

PORT NECHES-GROVES
INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED AUGUST 31, 2010

Port Neches-Groves Independent School District
Annual Financial Report
For The Year Ended August 31, 2010

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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) X approved disapproved for the year ended August 31, 2010, at a meeting of the board of trustees of such school district on the 24th day of January , 20 11 .

(ORIGINAL SIGNATURE ON FILE WITH TEA)
Signature of Board Secretary

(ORIGINAL SIGNATURE ON FILE WITH TEA)
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, 2010, 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, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 20, 2011, on our consideration of Port Neches-Groves Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

A-133, *Audits of States, Local Governments and Non-Profit Organizations* and the supporting schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information, 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

West, Davis & Company, LLP

January 20, 2011

Port Neches-Groves Independent School District

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the Annual Financial and Compliance Report, we, the managers of Port Neches-Groves Independent School District (the District), discuss and analyze the District's financial performance for the fiscal year ended August 31, 2010. Please read it in conjunction with the independent auditors' report on page 2, and the District's Basic Financial Statements, which begin on page 10. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

USING THIS ANNUAL REPORT

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

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

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

Reporting the District as a Whole

The Statement of Net Assets and the Statement of Activities

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

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

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

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

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

Reporting the District's Most Significant Funds

Fund Financial Statements

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

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

The District as Trustee

Reporting the District's Fiduciary Responsibilities

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Net assets of the District's governmental activities increased from \$36.8 million to \$39.7 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 \$11.7 million at August 31, 2010. This increase in governmental net assets was the result of prior period adjustments discussed in the notes to the financial statements.

Table I
Port Neches-Groves Independent School District

NET ASSETS
in thousands

| | Governmental Activities | |
|--|----------------------------|----------------|
| | 2010 | 2009 |
| Current and other assets | 51,493 | 94,830 |
| Capital assets | 137,300 | 99,507 |
| Total assets | <u>188,793</u> | <u>194,337</u> |
| Long-term liabilities | 137,407 | 142,152 |
| Other liabilities | 11,725 | 15,405 |
| Total liabilities | <u>149,132</u> | <u>157,557</u> |
| Net Assets: | | |
| Invested in capital assets net of related debt | 26,687 | 19,439 |
| Restricted | 1,285 | 1,147 |
| Unrestricted | 11,689 | 16,194 |
| Total net assets | <u>39,661</u> | <u>36,780</u> |

Table II
Port Neches-Groves Independent School District

CHANGES IN NET ASSETS
in thousands

| | Governmental Activities | |
|--|----------------------------|---------------|
| | 2010 | 2009 |
| Revenues: | | |
| Program Revenues: | | |
| Charges for Services | 2,002 | 1,577 |
| Operating grants and contributions | 4,264 | 3,075 |
| General Revenues: | | |
| Maintenance and operations taxes | 27,236 | 33,513 |
| Debt Service taxes | 11,457 | 8,296 |
| State aid - formula grants | 10,900 | 9,284 |
| Investment Earnings | 262 | 902 |
| Miscellaneous | 2,736 | 3,069 |
| Total Revenue | <u>58,857</u> | <u>59,716</u> |
| Expenses: | | |
| Instruction, curriculum and media services | 25,468 | 24,389 |
| Instructional and school leadership | 1,851 | 1,815 |
| Student support services | 2,727 | 2,864 |
| Child nutrition | 2,369 | 2,348 |
| Extracurricular activities | 1,857 | 1,658 |
| General administration | 1,017 | 1,060 |
| Plant maintenance and security | 10,474 | 6,488 |
| Data processing services | 510 | 612 |
| Debt services | 6 | 7,220 |
| | , | |
| | 2 | |
| | 1 | |
| | 4 | |
| Recapture payments | 5,489 | 10,406 |
| Other Intergovernmental charges | 513 | 525 |
| Total Expenses | <u>58,489</u> | <u>59,385</u> |
| Increase in net assets | <u>368</u> | <u>331</u> |
| Net assets at Beginning | 36,780 | 37,153 |
| Prior Period Adjustment | 2,514 | (704) |
| Net Assets – Beginning, as Restated | <u>39,294</u> | <u>36,449</u> |
| Net assets at Ending | <u>39,662</u> | <u>36,780</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 \$36.1 million, which is \$42.1 million less than last year's total of \$75.7 million. This was a result of some \$44 million in capital projects expenditures.

