

West, Davis & Company

a limited liability partnership

December 29, 2009

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

We have audited the August 31, 2009, financial statements of the Port Neches-Groves Independent School District (the District) and have issued our report thereon dated December 29, 2009. Professional standards require that we provide you with the following information related to our audit. We will be pleased to discuss the contents of this letter or any related questions of the Board of Trustees at your convenience.

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

RESPONSIBILITY OF INDEPENDENT ACCOUNTANTS

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

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

REPORT ISSUED ON 2009 AUDIT

We have issued our report, dated December 29, 2009, on the August 31, 2009, financial statements of the District. Our report is unqualified as to scope and accounting.

INTERNAL ACCOUNTING CONTROL

We considered the internal control structure in order to gain a basic understanding of the internal control policies and procedures in order to design an effective and efficient audit approach, not for the purpose of providing assurance on the internal control structure. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We have separately issued our letter on internal control and accounting procedures dated December 29, 2009.

MANAGEMENT COOPERATION

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

ACCOUNTING PRINCIPLES

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

MANAGEMENT JUDGMENTS AND ACCOUNTING ESTIMATES

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

SIGNIFICANT AUDIT ADJUSTMENTS

We made prior period adjustments to properly state beginning accumulated accretion on capital appreciation bonds (CABs) in the amount of \$430,471 and bond interest payable in the amount of \$273,563. In addition, we made certain government-wide adjustments noted in the attached schedule titled, "Government-Wide Adjustment Journal." There were no uncorrected misstatements at August 31, 2009.

MAJOR ISSUES DISCUSSED WITH MANAGEMENT PRIOR TO RETENTION

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

DISAGREEMENTS WITH MANAGEMENT

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

CONSULTATION WITH OTHER ACCOUNTANTS

Management informed us that there were no consultations with other independent accountants regarding the application of accounting or auditing matters during 2009.

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

None.

Very truly yours,

West, Davis & Company

Adj Num	W.P. Ref	Class	Fund	Function	Object	Org.	Pr	Rev Fn	AW	Adjustment Amount	Adj Type	Account Description	Reconciliation Description	Reconcl. Name	Post Date	Post Time	Explanation or User Comment
1	C1	LI	199	0	2310	0	0			15,324	A	Deferred Revenue	Prop taxes not available	SNA2	10-Dec-2009	11:42 AM	TO ELIMINATE DEFERRED TAX REVENU
1	C1	RE	199	0	5711	0	0			(15,324)	A	Taxes, Cur. Yr. Lev	Property taxes not collected t	SOA7	10-Dec-2009	11:42 AM	TO ELIMINATE DEFERRED TAX REVENU
1	C1	LI	599	0	2310	0	0			1,516	A	Deferred Revenue	Prop taxes not available	SNA2	10-Dec-2009	11:42 AM	TO ELIMINATE DEFERRED TAX REVENU
1	C1	RE	599	0	5711	0	0			(1,516)	A	Taxes, Cur. Yr. Lev	Property taxes not collected t	SOA7	10-Dec-2009	11:42 AM	TO ELIMINATE DEFERRED TAX REVENU
2	CC1	LI	902	0	2510	0	0		110	3,025,000	A	Bonds Payable - Lc	L/T bonds payable	SNA5	10-Dec-2009	12:05 PM	TO ELIMINATE BOND PRINCIPAL PAYME
2	CC1	EX	902	71	6511	0	0			(3,025,000)	A	Bond Principal	Bond principal payments	SOA10	10-Dec-2009	12:05 PM	TO ELIMINATE BOND PRINCIPAL PAYME
3	CC1	LI	902	0	2141	0	0			4,728	A	Bond Interest Paya	L/T bond interest payable	SNA7	10-Dec-2009	12:05 PM	TO ACCRUE INTEREST ON BONDS
3	CC1	EX	902	71	6521	0	0			(4,728)	A	Interest on Bonds	Change in accrued interest	SOA15	10-Dec-2009	12:05 PM	TO ACCRUE INTEREST ON BONDS
3	PF IV 1	LI	902	0	2532	0	0			1,990	A	Vested Vacation Be	L/T compens. absences paya	SNA9	10-Dec-2009	12:05 PM	TO RECORD VESTED BENEFITS
3	E1	EX	902	11	6144	0	0			(1,990)	A	Teacher Retiremen	Compensated absences repo	SOA18	10-Dec-2009	12:05 PM	TO RECORD VESTED BENEFITS
3	CC1	EX	902	71	6521	1	0			1,546,367	A	Interest on Bonds	Accret. of interest on cap app	SOA14	10-Dec-2009	12:05 PM	TO RECORD ACCUMULATED ACCRETIO
3	PF IV 1	LI	902	0	2512	0	0		110	(1,546,367)	A	Accumulated Accre	L/T contracts payable	SNA10	10-Dec-2009	12:05 PM	TO RECORD ACCUMULATED ACCRETIO
4	E1	AS	902	0	1410	0	0			0	A	Deferred Expenditu	L/T assets deferred in the fun	SNA12	10-Dec-2009	12:05 PM	TO RECORD PPD INSURANCE
4	E1	EX	902	51	6429	0	0			0	A	Insurance and Bond	Expenses not using cur resou	SOA9	10-Dec-2009	12:05 PM	TO RECORD PPD INSURANCE
5	D1.5	AS	901	0	1539	0	0		100	90,303	A	Furn. & Equip.	gov cap assets not in the func	SNA1	17-Dec-2009	02:22 AM	TO ELIMINATE CAP OUTLAY & RECORD
5	D1.5	AS	901	0	1520	0	0		100	51,538	A	Bldgs. & Improvem	gov cap assets not in the func	SNA1	17-Dec-2009	02:22 AM	TO ELIMINATE CAP OUTLAY & RECORD
5	D1.5	AS	901	0	1531	0	0		100	209,406	A	Vehicles	gov cap assets not in the func	SNA1	17-Dec-2009	02:22 AM	TO ELIMINATE CAP OUTLAY & RECORD
5	D1.5	AS	901	0	1580	0	0		100	45,107,159	A	Construction in Pro	gov cap assets not in the func	SNA1	17-Dec-2009	02:22 AM	TO ELIMINATE CAP OUTLAY & RECORD
5	D1.5	EX	901	81	6631	0	0			(45,412,805)	A	Vehicles	Cap. outlay not in SOA	SOA1	17-Dec-2009	02:22 AM	TO ELIMINATE CAP OUTLAY & RECORD
5	D1.5	EX	901	81	6629	0	0			0	A	Bldg. Purch., Const	Cap. outlay not in SOA	SOA1	17-Dec-2009	02:22 AM	TO ELIMINATE CAP OUTLAY & RECORD
5	D1.5	EX	901	51	6631	0	0			486,995	A	Vehicles	Cap. outlay not in SOA	SOA1	17-Dec-2009	02:22 AM	TO ELIMINATE CAP OUTLAY & RECORD
5	D1.5	EX	901	53	6629	0	0			(74,734)	A	Bldg. Purch., Const	Cap. outlay not in SOA	SOA1	17-Dec-2009	02:22 AM	TO ELIMINATE CAP OUTLAY & RECORD
5	D1.5	EX	901	34	6629	0	0			(185,030)	A	Bldg. Purch., Const	Cap. outlay not in SOA	SOA1	17-Dec-2009	02:22 AM	TO ELIMINATE CAP OUTLAY & RECORD
5	D1.5	EX	901	11	6629	0	0			(225,846)	A	Bldg. Purch., Const	Cap. outlay not in SOA	SOA1	17-Dec-2009	02:22 AM	TO ELIMINATE CAP OUTLAY & RECORD
5	D1.5	EX	901	36	6629	0	0			(46,986)	A	Bldg. Purch., Const	Cap. outlay not in SOA	SOA1	17-Dec-2009	02:22 AM	TO ELIMINATE CAP OUTLAY & RECORD
6	D1.5	AS	901	0	1539	0	0		100	0	A	Furn. & Equip.	gov cap assets not in the func	SNA1	17-Dec-2009	02:22 AM	TO RECORD DELETIONS
6	D1.5	EX	901	53	6488	0	0			0	A	Depreciation Exper	Cap asset gain or loss on sale	SOA4	17-Dec-2009	02:22 AM	TO RECORD PPD INSURANCE
6	D1.5	AS	901	0	1573	0	0		100	0	A	Accum. Deprec. - F	gov cap assets not in the func	SNA1	17-Dec-2009	02:22 AM	TO RECORD DELETIONS
7	F1.15	AS	901	0	1571	0	0		100	(1,239,052)	A	Accum. Deprec. - B	gov cap assets not in the func	SNA1	17-Dec-2009	02:22 AM	TO RECORD DEPRECIATION EXPENSE
7	F1.15	AS	901	0	1572	0	0		100	(171,056)	A	Accum. Deprec. - V	gov cap assets not in the func	SNA1	17-Dec-2009	02:22 AM	TO RECORD DEPRECIATION EXPENSE
7	F1.15	AS	901	0	1573	0	0		100	(187,278)	A	Accum. Deprec. - F	gov cap assets not in the func	SNA1	17-Dec-2009	02:22 AM	TO RECORD DEPRECIATION EXPENSE
7	F1.15	EX	901	11	6499	0	0			915,130	A	Misc. Operating Co	Deprec. in SOA	SOA2	17-Dec-2009	02:22 AM	TO RECORD DEPRECIATION EXPENSE
7	F1.15	EX	901	12	6499	0	0			34,288	A	Misc. Operating Co	Deprec. in SOA	SOA2	17-Dec-2009	02:22 AM	TO RECORD DEPRECIATION EXPENSE
7	F1.15	EX	901	13	6499	0	0			40,120	A	Misc. Operating Co	Deprec. in SOA	SOA2	17-Dec-2009	02:22 AM	TO RECORD DEPRECIATION EXPENSE
7	F1.15	EX	901	23	6499	0	0			79,351	A	Misc. Operating Co	Deprec. in SOA	SOA2	17-Dec-2009	02:22 AM	TO RECORD DEPRECIATION EXPENSE
7	F1.15	EX	901	31	6499	0	0			65,368	A	Misc. Operating Co	Deprec. in SOA	SOA2	17-Dec-2009	02:22 AM	TO RECORD DEPRECIATION EXPENSE
7	F1.15	EX	901	32	6499	0	0			2,296	A	Misc. Operating Co	Deprec. in SOA	SOA2	17-Dec-2009	02:22 AM	TO RECORD DEPRECIATION EXPENSE
7	F1.15	EX	901	33	6499	0	0			25,890	A	Misc. Operating Co	Deprec. in SOA	SOA2	17-Dec-2009	02:22 AM	TO RECORD DEPRECIATION EXPENSE
7	F1.15	EX	901	34	6499	0	0			31,652	A	Misc. Operating Co	Deprec. in SOA	SOA2	17-Dec-2009	02:22 AM	TO RECORD DEPRECIATION EXPENSE
7	F1.15	EX	901	36	6499	0	0			74,314	A	Misc. Operating Co	Deprec. in SOA	SOA2	17-Dec-2009	02:22 AM	TO RECORD DEPRECIATION EXPENSE
7	F1.15	EX	901	41	6499	0	0			46,421	A	Misc. Operating Co	Deprec. in SOA	SOA2	17-Dec-2009	02:22 AM	TO RECORD DEPRECIATION EXPENSE
7	F1.15	EX	901	51	6499	0	0			259,345	A	Misc. Operating Co	Deprec. in SOA	SOA2	17-Dec-2009	02:22 AM	TO RECORD DEPRECIATION EXPENSE
7	F1.15	EX	901	52	6499	0	0			3,345	A	Misc. Operating Co	Deprec. in SOA	SOA2	17-Dec-2009	02:22 AM	TO RECORD DEPRECIATION EXPENSE
7	CC2	EX	901	53	6499	0	0			19,866	A	Misc. Operating Co	Deprec. in SOA	SOA2	17-Dec-2009	02:22 AM	TO RECORD DEPRECIATION EXPENSE
8	CC2	LI	902	0	2531	0	0		110	0	A	Capital Leases Pay	L/T capital leases payable	SNA6	10-Dec-2009	12:05 PM	TO ELIMINATE CAP LEASE PRINCIPAL P
8	CC2	EX	902	71	6512	0	0			0	A	Debt Service: Capit	Capital lease principal payme	SOA11	10-Dec-2009	12:05 PM	TO ELIMINATE CAP LEASE PRINCIPAL P
9	WTB	OR	902	0	7912	0	0			3,420	A	Sale of Real & Pers	Unrelated to reconciliations	None	10-Dec-2009	12:05 PM	TO NET INS PROCEEDS AND RE COSTS
9	WTB	OR	902	0	7917	0	0			52,563	A	Prepaid Interest	Unrelated to reconciliations	None	10-Dec-2009	12:05 PM	TO NET INS PROCEEDS AND RE COSTS
9	WTB	RE	902	0	5742	0	0			(52,563)	A	Earnings from Tem	Unrelated to reconciliations	None	10-Dec-2009	12:05 PM	TO NET INS PROCEEDS AND RE COSTS
9	WTB	RE	902	0	5749	0	0			(3,420)	A	Other Revenues frc	Unrelated to reconciliations	None	10-Dec-2009	12:05 PM	TO NET INS PROCEEDS AND RE COSTS
10	CC2	LI	902	0	2516	0	0			83,550	A	Premium & Discour	Assessments receiv. deferred	SNA16	10-Dec-2009	12:05 PM	TO AMORTIZED BOND PREMIUM
10	CC2	AS	902	0	1420	0	0			908,410	A	Capitalized Bond ar	Joint venture equity not in fun	SNA17	10-Dec-2009	12:05 PM	TO AMORTIZED BOND ISSUANCE COSTS
10	CC2	AS	902	0	1420	0	0			(36,336)	A	Capitalized Bond ar	Joint venture equity not in fun	SNA17	10-Dec-2009	12:05 PM	TO AMORTIZED BOND ISSUANCE COSTS
10	CC2	RE	902	0	5748	1	0			(83,550)	A	Other Revenues frc	Bond premiums not in SOA	SOA29	10-Dec-2009	12:05 PM	TO AMORTIZED BOND PREMIUM
10	CC2	EX	902	71	6599	2	0			(908,410)	A	Other Debt Service	Bond issuance cost amortizat	SOA13	10-Dec-2009	12:05 PM	TO AMORTIZED BOND ISSUANCE COSTS

