Service Fund
REVENUES:		
5700 Local and Intermediate Sources	\$ 29,196,027	\$ 10,504,341
5800 State Program Revenues	4,843,230	--
5900 Federal Program Revenues	61,163	--
5020 Total Revenues	<u>34,100,420</u>	<u>10,504,341</u>
EXPENDITURES:		
Current:		
0011 Instruction	18,832,391	--
0012 Instructional Resources and Media Services	612,878	--
0013 Curriculum and Staff Development	866,692	--
0023 School Leadership	1,921,647	--
0031 Guidance, Counseling, & Evaluation Services	1,350,455	--
0032 Social Work Services	7,420	--
0033 Health Services	581,718	--
0034 Student Transportation	669,838	--
0035 Food Service	--	--
0036 Cocurricular/Extracurricular Activities	1,694,542	--
0041 General Administration	1,047,518	--
0051 Plant Maintenance and Operations	4,267,571	--
0052 Security and Monitoring Services	98,517	--
0053 Data Processing Services	606,317	--
0061 Community Services	--	--
0071 Principal on Long-term Debt	--	5,040,000
0072 Interest on Long-term Debt	--	5,832,066
0073 Bond Issuance Costs and Fees	--	2,300
0081 Capital Outlay	--	--
0091 Contracted Instructional Services		
0091 Between Public Schools	1,898,669	--
0095 Payments to Juvenile Justice Alternative		
0095 Education Programs	47,250	--
0099 Other Intergovernmental Charges	473,760	--
6030 Total Expenditures	<u>34,977,183</u>	<u>10,874,366</u>
1100 Excess (Deficiency) of Revenues Over (Under)		
1100 Expenditures	<u>(876,763)</u>	<u>(370,025)</u>
Other Financing Sources and (Uses):		
7912 Sale of Real or Personal Property	884	--
7080 Total Other Financing Sources and (Uses)	<u>884</u>	<u>--</u>
1200 Net Change in Fund Balances	(875,879)	(370,025)
0100 Fund Balances - Beginning	17,475,662	1,309,262
3000 Fund Balances - Ending	<u>\$ 16,599,783</u>	<u>\$ 939,237</u>

The accompanying notes are an integral part of this statement.

60 Capital Projects Series 2009	Other Governmental Funds	98 Total Governmental Funds
\$ 29,032	\$ 1,652,360	\$ 41,381,760
--	308,847	5,152,077
--	6,685,295	6,746,458
<u>29,032</u>	<u>8,646,502</u>	<u>53,280,295</u>
--	4,305,888	23,138,279
--	46,118	658,996
--	116,362	983,054
--	--	1,921,647
--	76,025	1,426,480
--	--	7,420
--	--	581,718
902,547	--	1,572,385
--	2,625,719	2,625,719
--	13,379	1,707,921
--	--	1,047,518
--	1,396,082	5,663,653
--	--	98,517
--	46,093	652,410
--	15,659	15,659
--	--	5,040,000
--	--	5,832,066
--	--	2,300
9,938,544	756,689	10,695,233
--	--	1,898,669
--	--	47,250
--	--	473,760
<u>10,841,091</u>	<u>9,398,014</u>	<u>66,090,654</u>
<u>(10,812,059)</u>	<u>(751,512)</u>	<u>(12,810,359)</u>
--	--	884
--	--	884
<u>(10,812,059)</u>	<u>(751,512)</u>	<u>(12,809,475)</u>
15,192,666	2,117,703	36,095,293
<u>\$ 4,380,607</u>	<u>\$ 1,366,191</u>	<u>\$ 23,285,818</u>

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, 2011*

Net change in fund balances - total governmental funds	\$ (12,809,475)
Amounts reported for governmental activities in the Statement of Activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	8,792,678
The depreciation of capital assets used in governmental activities is not reported in the funds.	(4,976,335)
Trade-in or disposal of capital assets decrease net assets in the SOA but not in the funds.	(24,146)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	(43,478)
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	5,040,000
Bond issuance costs and similar items are amortized in the SOA but not in the funds.	(33,488)
The accretion of interest on capital appreciation bonds is not reported in the funds.	(103,418)
(Increase) decrease in accrued interest from beginning of period to end of period.	9,330
The net revenue (expense) of internal service funds is reported with governmental activities.	199,653
Compensated absences are reported as the amount earned in the SOA but as the amount paid in the funds.	(282,624)
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>1</u>
Change in net assets of governmental activities - Statement of Activities	<u>\$ (4,124,899)</u>

