

PORT NECHES-GROVES
INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED AUGUST 31, 2016

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Port Neches-Groves Independent School District
Annual Financial Report
For The Year Ended August 31, 2016

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Introductory Section


CERTIFICATE OF BOARD

Port Neches-Groves Independent School District
Name of School District

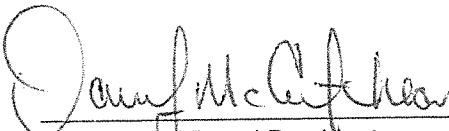
Jefferson
County

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, 2016, at a meeting of the board of trustees of such school district on the 26th day of January, 2017.



Signature of Board Secretary



Signature of Board President

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

Financial Section

WEST, DAVIS & COMPANY, LLP

11824 Jollyville Road, Suite 100

Austin, Texas 78759

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Port Neches-Groves Independent School District ("the District") as of and for the year ended August 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Port Neches-Groves Independent School District as of August 31, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Change in Accounting Principle

As described in Note A to the financial statements, in 2016, Port Neches-Groves Independent School District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 72, *Fair Value*. Our opinion is not modified with respect to this matter.

As described in Note A to the financial statements, in 2016, Port Neches-Groves Independent School District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 76, *Hierarchy of GAAP*. Our opinion is not modified with respect to this matter.

As described in Note A to the financial statements, in 2016, Port Neches-Groves Independent School District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 77, *Tax Abatements*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

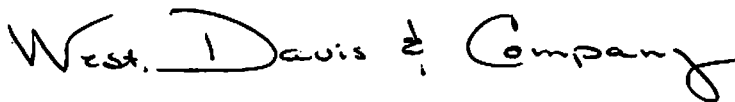
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Port Neches-Groves Independent School District's basic financial statements. The introductory section and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not required parts of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, Subpart F -- Audit Requirements (Uniform Guidance) and is also not a required part of the basic financial statements. The accompanying other supplementary information is presented for purposes of additional analysis and is also not a required part of the basic financial statements.

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2017 on our consideration of Port Neches-Groves Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Port Neches-Groves Independent School District's internal control over financial reporting and compliance.

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

West, Davis & Company, LLP
Austin, Texas
January 25, 2017

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, 2016. Please read it in conjunction with the independent auditors' report on page 2, and the District's Basic Financial Statements, which begin on page 11. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities (on pages 11 and 12). These provide information about the activities of the District as a whole and present a longer-term view of the District's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise. Fund financial statements (starting on page 13) 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 22) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

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

Reporting the District as a Whole

The Statement of Net Position and the Statement of Activities

The analysis of the District's overall financial condition and operations begins on page 11. Its primary purpose is to show whether the District is better off or worse off as a result of the year's activities. The Statement of Net Position includes all the District's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the District's operations during the year. These apply the accrual basis of accounting which is the basis used by private sector companies.

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

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

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

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

Reporting the District's Most Significant Funds

Fund Financial Statements

The fund financial statements begin on page 13 and provide detailed information about the most significant funds—not the District as a whole. Laws and contracts require the District to establish some funds, such as grants received under the No Child Left Behind Act from the U.S. Department of Education. The District's administration establishes many other funds to help it control and manage money for particular purposes (like campus activities). The District's two kinds of funds—governmental and proprietary—use different accounting approaches.

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

The District as Trustee

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for money raised by student activities and scholarship programs. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Position and Changes in Fiduciary Net Position on pages 20 and 21. We exclude these resources from the District's other financial statements because the District cannot use these assets to finance its operations. The District is only responsible for ensuring that the assets reported in these funds are used for their intended purposes.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Net position of the District's governmental activities increased from \$34 million to \$38.6 million. Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – was \$16.2 million at August 31, 2016. This increase in governmental net position was a result of increase ad valorem property tax collections \$3 million and state revenue \$2 million.

Table I
Port Neches-Groves Independent School District

	NET POSITION	
	in thousands	
	Governmental Activities	
	2016	2015
Current and other assets	30,770	27,715
Capital assets	121,283	125,512
Total assets	<u>152,053</u>	<u>153,227</u>
Deferred Outflow Related to Pensions	<u>5,002</u>	<u>1,005</u>
Long-term liabilities	113,626	115,427
Other liabilities	4,234	3,776
Total liabilities	<u>117,860</u>	<u>119,203</u>
Deferred Inflow Related to Pensions	<u>645</u>	<u>1,060</u>
Net position:		
Invested in capital assets, net of related debt	18,881	17,263
Restricted	3,456	2,025
Unrestricted	16,213	14,681
Total net position	<u>38,550</u>	<u>33,969</u>

Table II
Port Neches-Groves Independent School District

CHANGES IN NET POSITION
in thousands

	Governmental Activities	
	2016	2015
Revenues:		
Program revenues:		
Charges for services	1,659	1,718
Operating grants and contributions	3,451	3,573
General revenues:		
Maintenance and operations taxes	25,908	24,393
Debt service taxes	11,389	10,652
State aid - formula grants	12,750	9,134
Investment Earnings	230	-45
Miscellaneous	3,631	4,126
Total Revenues	<u>59,018</u>	<u>53,551</u>
Expenses:		
Instruction, curriculum and media services	30,997	28,933
Instructional and school leadership	2,593	2,436
Student support services	3,561	3,299
Child nutrition	2,715	3,032
Extracurricular activities	2,111	2,044
General administration	1,143	1,040
Plant maintenance and security	7,256	7,500
Data processing services	690	627
Community services	23	22
Debt services	3,022	5,202
Recapture payments	0	0
Other Intergovernmental charges	326	356
Total Expenses	<u>54,437</u>	<u>54,491</u>
Change in Net Position	<u>4,581</u>	<u>(940)</u>

NET PENSION LIABILITY (GASB 68)

The District's net pension liability at year end totaled \$8.7 million

A more detailed discussion of the District's pension plan is in Note H the financial statements.

THE DISTRICT'S FUNDS

As the District completed this annual period, its governmental funds (as presented in the balance sheet on page 13) reported a combined fund balance of \$23.6 million, which is \$2.7 million more than last year's total of \$20.9 million. This was primarily a result of increases in state revenue.

Included in this year's total change in fund balance is an increase of \$1.2 million in the District's General Fund. Total actual expenditures were \$0.8 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.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At year-end, the District had \$121.3 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 \$98.9 million in bonds outstanding versus \$106.3 million last year.

During the year, the District refunded a total of \$71.82 million in outstanding debt. This resulted in decrease in aggregate debt service payments of \$14 million and an economic gain of \$11.4 million.

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 2016-17 budget. These included the following:

- The District's enrollment is expected to increase 2 ½%.
- Taxable values are down less than 1%.
- The price of oil continues to decrease.
- Chapter 313 Agreements under the Texas Economic Development Act continue to be a viable source of revenue.
- Federal Grants remain stable.

General Fund revenues are budgeted to remain fairly stable at \$40 million. Even though student enrollment is on the rise, which results in increased state revenue, the Comptroller's values increased significantly from 2 years ago, resulting in a loss of state revenue.

General fund expenditures are budgeted to increase by 4%, largely due to a 3% increase in total salaries. The tax rate remains at \$1.04/\$100 of taxable value for maintenance and operations, and \$0.40441/\$100 of taxable value for bonded indebtedness.

General fund balance is projected to be \$17 million at the end of the 2016-2017 school year, which is 4.8 months of operating expenditures. District policy states that a minimum of 3 months is to be maintained.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

Basic Financial Statements

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

STATEMENT OF NET POSITION

AUGUST 31, 2016

Data Control Codes	1	Governmental Activities
ASSETS:		
1110	<i>Cash and Cash Equivalents</i>	\$ 1,078,695
1120	<i>Current Investments</i>	27,267,984
1225	<i>Property Taxes Receivable (Net)</i>	937,887
1240	<i>Due from Other Governments</i>	393,702
1250	<i>Accrued Interest</i>	1,633
1290	<i>Other Receivables (Net)</i>	41,215
1300	<i>Inventories</i>	66,737
1410	<i>Unrealized Expenses</i>	982,398
Capital Assets:		
1510	<i>Land</i>	1,217,224
1520	<i>Buildings and Improvements, Net</i>	117,435,819
1530	<i>Furniture and Equipment, Net</i>	2,601,659
1590	<i>Infrastructure, Net</i>	28,264
1000	Total Assets	<u>152,053,217</u>
DEFERRED OUTFLOWS OF RESOURCES:		
1705	<i>Deferred Outflow Related to Pensions</i>	5,001,748
1700	Total Deferred Outflows of Resources	<u>5,001,748</u>
LIABILITIES:		
2110	<i>Accounts Payable</i>	407,077
2140	<i>Interest Payable</i>	294,114
2165	<i>Accrued Liabilities</i>	2,457,397
2180	<i>Due to Other Governments</i>	780,096
2300	<i>Unearned Revenue</i>	294,898
Noncurrent Liabilities:		
2501	<i>Due Within One Year</i>	4,578,519
2502	<i>Due in More Than One Year</i>	100,379,238
2540	<i>Net Pension Liability</i>	8,668,660
2000	Total Liabilities	<u>117,859,999</u>
DEFERRED INFLOWS OF RESOURCES:		
2605	<i>Deferred Inflow Related to Pensions</i>	644,924
2600	Total Deferred Inflows of Resources	<u>644,924</u>
NET POSITION:		
3200	Net Investment in Capital Assets	18,880,770
Restricted For:		
3820	Federal and State Programs	409,212
3850	Debt Service	3,047,250
3900	Unrestricted	16,212,810
3000	Total Net Position	<u>\$ 38,550,042</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, 2016