Adj Num	W.P. Ref	Class	Fund	Function	Object	Org.	Pr	Rev Fn	AW	Adjustment Amount	Adj Type	Account Description	Reconciliation Description	Reconcil. Name	Post Date	Post Time	Explanation or User Comment
10	CC2	EX	902	71	6599	2	0			36,336	A	Other Debt Service	Bond issuance cost amortizat	SOA13	10-Dec-2009	12:05 PM	TO AMORTIZED BOND ISSUANCE COSTS
10	CC2	LI	902	0	2511	0	0			0	A	Deferred Gain/Loss	Ambulance receiv. deferred ir	SNA15	10-Dec-2009	12:05 PM	TO AMORTIZED BOND PREMIUM
10	CC2	EX	902	71	6599	3	0			0	A	Other Debt Service	Lease proceeds not revenue	SOA31	10-Dec-2009	12:05 PM	TO AMORTIZED LOSS ON REFUNDING
10	CC2	LI	902	0	2510	0	0		110	0	A	Bonds Payable - Lc	L/T bonds payable	SNA5	10-Dec-2009	12:05 PM	TO ELIMINATE BOND PROCEEDS
10	CC2	OR	902	0	7911	0	0			45,697,538	A	Issuance of Bonds	Bond proceeds not revenue ir	SOA28	10-Dec-2009	12:05 PM	TO ELIMINATE BOND PROCEEDS
10	CC2	OR	902	0	7901	0	0			0	A	Refunding Bonds Is	Bond proceeds not revenue ir	SOA28	10-Dec-2009	12:05 PM	TO ELIMINATE BOND PROCEEDS
10	CC2	LI	902	0	2510	0	0		110	(45,697,538)	A	Bonds Payable - Lc	L/T bonds payable	SNA5	10-Dec-2009	12:05 PM	TO ELIMINATE BOND PROCEEDS
10	CC2	LI	902	0	2511	0	0			0	A	Deferred Gain/Loss	Ambulance receiv. deferred ir	SNA15	10-Dec-2009	12:05 PM	TO ELIMINATE BOND PROCEEDS
10	CC2	OU	902	0	8940	0	0			0	A	Payment to Bond R	Change in joint vent. equity n	SOA32	10-Dec-2009	12:05 PM	TO ELIMINATE TRANSFERS TO ESCROW
10	CC2	LI	902	0	2516	0	0			(1,318,403)	A	Premium & Discou	Assessments receiv. deferred	SNA16	10-Dec-2009	12:05 PM	TO ELIMINATE BOND PROCEEDS
10	CC2	OR	902	0	7916	0	0			1,318,403	A	Premium or Discou	Bond premiums not in SOA	SOA29	10-Dec-2009	12:05 PM	TO ELIMINATE BOND PROCEEDS
10	CC2	OR	902	0	7916	0	0			0	A	Premium or Discou	Bond premiums not in SOA	SOA29	10-Dec-2009	12:05 PM	TO ELIMINATE BOND PROCEEDS
10	CC2	AS	902	0	1420	0	0			0	A	Capitalized Bond ai	Joint venture equity not in fun	SNA17	10-Dec-2009	12:05 PM	TO ELIMINATE BOND PROCEEDS
10	CC2	EX	902	71	6599	1	0			0	A	Other Debt Service	Bond issuance cost amortizat	SOA13	10-Dec-2009	12:05 PM	TO ELIMINATE BOND PROCEEDS
10	CC2	EX	902	71	6599	1	0			0	A	Other Debt Service	Bond issuance cost amortizat	SOA13	10-Dec-2009	12:05 PM	TO ELIMINATE BOND PROCEEDS
10	CC2	OR	902	0	7913	0	0			0	A	Proceeds from Cap	Bond premiums not in SOA	SOA29	10-Dec-2009	12:05 PM	TO ELIMINATE CAPITAL LEASE PROCEE
10	CC2	LI	902	0	2531	0	0		110	0	A	Capital Leases Pay	L/T capital leases payable	SNA6	10-Dec-2009	12:05 PM	TO ELIMINATE CAPITAL LEASE PROCEE
10	CC2	EX	902	71	6599	1	0			0	A	Other Debt Service	Bond issuance cost amortizat	SOA13	10-Dec-2009	12:05 PM	TO ELIMINATE CAP LEASE PRINCIPAL P
11	CC	EQ	901	0	3860	0	0			59,033,387	A	Restricted Net Ass	Unrelated to reconciliations	None	17-Dec-2009	02:22 AM	TO RECLASS CAP PROJECTS EQUITY
11	CC	EQ	901	0	3900	0	0			(59,033,387)	A	Unrestricted Net As	Unrelated to reconciliations	None	17-Dec-2009	02:22 AM	TO RECLASS CAP PROJECTS EQUITY
NA	ISF lookb	RE	753	0	5742	0	0			33	X	Earnings from Tem	Unrelated to reconciliations	None			Lookback- remove all net income (NI)
NA	ISF lookb	RE	753	0	5749	0	0			417,709	X	Other Revenues frc	Unrelated to reconciliations	None			Lookback- remove all net income (NI)
NA	ISF lookb	EX	753	33	6429	0	99			(197,581)	X	Insurance and Bon	Unrelated to reconciliations	None			Lookback- remove all net income (NI)
NA	ISF lookb	EX	753	11	0	0	0			(220,162)	X	Generic Object Coc	Internal serv net rev - all gov	SOA17			Lookback-change expense by NI

**PORT NECHES-GROVES
INDEPENDENT SCHOOL DISTRICT**

LETTER ON INTERNAL CONTROL
AND ACCOUNTING PROCEDURES

AUGUST 31, 2009

West, Davis & Company

a limited liability partnership

December 29, 2009

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

Members of the Board:

We have audited the financial statements of Port Neches-Groves Independent School District (the District) for the fiscal year ended August 31, 2009, and have issued our report thereon dated December 29, 2009. In planning and performing our audit of the District's financial statements, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure. We have not considered the internal control structure since the date of our report.