The accompanying notes are an integral part of this statement.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

STATEMENT OF NET ASSETS

INTERNAL SERVICE FUND

AUGUST 31, 2011

Data Control Codes		Nonmajor Internal Service Fund <u>Workers' Compensation Insurance Fund</u>
ASSETS:		
Current Assets:		
1110	Cash and Cash Equivalents	\$ 662,014
Receivables:		
1260	Due from Other Funds	1,893,375
	Total Current Assets	<u>2,555,389</u>
1000	Total Assets	<u>\$ 2,555,389</u>
LIABILITIES:		
Current Liabilities:		
2110	Accounts Payable	\$ 5,524
2200	Accrued Expenditures/Expenses	33,408
	Total Current Liabilities	<u>38,932</u>
2000	Total Liabilities	<u>38,932</u>
NET ASSETS:		
3900	Unrestricted Net Assets	199,653
3000	Total Net Assets	<u>\$ 2,516,457</u>

The accompanying notes are an integral part of this statement.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES
 IN FUND NET ASSETS - INTERNAL SERVICE FUND
 FOR THE YEAR ENDED AUGUST 31, 2011

Data Control Codes		Nonmajor Internal Service Fund <u>Workers' Compensation Insurance Fund</u>
	OPERATING REVENUES:	
5700	<i>Local and Intermediate Sources</i>	\$ 246,951
5020	Total Revenues	<u>246,951</u>
	OPERATING EXPENSES:	
6400	<i>Other Operating Costs</i>	47,298
6030	Total Expenses	<u>47,298</u>
1300	Change in Net Assets	199,653
0100	Total Net Assets - Beginning	2,316,804
3300	Total Net Assets - Ending	<u>\$ 2,516,457</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, 2011

	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>	\$ 2,047
<i>Cash Payments to Suppliers for Services</i>	(193,013)
Net Cash Provided (Used) by Operating Activities	<u>(190,966)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(190,966)
Cash and Cash Equivalents at Beginning of Year	852,980
Cash and Cash Equivalents at End of Year	<u>\$ 662,014</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income (Loss)	\$ 199,653
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>	(244,905)
<i>Increase (Decrease) in Accounts Payable</i>	(7,007)
<i>Increase (Decrease) in Accrued Expenses</i>	(138,707)
Total Adjustments	<u>(390,619)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (190,966)</u>

The accompanying notes are an integral part of this statement.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT*STATEMENT OF FIDUCIARY NET ASSETS**FIDUCIARY FUNDS**AUGUST 31, 2011*

Data Control Codes		<u>Bequests</u>
	ASSETS:	
1800	<i>Restricted Assets</i>	\$ 33,254
1000	Total Assets	<u>\$ 33,254</u>
	LIABILITIES:	
2000	Total Liabilities	<u>--</u>
	NET ASSETS	
3800	<i>Held in Trust</i>	\$ 33,254
3000	Total Net Assets	<u>\$ 33,254</u>

The accompanying notes are an integral part of this statement.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FIDUCIARY FUNDS

FOR THE YEAR ENDED AUGUST 31, 2011

Private-purpose
Trust
FundBequests**Additions:**

Bequests

\$ --

Total Additions

--**Deductions:**

Athletic Facilities Improvements

3,350

Total Deductions

3,350**Change in Net Assets**

(3,350)

Net Assets-Beginning of the Year

36,604

Net Assets-End of the Year

\$ 33,254

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, 2011

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.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2011

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.

Capital Projects Series 2009 Fund: This fund accounts for proceeds from the associated bond issue and voter approved capital projects expenditures.

In addition, the District reports the following fund types:

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

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

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

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

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

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

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

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2011

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

3. 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, 2011

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

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2011

governing board. Commitments are typically done through adoption and amendment of the budget. Committed fund balance amounts differ from restricted balances in that the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.

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

Unassigned Fund Balance - represents amounts which are unconstrained in that they may be spent for any purpose. Only the general fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification because of overspending for specific purposes for which amounts had been restricted, committed or assigned.