Data Control Codes	Functions/Programs	1 Expenses	3 Program Revenues		4 Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
			Charges for Services	Governmental Activities		
	Governmental Activities:					
11	Instruction	\$ 28,844,037	\$ 54,588	\$ 2,185,962	\$ (26,603,487)	
12	Instructional Resources and Media Services	818,212	--	--	(818,212)	
13	Curriculum and Staff Development	1,334,582	--	41,058	(1,293,524)	
21	Instructional Leadership	17,841	--	17,856	15	
23	School Leadership	2,574,974	--	--	(2,574,974)	
31	Guidance, Counseling, & Evaluation Services	1,788,665	--	4,549	(1,784,116)	
33	Health Services	693,034	--	--	(693,034)	
34	Student Transportation	1,079,552	--	--	(1,079,552)	
35	Food Service	2,714,802	1,380,785	1,154,540	(179,477)	
36	Cocurricular/Extracurricular Activities	2,110,751	216,307	23,466	(1,870,978)	
41	General Administration	1,143,250	--	1,016	(1,142,234)	
51	Facilities Maintenance and Operations	7,144,429	7,130	--	(7,137,299)	
52	Security and Monitoring Services	111,394	--	--	(111,394)	
53	Data Processing Services	690,149	--	--	(690,149)	
61	Community Services	23,030	--	22,778	(252)	
72	Interest on Long-term Debt	2,363,307	--	--	(2,363,307)	
73	Bond Issuance Costs and Fees	658,781	--	--	(658,781)	
95	Payments to Juvenile Justice Alternative Ed. Programs	36,000	--	--	(36,000)	
99	Other Intergovernmental Charges	289,876	--	--	(289,876)	
TG	Total Governmental Activities	<u>54,436,666</u>	<u>1,658,810</u>	<u>3,451,225</u>	<u>(49,326,631)</u>	
TP	Total Primary Government	<u>\$ 54,436,666</u>	<u>\$ 1,658,810</u>	<u>\$ 3,451,225</u>	<u>(49,326,631)</u>	
	General Revenues:					
MT	Property Taxes, Levied for General Purposes				25,907,962	
DT	Property Taxes, Levied for Debt Service				11,389,207	
IE	Investment Earnings				229,590	
GC	Grants and Contributions Not Restricted to Specific Programs				12,749,803	
MI	Miscellaneous				3,630,922	
TR	Total General Revenues				<u>53,907,484</u>	
CN	Change in Net Position				<u>4,580,853</u>	
NB	Net Position - Beginning				<u>33,969,189</u>	
NE	Net Position - Ending				<u>\$ 38,550,042</u>	

The accompanying notes are an integral part of this statement.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS

AUGUST 31, 2016

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Governmental Funds	98 Total Governmental Funds	
ASSETS:					
1110	Cash and Cash Equivalents	\$ 400,368	\$ 49,141	\$ 317,117	\$ 766,626
1120	Current Investments	24,098,320	3,169,664	--	27,267,984
1225	Taxes Receivable, Net	718,372	219,515	--	937,887
1240	Due from Other Governments	--	--	393,702	393,702
1250	Accrued Interest	1,614	1	18	1,633
1260	Due from Other Funds	188,505	--	--	188,505
1290	Other Receivables	20,645	2,219	18,351	41,215
1300	Inventories	--	--	66,737	66,737
1410	Unrealized Expenditures	982,398	--	--	982,398
1000	Total Assets	<u>26,410,222</u>	<u>3,440,540</u>	<u>795,925</u>	<u>30,646,687</u>
LIABILITIES:					
Current Liabilities:					
2110	Accounts Payable	\$ 305,899	\$ --	\$ 101,179	\$ 407,078
2150	Payroll Deductions & Withholdings	531,001	--	10,812	541,813
2160	Accrued Wages Payable	1,657,512	--	116,870	1,774,382
2170	Due to Other Funds	2,024,711	159,695	28,809	2,213,215
2180	Due to Other Governments	780,096	--	--	780,096
2200	Accrued Expenditures	92,651	--	--	92,651
2300	Unearned Revenue	963,311	219,515	49,958	1,232,784
2000	Total Liabilities	<u>6,355,181</u>	<u>379,210</u>	<u>307,628</u>	<u>7,042,019</u>
FUND BALANCES:					
Nonspendable Fund Balances:					
3410	Inventories	--	--	66,737	66,737
3430	Prepaid Items	982,398	--	--	982,398
Restricted Fund Balances:					
3450	Federal/State Funds Grant Restrictions	--	--	409,212	409,212
3470	Capital Acquisitions & Contractual Obligations	--	--	12,348	12,348
3480	Retirement of Long-Term Debt	--	3,061,330	--	3,061,330
3600	Unassigned	19,072,643	--	--	19,072,643
3000	Total Fund Balances	<u>20,055,041</u>	<u>3,061,330</u>	<u>488,297</u>	<u>23,604,668</u>
4000	Total Liabilities and Fund Balances	<u>\$ 26,410,222</u>	<u>\$ 3,440,540</u>	<u>\$ 795,925</u>	<u>\$ 30,646,687</u>

The accompanying notes are an integral part of this statement.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT*RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**TO THE STATEMENT OF NET POSITION**AUGUST 31, 2016*

Total fund balances - governmental funds balance sheet	\$ 23,604,668
Amounts reported for governmental activities in the Statement of Net Position ("SNP") are different because:	
Capital assets used in governmental activities are not reported in the funds.	121,282,966
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	937,886
The assets and liabilities of internal service funds are included in governmental activities in the SNP.	2,288,229
Payables for bond principal which are not due in the current period are not reported in the funds.	(98,863,517)
Payables for bond interest which are not due in the current period are not reported in the funds.	(294,114)
Payables for compensated absences which are not due in the current period are not reported in the funds.	(546,062)
The accounting loss on the defeasance of bonds is not reported in the funds.	6,762,042
Recognition of the District's proportionate share of the net pension liability is not reported in the funds.	(8,668,660)
Deferred Resource Inflows related to the pension plan are not reported in the funds.	(644,924)
Deferred Resource Outflows related to the pension plan are not reported in the funds.	5,001,748
The accumulated accretion of interest on capital appreciation bonds is not reported in the funds.	(1,997,152)
Bond premiums are amortized in the SNA but not in the funds.	<u>(10,313,068)</u>
Net position of governmental activities - Statement of Net Position	<u>\$ 38,550,042</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, 2016

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Governmental Funds	98 Total Governmental Funds
REVENUES:				
5700 Local and Intermediate Sources	\$ 30,077,312	\$ 11,414,426	\$ 1,496,601	\$ 42,988,339
5800 State Program Revenues	11,282,122	271,369	339,576	11,893,067
5900 Federal Program Revenues	86,678	--	3,067,281	3,153,959
5020 Total Revenues	<u>41,446,112</u>	<u>11,685,795</u>	<u>4,903,458</u>	<u>58,035,365</u>
EXPENDITURES:				
Current:				
0011 Instruction	22,880,057	--	2,187,042	25,067,099
0012 Instructional Resources and Media Services	706,770	--	--	706,770
0013 Curriculum and Staff Development	1,118,393	--	42,545	1,160,938
0021 Instructional Leadership	--	--	17,841	17,841
0023 School Leadership	2,217,520	--	--	2,217,520
0031 Guidance, Counseling, & Evaluation Services	1,536,266	--	4,550	1,540,816
0033 Health Services	597,409	--	--	597,409
0034 Student Transportation	960,905	--	--	960,905
0035 Food Service	--	--	2,721,600	2,721,600
0036 Cocurricular/Extracurricular Activities	1,848,388	--	23,685	1,872,073
0041 General Administration	1,012,237	--	1,022	1,013,259
0051 Facilities Maintenance and Operations	6,331,953	--	--	6,331,953
0052 Security and Monitoring Services	106,483	--	--	106,483
0053 Data Processing Services	593,463	--	--	593,463
0061 Community Services	--	--	22,926	22,926
0071 Principal on Long-term Debt	--	5,994,014	--	5,994,014
0072 Interest on Long-term Debt	--	4,202,587	--	4,202,587
0073 Bond Issuance Costs and Fees	--	257,714	--	257,714
0081 Capital Outlay	--	--	3,250	3,250
0095 Payments to Juvenile Justice Alternative	--	--	--	--
0095 Education Programs	36,000	--	--	36,000
0099 Other Intergovernmental Charges	289,876	--	--	289,876
6030 Total Expenditures	<u>40,235,720</u>	<u>10,454,315</u>	<u>5,024,461</u>	<u>55,714,496</u>
1100 Excess (Deficiency) of Revenues Over (Under)				
1100 Expenditures	<u>1,210,392</u>	<u>1,231,480</u>	<u>(121,003)</u>	<u>2,320,869</u>
Other Financing Sources and (Uses):				
7911 Capital-Related Debt Issued (Regular Bonds)	--	70,415,000	--	70,415,000
7916 Premium or Discount on Issuance of Bonds	--	6,717,095	--	6,717,095
8940 Payment to Bond Refunding Escrow Agent	--	(76,764,081)	--	(76,764,081)
7080 Total Other Financing Sources and (Uses)	<u>--</u>	<u>368,014</u>	<u>--</u>	<u>368,014</u>
1200 Net Change in Fund Balances	<u>1,210,392</u>	<u>1,599,494</u>	<u>(121,003)</u>	<u>2,688,883</u>
0100 Fund Balances - Beginning	18,844,649	1,461,836	609,300	20,915,785
3000 Fund Balances - Ending	<u>\$ 20,055,041</u>	<u>\$ 3,061,330</u>	<u>\$ 488,297</u>	<u>\$ 23,604,668</u>