CURRENT YEAR RECOMMENDATIONS

Finding: We noted that the required "Application for Fund Raising Project" includes projected costs and net profit but does not included actual results.

Recommendation: We recommend that this form be modified to include actual results on completion of the fundraiser. This would include all actual costs and a listing of all related deposits of proceeds. The report would then be dated and signed by the Sponsor and Principal.

This report is intended solely for the information and use of the Board of Trustees and management of the District. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

We wish to take this opportunity to express our appreciation for the assistance and cooperation given to members of our professional staff during the course of our audit. We will be glad to discuss any questions concerning our comments and recommendations at your convenience.

Very truly yours,


West, Davis & Company, LLP

PORT NECHES-GROVES
INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED AUGUST 31, 2009

Port Neches-Groves Independent School District
Annual Financial Report
For The Year Ended August 31, 2009

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Port Neches-Groves Independent School District
Annual Financial Report
For The Year Ended August 31, 2009

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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, 2009, at a meeting of the board of trustees of such school district on the 12th day of January, 2010.

Carol Broussard
Signature of Board Secretary

Lava Parker
Signature of Board President

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

Financial Section

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

Independent Auditor's Report on Financial Statements

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

Members of the Board of Trustees:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Port Neches-Groves Independent School District as of and for the year ended August 31, 2009, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Port Neches-Groves Independent School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Port Neches-Groves Independent School District as of August 31, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 2009, on our consideration of Port Neches-Groves Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

A-133, *Audits of States, Local Governments and Non-Profit Organizations* and the supporting schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information, except for that portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



West, Davis & Company, LLP
December 29, 2009

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, 2009. Please read it in conjunction with the independent auditors' report on page 2, and the District's Basic Financial Statements, which begin on page 10. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

USING THIS ANNUAL REPORT

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

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

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

Reporting the District as a Whole

The Statement of Net Assets and the Statement of Activities

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

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

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

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

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

Reporting the District's Most Significant Funds

Fund Financial Statements

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

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

The District as Trustee

Reporting the District's Fiduciary Responsibilities

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Net assets of the District's governmental activities decreased from \$37.2 million to \$36.8 million. Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – were \$16.2 million at August 31, 2009. This decrease in governmental net assets was the result of prior period adjustments discussed Note M to the financial statements.

Table I
Port Neches-Groves Independent School District

NET ASSETS
in thousands

	Governmental Activities	
	2009	2008
Current and other assets	94,830	88,271
Capital assets	99,507	55,646
Total assets	<u>194,337</u>	<u>143,917</u>
Long-term liabilities	142,152	96,144
Other liabilities	15,405	10,620
Total liabilities	<u>157,557</u>	<u>106,764</u>
Net Assets:		
Invested in capital assets net of related debt	19,439	17,147
Restricted	1,147	1,459
Unrestricted	16,194	18,547
Total net assets	<u>36,780</u>	<u>37,153</u>

Table II
Port Neches-Groves Independent School District

CHANGES IN NET ASSETS
in thousands

	Governmental Activities	
	2009	2008
Revenues:		
Program Revenues:		
Charges for Services	1,577	1,673
Operating grants and contributions	3,075	4,606
General Revenues:		
Maintenance and operations taxes	33,513	29,440
Debt Service taxes	8,296	4,622
State aid - formula grants	9,284	6,935
Investment Earnings	902	1,900
Miscellaneous	3,069	1,986
Total Revenue	<u>59,716</u>	<u>51,162</u>
Expenses:		
Instruction, curriculum and media services	24,389	23,590
Instructional and school leadership	1,815	1,719
Student support services	2,864	2,585
Child nutrition	2,348	2,087
Extracurricular activities	1,658	1,476
General administration	1,060	966
Plant maintenance and security	6,488	6,004
Data processing services	612	389
Debt services	7,220	2,181
Payments related to shared services	10,406	8,965
Other Intergovernmental charges	525	580
Total Expenses	<u>59,385</u>	<u>50,542</u>
Increase in net assets	<u>331</u>	<u>620</u>
Net assets at Beginning	37,153	36,533
Prior Period Adjustment	(704)	-
Net Assets – Beginning, as Restated	<u>36,449</u>	<u>36,553</u>
Net assets at Ending	<u>36,780</u>	<u>37,153</u>

THE DISTRICT'S FUNDS

As the District completed this annual period, its governmental funds (as presented in the balance sheet on page 12) reported a combined fund balance of \$75.7 million, which is \$0.8 million more than last year's total of \$74.9 million.

Included in this year's total change in fund balance is a decrease of \$0.2 million in the District's General Fund. Total actual expenditures were \$2.9 million less than budgeted. Several factors contributed to the savings. Over the course of the year, the Board of Trustees revised the District's General Fund budget. One reason for the increase was due to expenditures associated with Hurricane Ike. The district received reimbursement assistance from the federal government for the expenditures the district made for damages to the school buildings. These expenditures were originally charged to the General Fund then were subsequently moved to a special revenue fund where the federal reimbursements were reported. Recapture payments for student attendance credits were also less by \$500 thousand due to an increase in WADA from more students on free lunch from Hurricane Ike. State revenues were \$0.5 million more than budget due to an increase in state funding from additional enrollment.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2009, the District had \$137.2 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 \$138.1 million in bonds outstanding versus \$95.4 million last year. During the current year the District issued an additional \$45.7 million in debt. 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 elected and appointed officials considered many factors when setting the fiscal-year 2010 budget and tax rates. Those factors include declining property values, changes in enrollment, attendance rates and patterns, the local and state economy, and legislative mandates.

Budgeted local revenues are decreased from fiscal year 2009 by \$6.6 million for a major devaluation of the district's number one taxpayer of over \$400 million. The state will keep the district whole for maintenance and operations under the current funding formula for this major decrease in value. This is reflected by a large decrease in budgeted expenditures for fiscal year 2010 of \$5.4 million reduction in appropriations from fiscal year 2009 due to a decrease in recapture payments the district makes to the state for purchase of attendance credits. A deficit of \$4 million is projected for fiscal year 2010. Efforts are being made to reduce this projected deficit. Future enrollment is projected at a slight decrease from 2008-2009. District administrative staff is working to maximize use of available grants provided by the federal government through stimulus funding. The district is also looking at the absorption of positions through attrition. Other cost cutting measures are being explored to reduce expenditures while searching for additional revenue sources.

The district is completing three major construction projects funded with bond proceeds. The debt service tax rate will increase to meet the needs of the district's bond payments.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

Basic Financial Statements

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

STATEMENT OF NET ASSETS

AUGUST 31, 2009

Data Control Codes	1	Governmental Activities
ASSETS:		
1110	<i>Cash and Cash Equivalents</i>	\$ 1,749,898
1120	<i>Current Investments</i>	90,437,990
1225	<i>Property Taxes Receivable (Net)</i>	958,933
1240	<i>Due from Other Governments</i>	127,339
1290	<i>Other Receivables (Net)</i>	13,351
1300	<i>Inventories</i>	57,998
1410	<i>Deferred Expenses</i>	612,364
1420	<i>Capitalized Bond and Other Debt Issuance Costs</i>	872,074
Capital Assets:		
1510	<i>Land</i>	1,217,226
1520	<i>Buildings and Improvements, Net</i>	31,372,442
1530	<i>Furniture and Equipment, Net</i>	2,604,533
1580	<i>Construction in Progress</i>	64,312,721
1000	Total Assets	<u>194,336,869</u>
LIABILITIES:		
2110	<i>Accounts Payable</i>	10,657,239
2140	<i>Interest Payable</i>	268,835
2165	<i>Accrued Liabilities</i>	1,920,109
2180	<i>Due to Other Governments</i>	2,341,859
2300	<i>Unearned Revenue</i>	216,841
Noncurrent Liabilities:		
2501	<i>Due Within One Year</i>	4,519,653
2502	<i>Due in More Than One Year</i>	137,632,555
2000	Total Liabilities	<u>157,557,091</u>
NET ASSETS		
3200	Invested in Capital Assets, Net of Related Debt	19,439,073
Restricted For:		
3850	Debt Service	706,842
3890	Food Services	440,091
3900	Unrestricted	16,193,772
3000	Total Net Assets	<u>\$ 36,779,778</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, 2009