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

B. Compliance and Accountability

1. Finance-Related Legal and Contractual Provisions

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

<u>Violation</u>	<u>Action Taken</u>
None reported	Not applicable

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

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

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

C. Deposits and Investments

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

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2011

1. Cash Deposits:

At August 31, 2011, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$1,542,718 and the bank balance was \$5,710,628. The District's cash deposits at August 31, 2011 and during the year ended August 31, 2011, were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

2. Investments:

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

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

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

The District's investments at August 31, 2011 are shown below.

<u>Investment or Investment Type</u>	<u>Maturity</u>	<u>Ratings</u>	<u>Fair Value</u>	<u>Percentage</u>
Lone Star Investment Pool-Govt. Overnight	34 days average	AAA-m	\$ 16,599,298	58.93%
Texas Short Term Asset Reserve (TexSTAR) Investment Pool	46 days average	AAA-m	8,536,816	30.31%
Certificates of Deposit	N/A	N/A	3,032,479	10.77%
Total Investments			<u>\$ 28,168,593</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.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2011

b. Custodial Credit Risk

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

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

At year end, the District was not exposed to custodial credit risk.

c. Concentration of Credit Risk

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

d. Interest Rate Risk

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

e. Foreign Currency Risk

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

Investment Accounting Policy

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

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.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

*NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2011*

D. Capital Assets

Capital asset activity for the year ended August 31, 2011, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
<i>Governmental activities:</i>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 1,217,227	\$ --	\$ --	\$ 1,217,227
Construction in progress	97,568,526	3,811,944	101,380,470	--
Total capital assets not being depreciated	<u>98,785,753</u>	<u>3,811,944</u>	<u>101,380,470</u>	<u>1,217,227</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements	60,786,767	101,380,470	61,650	162,105,587
Equipment	2,884,801	4,078,188	267,093	6,695,896
Vehicles	3,024,432	902,547	--	3,926,979
Total capital assets being depreciated	<u>66,696,000</u>	<u>106,361,205</u>	<u>328,743</u>	<u>172,728,462</u>
Less accumulated depreciation for:				
Buildings and improvements	(24,667,764)	(3,788,702)	(37,504)	(28,418,962)
Equipment	(1,696,175)	(1,007,600)	(267,093)	(2,436,682)
Vehicles	(1,818,092)	(180,034)	--	(1,998,126)
Total accumulated depreciation	<u>(28,182,031)</u>	<u>(4,976,336)</u>	<u>(304,597)</u>	<u>(32,853,770)</u>
Total capital assets being depreciated, net	<u>38,513,969</u>	<u>101,384,869</u>	<u>24,146</u>	<u>139,874,692</u>
Governmental activities capital assets, net	<u>\$ 137,299,722</u>	<u>\$ 105,196,813</u>	<u>\$ 101,404,616</u>	<u>\$ 141,091,919</u>

Depreciation was charged to functions as follows:

Instruction	\$ 2,858,212
Instructional Resources and Media Services	92,016
Curriculum and Staff Development	141,186
School Leadership	286,258
Guidance, Counseling, & Evaluation Services	203,500
Social Work Services	1,622
Health Services	88,715
Student Transportation	108,079
Extracurricular Activities	256,553
General Administration	161,946
Plant Maintenance and Operations	666,939
Security and Monitoring Services	16,124
Data Processing Services	95,186
	<u>\$ 4,976,336</u>

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2011

E. Interfund Balances and Activities

Due To and From Other Funds

Balances due to and due from other funds at August 31, 2011, consisted of the following:

Due To Fund	Due From Fund	Amount	Purpose
Internal Service-Workers' Comp.	General Fund	\$ 1,893,375	Short-term loans
Other Governmental Funds	General Fund	119,948	Short-term loans
General Fund	Other Governmental Funds	679,837	Short-term loans
	Total	<u>\$ 2,693,160</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, 2011, 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, 2011, 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%	\$ 6,875,000	\$ --	\$ 1,025,000	\$ 5,850,000	\$ 1,000,000
2007	4.00-5.00%	19,278,539	--	950,000	18,328,539	960,000
2008	3.75-5.00%	58,275,000	--	1,385,000	56,890,000	1,455,000
2009	2.00-5.00%	44,632,538	--	1,185,000	43,447,538	1,340,000
2010	2.004.25%	4,305,000	--	495,000	3,810,000	485,000
		<u>133,366,077</u>	<u>--</u>	<u>5,040,000</u>	<u>128,326,077</u>	<u>5,240,000</u>
Accumulated Accretion-CAB's		1,800,831	103,418	--	1,904,249	--
Compensated absences *		113,052	282,624	--	395,676	--
Deferred Gain/(Loss) Refund		(72,900)	--	(8,100)	(64,800)	--
Premium on Bonds *		2,200,235	--	114,503	2,085,732	--
Total governmental activities		<u>\$ 137,407,295</u>	<u>\$ 386,042</u>	<u>\$ 5,146,403</u>	<u>\$ 132,646,934</u>	<u>\$ 5,240,000</u>