Included in this year's total change in fund balance is an increase of \$0.5 million in the District's General Fund. Total actual expenditures were \$4.5 million less than budgeted. Several factors contributed to the savings. Over the course of the year, the Board of Trustees revised the District's General Fund budget. 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 \$4.9 million 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 2010, the District had \$137.3 million invested in a broad range of capital assets, including facilities and equipment for instruction, transportation, athletics, administration, and maintenance. More detailed information about the District's capital assets is presented in Note D to the financial statements.

Debt

At year-end, the District had \$133.4 million in bonds outstanding versus \$138.1 million last year. During the current year the District issued an additional \$4.375 million in debt to refund outstanding 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 Board of Trustees and Superintendent considered many factors when adopting the 2010-11 budget. These included the following:

- The District's enrollment is expected to increase slightly.
- The District's student attendance rate is expected to remain stable.
- Rate of Return on Investments
- State Aid
- Federal Grants

General Fund revenues are budgeted to decrease 12.5% to \$34.4 million. The largest decrease is attributable to the shifting by the Texas Education Agency of state revenues with federal stimulus funds of about \$1.7 million. General Fund expenditures are budgeted to decrease 13.3% to \$37.5 million. The largest decrease is the shifting of salaries and services to the federal stimulus grant. The District has added no new major programs or initiatives to the 2010-11 budgets. During the year, positions will continue to be reviewed and monitored and careful attention will be paid to the remaining budget as well.

In May 2007, the voters of the district approved a \$123 million bond issue. The proceeds have been used to build two new middle schools to replace the existing schools and do major renovations to the high school and stadium. Construction is nearly complete and the district hopes to see savings from more energy efficient buildings.

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

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

Basic Financial Statements

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

STATEMENT OF NET ASSETS

AUGUST 31, 2010

| Data Control Codes | 1 | Governmental Activities |
|--------------------------|---|----------------------------|
| ASSETS: | | |
| 1110 | <i>Cash and Cash Equivalents</i> | \$ 1,755,219 |
| 1120 | <i>Current Investments</i> | 40,877,032 |
| 1225 | <i>Property Taxes Receivable (Net)</i> | 799,596 |
| 1240 | <i>Due from Other Governments</i> | 6,371,479 |
| 1250 | <i>Accrued Interest</i> | 62,847 |
| 1290 | <i>Other Receivables (Net)</i> | 37,470 |
| 1300 | <i>Inventories</i> | 59,325 |
| 1410 | <i>Deferred Expenses</i> | 693,448 |
| 1420 | <i>Capitalized Bond and Other Debt Issuance Costs</i> | 837,191 |
| Capital Assets: | | |
| 1510 | <i>Land</i> | 1,217,225 |
| 1520 | <i>Buildings and Improvements, Net</i> | 36,119,003 |
| 1530 | <i>Furniture and Equipment, Net</i> | 2,394,967 |
| 1580 | <i>Construction in Progress</i> | 97,568,526 |
| 1000 | Total Assets | <u>188,793,328</u> |
| LIABILITIES: | | |
| 2110 | <i>Accounts Payable</i> | 8,750,194 |
| 2140 | <i>Interest Payable</i> | 260,231 |
| 2165 | <i>Accrued Liabilities</i> | 1,852,789 |
| 2180 | <i>Due to Other Governments</i> | 602,682 |
| 2300 | <i>Unearned Revenue</i> | 258,723 |
| Noncurrent Liabilities: | | |
| 2501 | <i>Due Within One Year</i> | 5,040,000 |
| 2502 | <i>Due in More Than One Year</i> | 132,367,295 |
| 2000 | Total Liabilities | <u>149,131,914</u> |
| NET ASSETS | | |
| 3200 | Invested in Capital Assets, Net of Related Debt | 26,687,636 |
| Restricted For: | | |
| 3850 | Debt Service | 1,284,842 |
| 3900 | Unrestricted | 11,688,936 |
| 3000 | Total Net Assets | <u>\$ 39,661,414</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, 2010