Data Control Codes	Functions/Programs	1 Expenses	3 Program Revenues		4 Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
			Charges for Services	Governmental Activities		
	Governmental Activities:					
11	<i>Instruction</i>	\$ 22,618,326	\$ 30,815	\$ 2,161,549	\$ (20,425,962)	
12	<i>Instructional Resources and Media Services</i>	783,260	--	--	(783,260)	
13	<i>Curriculum and Staff Development</i>	987,506	--	70,996	(916,510)	
23	<i>School Leadership</i>	1,815,093	--	--	(1,815,093)	
31	<i>Guidance, Counseling, & Evaluation Services</i>	1,493,248	--	--	(1,493,248)	
32	<i>Social Work Services</i>	52,452	--	--	(52,452)	
33	<i>Health Services</i>	591,424	--	--	(591,424)	
34	<i>Student Transportation</i>	726,543	--	--	(726,543)	
35	<i>Food Service</i>	2,347,786	1,377,637	626	(969,523)	
36	<i>Cocurricular/Extracurricular Activities</i>	1,657,604	159,421	842,180	(656,003)	
41	<i>General Administration</i>	1,060,422	--	--	(1,060,422)	
51	<i>Plant Maintenance and Operations</i>	6,411,354	9,031	--	(6,402,323)	
52	<i>Security and Monitoring Services</i>	76,407	--	--	(76,407)	
53	<i>Data Processing Services</i>	611,881	--	--	(611,881)	
72	<i>Interest on Long-term Debt</i>	7,171,958	--	--	(7,171,958)	
73	<i>Bond Issuance Costs and Fees</i>	47,799	--	--	(47,799)	
91	<i>Contracted Instructional Services between Schools</i>	10,359,935	--	--	(10,359,935)	
95	<i>Payments to Juvenile Justice Alternative Ed. Programs</i>	47,250	--	--	(47,250)	
99	<i>Other Intergovernmental Charges</i>	524,689	--	--	(524,689)	
TG	Total Governmental Activities	<u>59,384,937</u>	<u>1,576,904</u>	<u>3,075,351</u>	<u>(54,732,682)</u>	
TP	Total Primary Government	<u>\$ 59,384,937</u>	<u>\$ 1,576,904</u>	<u>\$ 3,075,351</u>	<u>(54,732,682)</u>	
	General Revenues:					
MT	<i>Property Taxes, Levied for General Purposes</i>				33,513,142	
DT	<i>Property Taxes, Levied for Debt Service</i>				8,295,730	
IE	<i>Investment Earnings</i>				901,907	
GC	<i>Grants and Contributions Not Restricted to Specific Programs</i>				9,284,128	
MI	<i>Miscellaneous</i>				3,068,446	
TR	Total General Revenues				<u>55,063,353</u>	
CN	Change in Net Assets				330,671	
NB	Net Assets - Beginning				37,153,141	
PA	Prior Period Adjustment				(704,034)	
	Net Assets - Beginning, as Restated				36,449,107	
NE	Net Assets - Ending				<u>\$ 36,779,778</u>	

The accompanying notes are an integral part of this statement.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS

AUGUST 31, 2009

Data Control Codes	10 General Fund	50 Debt Service Fund
ASSETS:		
1110	\$ 2,500	\$ 20,728
1120	19,649,818	670,789
1225	861,694	97,239
1240	6,431	--
1260	24,335	--
1290	10,718	2,633
1300	--	--
1410	612,364	--
1000	<u>\$ 21,167,860</u>	<u>\$ 791,389</u>
LIABILITIES:		
Current Liabilities:		
2110	\$ 452,689	\$ --
2150	54,008	--
2160	1,481,130	--
2170	1,272,669	--
2180	2,341,546	--
2200	116,984	--
2300	998,325	86,063
2000	<u>6,717,351</u>	<u>86,063</u>
FUND BALANCES:		
Reserved Fund Balances:		
3410	--	--
3420	--	705,326
3440	--	--
3450	--	--
3470	--	--
3600	14,450,509	--
3000	<u>14,450,509</u>	<u>705,326</u>
4000	<u>\$ 21,167,860</u>	<u>\$ 791,389</u>

The accompanying notes are an integral part of this statement.

60 Capital Projects Series 2008	60 Capital Projects Series 2009	Other Governmental Funds	98 Total Governmental Funds
\$ --	\$ --	\$ 685,547	\$ 708,775
22,972,905	45,542,540	1,601,938	90,437,990
--	--	--	958,933
--	--	120,908	127,339
--	--	--	24,335
--	--	--	13,351
--	--	57,998	57,998
--	--	--	612,364
<u>\$ 22,972,905</u>	<u>\$ 45,542,540</u>	<u>\$ 2,466,391</u>	<u>\$ 92,941,085</u>
\$ 9,353,174	\$ --	\$ 851,376	\$ 10,657,239
--	--	--	54,008
--	--	135,647	1,616,777
--	--	24,335	1,297,004
--	--	313	2,341,859
--	--	--	116,984
--	--	86,810	1,171,198
<u>9,353,174</u>	<u>--</u>	<u>1,098,481</u>	<u>17,255,069</u>
--	--	57,998	57,998
--	--	--	705,326
--	--	21,373	21,373
--	--	440,091	440,091
13,619,731	45,542,540	848,448	60,010,719
--	--	--	14,450,509
<u>13,619,731</u>	<u>45,542,540</u>	<u>1,367,910</u>	<u>75,686,016</u>
<u>\$ 22,972,905</u>	<u>\$ 45,542,540</u>	<u>\$ 2,466,391</u>	<u>\$ 92,941,085</u>

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT*RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**TO THE STATEMENT OF NET ASSETS**AUGUST 31, 2009*

Total fund balances - governmental funds balance sheet	\$ 75,686,016
Amounts reported for governmental activities in the statement of net assets ("SNA") are different because:	
Capital assets used in governmental activities are not reported in the funds.	99,506,923
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	954,357
The assets and liabilities of internal service funds are included in governmental activities in the SNA.	2,181,452
Payables for bond principal which are not due in the current period are not reported in the funds.	(138,080,729)
Payables for bond interest which are not due in the current period are not reported in the funds.	(268,835)
Payables for compensated absences which are not due in the current period are not reported in the funds.	(47,060)
Accumulated accretion on Capital Appreciation Bonds is not reported in the funds.	(2,019,211)
Bond premium is capitalized in the SNA but not in the funds.	(2,005,207)
Bond issuance costs are capitalized in the SNA but not in the funds.	872,074
Rounding difference	(2)
Net assets of governmental activities - statement of net assets	<u>\$ 36,779,778</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, 2009

Data Control Codes		10 General Fund	50 Debt Service Fund
REVENUES:			
5700	Local and Intermediate Sources	\$ 36,924,678	\$ 8,311,828
5800	State Program Revenues	8,699,413	--
5900	Federal Program Revenues	25,157	--
5020	Total Revenues	<u>45,649,248</u>	<u>8,311,828</u>
EXPENDITURES:			
Current:			
0011	Instruction	19,989,675	--
0012	Instructional Resources and Media Services	748,972	--
0013	Curriculum and Staff Development	876,359	--
0023	School Leadership	1,733,304	--
0031	Guidance, Counseling, & Evaluation Services	1,427,880	--
0032	Social Work Services	50,156	--
0033	Health Services	565,534	--
0034	Student Transportation	691,385	--
0035	Food Service	--	--
0036	Cocurricular/Extracurricular Activities	1,623,276	--
0041	General Administration	1,014,001	--
0051	Plant Maintenance and Operations	5,665,014	--
0052	Security and Monitoring Services	73,062	--
0053	Data Processing Services	433,949	--
0071	Principal on Long-term Debt	--	3,025,000
0072	Interest on Long-term Debt	--	5,630,319
0073	Bond Issuance Costs and Fees	--	919,873
0081	Capital Outlay	51,538	--
0091	Contracted Instructional Services		
0091	Between Public Schools	10,359,935	--
0095	Payments to Juvenile Justice Alternative		
0095	Education Programs	47,250	--
0099	Other Intergovernmental Charges	524,689	--
6030	Total Expenditures	<u>45,875,979</u>	<u>9,575,192</u>
1100	Excess (Deficiency) of Revenues Over (Under)		
1100	Expenditures	<u>(226,731)</u>	<u>(1,263,364)</u>
Other Financing Sources and (Uses):			
7911	Capital-Related Debt Issued (Regular Bonds)	--	--
7912	Sale of Real or Personal Property	3,420	--
7916	Premium or Discount on Issuance of Bonds	--	1,315,942
7917	Prepaid Interest	--	52,563
7080	Total Other Financing Sources and (Uses)	<u>3,420</u>	<u>1,368,505</u>
1200	Net Change in Fund Balances	<u>(223,311)</u>	<u>105,141</u>
0100	Fund Balances - Beginning	14,673,820	600,185
3000	Fund Balances - Ending	<u>\$ 14,450,509</u>	<u>\$ 705,326</u>

The accompanying notes are an integral part of this statement.

60 Capital Projects Series 2008	60 Capital Projects Series 2009	Other Governmental Funds	98 Total Governmental Funds
\$ 511,704	\$ 27,570	\$ 1,442,863	\$ 47,218,643
--	--	674,391	9,373,804
--	--	2,941,631	2,966,788
<u>511,704</u>	<u>27,570</u>	<u>5,058,885</u>	<u>59,559,235</u>
--	--	2,161,518	22,151,193
--	--	--	748,972
--	--	71,027	947,386
--	--	2,438	1,735,742
--	--	--	1,427,880
--	--	--	50,156
--	--	--	565,534
--	185,030	3,506	879,921
--	--	2,347,786	2,347,786
--	--	7,000	1,630,276
--	--	--	1,014,001
--	--	--	5,665,014
--	--	--	73,062
232,800	--	--	666,749
--	--	--	3,025,000
--	--	--	5,630,319
--	--	--	919,873
41,345,627	--	4,015,640	45,412,805
--	--	--	10,359,935
--	--	--	47,250
--	--	--	524,689
<u>41,578,427</u>	<u>185,030</u>	<u>8,608,915</u>	<u>105,823,543</u>
<u>(41,066,723)</u>	<u>(157,460)</u>	<u>(3,550,030)</u>	<u>(46,264,308)</u>
--	45,697,538	--	45,697,538
--	--	--	3,420
--	2,462	--	1,318,404
--	--	--	52,563
--	45,700,000	--	47,071,925
<u>(41,066,723)</u>	<u>45,542,540</u>	<u>(3,550,030)</u>	<u>807,617</u>
54,686,454	--	4,917,940	74,878,399
<u>\$ 13,619,731</u>	<u>\$ 45,542,540</u>	<u>\$ 1,367,910</u>	<u>\$ 75,686,016</u>

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

*RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2009*

Net change in fund balances - total governmental funds	\$ 807,617
Amounts reported for governmental activities in the statement of activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	45,458,406
The depreciation of capital assets used in governmental activities is not reported in the funds.	(1,597,386)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	16,840
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	3,025,000
Bond issuance costs and similar items are amortized in the SOA but not in the funds.	872,074
The accretion of interest on capital appreciation bonds is not reported in the funds.	(1,546,367)
(Increase) decrease in accrued interest from beginning of period to end of period.	4,728
The net revenue (expense) of internal service funds is reported with governmental activities.	220,162
Compensated absences are reported as the amount earned in the SOA but as the amount paid in the funds.	1,990
Proceeds of bonds do not provide revenue in the SOA, but are reported as current resources in the funds.	(45,697,538)
Bond premiums are reported in the funds but not in the SOA.	(1,234,853)
Rounding difference	(2)
Change in net assets of governmental activities - statement of activities	<u>\$ 330,671</u>