* 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

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2011

2. Debt Service Requirements

Debt service requirements on long-term debt at August 31, 2011, are as follows:

Year Ending August 31,	Governmental Activities		
	Principal	Interest	Total
2012	\$ 5,240,000	\$ 5,623,160	\$ 10,863,160
2013	5,395,000	5,427,916	10,822,916
2014	5,223,539	5,524,708	10,748,247
2015	5,610,000	5,043,841	10,653,841
2016	4,684,019	5,860,672	10,544,691
2017-2021	23,598,519	22,259,112	45,857,631
2022-2026	26,730,000	15,766,961	42,496,961
2027-2031	33,880,000	8,772,141	42,652,141
2032-2036	17,965,000	1,108,625	19,073,625
Totals	<u>\$ 128,326,077</u>	<u>\$ 75,387,136</u>	<u>\$ 203,713,213</u>

3. Advance Refunding of Debt

During 2010 the District issued \$4.375 million in Unlimited Tax Refunding Bonds to refund a portion of the District's Series 1998 bonds. The proceeds of the refunding bonds net of the related debt service costs of amounted to \$4.581 million and was deposited with an escrow agent to purchase direct obligations of the United States. As a result of the refunding, the District decreased its aggregate debt service payment to maturity by \$0.26 million and realized a economic gain (difference between the present value of debt service payments on the old debt and the new debt) of \$0.23 million. GASB Statement No. 7, "Advance Refundings Resulting in Defeasance of Debt," provides that refunded debt and assets placed in escrow for the payment of related debt service be excluded from the financial statements. As of August 31, 2011, 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	<u>\$ 4,000,000</u>

G. Risk Management

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

H. Pension Plan

1. Plan Description

The District contributes to the Teacher Retirement System of Texas (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

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2011

under the provisions of the Texas Constitution and Texas Government Code, Title 8, Subtitle C. The Texas legislature has the authority to establish or amend benefit provisions. The System issues a publicly available financial report that includes financial statements and required supplementary information for the District. That report may be obtained by writing the Teacher Retirement System of Texas, 1000 Red River Street, Austin, TX 78701-2698 or by calling (800) 223-8778.

2. Funding Policy

Under provisions in State law, plan members are required to contribute 6.4% of their annual covered salary and the State of Texas contributes an amount equal to 6.58% of the District's covered payroll. The District's employees' contributions to the System for the years ending August 31, 2011, 2010 and 2009 were \$1,691,152, \$1,688,391 and \$1,662,554, 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, 2011, 2010 and 2009 were \$284,893, \$267,131 and \$278,871, respectively, and were equal to the required contributions for each year. The amount contributed by the State on behalf of the District was \$1,785,963 for the year ended August 31, 2011.

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 2011, 2010 and 2009. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. For the years ended August 31, 2011, 2010, and 2009, the State's contributions to TRS-Care were \$264,243, \$263,811, and \$259,774, respectively, the active member contributions were \$171,758, \$171,477, and \$168,853, respectively, and the District's contributions were \$145,334, \$145,096, and \$142,876, 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, 2011, 2010, and 2009, the subsidy payments received by TRS-Care on behalf of the District were \$71,243, \$61,073, and \$58,567, respectively.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

*NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2011*

J. Employee Health Care Coverage

During the period ended August 31, 2011, employees of the District were covered by a state-wide plan, TRS Active Care. The District paid premiums of \$222 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, 2011.