The accompanying notes are an integral part of this statement.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

*RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2016*

Net change in fund balances - total governmental funds	\$ 2,688,883
Amounts reported for governmental activities in the Statement of Activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	161,707
The depreciation of capital assets used in governmental activities is not reported in the funds.	(4,390,645)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	(60,157)
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	5,994,014
The accretion of interest on capital appreciation bonds is not reported in the funds.	1,187,589
(Increase) decrease in accrued interest from beginning of period to end of period.	26,887
The net revenue (expense) of internal service funds is reported with governmental activities.	(57,928)
Compensated absences are reported as the amount earned in the SOA but as the amount paid in the funds.	(31,805)
Proceeds of bonds do not provide revenue in the SOA, but are reported as current resources in the funds.	(70,415,000)
Bond premiums are reported in the funds but not in the SOA.	(6,092,291)
The accounting loss on the defeasance of bonds is not reported in the funds.	(401,067)
The transfer to escrow for bond refunding is reported in the SOA but is not reported in the funds.	76,764,081
Implementing GASB 68 required certain expenditures to be de-expended and recorded as deferred resource c	726,146
Pension contributions made after the measurement date but in current FY were de-expended and reduced NP	788,279
The District's share of the unrecognized deferred inflows and outflows for the pension plan was amortized.	(508,246)
Pension expense relating to GASB 68 is recorded in the SOA but not in the funds.	<u>(1,799,594)</u>
Change in net position of governmental activities - Statement of Activities	<u>\$ 4,580,853</u>

The accompanying notes are an integral part of this statement.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

STATEMENT OF NET POSITION

INTERNAL SERVICE FUND

AUGUST 31, 2016

Data Control Codes		Nonmajor Internal Service Fund <u>Workers' Compensation Insurance Fund</u>
ASSETS:		
	Current Assets:	
1110	<i>Cash and Cash Equivalents</i>	\$ 312,069
	<i>Receivables:</i>	
1260	<i>Due from Other Funds</i>	<u>2,024,711</u>
	Total Current Assets	<u>2,336,780</u>
1000	Total Assets	<u>2,336,780</u>
LIABILITIES:		
	Current Liabilities:	
2200	<i>Accrued Expenses</i>	\$ <u>48,551</u>
	Total Current Liabilities	<u>48,551</u>
2000	Total Liabilities	<u>48,551</u>
NET POSITION:		
3900	<i>Unrestricted</i>	<u>2,288,229</u>
3000	Total Net Position	<u>\$ <u>2,288,229</u></u>

The accompanying notes are an integral part of this statement.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES
 IN FUND NET POSITION - INTERNAL SERVICE FUND
 FOR THE YEAR ENDED AUGUST 31, 2016

Data Control Codes		Nonmajor Internal Service Fund <u>Workers' Compensation Insurance Fund</u>
OPERATING REVENUES:		
5700	<i>Local and Intermediate Sources</i>	\$ 482
5020	Total Revenues	<u>482</u>
OPERATING EXPENSES:		
6400	<i>Other Operating Costs</i>	58,410
6030	Total Expenses	<u>58,410</u>
1300	Change in Net Position	(57,928)
0100	Total Net Position - Beginning	2,346,157
3300	Total Net Position - Ending	<u>\$ 2,288,229</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, 2016

	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>	\$ 482
<i>Cash Payments to Suppliers for Services</i>	(110,208)
Net Cash Provided (Used) by Operating Activities	<u>(109,726)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(109,726)
Cash and Cash Equivalents at Beginning of Year	421,795
Cash and Cash Equivalents at End of Year	<u>\$ 312,069</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income (Loss)	\$ (57,928)
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>	--
<i>Increase (Decrease) in Accounts Payable</i>	(62,901)
<i>Increase (Decrease) in Accrued Expenses</i>	11,103
Total Adjustments	<u>(51,798)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (109,726)</u>

The accompanying notes are an integral part of this statement.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET POSITION

FIDUCIARY FUNDS

AUGUST 31, 2016

Data Control Codes	Bequests	Agency Fund
	<u> </u>	<u> </u>
	Student Activity	<u> </u>
ASSETS:		
1110 <i>Cash and Cash Equivalents</i>	\$ --	\$ 846,332
1800 <i>Restricted Assets</i>	<u>22,026</u>	<u>--</u>
1000 Total Assets	<u>22,026</u>	<u>846,332</u>
 LIABILITIES:		
Current Liabilities:		
2190 <i>Due to Student Groups</i>	\$ --	\$ 846,332
2000 Total Liabilities	<u>--</u>	<u>846,332</u>
 NET POSITION:		
3800 <i>Held in Trust</i>	<u>22,026</u>	<u>--</u>
3000 Total Net Position	<u>\$ 22,026</u>	<u>\$ --</u>

The accompanying notes are an integral part of this statement.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

FIDUCIARY FUNDS

FOR THE YEAR ENDED AUGUST 31, 2016

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

The accompanying notes are an integral part of this statement.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2016

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 and there are no component units included within the District's reporting entity.

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

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

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

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

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

The District reports the following major governmental funds:

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

Debt Service Fund: This fund accounts for the tax levies assessed to pay bond principal and interest as it becomes due. A dedicated interest and sinking fund ad valorem tax rate is set each year.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2016

In addition, the District reports the following fund types:

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

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

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

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

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

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

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

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

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.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

*NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2016*

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 when they become due or past due and receivable within the current period.

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

c. Inventories and Prepaid Items

Inventories of supplies on the balance sheet are stated at weighted average cost, while inventories of food commodities are recorded at market values supplied by the Texas Department of Human Services. Inventory items are recorded as expenditures when they are consumed. Supplies are used for almost all functions of activity, while food commodities are used only in the food service program. Although commodities are received at no cost, their fair market value is supplied by the Texas Department of Human Services and recorded as inventory and deferred revenue when received. When requisitioned, inventory and deferred revenue are relieved, expenditures are charged, and revenue is recognized for an equal amount. Inventories also include plant maintenance and operation supplies as well as instructional supplies.

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

d. Capital Assets

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

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	30
Buildings	50
Building Improvements	20
Vehicles	2-15
Office Equipment	3-15
Computer Equipment	3-15

e. Deferred Outflows and Inflows of Resources

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

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2016

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

f. 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.

g. Compensated Absences

On retirement or death of certain employees, the District pays any accrued sick leave in a lump case payment to such employee or his/her estate. Individuals employed after October 1, 1985 are not eligible to receive the lump sum payments.

h. 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 position.

i. Use of Estimates

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

j. 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 ensure accuracy in building a statewide database for policy development and funding plans.

k. 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.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2016

Committed Fund Balance - represents amounts that can only be used for a specific purpose because of a formal action by the District's Board of Trustees. Committed amounts cannot be used for any other purpose unless the Board of Trustees 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 Board of Trustees. 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 Board of Trustees or by an official or body to which the Board of Trustees 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 convey 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.

I. Net Position Flow Assumption

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

m. Fund Balance Flow Assumptions

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

4. Pensions

The fiduciary net position of the Teacher Retirement System of Texas (TRS) has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, and information about assets, liabilities and additions to/deductions from TRS' fiduciary net position. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

*NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2016*

5. New Accounting Standards Adopted

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

- Statement No. 72, *Fair Value Measurement and Application*
- Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Government*
- Statement No. 77, *Tax Abatement Disclosures*

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

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 Position of Individual Funds

Following are funds having deficit fund balances or fund net position 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

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2016

C. Deposits and Investments

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

1. Cash Deposits:

At August 31, 2016, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$1,078,695 and the bank balance was \$1,247,929. The District's cash deposits at August 31, 2016 and during the year ended August 31, 2016, 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 categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

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FOR THE YEAR ENDED AUGUST 31, 2016

* Not all assets meeting the definition of an investment are required to be reported at fair value. Including among excepted investments are certain investments held by 2a7 like external investment pools. As detailed below, the District has invested funds in specific 2a7 like external investment pools that are valued at amortized cost and not subject to the fair value hierarchy levels.

** Certificates of deposits ("CD's") and time deposits at FDIC insured banks are not subject to the fair value hierarchy levels.

The District's investment at August 31, 2016 is shown below.