The accompanying notes are an integral part of this statement.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

STATEMENT OF NET ASSETS

INTERNAL SERVICE FUND

AUGUST 31, 2009

Data Control Codes		Nonmajor Internal Service Fund <u>Workers' Compensation Insurance Fund</u>
ASSETS:		
Current Assets:		
1110	Cash and Cash Equivalents	\$ 1,041,123
Receivables:		
1260	Due from Other Funds	1,272,669
	Total Current Assets	<u>2,313,792</u>
1000	Total Assets	<u>\$ 2,313,792</u>
LIABILITIES:		
Current Liabilities:		
2200	Accrued Expenditures/Expenses	\$ 132,340
	Total Current Liabilities	<u>132,340</u>
2000	Total Liabilities	<u>132,340</u>
NET ASSETS:		
3900	Unrestricted Net Assets	2,181,452
3000	Total Net Assets	<u>\$ 2,181,452</u>

The accompanying notes are an integral part of this statement.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES
 IN FUND NET ASSETS - INTERNAL SERVICE FUND
 FOR THE YEAR ENDED AUGUST 31, 2009

Data Control Codes		Nonmajor Internal Service Fund <u>Workers' Compensation Insurance Fund</u>
	OPERATING REVENUES:	
5700	<i>Local and Intermediate Sources</i>	\$ 417,743
5020	Total Revenues	<u>417,743</u>
	OPERATING EXPENSES:	
6400	<i>Other Operating Costs</i>	197,581
6030	Total Expenses	<u>197,581</u>
1300	Change in Net Assets	220,162
0100	Total Net Assets - Beginning	1,961,290
3300	Total Net Assets - Ending	<u>\$ 2,181,452</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, 2009

	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>	\$ 572,473
<i>Cash Payments to Suppliers for Services</i>	<u>(155,920)</u>
Net Cash Provided (Used) by Operating Activities	<u>416,553</u>
Net Increase (Decrease) in Cash and Cash Equivalents	416,553
Cash and Cash Equivalents at Beginning of Year	624,570
Cash and Cash Equivalents at End of Year	<u>\$ 1,041,123</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income (Loss)	\$ 220,162
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>	154,730
<i>Increase (Decrease) in Accounts Payable</i>	(5,821)
<i>Increase (Decrease) in Accrued Expenses</i>	<u>47,482</u>
Total Adjustments	196,391
Net Cash Provided (Used) by Operating Activities	<u>\$ 416,553</u>

The accompanying notes are an integral part of this statement.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS

FIDUCIARY FUNDS

AUGUST 31, 2009

Data Control Codes		Bequests	Agency Fund	Student Activity
		<u> </u>	<u> </u>	<u> </u>
	ASSETS:			
1110	<i>Cash and Cash Equivalents</i>	\$ 36,604	\$ 700,375	
1000	Total Assets	<u>\$ 36,604</u>	<u>\$ 700,375</u>	
	LIABILITIES:			
	Current Liabilities:			
2190	<i>Due to Student Groups</i>	\$ --	\$ 700,375	
2000	Total Liabilities	<u>--</u>	<u>700,375</u>	
	NET ASSETS			
3800	<i>Held in Trust</i>	36,604	--	
3000	Total Net Assets	<u>\$ 36,604</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 ASSETS

FIDUCIARY FUNDS

FOR THE YEAR ENDED AUGUST 31, 2009

	Private-purpose Trust Fund
	<u>Bequests</u>
Additions:	
Bequests	\$ 97,264
Total Additions	<u>97,264</u>
Deductions:	
Athletic Facilities Improvements	<u>60,660</u>
Total Deductions	<u>60,660</u>
Change in Net Assets	36,604
Net Assets-Beginning of the Year	--
Net Assets-End of the Year	<u>\$ 36,604</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, 2009

A. Summary of Significant Accounting Policies

The basic financial statements of Port Neches-Groves Independent School District (the "District") have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") applicable to governmental units in conjunction with the Texas Education Agency's Financial Accountability System Resource Guide ("Resource Guide"). The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

1. Reporting Entity

The Board of School Trustees ("Board"), a seven-member group, has governance responsibilities over all activities related to public elementary and secondary education within the jurisdiction of the District. The Board is elected by the public and has the exclusive power and duty to govern and oversee the management of the public schools of the District. All powers and duties not specifically delegated by statute to the Texas Education Agency ("TEA") or to the State Board of Education are reserved for the Board, and the TEA may not substitute its judgment for the lawful exercise of those powers and duties by the Board. The District receives funding from local, state and federal government sources and must comply with the requirements of those funding entities. However, the District is not included in any other governmental "reporting entity" as defined by the GASB in its Statement No. 14, "The Financial Reporting Entity," as revised by GASB Statement No.39, and there are no component units included within the reporting entity.

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

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

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

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

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

The District reports the following major governmental funds:

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

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

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2009

Capital Projects Series 2008 Fund: This fund accounts for proceeds from the associated bond issue and voter approved capital projects expenditures.

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

In addition, the District reports the following fund types:

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

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

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.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2009

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

3. Financial Statement Amounts

a. Cash and Cash Equivalents

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

b. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the fiscal year.

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

c. Inventories and Prepaid Items

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

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

d. Capital Assets

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

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

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

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

*NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2009*

e. Receivable and Payable Balances

The District believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances.

There are no significant receivables which are not scheduled for collection within one year of year end.

f. Compensated Absences

On retirement 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.

g. Interfund Activity

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line of the government-wide statement of net assets.

h. Use of Estimates

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

i. Data Control Codes

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

B. Compliance and Accountability

1. Finance-Related Legal and Contractual Provisions

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

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

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

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

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

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2009

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, 2009, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$1,749,898 and the bank balance was \$2,030,053. The District's cash deposits at August 31, 2009 and during the year ended August 31, 2009, were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

2. Investments:

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

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

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

The District's investments at August 31, 2009 are shown below.

<u>Investment or Investment Type</u>	<u>Maturity</u>	<u>Ratings</u>	<u>Fair Value</u>
Lone Star Investment Pool-Govt. Overnight	34 days average	AAA-m	\$ 81,929,260
Texas Short Term Asset Reserve (TexSTAR) Investment Pool	46 days average	AAA-m	8,508,730
Total Investments			<u>\$ 90,437,990</u>

3. Analysis of Specific Deposit and Investment Risks

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

a. Credit Risk

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

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2009

b. Custodial Credit Risk

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

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

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

c. Concentration of Credit Risk

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

d. Interest Rate Risk

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

e. Foreign Currency Risk

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

Investment Accounting Policy

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

Public Funds Investment Pools

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

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

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2009

D. Capital Assets

Capital asset activity for the year ended August 31, 2009, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 1,217,226	\$ --	\$ --	\$ 1,217,226
Construction in progress	19,205,562	45,107,159	--	64,312,721
Total capital assets not being depreciated	<u>20,422,788</u>	<u>45,107,159</u>	<u>--</u>	<u>65,529,947</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements	65,194,243	51,538	--	65,245,781
Equipment	2,922,971	90,303	--	3,013,274
Vehicles	3,196,712	209,406	--	3,406,118
Total capital assets being depreciated	<u>71,313,926</u>	<u>351,247</u>	<u>--</u>	<u>71,665,173</u>
Less accumulated depreciation for:				
Buildings and improvements	(32,634,287)	(1,239,052)	--	(33,873,339)
Equipment	(1,581,978)	(187,278)	--	(1,769,256)
Vehicles	(1,874,547)	(171,056)	--	(2,045,603)
Total accumulated depreciation	<u>(36,090,812)</u>	<u>(1,597,386)</u>	<u>--</u>	<u>(37,688,198)</u>
Total capital assets being depreciated, net	<u>35,223,114</u>	<u>(1,246,139)</u>	<u>--</u>	<u>33,976,975</u>
Governmental activities capital assets, net	<u>\$ 55,645,902</u>	<u>\$ 43,861,020</u>	<u>\$ --</u>	<u>\$ 99,506,922</u>

Depreciation was charged to functions as follows:

Instruction	\$ 915,130
Instructional Resources and Media Services	34,288
Curriculum and Staff Development	40,120
School Leadership	79,351
Guidance, Counseling, & Evaluation Services	65,368
Social Work Services	2,296
Health Services	25,890
Student Transportation	31,652
Extracurricular Activities	74,314
General Administration	46,421
Plant Maintenance and Operations	259,345
Security and Monitoring Services	3,345
Data Processing Services	19,866
	<u>\$ 1,597,386</u>

E. Interfund Balances and Activities

Due To and From Other Funds

Balances due to and due from other funds at August 31, 2009, consisted of the following:

Due To Fund	Due From Fund	Amount	Purpose
General Fund	Other Governmental Funds	\$ 24,335	Short-term loans
Internal Service-Workers' Comp.	General Fund	1,272,669	Short-term loans
	Total	<u>\$ 1,297,004</u>	

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

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2009

F. Long-Term Obligations

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

1. Long-Term Obligation Activity

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the year ended August 31, 2009, are as follows:

Series	Interest Rates	Interest Rates	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
<u>Governmental activities:</u>							
1998			\$ 5,500,000	\$ --	\$ 500,000	\$ 5,000,000	\$ 500,000
2005			8,634,653	--	1,050,000	7,584,653	709,653
2007			21,273,539	--	1,065,000	20,208,539	930,000
2008			60,000,000	--	410,000	59,590,000	1,315,000
2009			--	45,697,538	--	45,697,538	1,065,000
			95,408,192	45,697,538	3,025,000	138,080,730	4,519,653
Accumulated Accretion-CAB's			472,844	1,546,367	--	2,019,211	--
Compensated absences *			49,050	--	1,990	47,060	--
Premium on Bonds *			770,354	1,318,403	83,550	2,005,207	--
Total governmental activities			\$ 96,700,440	\$ 48,562,308	\$ 3,110,540	\$ 142,152,208	\$ 4,519,653