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, 2011

Data Control Codes	1		2	3	Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual	Actual	
	Original	Final			
REVENUES:					
5700	Local and Intermediate Sources	\$ 30,547,229	\$ 29,119,325	\$ 29,196,027	\$ 76,702
5800	State Program Revenues	3,825,762	5,035,762	4,843,230	(192,532)
5900	Federal Program Revenues	--	9,622	61,163	51,541
5020	Total Revenues	<u>34,372,991</u>	<u>34,164,709</u>	<u>34,100,420</u>	<u>(64,289)</u>
EXPENDITURES:					
Current:					
Instruction & Instructional Related Services:					
0011	Instruction	19,385,647	19,377,952	18,832,391	545,561
0012	Instructional Resources and Media Services	637,747	623,845	612,878	10,967
0013	Curriculum and Staff Development	959,571	957,204	866,692	90,512
	Total Instruction & Instr. Related Services	<u>20,982,965</u>	<u>20,959,001</u>	<u>20,311,961</u>	<u>647,040</u>
Instructional and School Leadership:					
0023	School Leadership	1,948,587	1,940,754	1,921,647	19,107
	Total Instructional & School Leadership	<u>1,948,587</u>	<u>1,940,754</u>	<u>1,921,647</u>	<u>19,107</u>
Support Services - Student (Pupil):					
0031	Guidance, Counseling and Evaluation Services	1,428,602	1,379,678	1,350,455	29,223
0032	Social Work Services	11,000	11,000	7,420	3,580
0033	Health Services	594,787	601,465	581,718	19,747
0034	Student (Pupil) Transportation	862,017	732,748	669,838	62,910
0036	Cocurricular/Extracurricular Activities	1,772,172	1,739,363	1,694,542	44,821
	Total Support Services - Student (Pupil)	<u>4,668,578</u>	<u>4,464,254</u>	<u>4,303,973</u>	<u>160,281</u>
Administrative Support Services:					
0041	General Administration	1,093,483	1,097,952	1,047,518	50,434
	Total Administrative Support Services	<u>1,093,483</u>	<u>1,097,952</u>	<u>1,047,518</u>	<u>50,434</u>
Support Services - Nonstudent Based:					
0051	Plant Maintenance and Operations	5,218,235	4,521,676	4,267,571	254,105
0052	Security and Monitoring Services	126,307	109,315	98,517	10,798
0053	Data Processing Services	650,558	645,338	606,317	39,021
	Total Support Services - Nonstudent Based	<u>5,995,100</u>	<u>5,276,329</u>	<u>4,972,405</u>	<u>303,924</u>
Intergovernmental Charges:					
0091	Contracted Instr. Services Between Public Schools	2,301,451	2,301,451	1,898,669	402,782
0095	Payments to Juvenile Justice Alternative				
0095	Education Programs	47,250	47,250	47,250	--
0099	Other Intergovernmental Charges	514,852	473,762	473,760	2
	Total Intergovernmental Charges	<u>2,863,553</u>	<u>2,822,463</u>	<u>2,419,679</u>	<u>402,784</u>
6030	Total Expenditures	<u>37,552,266</u>	<u>36,560,753</u>	<u>34,977,183</u>	<u>1,583,570</u>
1100	Excess (Deficiency) of Revenues Over (Under)				
1100	Expenditures	<u>(3,179,275)</u>	<u>(2,396,044)</u>	<u>(876,763)</u>	<u>1,519,281</u>
Other Financing Sources (Uses):					
7912	Sale of Real or Personal Property	--	--	884	884
7080	Total Other Financing Sources and (Uses)	<u>--</u>	<u>--</u>	<u>884</u>	<u>884</u>
1200	Net Change in Fund Balance	<u>(3,179,275)</u>	<u>(2,396,044)</u>	<u>(875,879)</u>	<u>1,520,165</u>
0100	Fund Balance - Beginning	--	--	17,475,662	17,475,662
3000	Fund Balance - Ending	<u>\$ (3,179,275)</u>	<u>\$ (2,396,044)</u>	<u>\$ 16,599,783</u>	<u>\$ 18,995,827</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, 2011*

Year Ended August 31	Tax Rates		3 Assessed/Appraised Value For School Tax Purposes
	1 Maintenance	2 Debt Service	
2002 and Prior Years	\$ Various	\$ Various	\$ Various
2003	1.50	.1356	2,397,553,130
2004	1.50	.1333	2,594,166,526
2005	1.50	.1278	2,520,174,524
2006	1.50	.119	2,547,235,457
2007	1.37	.1083	2,786,936,542
2008	1.04	.1525	2,787,768,285
2009	1.04	.244	3,206,853,115
2010	1.04	.415	2,713,116,770
2011 (School Year Under Audit)	1.04	.3965	2,602,981,065