Investment Type	Rating	1-5 Years	5-10 Years	Fair Value & Level	Percent
Cash	N/A	\$ N/A	N/A	5,394 **	0.02%
Public Funds Money Market	N/A	N/A	N/A	12,587,995 **	46.16%
Lone Star Investment Pool	AAA	***		9,569,152 *	35.09%
Municipal/Local Government:					
Bridgeport Conn. GO	AA	170,765	--	170,765 2	0.63%
California St. GO	AA-	284,782	--	284,782 2	1.04%
Caroline Cnty. MD. GO	AA-	--	221,082	221,082 2	0.81%
Coachella Valley UNI GO	AA	53,065	--	53,065 2	0.19%
Dallas TX GO Pension	AA	--	288,997	288,997 2	1.06%
Dorchester Co. MD	AA-	--	277,100	277,100 2	1.02%
Evansvill-Van. Sch	AA+	166,379	--	166,379 2	0.61%
Florida Hurricane Rev.	AA	253,668	--	253,668 2	0.93%
Hamilton NY GO	A1	194,499	--	194,499 2	0.71%
Jersey City NJ GO	A1	--	88,996	88,996 2	0.33%
Kentucky Asset/Liability RV	A	264,590	--	264,590 2	0.97%
Kentucky St. RV	A	105,718	--	105,718 2	0.39%
King & Snohomish Co.GO	AA+	--	166,623	166,623 2	0.61%
Lake Central Sch. GO	AA+	266,787	--	266,787 2	0.98%
Lake CNTY RV	AA+	60,627	--	60,627 2	0.22%
Leesburg VA GO	AAA	--	222,028	222,028 2	0.81%
Mass. St. Health RV	AAA	152,124	--	152,124 2	0.56%
Milwaukee Cnty, GO	AA	--	65,165	65,165 2	0.24%
Modesto CA Irr. Dst. RV	A+	--	34,682	34,682 2	0.13%
Nassau Cnty WIS GO	A+	--	182,266	182,266 2	0.67%
New Mexico St. Univ. RV	AA-	51,006	--	51,006 2	0.19%
North Hills PA Sch GO	AA-	53,474	--	53,474 2	0.20%
NYE Cnty NV GO	AA	--	278,598	278,598 2	1.02%
Ogden City REV	AA-	94,501	--	94,501 2	0.35%
Palm Beach Cnty FL RF	AA+	174,548	--	174,548 2	0.64%
Platteville WIS Sch GO	AA-	--	154,701	154,701 2	0.57%
Richmond CA WSTW RV	AA	--	55,870	55,870 2	0.20%
SalinaS VY CA SW RV	AA	--	167,170	167,170 2	0.61%
Scantron PA RED AU RV	AA	--	201,202	201,202 2	0.74%
St. Louis Co GO	AAA	38,603	--	38,603 2	0.14%
Torrington CONN GO	Aa3	109,495	--	109,495 2	0.40%
Vermont Mun REV	Aa2	206,332	--	206,332 2	0.76%
Total Investments		\$ 2,700,963	2,404,480	\$ 5,105,443	100.00%
Investment Earnings:					
Investment earnings				\$ 211,277	
Unrealized gain(loss) on investments				18,313	
				\$ 229,590	

*** Maturity 27 days, this weighted average maturity calculation uses the industry standard definition of stated maturity for floating rate instruments, the number of days until the next reset date.

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FOR THE YEAR ENDED AUGUST 31, 2016

3. Analysis of Specific Deposit and Investment Risks

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

a. Credit Risk

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

b. Custodial Credit Risk

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

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

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

c. Concentration of Credit Risk

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

d. Interest Rate Risk

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

e. Foreign Currency Risk

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

Investment Accounting Policy

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

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2016

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.

Lone Star

The Lone Star Investment Pool (Lone Star) is a public funds investment pool created pursuant to the Interlocal Cooperation Act, Texas Government Code, Chapter 791, and the Public Funds Investment Act, Texas Government Code, Chapter 2256. Lone Star is administered by First Public, a subsidiary of the Texas Association of School Boards (TASB), with Standish and American Beacon Advisors managing the investment and reinvestment of Lone Star's assets. State Street Bank provides custody and valuation services to Lone Star. All of the board of trustees' eleven members are Lone Star participants by either being employees or elected officials of a participant. Lone Star has established an advisory board composed of both pool members and non-members. Lone Star is rated AAA by Standard and Poor's and operated in a manner consistent with the the SEC's Rule 2a7 of the Investment Company Act of 1940. The District is invested in the Government Overnight Fund of Lone Star which seeks to maintain a net asset value of one dollar. Lone Star has 3 different funds: Government Overnight, Corporate Overnight and Corporate Overnight Plus. Government and Corporate Overnight maintain a net asset value of one dollar and the Corporate Overnight Plus maintains a net asset value of 50 cents.

D. Capital Assets

Capital asset activity for the year ended August 31, 2016, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 1,217,224	\$ --	\$ --	\$ 1,217,224
Total capital assets not being depreciated	1,217,224	--	--	1,217,224
<i>Capital assets being depreciated:</i>				
Buildings and improvements	165,339,855	--	--	165,339,855
Infrastructure	--	30,283	--	30,283
Equipment	6,610,390	131,424	--	6,741,814
Vehicles	4,645,992	--	--	4,645,992
Total capital assets being depreciated	176,596,237	161,707	--	176,757,944
Less accumulated depreciation for:				
Buildings and improvements	(43,970,752)	(3,933,284)	--	(47,904,036)
Infrastructure	--	(2,019)	--	(2,019)
Equipment	(5,905,880)	(219,038)	--	(6,124,918)
Vehicles	(2,424,925)	(236,304)	--	(2,661,229)
Total accumulated depreciation	(52,301,557)	(4,390,645)	--	(56,692,202)
Total capital assets being depreciated, net	124,294,680	(4,228,938)	--	120,065,742
Governmental activities capital assets, net	\$ 125,511,904	\$ (4,228,938)	\$ --	\$ 121,282,966

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FOR THE YEAR ENDED AUGUST 31, 2016

Depreciation was charged to functions as follows:

Instruction	\$ 2,517,128
Instructional Resources and Media Services	77,755
Curriculum and Staff Development	123,039
School Leadership	243,959
Guidance, Counseling, & Evaluation Services	169,011
Health Services	65,723
Student Transportation	105,713
Extracurricular Activities	203,349
General Administration	111,360
Plant Maintenance and Operations	696,604
Security and Monitoring Services	11,715
Data Processing Services	65,289
	<u>\$ 4,390,645</u>

E. Interfund Balances and Activities

1. Due To and From Other Funds

Balances due to and due from other funds at August 31, 2016, consisted of the following:

<u>Due To Fund</u>	<u>Due From Fund</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Other Governmental Funds	\$ 28,809	Short-term advances
General Fund	Debt Service Fund	159,695	Ad valorem tax allocations
Workers' Compensation	General Fund	2,024,711	Cost of service allocations
	Total	<u>\$ 2,213,215</u>	

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

2. Transfers To and From Other Funds

None.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2016

F. Long-Term Obligations

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, 2016, are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Governmental activities:					
General obligation bonds	\$ 106,262,532	\$ 70,415,000	\$ 77,814,015	\$ 98,863,517	\$ 4,578,519
Accumulated Accretion CAB's	3,184,741	198,396	1,385,985	1,997,152	--
Accounting loss on refunding	(2,219,028)	(4,944,081)	(401,067)	(6,762,042)	--
Premium on bonds	4,220,777	6,717,095	624,804	10,313,068	--
Compensated absences *	514,257	31,805	--	546,062	--
	<u>111,963,279</u>	<u>72,418,215</u>	<u>79,423,737</u>	<u>104,957,757</u>	<u>4,578,519</u>
Net Pension Liability *	3,463,718	5,931,087	726,145	8,668,660	--
Total governmental activities	<u>\$ 115,426,997</u>	<u>\$ 78,349,302</u>	<u>\$ 80,149,882</u>	<u>\$ 113,626,417</u>	<u>\$ 4,578,519</u>
Per Statement of Net Position					
Due within one year				\$ 4,578,519	
Due in more than one year				100,379,238	
				<u>\$ 104,957,757</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
Net Pension Liability *	Governmental	General

The following table displays total principal debt outstanding as of the year end.