* Other long-term liabilities

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

Liability	Activity Type	Fund
Compensated absences	Governmental	General Fund

2. Debt Service Requirements

Debt service requirements on long-term debt at August 31, 2009, are as follows:

Year Ending August 31,	Governmental Activities		
	Principal	Interest	Total
2010	\$ 4,519,653	\$ 6,379,214	\$ 10,898,867
2011	5,045,000	5,853,241	10,898,241
2012	5,255,000	5,634,135	10,889,135
2013	5,415,000	5,433,341	10,848,341
2014	5,248,539	5,529,233	10,777,772
2015-2019	24,917,538	25,289,709	50,207,247
2020-2024	24,395,000	18,079,913	42,474,913
2025-2029	30,770,000	11,812,925	42,582,925
2030-2034	32,515,000	3,636,919	36,151,919
Totals	\$ 138,080,730	\$ 87,648,630	\$ 225,729,360

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 2009, 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, 2009

H. Pension Plan

1. Plan Description

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

2. Funding Policy

Under provisions in State law, plan members are required to contribute 6.4% of their annual covered salary and the State of Texas contributes an amount equal to 6.58% of the District's covered payroll. The District's employees' contributions to the System for the years ending August 31, 2009, 2008 and 2007 were \$1,662,554, \$1,580,091 and \$1,536,097, respectively, and were equal to the required contributions for each year. Other contributions made from federal and private grants and from the District for salaries above the statutory minimum for the years ending August 31, 2009, 2008 and 2007 were \$278,871, \$161,813 and \$178,854, respectively, and were equal to the required contributions for each year. The amount contributed by the State on behalf of the District was \$1,627,236 for the year ended August 31, 2009.

I. Retiree Health Care Plan

1. Plan Description

The District contributes to the Texas Public School Retired Employees Group Insurance Program (TRS-Care), a cost-sharing multiple-employer defined benefit postemployment health care plan administered by the Teacher Retirement System of Texas (TRS). TRS-Care Retired Plan provides health care coverage for certain persons (and their dependents) who retired under the Teacher Retirement System of Texas. The statutory authority for the program is Texas Insurance Code, Chapter 1575. Section 1575.052 grants the TRS Board of Trustees the authority to establish and amend basic and optional group insurance coverage for participants. The TRS issues a publicly available financial report that includes financial statements and required supplementary information for TRS-Care. That report may be obtained by visiting the TRS web site at www.trs.state.tx.us, by writing to the Communications Department of the Teacher Retirement System of Texas at 1000 Red River Street, Austin, Texas 78701, or by calling 1-800-223-8778.

2. Funding Policy

Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. The State of Texas and active public school employee contribution rates were 1.0% and 0.65% of public school payroll, respectively, with school districts contributing a percentage of payroll set at 0.55% for fiscal years 2009, 2008 and 2007. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. For the years ended August 31, 2009, 2008, and 2007, the State's contributions to TRS-Care were \$259,774, \$246,889, and \$240,015, respectively, the active member contributions were \$168,853, \$160,478, and \$156,010, respectively, and the District's contributions were \$142,876, \$135,789, and \$132,008, respectively, which equaled the required contributions each year.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2009

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, 2009, 2008, and 2007, the subsidy payments received by TRS-Care on behalf of the District were \$61,073, \$58,567, and \$52,349, respectively.

J. Employee Health Care Coverage

During the period ended August 31, 2009, employees of the District were covered by a state-wide plan, TRS Active Care. The District paid premiums of \$191 per month per employee to the Plan with the State providing an additional \$75. Employees, at their option may authorize payroll withholdings to pay premiums for dependent coverage. The Teacher Retirement System of Texas (TRS) manages TRS Active Care. The Plan is administered by Blue Cross and Blue Shield of Texas, and Scott and White HMO for the medical plan while Medco Health was assigned the prescription drug plan.

The District's participation is renewable annually.

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

K. Commitments and Contingencies

1. Contingencies

The District participates in grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying basic financial statements for such contingencies.

2. Litigation

No reportable litigation was pending against the District at August 31, 2009.

3. Commitments

The District has numerous ongoing capital projects underway relating to the Series 2008 and Series 2009 bond issues. The following represents commitments relating to construction contracts associated with these funds.

<u>Description</u>	<u>Contract Balance to Complete</u>
High School	\$ 24,622,283
Groves Middle School	9,567,091
Port-Neches Middle School	9,505,251
Other	296,879
Total	<u>\$ 43,991,504</u>

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2009

L. Shared Services Arrangements

Shared Services Arrangement - Fiscal Agent

The District is the fiscal agent for a Shared Services Arrangement ("SSA") which provides services to the visually impaired to the member districts listed below. All services are provided by the fiscal agent. The member districts provide the funds to the fiscal agent. According to guidance provided in TEA's Resource Guide, the District has accounted for the fiscal agent's activities of the SSA in a special revenue fund and will be accounted for using Model 3 in the SSA section of the Resource Guide. Expenditures of the SSA are summarized below:

<u>Member Districts</u>	<u>Expenditures</u>
Port Neches-Groves ISD	\$ 1,926
Nederland ISD	38,931
Total	<u>\$ 40,857</u>

M. Prior Period Adjustment

A prior period adjustment was made to properly state accrued interest on outstanding bonded debt and to reflect the actual accumulated accreted interest on outstanding capital appreciation bonds at August 31, 2008 as follows:

<u>Description</u>	<u>Prior Period Adjustment</u>
Accrued interest on bonds payable	\$ 273,563
Accumulated accretion on capital appreciation bonds	430,471
Total Adjustment to restate beginning Net Assets	<u>\$ 704,034</u>

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

Page 1 of 2

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2009

Data Control Codes	1		2		3	Variance with Final Budget Positive (Negative)
	Budgeted Amounts				Actual	
	Original	Final				
REVENUES:						
5700	Local and Intermediate Sources	\$ 36,674,633	\$ 36,835,695	\$ 36,924,678	\$ 88,983	
5800	State Program Revenues	8,332,799	8,332,799	8,699,413	366,614	
5900	Federal Program Revenues	--	--	25,157	25,157	
5020	Total Revenues	45,007,432	45,168,494	45,649,248	480,754	
EXPENDITURES:						
Current:						
Instructional & Instructional Related Services:						
0011	Instruction	20,617,606	20,563,685	19,989,675	574,010	
0012	Instructional Resources and Media Services	748,430	752,093	748,972	3,121	
0013	Curriculum and Staff Development	955,200	918,450	876,359	42,091	
	Total Instructional & Instr. Related Services	22,321,236	22,234,228	21,615,006	619,222	
Instructional and School Leadership:						
0023	School Leadership	1,801,950	1,801,950	1,733,304	68,646	
	Total Instructional & School Leadership	1,801,950	1,801,950	1,733,304	68,646	
Support Services - Student (Pupil):						
0031	Guidance, Counseling and Evaluation Services	1,433,286	1,432,732	1,427,880	4,852	
0032	Social Work Services	37,736	57,752	50,156	7,596	
0033	Health Services	602,493	602,193	565,534	36,659	
0034	Student (Pupil) Transportation	841,831	841,831	691,385	150,446	
0036	Cocurricular/Extracurricular Activities	1,621,407	1,805,219	1,623,276	181,943	
	Total Support Services - Student (Pupil)	4,536,753	4,739,727	4,358,231	381,496	
Administrative Support Services:						
0041	General Administration	1,129,945	1,197,751	1,014,001	183,750	
	Total Administrative Support Services	1,129,945	1,197,751	1,014,001	183,750	
Support Services - Nonstudent Based:						
0051	Plant Maintenance and Operations	6,569,148	6,697,950	5,665,014	1,032,936	
0052	Security and Monitoring Services	100,666	100,666	73,062	27,604	
0053	Data Processing Services	458,543	458,543	433,949	24,594	
	Total Support Services - Nonstudent Based	7,128,357	7,257,159	6,172,025	1,085,134	
Capital Outlay:						
0081	Capital Outlay	--	55,000	51,538	3,462	
	Total Capital Outlay	--	55,000	51,538	3,462	
Intergovernmental Charges:						
0091	Contracted Instr. Services Between Public Schools	10,743,524	10,943,810	10,359,935	583,875	
0095	Payments to Juvenile Justice Alternative Education Programs	47,250	47,250	47,250	--	
0099	Other Intergovernmental Charges	504,306	524,690	524,689	1	
	Total Intergovernmental Charges	11,295,080	11,515,750	10,931,874	583,876	
6030	Total Expenditures	48,213,321	48,801,565	45,875,979	2,925,586	
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	(3,205,889)	(3,633,071)	(226,731)	3,406,340	

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2009

EXHIBIT G-1

Page 2 of 2

Data Control Codes	1	2	3	Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final		
	Other Financing Sources (Uses):			
7912				
<i>Sale of Real or Personal Property</i>	--	--	3,420	3,420
7080				
Total Other Financing Sources and (Uses)	--	--	3,420	3,420
1200				
Net Change in Fund Balance	(3,205,889)	(3,633,071)	(223,311)	3,409,760
0100				
Fund Balance - Beginning	14,673,820	14,673,820	14,673,820	--
3000				
Fund Balance - Ending	\$ 11,467,931	\$ 11,040,749	\$ 14,450,509	\$ 3,409,760