| 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> | \$ 23,736,035 | \$ 26,386 | \$ 3,171,685 | \$ (20,537,964) | |
| 12 | <i>Instructional Resources and Media Services</i> | 736,097 | -- | 39,703 | (696,394) | |
| 13 | <i>Curriculum and Staff Development</i> | 996,347 | -- | 49,081 | (947,266) | |
| 23 | <i>School Leadership</i> | 1,850,576 | -- | -- | (1,850,576) | |
| 31 | <i>Guidance, Counseling, & Evaluation Services</i> | 1,408,296 | -- | -- | (1,408,296) | |
| 32 | <i>Social Work Services</i> | 49,194 | -- | -- | (49,194) | |
| 33 | <i>Health Services</i> | 596,497 | -- | -- | (596,497) | |
| 34 | <i>Student Transportation</i> | 672,773 | -- | -- | (672,773) | |
| 35 | <i>Food Service</i> | 2,368,848 | 1,634,160 | 888,548 | 153,860 | |
| 36 | <i>Cocurricular/Extracurricular Activities</i> | 1,857,180 | 330,744 | 16,438 | (1,509,998) | |
| 41 | <i>General Administration</i> | 1,016,878 | -- | -- | (1,016,878) | |
| 51 | <i>Plant Maintenance and Operations</i> | 10,352,400 | 10,822 | 83,154 | (10,258,424) | |
| 52 | <i>Security and Monitoring Services</i> | 121,444 | -- | -- | (121,444) | |
| 53 | <i>Data Processing Services</i> | 509,807 | -- | -- | (509,807) | |
| 61 | <i>Community Services</i> | 15,537 | -- | 15,537 | -- | |
| 72 | <i>Interest on Long-term Debt</i> | 6,081,196 | -- | -- | (6,081,196) | |
| 73 | <i>Bond Issuance Costs and Fees</i> | 133,074 | -- | -- | (133,074) | |
| 91 | <i>Contracted Instructional Services between Schools</i> | 5,488,976 | -- | -- | (5,488,976) | |
| 95 | <i>Payments to Juvenile Justice Alternative Ed. Programs</i> | 47,250 | -- | -- | (47,250) | |
| 99 | <i>Other Intergovernmental Charges</i> | 450,884 | -- | -- | (450,884) | |
| TG | Total Governmental Activities | 58,489,289 | 2,002,112 | 4,264,146 | (52,223,031) | |
| TP | Total Primary Government | \$ 58,489,289 | \$ 2,002,112 | \$ 4,264,146 | (52,223,031) | |
| | General Revenues: | | | | | |
| MT | <i>Property Taxes, Levied for General Purposes</i> | | | | 27,236,479 | |
| DT | <i>Property Taxes, Levied for Debt Service</i> | | | | 11,457,427 | |
| IE | <i>Investment Earnings</i> | | | | 261,913 | |
| GC | <i>Grants and Contributions Not Restricted to Specific Programs</i> | | | | 10,899,595 | |
| MI | <i>Miscellaneous</i> | | | | 2,735,381 | |
| TR | Total General Revenues | | | | 52,590,795 | |
| CN | Change in Net Assets | | | | 367,764 | |
| NB | Net Assets - Beginning | | | | 36,779,778 | |
| PA | Prior Period Adjustment | | | | 2,513,872 | |
| | Net Assets - Beginning, as Restated | | | | 39,293,650 | |
| NE | Net Assets - Ending | | | | \$ 39,661,414 | |