Date of Issue	Issue	Interest Rates	Original Issue	Maturity Date	Debt Principal	Accumulated Accretion CAB's
4/15/08	Series 2008	4.0 to 5.0	\$ 60,000,000	2/15/2017	\$ 1,870,000	\$ --
6/1/09	Series 2009	3.25 to 3.5	45,697,538	2/15/2017	3,523,519	1,085,869
7/1/10	Series 2010	4.0 to 4.25	4,375,000	2/15/2019	1,420,000	--
10/1/13	Series 2013	2.75 to 5.0	7,415,000	2/15/2032	7,165,000	444,834
6/1/14	Series 2014	2.0 to 4.0	9,034,996	2/15/2032	7,120,000	--
6/1/15	Series 2015	2.25 to 4.0	9,015,000	2/15/2033	8,779,998	364,106
1/1/16	Series 2016	3.0 to 4.0	38,055,000	2/15/2033	37,275,000	102,343
7/1/16	Series 2016A	3.0 to 5.0	32,360,000	2/15/2034	31,710,000	--
					<u>\$ 98,863,517</u>	<u>\$ 1,997,152</u>

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2016

2. Debt Service Requirements

Debt service requirements on long-term debt at August 31, 2016, are as follows:

Year Ending August 31,	Governmental Activities		
	Principal	Interest	Total
2017	\$ 4,578,519	\$ 5,053,011	\$ 9,631,530
2018	5,045,000	3,490,662	8,535,662
2019	4,519,998	3,586,232	8,106,230
2020	4,490,000	3,016,117	7,506,117
2021	4,710,000	2,811,243	7,521,243
2022-2026	26,755,000	10,778,794	37,533,794
2027-2031	32,595,000	5,061,302	37,656,302
2032-2034	16,170,000	596,675	16,766,675
Totals	<u>\$ 98,863,517</u>	<u>\$ 34,394,036</u>	<u>\$ 133,257,553</u>

3. Advance Refunding of Debt

In January 2016, the District issued \$38 million in Unlimited Tax Refunding Bonds to refund a portion of the District's Series 2007 and 2008 bonds. The proceeds of the refunding bonds net of the related debt service costs amounted to \$40.3 million and were 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 \$7.15 million and realized a economic gain (difference between the present value of debt service payments on the old debt and the new debt) of \$5.73 million. The accounting loss (\$2.25 million) along with \$2.4 million in premium will be deferred and amortized over the life of the refunding bonds.

In July 2016, the District issued \$32.36 million in Unlimited Tax Refunding Bonds to refund a portion of the District's Series 2009 bonds. The proceeds of the refunding bonds net of the related debt service costs amounted to \$36.5 million and were 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 \$6.9 million and realized a economic gain (difference between the present value of debt service payments on the old debt and the new debt) of \$5.69 million. The accounting loss (\$2.69 million) along with \$4.3 million in premium will be deferred and amortized over the life of the refunding bonds.

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, 2016, 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
2005	\$ 950,000
2007	13,690,000
2008	46,955,000
2009	33,765,000
Total	<u>\$ 95,360,000</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 2016, 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.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2016

H. Pension Plan

1. Plan Description

The District participates in a cost-sharing multiple-employer defined benefit pension plan that has a special funding situation. The plan is administered by the Teacher Retirement System of Texas (TRS). TRS' defined benefit pension plan is established and administered in accordance with the Texas Constitution, Article XVI, Sec. 67, and Texas Government Code, Title 8, Subtitle C. The TRS pension trust fund is a qualified pension trust under section 401(a) of the Internal Revenue Code. The Texas Legislature establishes benefits and contribution rates within the guidelines of the Texas Constitution. The pension's Board of Trustees does not have the authority to establish or amend benefit terms.

All employees of public, state-supported educational institutions in Texas who are employed for one-half or more of the standard work load and who are not exempted from membership under Texas Government Code, Title 8, Section 822.002 are covered by the system.

2. Pension Plan Fiduciary Net Position

Detailed information about the TRS' fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at www.trs.state.tx.us/about/documents/cafr.pdf#CAFR; by writing to TRS at 1000 Red River Street, Austin, TX 78701-2698; or by calling (512) 542-6592.

3. Benefits Provided

TRS provides service and disability retirement, as well as death and survivor benefits, to eligible employees (and their beneficiaries) of public and higher education in Texas. The pension formula is calculated using 2.3 percent (multiplier) times the average of the five highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered, the three highest annual salaries are used. The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member's age and years of credited service equals 80 or more years. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member's age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered in under a previous rule. There are no automatic post-employment benefit changes, including automatic COLAs. Ad hoc post-employment benefit changes, including ad hoc COLAs, can be granted by the Texas Legislature, as noted in the plan description in (1.) above.

4. Contributions

Contribution requirements are established or amended pursuant to Article 16, section 67 of the Texas Constitution, which requires the Texas legislature to establish a member contribution rate of not less than 6% of the member's annual compensation and a state contribution rate of not less than 6% and not more than 10% of the aggregate annual compensation paid to members of the system during the fiscal year. Texas Government Code section 821.006 prohibits benefit improvements, if as a result of the particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or if the amortization period already exceeds 31 years, the period would be increased by such action.

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Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83rd Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 through 2017. The 83rd Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2014 and 2015. The 84th Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2016 and 2017.

	<u>Contribution Rates</u>	
	<u>2015</u>	<u>2016</u>
Member	6.7%	7.2%
Non-Employer Contributing Entity (NECE - State)	6.8%	6.8%
Employers	6.8%	6.8%
District's 2016 Employer Contributions	\$ 788,279	
District's 2016 Member Contributions	\$ 2,138,990	
NECE 2015 On-Behalf Contributions to District	\$ 1,564,713	

Contributors to the plan include members, employers and the State of Texas as the only non-employer contributing entity. The State is the employer for senior colleges, medical schools and state agencies including TRS. In each respective role, the State contributes to the plan in accordance with state statutes and the General Appropriations Act (GAA).

As the non-employer contributing entity for public education and junior colleges, the State of Texas contributes to the retirement system an amount equal to the current employer contribution rate times the aggregate annual compensation of all participating members of the TRS pension trust fund during that fiscal year reduced by the amounts described below which are paid by the employers. Employers (public school, junior college, other entities or the State of Texas as the employer for senior universities and medical schools) are required to pay the employer contribution rate in the following instances:

- On the portion of the member's salary that exceeds the statutory minimum for members entitled to the statutory minimum under Section 21.402 of the Texas Education Code.
- During a new member's first 90 days of employment.
- When any part or all of an employee's salary is paid by federal funding sources, a privately sponsored source, from non-educational and general, or local funds.
- When the employing district is a public junior college or junior college district, the employer shall contribute to the retirement system an amount equal to 50% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.

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FOR THE YEAR ENDED AUGUST 31, 2016

In addition to the employer contributions listed above, there are two additional surcharges an employer is subject to:

- When employing a retiree of the TRS the employer shall pay both the member contribution and the state contribution as an employment after retirement surcharge.
- When a school district or charter school does not contribute to the Federal Old-Age, Survivors and Disability Insurance (OASDI) Program for certain employees, they must contribute 1.5% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.

5. Actuarial Assumptions

The total pension liability in the August 31, 2015 actuarial evaluation was determined using the following actuarial assumptions:

Valuation Date	August 31, 2015
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Single Discount Rate	8%
Long-term expected Investment Rate of Return	8%
Inflation	2.5%
Salary Increases including inflation	3.5% to 9.5%
Payroll Growth Rate	2.5%
Benefit Changes during the year	None
Ad hoc post-employment benefit changes	None

The actuarial methods and assumptions are primarily based on a study of actual experience for the four year period ending August 31, 2014 and adopted on September 24, 2015.

6. Discount Rate

The discount rate used to measure the total pension liability was 8%. There was no change in the discount rate since the previous year. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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FOR THE YEAR ENDED AUGUST 31, 2016

The long-term rate of return on pension plan investments is 8%. The long-term expected rate of return on pension plan investments was determined using a building block method in which best estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2015 are summarized below:

Teacher Retirement System of Texas			
Asset Allocation and Long-Term Expected Real Rate of Return			
As of August 31, 2015			
	Target Allocation	Long-term Expected Geometric Real Rate of Return	Expected Contribution to Long-term Portfolio Returns *
Global Equity			
U.S.	18%	4.6%	1.0%
Non-U.S. Developed	13%	5.1%	0.8%
Emerging Markets	9%	5.9%	0.7%
Directional Hedge Funds	4%	3.2%	0.1%
Private Equity	13%	7.0%	1.1%
Stable Value			
U.S. Treasuries	11%	0.7%	0.1%
Absolute Return	0%	1.8%	0.0%
Hedge Funds (Stable Value)	4%	3.0%	0.1%
Cash	1%	-0.2%	0.0%
Real Return			
Global Inflat. Linked Bonds	3%	0.9%	0.0%
Real Assets	16%	5.1%	1.1%
Energy & Natural Resources	3%	6.6%	0.2%
Commodities	0%	1.2%	0.0%
Risk Parity			
Risk Parity	5%	6.7%	0.3%
Inflation Expectation			2.2%
Alpha			1.0%
Total	100%		8.7%

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

7. Discount Rate Sensitivity Analysis

The following schedule shows the impact of the net pension liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (8%) in measuring the 2015 net pension liability.

	1% Decrease in Discount Rate 7%	Discount Rate 8%	1% Increase in Discount Rate 9%
District's proportionate share of the net pension liability	\$ 13,582,148	\$ 8,668,660	\$ 4,576,020

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2016

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

At August 31, 2016, the District reported a liability of \$8,668,660 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related state support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the collective net pension liability	\$ 8,668,660
State's proportionate share of the net pension liability associated with the District	<u>18,673,867</u>
Total	<u>\$ 27,342,527</u>

The net pension liability was measured as of August 31, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2014 through August 31, 2015.

At August 31, 2015 the employer's proportion of the collective net pension liability was 0.0245233%. which was an increase (decrease) of 0.0115561% from its proportion measured as of August 31, 2014.