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

EXHIBIT H-1

CAPITAL PROJECTS SERIES 2008
 CAPITAL PROJECTS FUND
 BUDGETARY COMPARISON SCHEDULE
 FOR THE YEAR ENDED AUGUST 31, 2009

Data Control Codes	1	2	3
	Budget	Actual	Variance Positive (Negative)
REVENUES:			
5700 <i>Local and Intermediate Sources</i>	\$ 308,299	\$ 511,704	\$ 203,405
5020 <i>Total Revenues</i>	<u>308,299</u>	<u>511,704</u>	<u>203,405</u>
EXPENDITURES:			
Current:			
Support Services - Nonstudent Based:			
0053 <i>Data Processing Services</i>	244,800	232,800	12,000
<i>Total Support Services - Nonstudent Based</i>	<u>244,800</u>	<u>232,800</u>	<u>12,000</u>
Capital Outlay:			
0081 <i>Capital Outlay</i>	53,580,471	41,345,627	12,234,844
<i>Total Capital Outlay</i>	<u>53,580,471</u>	<u>41,345,627</u>	<u>12,234,844</u>
6030 <i>Total Expenditures</i>	<u>53,825,271</u>	<u>41,578,427</u>	<u>12,246,844</u>
1100 <i>Excess (Deficiency) of Revenues Over (Under)</i>			
1100 <i>Expenditures</i>	(53,516,972)	(41,066,723)	12,450,249
1200 <i>Net Change in Fund Balance</i>	<u>(53,516,972)</u>	<u>(41,066,723)</u>	<u>12,450,249</u>
0100 <i>Fund Balance - Beginning</i>	54,686,454	54,686,454	--
3000 <i>Fund Balance - Ending</i>	<u>\$ 1,169,482</u>	<u>\$ 13,619,731</u>	<u>\$ 12,450,249</u>

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

EXHIBIT H-2

CAPITAL PROJECTS SERIES 2009
 CAPITAL PROJECTS FUND
 BUDGETARY COMPARISON SCHEDULE
 FOR THE YEAR ENDED AUGUST 31, 2009

Data Control Codes	1	2	3
	Budget	Actual	Variance Positive (Negative)
REVENUES:			
5700 <i>Local and Intermediate Sources</i>	\$ --	\$ 27,570	\$ 27,570
5020 <i>Total Revenues</i>	<u>--</u>	<u>27,570</u>	<u>27,570</u>
EXPENDITURES:			
Current:			
Support Services - Student (Pupil):			
0034 <i>Student (Pupil) Transportation</i>	500,000	185,030	314,970
<i>Total Support Services - Student (Pupil)</i>	<u>500,000</u>	<u>185,030</u>	<u>314,970</u>
6030 <i>Total Expenditures</i>	<u>500,000</u>	<u>185,030</u>	<u>314,970</u>
1100 <i>Excess (Deficiency) of Revenues Over (Under)</i>			
1100 <i>Expenditures</i>	<u>(500,000)</u>	<u>(157,460)</u>	<u>342,540</u>
Other Financing Sources (Uses):			
7911 <i>Capital-Related Debt Issued (Regular Bonds)</i>	--	45,697,538	45,697,538
7916 <i>Premium or Discount on Issuance of Bonds</i>	--	2,462	2,462
7080 <i>Total Other Financing Sources and (Uses)</i>	<u>--</u>	<u>45,700,000</u>	<u>45,700,000</u>
1200 <i>Net Change in Fund Balance</i>	<u>(500,000)</u>	<u>45,542,540</u>	<u>46,042,540</u>
0100 <i>Fund Balance - Beginning</i>	--	--	--
3000 <i>Fund Balance - Ending</i>	<u>\$ (500,000)</u>	<u>\$ 45,542,540</u>	<u>\$ 46,042,540</u>

Other Supplementary Information

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

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

*SCHEDULE OF DELINQUENT TAXES RECEIVABLE
FOR THE YEAR ENDED AUGUST 31, 2009*

Year Ended August 31	Tax Rates		3 Assessed/Appraised Value For School Tax Purposes
	1 Maintenance	2 Debt Service	
2000 and Prior Years	\$ Various	\$ Various	\$ Various
2001	1.50	.185	1,895,177,375
2002	1.50	.1772	2,162,764,052
2003	1.50	.1356	2,397,553,130
2004	1.50	.1333	2,594,166,526
2005	1.50	.1278	2,520,174,524
2006	1.50	.119	2,547,235,457
2007	1.37	.1083	2,786,936,542
2008	1.04	.1525	2,787,768,285
2009 (School Year Under Audit)	1.04	.244	3,206,853,115

1000 Totals

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

10 Beginning Balance 9/1/08	20 Current Year's Total Levy	31 Maintenance Collections	32 Debt Service Collections	40 Entire Year's Adjustments	50 Ending Balance 8/31/09
\$ 249,764	\$ --	\$ 4,674	\$ 778	\$ (71,084)	\$ 173,228
29,852	--	946	117	--	28,789
29,286	--	1,323	156	--	27,807
40,143	--	7,823	707	--	31,613
62,631	--	29,433	2,616	--	30,582
82,521	--	33,866	2,885	(14)	45,756
104,823	--	39,658	3,146	(421)	61,598
2,665,689	--	57,598	4,553	(1,403)	2,602,135
1,425,512	--	82,871	12,152	(32,690)	1,297,799
--	41,175,994	32,913,277	7,721,961	(209,436)	331,320
<u>\$ 4,690,221</u>	<u>\$ 41,175,994</u>	<u>\$ 33,171,469</u>	<u>\$ 7,749,071</u>	<u>\$ (315,048)</u>	<u>\$ 4,630,627</u>
\$ --	\$ --	\$ --	\$ --	\$ --	\$ --

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES FOR COMPUTATION OF INDIRECT COST FOR 2010-2011
 GENERAL AND SPECIAL REVENUE FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2009

EXHIBIT J-2

FUNCTION 41 AND RELATED FUNCTION 53 - GENERAL ADMINISTRATION

Account Number	Account Name	1 (702) School Board	2 (703) Tax Collection	3 (701) Supt's Office	4 (750) Indirect Cost	5 (720) Direct Cost	6 (Other) Misc.	7 Total
611X-6146	Payroll Costs	\$ --	\$ --	\$ 216,932	\$ 259,266	\$ 201,001	\$ --	\$ 677,199
6149	Fringe Benefits (Unused Leave for Separating Employees in Function 41 and Related 53)	--	--	--	--	--	--	--
6149	Fringe Benefits (Unused Leave for Separating Employees in all Functions except Function 41 and Related 53)	--	--	--	--	--	--	--
6211	Legal Services	--	--	100,087	--	--	--	100,087
6212	Audit Services	--	--	--	14,000	--	--	14,000
6213	Tax Appraisal and Collection	--	524,689	--	--	--	--	524,689
621X	Other Prof. Services	--	--	5,518	2,731	45,340	--	53,589
6220	Tuition and Transfer Payments	--	--	--	--	--	--	--
6230	Education Service Centers	1,500	--	1,500	--	1,750	--	4,750
6240	Contr. Maint. and Repair	--	--	--	--	--	--	--
6250	Utilities	--	--	--	--	--	--	--
6260	Rentals	--	--	5,187	13,732	2,086	--	21,005
6290	Miscellaneous Contr.	--	--	--	64,802	--	--	64,802
6310	Operational Supplies, Materials	--	--	--	--	--	--	--
6320	Textbooks and Reading	--	--	--	--	--	--	--
6330	Testing Materials	--	--	--	--	--	--	--
63XX	Other Supplies, Materials	9,281	--	5,048	22,359	3,778	--	40,466
6410	Travel, Subsistence, Stipends	7,425	--	8,548	4,592	2,909	--	23,474
6420	Ins. and Bonding Costs	--	--	--	13,800	--	--	13,800
6430	Election Costs	11,119	--	--	--	--	--	11,119
6490	Miscellaneous Operating	10,142	--	23,089	3,975	8,665	--	45,871
6500	Debt Service	--	--	--	--	--	--	--
6600	Capital Outlay	--	--	--	--	--	7,210	7,210

Total \$ 39,467 \$ 524,689 \$ 365,909 \$ 399,257 \$ 265,529 \$ 7,210 \$ 1,602,061

Total Expenditures for General and Special Revenue Funds (9) \$ 50,950,312

LESS: Deductions of Unallowable Costs

FISCAL YEAR

Total Capital Outlay (6600)	(10)	\$ 1,044,342
Total Debt & Lease (6500)	(11)	\$ --
Plant Maintenance (Function 51, 6100-6400)	(12)	\$ 5,621,863
Food (Function 35, 6341 and 6499)	(13)	\$ 920,630
Stipends (6413)	(14)	\$ --
Column 4 (above) - Total Indirect Cost		\$ 399,257

Subtotal 7,986,092

Net Allowed Direct Cost \$ 42,964,220

CUMULATIVE

Total Cost of Buildings Before Depreciation (1520)	(15)	\$ 65,245,781
Historical Cost of Buildings over 50 years old	(16)	5,883,417
Amount of Federal Money in Building Cost (Net of #16)	(17)	235,438
Total Cost of Furniture & Equipment Before Depreciation (1530 & 1540)	(18)	6,419,392
Historical Cost of Furniture & Equipment over 16 years old	(19)	1,340,115
Amount of Federal Money in Furniture & Equipment (Net of #19)	(20)	\$ 133,190

(8) Note A - \$69,059 in Function 53 expenditures and \$524,689 of Function 99 expenditures are included in this report on administrative costs.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

EXHIBIT J-3

FUND BALANCE AND CASH FLOW CALCULATION WORKSHEET (UNAUDITED)