The accompanying notes are an integral part of this statement.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS

AUGUST 31, 2010

| Data Control Codes | 10 General Fund | 50 Debt Service Fund |
|--|-----------------------|-------------------------------|
| ASSETS: | | |
| 1110 <i>Cash and Cash Equivalents</i> | \$ 500 | \$ 24,071 |
| 1120 <i>Current Investments</i> | 15,016,745 | 1,261,895 |
| 1225 <i>Taxes Receivable, Net</i> | 667,462 | 132,134 |
| 1240 <i>Due from Other Governments</i> | 5,882,435 | -- |
| 1250 <i>Accrued Interest</i> | 25,285 | -- |
| 1260 <i>Due from Other Funds</i> | 387,693 | -- |
| 1290 <i>Other Receivables</i> | 33,838 | 3,632 |
| 1300 <i>Inventories</i> | -- | -- |
| 1410 <i>Deferred Expenditures</i> | 693,448 | -- |
| 1000 Total Assets | <u>\$ 22,707,406</u> | <u>\$ 1,421,732</u> |
| LIABILITIES: | | |
| Current Liabilities: | | |
| 2110 <i>Accounts Payable</i> | \$ 576,940 | \$ -- |
| 2150 <i>Payroll Deductions & Withholdings</i> | 58,589 | -- |
| 2160 <i>Accrued Wages Payable</i> | 1,387,336 | -- |
| 2170 <i>Due to Other Funds</i> | 1,648,470 | -- |
| 2180 <i>Due to Other Governments</i> | 602,682 | -- |
| 2200 <i>Accrued Expenditures</i> | 113,051 | -- |
| 2300 <i>Unearned Revenue</i> | 844,676 | 112,470 |
| 2000 Total Liabilities | <u>5,231,744</u> | <u>112,470</u> |
| FUND BALANCES: | | |
| Reserved Fund Balances: | | |
| 3410 <i>Investments in Inventory</i> | -- | -- |
| 3420 <i>Debt Service</i> | -- | 1,309,262 |
| 3450 <i>Reserve for Food Service</i> | -- | -- |
| 3470 <i>Capital Acquisitions & Contractual Obligations</i> | -- | -- |
| Designated Fund Balance: | | |
| 3590 <i>Other Designated Fund Balance</i> | 10,119,862 | -- |
| 3600 <i>Unreserved</i> | 7,355,800 | -- |
| 3000 Total Fund Balances | <u>17,475,662</u> | <u>1,309,262</u> |
| 4000 Total Liabilities and Fund Balances | <u>\$ 22,707,406</u> | <u>\$ 1,421,732</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 |
|--|--|--------------------------------|--------------------------------------|
| \$ 17,606 | \$ -- | \$ 860,062 | \$ 902,239 |
| 687,785 | 23,171,756 | 738,851 | 40,877,032 |
| -- | -- | -- | 799,596 |
| -- | -- | 489,044 | 6,371,479 |
| -- | 37,562 | -- | 62,847 |
| -- | -- | -- | 387,693 |
| -- | -- | -- | 37,470 |
| -- | -- | 59,325 | 59,325 |
| -- | -- | -- | 693,448 |
| <u>\$ 705,391</u> | <u>\$ 23,209,318</u> | <u>\$ 2,147,282</u> | <u>\$ 50,191,129</u> |
| | | | |
| \$ 43,568 | \$ 8,016,653 | \$ 100,502 | \$ 8,737,663 |
| -- | -- | -- | 58,589 |
| -- | -- | 121,698 | 1,509,034 |
| -- | -- | 387,694 | 2,036,164 |
| -- | -- | -- | 602,682 |
| -- | -- | -- | 113,051 |
| -- | -- | 81,508 | 1,038,654 |
| <u>43,568</u> | <u>8,016,653</u> | <u>691,402</u> | <u>14,095,837</u> |
| | | | |
| -- | -- | 59,325 | 59,325 |
| -- | -- | -- | 1,309,262 |
| -- | -- | 657,704 | 657,704 |
| 661,823 | 15,192,665 | 738,851 | 16,593,339 |
| -- | -- | -- | 10,119,862 |
| -- | -- | -- | 7,355,800 |
| <u>661,823</u> | <u>15,192,665</u> | <u>1,455,880</u> | <u>36,095,292</u> |
| | | | |
| <u>\$ 705,391</u> | <u>\$ 23,209,318</u> | <u>\$ 2,147,282</u> | <u>\$ 50,191,129</u> |