Changes Since the Prior Actuarial Valuation - The following are changes to the actuarial assumptions or other inputs that affected measurement of the total pension liability since the prior measurement period:

Economic Assumptions

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

Mortality Assumptions

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

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2016

Other Demographic Assumptions

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

Actuarial Methods and Policies

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

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

For the year ended August 31, 2016, the District recognized pension expense of \$2,660,726 and revenue of \$2,660,726 for support provided by the State.

At August 31, 2016, the District reported its proportionate share of the TRS' deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 44,551	\$ 333,144
Changes in actuarial assumptions	187,246	309,260
Difference between projected and actual investment earnings	1,340,908	--
Changes in proportion and differences between the District's contributions and the proportionate share of contributions	2,640,764	2,520
District contributions paid to TRS subsequent to the measurement date	4,213,469	644,924
	788,279	--
Total	\$ 5,001,748	\$ 644,924

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2016

The net amounts of the District's balances of deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended August 31	Pension Expense Amount
2017	\$ 654,064
2018	\$ 654,064
2019	\$ 654,066
2020	\$ 918,730
2021	\$ 382,226
Thereafter	\$ 305,395

I. Retiree Health Care Plans

1. TRS-Care

a. 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 under the TRS Publications heading, by writing to the Communications Department of the Teacher Retirement System of Texas at 1000 Red River Street, Austin, Texas 78701, or by calling the TRS Communications Department at 1-800-223-8778.

b. 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. Funding for free basic coverage is provided by the program based upon public school district payroll. 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. Funding for optional coverage is provided by those participants selecting the optional coverage. The State of Texas contribution rate was 1% for fiscal years 2016, 2015 and 2014. The active public school employee contributions rates were 0.65% of public school payroll, with school districts contributing a percentage of payroll set at 0.55% for fiscal years 2016, 2015 and 2014. For the years ended August 31, 2016, 2015, and 2014, the State's contributions to TRS-Care were \$297,282, \$282,273, and \$270,530, respectively, the active member contributions were \$193,103, \$183,477, and \$175,845, respectively, and the District's contributions were \$163,505, \$155,250, and \$148,792, respectively, which equaled the required contributions each year.

2. Medicare Part D Subsidies

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, 2016, 2015, and 2014, the subsidy payments received by TRS-Care on behalf of the District were \$114,279, \$114,865, and \$72,557, respectively.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2016

J. Employee Health Care Coverage

During the current fiscal year, employees of the District were covered by a statewide health insurance plan, TRS Active Care. The District paid premiums of \$341 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. The Teacher Retirement System of Texas (TRS) manages TRS Active Care. Administration is provided by Aetna.

The latest financial information on TRS Active Care is available from TRS (see note on pension plan).

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, 2016.

L. Tax Abatements

The District's Board of Trustees approved several Agreements with multiple companies for Limitations on Appraised Value of Property for School District Maintenance and Operations Taxes pursuant to the Chapter 313 of the Texas Tax Code, i.e., the Texas Economic Development Act, as set forth in Chapter 313 of the Texas Tax Code, as amended. Each company qualified for a tax limitation agreement under Texas Tax Code 313.024(b)(5), as a manufacturing project.

Value limitation agreements are a part of a state program, originally created in 2001, which allows school districts to limit the taxable value of an approved project for Maintenance and Operations (M&O) for a period of years specified in statute. The project(s) under the Chapter 313 agreement must be consistent with the state's goal to "encourage large scale capital investments in this state." Chapter 313 of the Texas Tax Code grants eligibility to companies engaged in manufacturing, research and development, renewable electric energy production, clean coal projects, nuclear power generation and data centers.

In order to qualify for a value limitation agreement, each applicant has been required to meet a series of capital investment, job creation, and wage requirements specified by state law. At the time of the application's approval, each of the agreements were deemed to have done so by both the District's Board of Trustees and the Texas Comptroller's Office, which recommended approval of the projects. The applications, agreements, and requisite state reporting documentation can be viewed at the Texas Comptroller's website:

<https://www.comptroller.texas.gov/economy/local/ch313/agreement-docs.php>

After approval, the applicant company must maintain a viable presence in the District for the entire period of the value limitation plus a period of years thereafter. In addition, there are specific reporting requirements, which are monitored on an annual and biennial basis in order to ensure relevant job, wage, and operational requirements are being met.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2016

In the event that an entity terminates this Agreement without the consent of the District, or in the event that the company or its successor-in-interest fails to comply in any material respect with the terms of this Agreement or to meet any material obligation under this Agreement, then the District shall be entitled to the recapture of all ad valorem tax revenue lost as a result of this Agreement together with the payment of penalty and interest, on that recaptured ad valorem tax revenue. Penalties on said amounts shall be calculated in accordance with the methodology set forth in Texas Tax Code 33.01(a), or its successor statute. Interest on said amounts shall be calculated in accordance with the methodology set forth in Texas Tax Code 33.01(c), or its successor statute. The Agreement provides an administrative procedure to determine any company liability. Ultimately, enforcement of any payment obligation is through the local state district court.

Following is the information relating to the agreements at year-end.

Project: Total Petrochemicals USA and Total Par LL (Application #136)

First Year Value Limitation: 2011

Fiscal Year: 2016

(A) Project Value 2016	(B) Project's Value Limitation Amount 2016	(C) Amount of Applicant's M&O Taxes Paid 2016	(D) Amount of Applicant's M&O Taxes Reduced 2016	(E) Company Revenue Loss Paymt to School District 2016	(F) Company Supplemental Payment To School District 2016	(G) Net Benefit (Loss) to the School District 2016 (C+E+F)
\$265,481,000	\$30,000,000	\$312,000	\$2,449,002.71	\$0	\$1,319,354.86	\$1,631,354.86

Project: Huntsman Petrochemical LLC (Application #267)

First Year Value Limitation: 2016

Fiscal Year: 2016

(A) Project Value 2016	(B) Project's Value Limitation Amount 2016	(C) Amount of Applicant's M&O Taxes Paid 2016	(D) Amount of Applicant's M&O Taxes Reduced 2016	(E) Company Revenue Loss Paymt to School District 2016	(F) Company Supplemental Payment To School District 2016	(G) Net Benefit (Loss) to the School District 2016 (C+E+F)
\$65,025,200	\$30,000,000	\$312,000	\$364,262.08	\$364,262	\$0	\$676,262

Project: Air Liquide Large Industries U.S., LP (Application #354)

First Year Value Limitation: 2017

Fiscal Year: 2016

(A) Project Value 2016	(B) Project's Value Limitation Amount 2016	(C) Amount of Applicant's M&O Taxes Paid 2016	(D) Amount of Applicant's M&O Taxes Reduced 2016	(E) Company Revenue Loss Paymt to School District 2016	(F) Company Supplemental Payment To School District 2016	(G) Net Benefit (Loss) to the School District 2016 (C+E+F)
\$100,182,000	N/A	\$1,041,892	N/A	N/A	N/A	\$1,041,892

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2016

Project: Total Petrochemicals Refining USA and Total Par LL (Application #1029)

First Year Value Limitation: 2020

Fiscal Year: 2016

(A) Project Value 2016	(B) Project's Value Limitation Amount 2016	(C) Amount of Applicant's M&O Taxes Paid 2016	(D) Amount of Applicant's M&O Taxes Reduced 2016	(E) Company Revenue Loss Paymt to School District 2016	(F) Company Supplemental Payment To School District 2016	(G) Net Benefit (Loss) to the School District 2016 (C+E+F)
\$0	N/A	N/A	N/A	N/A	N/A	\$0