1000 Totals

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

10 Beginning Balance 9/1/10	20 Current Year's Total Levy	31 Maintenance Collections	32 Debt Service Collections	40 Entire Year's Adjustments	50 Ending Balance 8/31/11
\$ 203,445	\$ --	\$ 1,718	\$ 218	\$ (2,213)	\$ 199,296
29,078	--	210	22	(1,231)	27,615
26,675	--	567	50	(1,243)	24,815
34,577	--	2,745	234	(1,311)	30,287
48,716	--	8,697	690	(1,467)	37,862
54,011	--	8,294	656	(1,192)	43,869
66,246	--	14,657	2,149	(5,257)	44,183
138,149	--	32,754	7,685	(12,269)	85,441
363,652	--	100,850	40,238	(45,749)	176,815
--	37,391,823	26,473,557	10,093,045	(487,936)	337,285
<u>\$ 964,549</u>	<u>\$ 37,391,823</u>	<u>\$ 26,644,049</u>	<u>\$ 10,144,987</u>	<u>\$ (559,868)</u>	<u>\$ 1,007,468</u>
\$ --	\$ --	\$ --	\$ --	\$ --	\$ --

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES FOR COMPUTATION OF INDIRECT COST FOR 2012-2013
 GENERAL AND SPECIAL REVENUE FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2011

EXHIBIT J-2

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

Account Number	Account Name	1 (702) School Board	2 (703) Tax Collection	3 (701) Supt's Office	4 (750) Indirect Cost	5 (720) Direct Cost	6 (Other) Misc.	7 Total
611X-6146	Payroll Costs	\$ --	\$ --	\$ 278,062	\$ 266,180	\$ 240,411	\$ 1,010	\$ 785,663
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	--	--	50,355	--	--	--	50,355
6212	Audit Services	--	--	--	15,500	--	--	15,500
6213	Tax Appraisal and Collection	--	479,448	--	--	--	--	479,448
621X	Other Prof. Services	--	--	25,100	1,162	36,311	--	62,573
6220	Tuition and Transfer Payments	--	--	--	--	--	--	--
6230	Education Service Centers	1,500	--	1,500	--	--	--	3,000
6240	Contr. Maint. and Repair	--	--	--	--	1,000	--	1,000
6250	Utilities	--	--	--	--	--	--	--
6260	Rentals	--	--	8,714	11,002	2,193	--	21,909
6290	Miscellaneous Contr.	--	--	--	--	--	--	--
6310	Operational Supplies, Materials	--	--	--	--	--	--	--
6320	Textbooks and Reading	--	--	--	--	--	--	--
6330	Testing Materials	--	--	--	--	--	--	--
63XX	Other Supplies, Materials	--	--	799	17,598	3,343	--	21,740
6410	Travel, Subsistence, Stipends	3,298	--	8,673	5,747	4,801	--	22,519
6420	Ins. and Bonding Costs	--	--	--	10,793	--	--	10,793
6430	Election Costs	--	--	--	--	--	--	--
6490	Miscellaneous Operating	11,764	--	20,913	5,455	6,953	--	45,085
6500	Debt Service	--	--	--	--	--	--	--
6600	Capital Outlay	--	--	--	--	--	5,450	5,450

Total \$ 16,562 \$ 479,448 \$ 394,116 \$ 333,437 \$ 295,012 \$ 6,460 \$ 1,525,035

Total Expenditures for General and Special Revenue Funds (9) \$ 43,572,415

LESS: Deductions of Unallowable Costs

FISCAL YEAR

Total Capital Outlay (6600)	(10)	\$ 741,919
Total Debt & Lease (6500)	(11)	\$ --
Plant Maintenance (Function 51, 6100-6400)	(12)	\$ 5,627,508
Food (Function 35, 6341 and 6499)	(13)	\$ 928,494
Stipends (6413)	(14)	\$ --
Column 4 (above) - Total Indirect Cost		<u>\$ 333,437</u>

Subtotal 7,631,358

Net Allowed Direct Cost \$ 35,941,057

CUMULATIVE

Total Cost of Buildings Before Depreciation (1520)	(15)	\$ 162,105,587
Historical Cost of Buildings over 50 years old	(16)	12,559,460
Amount of Federal Money in Building Cost (Net of #16)	(17)	2,354,385
Total Cost of Furniture & Equipment Before Depreciation (1530 & 1540)	(18)	6,695,897
Historical Cost of Furniture & Equipment over 16 years old	(19)	508,193
Amount of Federal Money in Furniture & Equipment (Net of #19)	(20)	\$ 133,190