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT*RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**TO THE STATEMENT OF NET ASSETS**AUGUST 31, 2010*

| | |
|--|----------------------|
| Total fund balances - governmental funds balance sheet | \$ 36,095,292 |
| 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. | 137,299,723 |
| Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds. | 779,931 |
| The assets and liabilities of internal service funds are included in governmental activities in the SNA. | 2,316,805 |
| Payables for bond principal which are not due in the current period are not reported in the funds. | (133,366,077) |
| The accumulated accretion of interest on capital appreciation bonds is not reported in the funds. | (1,800,831) |
| Payables for bond interest which are not due in the current period are not reported in the funds. | (260,231) |
| The deferred gain/(loss) on the refunding of bonds is amortized in the SNA but not in the funds. | 72,900 |
| Bond premiums are amortized over the life of the bonds in the SNA but not in the funds. | (2,200,235) |
| Bond issuance costs and similar items are capitalized in the SNA but not in the funds. | 724,140 |
| Rounding difference | (3) |
| Net assets of governmental activities - Statement of Net Assets | <u>\$ 39,661,414</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, 2010

| Data Control Codes | | 10 General Fund | 50 Debt Service Fund |
|-------------------------------------|--|----------------------|-------------------------|
| REVENUES: | | | |
| 5700 | Local and Intermediate Sources | \$ 30,430,284 | \$ 11,487,807 |
| 5800 | State Program Revenues | 10,474,428 | -- |
| 5900 | Federal Program Revenues | 21,807 | -- |
| 5020 | Total Revenues | <u>40,926,519</u> | <u>11,487,807</u> |
| EXPENDITURES: | | | |
| Current: | | | |
| 0011 | Instruction | 19,375,076 | -- |
| 0012 | Instructional Resources and Media Services | 658,994 | -- |
| 0013 | Curriculum and Staff Development | 886,625 | -- |
| 0023 | School Leadership | 1,761,998 | -- |
| 0031 | Guidance, Counseling, & Evaluation Services | 1,339,208 | -- |
| 0032 | Social Work Services | 46,226 | -- |
| 0033 | Health Services | 567,246 | -- |
| 0034 | Student Transportation | 636,327 | -- |
| 0035 | Food Service | -- | -- |
| 0036 | Cocurricular/Extracurricular Activities | 1,747,974 | -- |
| 0041 | General Administration | 963,102 | -- |
| 0051 | Plant Maintenance and Operations | 5,945,081 | -- |
| 0052 | Security and Monitoring Services | 116,535 | -- |
| 0053 | Data Processing Services | 485,143 | -- |
| 0061 | Community Services | -- | -- |
| 0071 | Principal on Long-term Debt | -- | 4,589,652 |
| 0072 | Interest on Long-term Debt | -- | 6,308,180 |
| 0073 | Bond Issuance Costs and Fees | -- | 98,191 |
| 0081 | Capital Outlay | -- | -- |
| 0091 | Contracted Instructional Services | | |
| 0091 | Between Public Schools | 5,488,976 | -- |