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, 2016

Data Control Codes		1	2	3	Variance with Final Budget Positive (Negative)
		Budgeted Amounts			
		Original	Final	Actual	
REVENUES:					
5700	Local and Intermediate Sources	\$ 28,527,571	\$ 29,853,571	\$ 30,077,312	\$ 223,741
5800	State Program Revenues	10,675,383	11,675,383	11,282,122	(393,261)
5900	Federal Program Revenues	75,000	75,000	86,678	11,678
5020	Total Revenues	<u>39,277,954</u>	<u>41,603,954</u>	<u>41,446,112</u>	<u>(157,842)</u>
EXPENDITURES:					
Current:					
Instruction & Instructional Related Services:					
0011	Instruction	23,047,310	23,012,147	22,880,057	132,090
0012	Instructional Resources and Media Services	716,224	716,224	706,770	9,454
0013	Curriculum and Staff Development	1,176,639	1,175,419	1,118,393	57,026
	Total Instruction & Instr. Related Services	<u>24,940,173</u>	<u>24,903,790</u>	<u>24,705,220</u>	<u>198,570</u>
Instructional and School Leadership:					
0023	School Leadership	2,231,644	2,230,644	2,217,520	13,124
	Total Instructional & School Leadership	<u>2,231,644</u>	<u>2,230,644</u>	<u>2,217,520</u>	<u>13,124</u>
Support Services - Student (Pupil):					
0031	Guidance, Counseling and Evaluation Services	1,549,970	1,549,970	1,536,266	13,704
0033	Health Services	607,742	607,742	597,409	10,333
0034	Student (Pupil) Transportation	1,044,912	1,101,112	960,905	140,207
0036	Cocurricular/Extracurricular Activities	1,906,252	1,950,252	1,848,388	101,864
	Total Support Services - Student (Pupil)	<u>5,108,876</u>	<u>5,209,076</u>	<u>4,942,968</u>	<u>266,108</u>
Administrative Support Services:					
0041	General Administration	966,281	1,033,830	1,012,237	21,593
	Total Administrative Support Services	<u>966,281</u>	<u>1,033,830</u>	<u>1,012,237</u>	<u>21,593</u>
Support Services - Nonstudent Based:					
0051	Plant Maintenance and Operations	6,552,805	6,571,075	6,331,953	239,122
0052	Security and Monitoring Services	104,997	115,997	106,483	9,514
0053	Data Processing Services	601,794	601,794	593,463	8,331
	Total Support Services - Nonstudent Based	<u>7,259,596</u>	<u>7,288,866</u>	<u>7,031,899</u>	<u>256,967</u>
Intergovernmental Charges:					
0095	Payments to Juvenile Justice Alternative				
0095	Education Programs	36,000	36,000	36,000	--
0099	Other Intergovernmental Charges	324,245	324,245	289,876	34,369
	Total Intergovernmental Charges	<u>360,245</u>	<u>360,245</u>	<u>325,876</u>	<u>34,369</u>
6030	Total Expenditures	<u>40,866,815</u>	<u>41,026,451</u>	<u>40,235,720</u>	<u>790,731</u>

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

EXHIBIT G-1

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2016

Data Control Codes	1		2	3	Variance with Final Budget Positive (Negative)
	Budgeted Amounts			Actual	
	Original	Final			
1100 Excess (Deficiency) of Revenues Over (Under)					
1100 Expenditures	(1,588,861)	577,503		1,210,392	632,889
1200 Net Change in Fund Balance	(1,588,861)	577,503		1,210,392	632,889
0100 Fund Balance - Beginning	18,844,649	18,844,649		18,844,649	--
3000 Fund Balance - Ending	\$ 17,255,788	\$ 19,422,152		\$ 20,055,041	\$ 632,889

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE

SHARE OF THE NET PENSION LIABILITY

TEACHER RETIREMENT SYSTEM OF TEXAS

*LAST TEN FISCAL YEARS **

	Fiscal Year				
	2016	2015	2014	2013	2012
District's proportion of the net pension liability (asset)	0.0245233%	0.0129672%	--	--	--
District's proportionate share of the net pension liability (asset)	\$ 8,668,660	\$ 3,463,718	\$ --	\$ --	\$ --
State's proportionate share of the net pension liability (asset) associated with the District	18,673,867	16,118,283	--	--	--
Total	<u>\$ 27,342,527</u>	<u>\$ 19,582,001</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>
District's covered-employee payroll	\$ 28,227,303	\$ 27,053,033	\$ --	\$ --	\$ --
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	30.71%	12.80%	--	--	--
Plan fiduciary net position as a percentage of the total pension liability	78.43%	83.25%	--	--	--

* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this schedule provides the information only for those years for which information is available.

					Fiscal Year				
2011		2010		2009		2008		2007	
	--		--		--		--		--
\$	--	\$	--	\$	--	\$	--	\$	--
	--		--		--		--		--
\$	--	\$	--	\$	--	\$	--	\$	--
\$	--	\$	--	\$	--	\$	--	\$	--
	--		--		--		--		--
	--		--		--		--		--

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

*SCHEDULE OF DISTRICT CONTRIBUTIONS
TEACHER RETIREMENT SYSTEM OF TEXAS
LAST TEN FISCAL YEARS **

	Fiscal Year				
	2016	2015	2014	2013	2012
Contractually required contribution	\$ 788,279	\$ 726,146	\$ --	\$ --	\$ --
Contributions in relation to the contractually required contribution	(788,279)	(726,146)	--	--	--
Contribution deficiency (excess)	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>
District's covered-employee payroll	\$ 29,728,222	\$ 28,227,303	\$ --	\$ --	\$ --
Contributions as a percentage of covered-employee payroll	2.65%	2.57%	--	--	--

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

* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this schedule provides the information for those years for which information is available.

		Fiscal Year					
		2011	2010	2009	2008	2007	
\$	--	\$	--	\$	--	\$	--
	--		--		--		--
\$	--	\$	--	\$	--	\$	--
\$	--	\$	--	\$	--	\$	--
	--		--		--		--

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED AUGUST 31, 2016

Budget

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

- a. Prior to August 21 of the preceding fiscal year, the District prepares a budget for the next succeeding fiscal year. The operating budget includes proposed expenditures and the means of financing them.
- b. A meeting of the Board is then called for the purpose of adopting the proposed budget after ten days' public notice of the meeting has been given.
- c. Prior to the beginning of the fiscal year, the budget is legally enacted through passage of a resolution by the Board.

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

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

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

Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Texas law, appropriations lapse at August 31, and encumbrances outstanding at that time are to be either cancelled or appropriately provided for in the subsequent year's budget. There were no end-of-year outstanding encumbrances that were provided for in the subsequent year's budget.

Defined Benefit Pension Plan

Changes of benefit terms

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

Changes of assumptions

There were no changes of assumptions or other inputs that affected measurement of the total pension liability during the measurement period.

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, 2016*

Year Ended August 31	1		2		3	
	Tax Rates				Assessed/Appraised Value For School Tax Purposes	
	Maintenance		Debt Service			
2007 and Prior Years	\$	Various	\$	Various	\$	Various
2008		1.04		.1525		2,787,768,285
2009		1.04		.244		3,206,853,115
2010		1.04		.415		2,713,116,770
2011		1.04		.3965		2,602,981,065
2012		1.04		.3965		2,509,824,504
2013		1.04		.3481		2,631,336,575
2014		1.04		.3481		2,642,811,541
2015		1.04		.4044		2,425,173,531
2016 (School Year Under Audit)		1.04		.4044		2,458,412,016

1000 Totals

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

10 Beginning Balance 9/1/15	20 Current Year's Total Levy	31 Maintenance Collections	32 Debt Service Collections	40 Entire Year's Adjustments	50 Ending Balance 8/31/16
\$ 301,926	\$ --	\$ 2,274	\$ 183	\$ (99,419)	\$ 200,050
21,963	--	1,859	273	(1,068)	18,763
31,229	--	3,378	793	(1,268)	25,790
40,533	--	5,680	2,266	(1,460)	31,127
55,117	--	11,335	4,321	(1,840)	37,621
68,315	--	13,386	5,104	(2,669)	47,156
108,641	--	129,683	43,403	141,094	76,649
170,147	--	1,404,206	531,978	1,877,548	111,511
389,981	--	323,011	125,605	264,694	206,059
--	35,509,549	23,896,322	10,628,707	(635,877)	348,643
<u>\$ 1,187,852</u>	<u>\$ 35,509,549</u>	<u>\$ 25,791,134</u>	<u>\$ 11,342,633</u>	<u>\$ 1,539,735</u>	<u>\$ 1,103,369</u>
\$ --	\$ --	\$ --	\$ --	\$ --	\$ --

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

EXHIBIT J-2

NATIONAL SCHOOL BREAKFAST AND LUNCH PROGRAM
 BUDGETARY COMPARISON SCHEDULE
 FOR THE YEAR ENDED AUGUST 31, 2016

Data Control Codes	1	2	3
	Budget	Actual	Variance Positive (Negative)
REVENUES:			
5700 <i>Local and Intermediate Sources</i>	\$ 1,481,850	\$ 1,383,876	\$ (97,974)
5800 <i>State Program Revenues</i>	57,450	65,419	7,969
5900 <i>Federal Program Revenues</i>	1,130,901	1,154,540	23,639
5020 Total Revenues	<u>2,670,201</u>	<u>2,603,835</u>	<u>(66,366)</u>
EXPENDITURES:			
Current:			
Support Services - Student (Pupil):			
0035 <i>Food Services</i>	2,906,971	2,721,600	185,371
Total Support Services - Student (Pupil)	<u>2,906,971</u>	<u>2,721,600</u>	<u>185,371</u>
6030 Total Expenditures	<u>2,906,971</u>	<u>2,721,600</u>	<u>185,371</u>
1100 Excess (Deficiency) of Revenues Over (Under)			
1100 Expenditures	(236,770)	(117,765)	119,005
1200 Net Change in Fund Balance	(236,770)	(117,765)	119,005
0100 Fund Balance - Beginning	593,714	593,714	--
3000 Fund Balance - Ending	<u>\$ 356,944</u>	<u>\$ 475,949</u>	<u>\$ 119,005</u>