(8) Note A - \$3,757 in Function 53 expenditures and \$473,760 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, 2011

Data Control Codes	1	2	3
	Budget	Actual	Variance Positive (Negative)
REVENUES:			
5700 Local and Intermediate Sources	\$ 1,599,300	\$ 1,565,776	\$ (33,524)
5800 State Program Revenues	58,200	54,264	(3,936)
5900 Federal Program Revenues	879,078	1,016,425	137,347
5020 Total Revenues	<u>2,536,578</u>	<u>2,636,465</u>	<u>99,887</u>
EXPENDITURES:			
Current:			
Support Services - Student (Pupil):			
0035 Food Services	2,797,006	2,624,896	172,110
Total Support Services - Student (Pupil)	<u>2,797,006</u>	<u>2,624,896</u>	<u>172,110</u>
6030 Total Expenditures	<u>2,797,006</u>	<u>2,624,896</u>	<u>172,110</u>
1100 Excess (Deficiency) of Revenues Over (Under)			
1100 Expenditures	(260,428)	11,569	271,997
1200 Net Change in Fund Balance	<u>(260,428)</u>	<u>11,569</u>	<u>271,997</u>
0100 Fund Balance - Beginning	--	717,030	717,030
3000 Fund Balance - Ending	<u>\$ (260,428)</u>	<u>\$ 728,599</u>	<u>\$ 989,027</u>

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

EXHIBIT J-4

DEBT SERVICE FUND
 BUDGETARY COMPARISON SCHEDULE
 FOR THE YEAR ENDED AUGUST 31, 2011

Data Control Codes	1	2	3
	Budget	Actual	Variance Positive (Negative)
REVENUES:			
5700 <i>Local and Intermediate Sources</i>	\$ 10,874,367	\$ 10,504,341	\$ (370,026)
5020 <i>Total Revenues</i>	<u>10,874,367</u>	<u>10,504,341</u>	<u>(370,026)</u>
EXPENDITURES:			
Debt Service:			
0071 <i>Principal on Long-Term Debt</i>	5,040,000	5,040,000	--
0072 <i>Interest on Long-Term Debt</i>	5,832,067	5,832,066	1
0073 <i>Bond Issuance Costs and Fees</i>	5,000	2,300	2,700
<i>Total Debt Service</i>	<u>10,877,067</u>	<u>10,874,366</u>	<u>2,701</u>
6030 <i>Total Expenditures</i>	<u>10,877,067</u>	<u>10,874,366</u>	<u>2,701</u>
1100 <i>Excess (Deficiency) of Revenues Over (Under)</i>			
1100 <i>Expenditures</i>	(2,700)	(370,025)	(367,325)
1200 <i>Net Change in Fund Balance</i>	<u>(2,700)</u>	<u>(370,025)</u>	<u>(367,325)</u>
0100 <i>Fund Balance - Beginning</i>	--	1,309,262	1,309,262
3000 <i>Fund Balance - Ending</i>	<u>\$ (2,700)</u>	<u>\$ 939,237</u>	<u>\$ 941,937</u>

WEST, DAVIS & COMPANY, LLP
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Independent Auditors' Report

Report on Internal Control over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards

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

Members of the Board of Trustees:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Port Neches-Groves Independent School District as of and for the year ended August 31, 2011, which collectively comprise the Port Neches-Groves Independent School District's basic financial statements and have issued our report thereon dated November 30, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Port Neches-Groves Independent School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

West, Davis & Company

West, Davis & Company, LLP
November 30, 2011

WEST, DAVIS & COMPANY, LLP
11824 Jollyville Road, Suite 100
Austin, Texas 78759

Independent Auditors' Report

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

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

Members of the Board of Trustees:

Compliance

We have audited Port Neches-Groves Independent School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Port Neches-Groves Independent School District's major federal programs for the year ended August 31, 2011. Port Neches-Groves Independent School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Port Neches-Groves Independent School District's management. Our responsibility is to express an opinion on Port Neches-Groves Independent School District's compliance based on our audit.

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

In our opinion, Port Neches-Groves Independent School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2011.