| 0095 | Payments to Juvenile Justice Alternative | | |
| 0095 | Education Programs | 47,250 | -- |
| 0099 | Other Intergovernmental Charges | 450,884 | -- |
| 6030 | Total Expenditures | <u>40,516,645</u> | <u>10,996,023</u> |
| 1100 | Excess (Deficiency) of Revenues Over (Under) | | |
| 1100 | Expenditures | <u>409,874</u> | <u>491,784</u> |
| Other Financing Sources and (Uses): | | | |
| 7901 | Refunding Bonds Issued | -- | 4,375,000 |
| 7912 | Sale of Real or Personal Property | 54,724 | -- |
| 7915 | Transfers In | 46,683 | -- |
| 7916 | Premium or Discount on Issuance of Bonds | -- | 309,531 |
| 7917 | Prepaid Interest | -- | 8,621 |
| 8911 | Transfers Out | -- | -- |
| 8949 | Other Uses | -- | (4,581,000) |
| 7080 | Total Other Financing Sources and (Uses) | <u>101,407</u> | <u>112,152</u> |
| 1200 | Net Change in Fund Balances | 511,281 | 603,936 |
| 0100 | Fund Balances - Beginning | 14,450,509 | 705,326 |
| 1300 | Prior Period Adjustment | 2,513,872 | -- |
| | Fund Balances - Beginning, as Restated | 16,964,381 | 705,326 |
| 3000 | Fund Balances - Ending | <u>\$ 17,475,662</u> | <u>\$ 1,309,262</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 |
|--|--|--------------------------------|--------------------------------------|
| \$ 11,219 | \$ 123,674 | \$ 1,695,680 | \$ 43,748,664 |
| -- | -- | 336,226 | 10,810,654 |
| -- | -- | 4,280,606 | 4,302,413 |
| <u>11,219</u> | <u>123,674</u> | <u>6,312,512</u> | <u>58,861,731</u> |
| -- | -- | 3,450,444 | 22,825,520 |
| -- | -- | 42,017 | 701,011 |
| -- | -- | 63,517 | 950,142 |
| -- | -- | -- | 1,761,998 |
| -- | -- | -- | 1,339,208 |
| -- | -- | -- | 46,226 |
| -- | -- | -- | 567,246 |
| -- | -- | -- | 636,327 |
| -- | -- | 2,368,848 | 2,368,848 |
| -- | -- | 16,438 | 1,764,412 |
| -- | -- | -- | 963,102 |
| -- | -- | 88,000 | 6,033,081 |
| -- | -- | -- | 116,535 |
| -- | -- | -- | 485,143 |
| -- | -- | 15,537 | 15,537 |
| -- | -- | -- | 4,589,652 |
| -- | -- | -- | 6,308,180 |
| -- | -- | -- | 98,191 |
| 12,969,127 | 30,473,549 | 133,058 | 43,575,734 |
| -- | -- | -- | 5,488,976 |
| -- | -- | -- | 47,250 |
| -- | -- | -- | 450,884 |
| <u>12,969,127</u> | <u>30,473,549</u> | <u>6,177,859</u> | <u>101,133,203</u> |
| <u>(12,957,908)</u> | <u>(30,349,875)</u> | <u>134,653</u> | <u>(42,271,472)</u> |
| -- | -- | -- | 4,375,000 |
| -- | -- | -- | 54,724 |
| -- | -- | -- | 46,683 |
| -- | -- | -- | 309,531 |
| -- | -- | -- | 8,621 |
| -- | -- | (46,683) | (46,683) |
| -- | -- | -- | (4,581,000) |
| -- | -- | (46,683) | 166,876 |
| <u>(12,957,908)</u> | <u>(30,349,875)</u> | <u>87,970</u> | <u>(42,104,596)</u> |
| 13,619,731 | 45,542,540 | 1,367,910 | 75,686,016 |
| -- | -- | -- | 2,513,872 |
| 13,619,731 | 45,542,540 | 1,367,910 | 78,199,888 |
| <u>\$ 661,823</u> | <u>\$ 15,192,665</u> | <u>\$ 1,455,880</u> | <u>\$ 36,095,292</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, 2010*