GENERAL FUND

AS OF AUGUST 31, 2009

Data Control Codes	Explanation	Amount
1	Total General Fund Fund Balance as of August 31, 2009 (Exhibit C-1 object 3000 for the General Fund only)	\$ 14,450,509
2	Total General Fund Reserved Fund Balance (from Exhibit C-1 - total of object 3400s for the General Fund only)	--
3	Total General Fund Designated Fund Balance (from Exhibit C-1 - total of object 3500s for the General Fund only)	--
4	Estimated amount needed to cover fall cash flow deficits in the General Fund (net of borrowed funds and funds representing deferred revenues)	5,240,632
5	Estimate of one month's average cash disbursements during the regular school session (9/1/09 - 5/31/10)	5,097,331
6	Estimate of delayed payments from state sources (58XX) including August payment delays	--
7	Estimate of underpayment from state sources equal to variance between Legislative Payment Estimate (LPE) and District Planning Estimate (DPE) or District's calculated earned state aid amount	--
8	Estimate of delayed payments from federal sources (59XX)	--
9	Estimate of expenditures to be reimbursed to General Fund from Capital Projects Fund (uses of General Fund cash after bond referendum and prior to issuance of bonds)	--
10	General Fund Optimum Fund Balance and Cash Flow (Lines 2+3+4+5+6+7+8+9)	10,337,963
11	Excess (Deficit) Undesignated Unreserved General Fund Fund Balance (Line 1 minus Line 10)	\$ 4,112,546

If Item 11 is a Positive Number

Explanation of need for and/or projected use of net positive Undesignated Unreserved General Fund Fund Balance:

The Board of Trustees recently adopted a policy of having three months' operating expenditures in fund balance. The excess fund balance will be used to fund the deficit budget adopted in 2009-2010.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

EXHIBIT J-4

NATIONAL SCHOOL BREAKFAST AND LUNCH PROGRAM
 BUDGETARY COMPARISON SCHEDULE
 FOR THE YEAR ENDED AUGUST 31, 2009

Data Control Codes	1	2	3
	Budget	Actual	Variance Positive (Negative)
REVENUES:			
5700 <i>Local and Intermediate Sources</i>	\$ 1,397,400	\$ 1,387,879	\$ (9,521)
5800 <i>State Program Revenues</i>	53,300	59,561	6,261
5900 <i>Federal Program Revenues</i>	732,100	836,022	103,922
5020 Total Revenues	<u>2,182,800</u>	<u>2,283,462</u>	<u>100,662</u>
EXPENDITURES:			
Current:			
Support Services - Student (Pupil):			
0035 <i>Food Services</i>	2,364,654	2,335,007	29,647
Total Support Services - Student (Pupil)	<u>2,364,654</u>	<u>2,335,007</u>	<u>29,647</u>
6030 Total Expenditures	<u>2,364,654</u>	<u>2,335,007</u>	<u>29,647</u>
1100 Excess (Deficiency) of Revenues Over (Under)			
1100 Expenditures	(181,854)	(51,545)	130,309
1200 Net Change in Fund Balance	<u>(181,854)</u>	<u>(51,545)</u>	<u>130,309</u>
0100 Fund Balance - Beginning	549,634	549,634	--
3000 Fund Balance - Ending	<u>\$ 367,780</u>	<u>\$ 498,089</u>	<u>\$ 130,309</u>

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

EXHIBIT J-5

DEBT SERVICE FUND
 BUDGETARY COMPARISON SCHEDULE
 FOR THE YEAR ENDED AUGUST 31, 2009

Data Control Codes	1	2	3
	Budget	Actual	Variance Positive (Negative)
REVENUES:			
5700 <i>Local and Intermediate Sources</i>	\$ 8,276,713	\$ 8,311,828	\$ 35,115
5020 <i>Total Revenues</i>	<u>8,276,713</u>	<u>8,311,828</u>	<u>35,115</u>
EXPENDITURES:			
Debt Service:			
0071 <i>Principal on Long-Term Debt</i>	3,025,000	3,025,000	--
0072 <i>Interest on Long-Term Debt</i>	5,683,895	5,630,319	53,576
0073 <i>Bond Issuance Costs and Fees</i>	933,425	919,873	13,552
<i>Total Debt Service</i>	<u>9,642,320</u>	<u>9,575,192</u>	<u>67,128</u>
6030 <i>Total Expenditures</i>	<u>9,642,320</u>	<u>9,575,192</u>	<u>67,128</u>
1100 <i>Excess (Deficiency) of Revenues Over (Under) Expenditures</i>	<u>(1,365,607)</u>	<u>(1,263,364)</u>	<u>102,243</u>
Other Financing Sources (Uses):			
7916 <i>Premium or Discount on Issuance of Bonds</i>	1,318,403	1,315,942	(2,461)
7917 <i>Prepaid Interest</i>	52,564	52,563	(1)
7080 <i>Total Other Financing Sources and (Uses)</i>	<u>1,370,967</u>	<u>1,368,505</u>	<u>(2,462)</u>
1200 <i>Net Change in Fund Balance</i>	5,360	105,141	99,781
0100 <i>Fund Balance - Beginning</i>	600,185	600,185	--
3000 <i>Fund Balance - Ending</i>	<u>\$ 605,545</u>	<u>\$ 705,326</u>	<u>\$ 99,781</u>

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

Independent Auditors' Report

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

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

Members of the Board of Trustees:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Port Neches-Groves Independent School District as of and for the year ended August 31, 2009, which collectively comprise the Port Neches-Groves Independent School District's basic financial statements and have issued our report thereon dated December 29, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Port Neches-Groves Independent School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Port Neches-Groves Independent School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Port Neches-Groves Independent School District's internal control over financial reporting. A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Port Neches-Groves Independent School District's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Port Neches-Groves Independent School District's financial statements that is more than inconsequential will not be prevented by the Port Neches-Groves Independent School District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Port Neches-Groves Independent School District's internal control.

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

Compliance and Other Matters

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

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

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

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

West, Davis & Company, LLP
December 29, 2009

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

Independent Auditors' Report

Report on Compliance with Requirements Applicable
To each Major Program and on Internal Control over Compliance
In Accordance With OMB Circular A-133

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

Members of the Board of Trustees:

Compliance

We have audited the compliance of Port Neches-Groves Independent School District with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended August 31, 2009. Port Neches-Groves Independent School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Port Neches-Groves Independent School District's management. Our responsibility is to express an opinion on Port Neches-Groves Independent School District's compliance based on our audit.

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

In our opinion, Port Neches-Groves Independent School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended August 31, 2009.

Internal Control Over Compliance

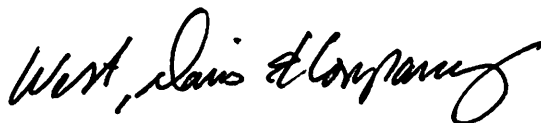
The management of Port Neches-Groves Independent School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered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

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

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



West, Davis & Company, LLP
December 29, 2009

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2009

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

One or more material weaknesses identified? Yes 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: Unqualified

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

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.553	School Breakfast Program
10.555	National School Lunch Program
97.036	Disaster Grants-FEMA Hurricane Reimbursement

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

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

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE YEAR ENDED AUGUST 31, 2009

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
Finding: Prepaid interest and premium on bonds issued had not been properly recorded in the funds.		
Recommendation: Further research should be performed.	Implemented	N/A

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

EXHIBIT K-1

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2009

	(1)	(2)	(2A)	(3)
Data Control Codes	Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U. S. DEPARTMENT OF EDUCATION				
Passed Through State Department of Education:				
211	ESEA Title I Part A - Improving Basic Programs	84.010a	08610101123908	\$ 25,265
211	ESEA Title I Part A - Improving Basic Programs	84.010a	09610101123908	394,096
	Total CFDA Number 84.010a			<u>419,361</u>
224	IDEA-B Formula *	84.027	086600011239086600	35,345
224	IDEA-B Formula *	84.027	096600011239086600	844,218
226	IDEA-B Discretionary *	84.027	096600021239086677	80,481
	Total CFDA Number 84.027			<u>960,044</u>
244	Career and Technical - Basic Grant	84.048	123-908	41,428
	Total CFDA Number 84.048			<u>41,428</u>
225	IDEA-B Preschool *	84.173	086610011239086610	2,002
225	IDEA-B Preschool *	84.173	096610011239086610	28,896
	Total CFDA Number 84.173			<u>30,898</u>
204	ESEA Title IV Part A-Safe & Drug-Free Schools & Communities Act	84.186a	09691001123908	10,324
262	Title II Part D Enhancing Education Through Technology	84.318x	09630001123908	4,308
263	Title III Part A English Language Acquisition and Language Enhance	84.365	09671001123908	8,249
255	ESEA Title II Part A - Teacher & Principal Training & Recruiting	84.367a	08694501123908	7,361
255	ESEA Title II Part A - Teacher & Principal Training & Recruiting	84.367a	09694501123908	152,275
	Total CFDA Number 84.367a			<u>159,636</u>
267	Summer School LEP	84.369	123-908	2,206
280	Disaster Grants - FEMA Hurricane Reimbursement	97.036	123-908	469,155
	Total Passed Through State Department of Education			<u>2,105,609</u>
	Total U. S. Department of Education			<u>2,105,609</u>
U. S. DEPARTMENT OF AGRICULTURE				
Passed Through State Department of Education:				
558	Commodity Supplemental Food Program (Non-cash)	10.550	123-908	116,993
559	School Breakfast Program *	10.553	71400901	113,803
240	National School Lunch Program *	10.555	71300901	604,384
	Total Passed Through State Department of Education			<u>835,180</u>
	Total U. S. Department of Agriculture			<u>835,180</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS				\$ 2,940,789

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

The accompanying notes are an integral part of this schedule.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2009

Basis of Presentation

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

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT
*SCHEDULE OF REQUIRED RESPONSES TO SELECTED SCHOOL FIRST INDICATORS
AS OF AUGUST 31, 2009*

<u>Data Control Codes</u>	<u>Responses</u>
SF2 Were there any disclosures in the Annual Financial Report and/or other sources of information concerning default on bonded indebtedness obligations?	No
SF4 Did the district receive a clean audit? - Was there an unqualified opinion in the Annual Financial Report?	Yes
SF5 Did the Annual Financial Report disclose any instances of material weaknesses in internal controls?	No
SF9 Was there any disclosure in the Annual Financial Report of material noncompliance?	No
SF10 What was the total accumulated accretion on capital appreciation bonds included in the government-wide financial statements at fiscal year-end?	\$ 2,019,211