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

EXHIBIT J-3

DEBT SERVICE FUND
 BUDGETARY COMPARISON SCHEDULE
 FOR THE YEAR ENDED AUGUST 31, 2016

Data Control Codes	1	2	3
	Budget	Actual	Variance Positive (Negative)
REVENUES:			
5700 Local and Intermediate Sources	\$ 11,413,815	\$ 11,414,426	\$ 611
5800 State Program Revenues	244,000	271,369	27,369
5020 Total Revenues	<u>11,657,815</u>	<u>11,685,795</u>	<u>27,980</u>
EXPENDITURES:			
Debt Service:			
0071 Principal on Long-Term Debt	7,384,015	5,994,014	1,390,001
0072 Interest on Long-Term Debt	2,935,000	4,202,587	(1,267,587)
0073 Bond Issuance Costs and Fees	1,016,535	257,714	758,821
Total Debt Service	<u>11,335,550</u>	<u>10,454,315</u>	<u>881,235</u>
6030 Total Expenditures	<u>11,335,550</u>	<u>10,454,315</u>	<u>881,235</u>
1100 Excess (Deficiency) of Revenues Over (Under)			
1100 Expenditures	<u>322,265</u>	<u>1,231,480</u>	<u>909,215</u>
Other Financing Sources (Uses):			
7911 Capital-Related Debt Issued (Regular Bonds)	70,555,000	70,415,000	(140,000)
7916 Premium or Discount on Issuance of Bonds	7,336,282	6,717,095	(619,187)
7917 Prepaid Interest	21,880	-	(21,880)
8940 Payment to Bond Refunding Escrow Agent	(76,769,127)	(76,764,081)	5,046
7080 Total Other Financing Sources and (Uses)	<u>1,144,035</u>	<u>368,014</u>	<u>(776,021)</u>
1200 Net Change in Fund Balance	1,466,300	1,599,494	133,194
0100 Fund Balance - Beginning	1,461,836	1,461,836	--
3000 Fund Balance - Ending	<u>\$ 2,928,136</u>	<u>\$ 3,061,330</u>	<u>\$ 133,194</u>

WEST, DAVIS & COMPANY, LLP

11824 Jollyville Road, Suite 100

Austin, Texas 78759

Independent Auditors' Report on Internal Control over Financial Reporting and
On Compliance and Other Matters Based on an Audit of Financial Statements
Performed In Accordance With Government Auditing Standards

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

Members of the Board of Trustees:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Port Neches-Groves Independent School District, as of and for the year ended August 31, 2016, and the related notes to the financial statements, which collectively comprise Port Neches-Groves Independent School District's basic financial statements, and have issued our report thereon dated January 25, 2017.

Internal Control Over Financial Reporting

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

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

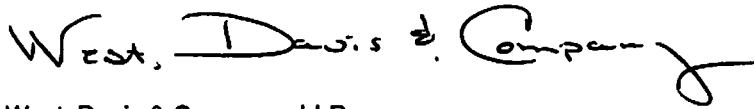
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Compliance and Other Matters

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

Purpose of this Report

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

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

West, Davis & Company, LLP
Austin, Texas
January 25, 2017

WEST, DAVIS & COMPANY, LLP

11824 Jollyville Road, Suite 100

Austin, Texas 78759

Independent Auditors' Report on Compliance for Each Major Program and on Internal
Control Over Compliance Required by the Uniform Guidance

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

Members of the Board of Trustees:

Report on Compliance for Each Major Federal Program

We have audited the Port Neches-Groves Independent School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on Port Neches-Groves Independent School District's major federal program for the year ended August 31, 2016. Port Neches-Groves Independent School District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Port Neches-Groves Independent School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Port Neches-Groves Independent School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Port Neches-Groves Independent School District's compliance.

Opinion on Each Major Federal Program

In our opinion, the Port Neches-Groves Independent School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended August 31, 2016.

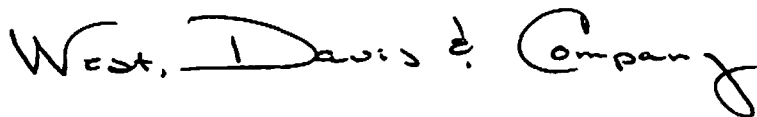
Report on Internal Control Over Compliance

Management of the Port Neches-Groves Independent School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Port Neches-Groves Independent School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Port Neches-Groves Independent School District's internal control over compliance.

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

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

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



West, Davis & Company, LLP
Austin, Texas
January 25, 2017

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2016

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

One or more material weaknesses identified? Yes No

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

Noncompliance material to financial statements noted? Yes No

2. Federal Awards

Internal control over major programs:

One or more material weaknesses identified? Yes No

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

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

Any audit findings disclosed that are required to be reported in accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200? Yes No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
	CHILD NUTRITION CLUSTER:
10.553	School Breakfast Program
10.555	Schools/Child Nutrition Commodity Program (Non-cash)
10.555	National School Lunch Program

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? Yes No

B. Financial Statement Findings

NONE

C. Federal Award Findings and Questioned Costs

NONE

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2016

EXHIBIT K-1

(1)	(2)	(2A)	(3)	(3)
Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass- Through Entity Identifying Number	Passed Through to Subrecipients	Federal Expenditures
CHILD NUTRITION CLUSTER:				
<i>U. S. Department of Agriculture</i>				
Passed Through State Department of Education:				
School Breakfast Program	10.553	71401601	\$ --	\$ 177,794
Schools/Child Nutrition Commodity Program (Non-cash)	10.555	00653	--	162,120
National School Lunch Program	10.555	71301601	--	814,626
Total CFDA Number 10.555			--	976,746
Total Passed Through State Department of Education			--	1,154,540
Total U. S. Department of Agriculture			--	1,154,540
Total Child Nutrition Cluster			--	1,154,540
SPECIAL EDUCATION (IDEA) CLUSTER:				
<i>U. S. Department of Education</i>				
Passed Through State Department of Education:				
<i>IDEA-B Formula</i>	84.027A	166600011239086000	--	812,287
<i>IDEA-B Discretionary</i>	84.027A	166600121239086000	--	245,177
<i>IDEA-B Formula</i>	84.027A	176600011239086000	--	36,547
Total CFDA Number 84.027A			--	1,094,011
<i>IDEA-B Preschool</i>	84.173A	166610011239086000	--	26,356
<i>IDEA-B Preschool</i>	84.173A	176610011239086000	--	1,723
Total CFDA Number 84.173A			--	28,079
Total Passed Through State Department of Education			--	1,122,090
Total U. S. Department of Education			--	1,122,090
Total Special Education (IDEA) Cluster			--	1,122,090
OTHER PROGRAMS:				
<i>U. S. Department of Education</i>				
Passed Through State Department of Education:				
<i>ESEA Title I Part A - Improving Basic Programs</i>	84.010A	16610101123908	--	605,895
<i>Career and Technical - Basic Grant</i>	84.048A	16420006123908	--	44,358
<i>Title III Part A English Language Acquisition and Language Enhancement</i>	84.365	16671001123908	--	18,129
Total CFDA Number 84.365			--	18,129
<i>ESEA Title II Part A - Teacher & Principal Training & Recruiting</i>	84.367A	16694501123908	--	115,347
<i>ESEA Title II Part A - Teacher & Principal Training & Recruiting</i>	84.367A	17694501123908	--	5,757
Total CFDA Number 84.367A			--	121,104
<i>LEP Summer School</i>	84.369A	69551602	--	1,165
Total CFDA Number 84.369A			--	1,165
Total Passed Through State Department of Education			--	790,651
Total U. S. Department of Education			--	790,651
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$	\$ 3,067,281

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, 2016

Basis of Presentation

A. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award grant activity of the District under programs of the federal government for the year. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the District.

B. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement. The District has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

C. Subrecipients

The District has no subrecipients.

D. Child Nutrition Cluster

The District commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the District assumes it expends federal monies first.

E. Food Donation Program

The District reports commodities consumed on the Schedule at the fair value. The District allocated donated food commodities to the respective program(s) [National School Lunch Program (Non-Cash)] that benefitted from the use of those donated food commodities.

F. Matching Requirements

Certain Federal programs require the District to contribute non-Federal funds (matching funds) to support the Federally-funded programs. The District has met its matching requirements. The Schedule does not include the expenditure of non-Federal matching funds.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REQUIRED RESPONSES TO SELECTED SCHOOL FIRST INDICATORS
AS OF AUGUST 31, 2016

Data Control Codes		Responses
SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning nonpayment of any terms of any debt agreement at fiscal year end?	No
SF4	Was there an unmodified opinion in the Annual Financial Report?	Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls over financial reporting and compliance for local, state or federal funds?	No
SF6	Was there any disclosure in the Annual Financial Report of material noncompliance for grants, contracts and laws related to local, state or federal funds?	No
SF7	Did the school district make timely payments to the Teachers Retirement System (TRS), Texas Workforce Commission (TWC), Internal Revenue Service (IRS), and other governmental agencies?	Yes
SF8	Did the school district <u>not</u> receive an adjusted repayment schedule for more than one fiscal year for an over allocation of Foundation School Program (FSP) funds as a result of a financial hardship?	Yes
SF10	What was the total accumulated accretion on capital appreciation bonds (CABs) included in government-wide financial statements at fiscal year-end?	\$ 1,997,152
SF11	Net Pension Assets (object 1920) at fiscal year-end.	\$ --
SF12	Net Pension Liabilities (object 2540) at fiscal year-end.	\$ 8,668,660
SF13	Pension Expense (object 6147) at fiscal year-end.	\$ 793,416