Internal Control Over Compliance

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

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

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

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


West, Davis & Company, LLP
November 30, 2011

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED AUGUST 31, 2011

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

One or more material weaknesses identified? Yes X No

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

Noncompliance material to financial statements noted? Yes X No

2. Federal Awards

Internal control over major programs:

One or more material weaknesses identified? Yes X No

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

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

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

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.389A	ARRA - ESEA, Title I, Part A - Improving Basic Programs
84.391A	ARRA - IDEA-Part B Formula
84.394A	ARRA of 2009 Title XIV State Fiscal Stabilization Fund
84.010A	ESEA, Title I, Part A - Improving Basic Programs
84.027A	IDEA-Part B Formula
84.173A	IDEA-Preschool

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, 2011

(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	10610101123908	\$ 5,877
<i>ESEA Title I Part A - Improving Basic Programs *</i>	84.010A	11610101123908	422,810
Total CFDA Number 84.010a			<u>428,687</u>
<i>IDEA-B Formula *</i>	84.027A	116600011239086600	707,821
<i>IDEA-B Formula *</i>	84.027A	106600011239086600	12,696
<i>IDEA-B Discretionary *</i>	84.027A	116600021239086677	263,583
<i>IDEA-B High Cost*</i>	84.027A	11660006123908	7,715
Total CFDA Number 84.027A			<u>991,815</u>
<i>Career and Technical - Basic Grant</i>	84.048A	11420006123908	43,107
<i>IDEA-B Preschool *</i>	84.173A	116610011239086610	31,532
<i>IDEA-B Preschool *</i>	84.173A	106610011239086610	1,328
Total CFDA Number 84.173A			<u>32,860</u>
<i>ESEA Title IV Part A-Safe & Drug-Free Schools & Communities Act</i>	84.186A	10691001123908	2,640
<i>Title III Part A English Language Acquisition and Language Enhancement</i>	84.365A	11671001123908	4,516
<i>Title III Part A English Language Acquisition and Language Enhancement</i>	84.365A	10671001123908	2,899
Total CFDA Number 84.365A			<u>7,415</u>
<i>ESEA Title II Part A - Teacher & Principal Training & Recruiting</i>	84.367A	10694501123908	2,566
<i>ESEA Title II Part A - Teacher & Principal Training & Recruiting</i>	84.367A	11694501123908	164,820
Total CFDA Number 84.367A			<u>167,386</u>
<i>ARRA - Title II Part D Subpart 1-Enhancing Education Through Technology *</i>	84.386A	10553001123908	8,439
<i>ARRA - ESEA, Title I, Part A - Improving Basic Programs *</i>	84.389A	10551001123908	162,216
<i>Summer School LEP</i>	84.369A	69551002	1,074
<i>ARRA - IDEA-Part B Formula *</i>	84.391A	10554001123908	660,397
<i>ARRA - IDEA Part B, Preschool *</i>	84.392A	10555001123908	4,619
<i>ARRA of 2009 Title XIV State Fiscal Stabilization Fund *</i>	84.394A	11557001123908	3,107,995
<i>Education Jobs Fund</i>	84.410A	11550101123908	50,219
Total CFDA Number 84.410			<u>\$ 50,219</u>
Total Passed Through State Department of Education			<u>5,668,869</u>
Total U. S. Department of Education			<u>5,668,869</u>
U. S. DEPARTMENT OF AGRICULTURE			
Passed Through State Department of Education:			
Commodity Supplemental Food Program (Non-cash)	10.550	123012A	143,607
School Breakfast Program *	10.553	71401101	160,485
National School Lunch Program *	10.555	71301101	712,333
Total Passed Through State Department of Education			<u>1,016,425</u>
Total U. S. Department of Agriculture			<u>1,016,425</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 6,685,294</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, 2011

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, 2011*

<u>Data Control Codes</u>	<u>Responses</u>
SF2 Were there any disclosures in the Annual Financial Report and/or other sources of information concerning default on bonded indebtedness obligations?	No
SF4 Did the district receive a clean audit? - Was there an unqualified opinion in the Annual Financial Report?	Yes
SF5 Did the Annual Financial Report disclose any instances of material weaknesses in internal controls?	No
SF9 Was there any disclosure in the Annual Financial Report of material noncompliance?	No
SF10 What was the total accumulated accretion on capital appreciation bonds included in the government-wide financial statements at fiscal year-end?	\$ 1,904,249