| | |
|--|-------------------|
| Net change in fund balances - total governmental funds | \$ (42,104,596) |
| Amounts reported for governmental activities in the Statement of Activities ("SOA") are different because: | |
| Capital outlays are not reported as expenses in the SOA. | 44,162,165 |
| The depreciation of capital assets used in governmental activities is not reported in the funds. | (1,888,109) |
| Trade-in or disposal of capital assets decrease net assets in the SOA but not in the funds. | (4,481,257) |
| Certain property tax revenues are deferred in the funds. This is the change in these amounts this year. | (174,426) |
| Revenues in the SOA not providing current financial resources are not reported as revenues in the funds. | (8,100) |
| Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA. | 4,589,652 |
| Bond issuance costs and similar items are amortized in the SOA but not in the funds. | (34,883) |
| The accretion of interest on capital appreciation bonds is not reported in the funds. | 218,380 |
| (Increase) decrease in accrued interest from beginning of period to end of period. | 8,604 |
| The net revenue (expense) of internal service funds is reported with governmental activities. | 135,353 |
| Compensated absences are reported as the amount earned in the SOA but as the amount paid in the funds. | (65,991) |
| Proceeds of bonds do not provide revenue in the SOA, but are reported as current resources in the funds. | (4,375,000) |
| Bond premiums are reported in the funds but not in the SOA. | (195,028) |
| The transfer to the bond paying agent to defease refunded bonds is reflected as a use of proceeds in the funds | <u>4,581,000</u> |
| Change in net assets of governmental activities - Statement of Activities | <u>\$ 367,764</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, 2010

| Data Control Codes | | Nonmajor Internal Service Fund <u>Workers' Compensation Insurance Fund</u> |
|--------------------------|-------------------------------|---|
| ASSETS: | | |
| Current Assets: | | |
| 1110 | Cash and Cash Equivalents | \$ 852,980 |
| Receivables: | | |
| 1260 | Due from Other Funds | 1,648,471 |
| | Total Current Assets | <u>2,501,451</u> |
| 1000 | Total Assets | <u>\$ 2,501,451</u> |
| LIABILITIES: | | |
| Current Liabilities: | | |
| 2110 | Accounts Payable | \$ 12,531 |
| 2200 | Accrued Expenditures/Expenses | 172,115 |
| | Total Current Liabilities | <u>184,646</u> |
| 2000 | Total Liabilities | <u>184,646</u> |
| NET ASSETS: | | |
| 3900 | Unrestricted Net Assets | 135,353 |
| 3000 | Total Net Assets | <u>\$ 2,316,805</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, 2010

| Data Control Codes | | Nonmajor Internal Service Fund <u>Workers' Compensation Insurance Fund</u> |
|--------------------------|---------------------------------------|---|
| | OPERATING REVENUES: | |
| 5700 | <i>Local and Intermediate Sources</i> | \$ 415,567 |
| 5020 | Total Revenues | <u>415,567</u> |
| | OPERATING EXPENSES: | |
| 6400 | <i>Other Operating Costs</i> | 280,214 |
| 6030 | Total Expenses | <u>280,214</u> |
| 1300 | Change in Net Assets | 135,353 |
| 0100 | Total Net Assets - Beginning | 2,181,452 |
| 3300 | Total Net Assets - Ending | <u>\$ 2,316,805</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, 2010

| | 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> | \$ 39,766 |
| <i>Cash Payments to Suppliers for Services</i> | <u>(227,909)</u> |
| Net Cash Provided (Used) by Operating Activities | <u>(188,143)</u> |
| | |
| Net Increase (Decrease) in Cash and Cash Equivalents | (188,143) |
| Cash and Cash Equivalents at Beginning of Year | 1,041,123 |
| Cash and Cash Equivalents at End of Year | <u>\$ 852,980</u> |
| | |
| Reconciliation of Operating Income to Net Cash Provided by Operating Activities: | |
| Operating Income (Loss) | \$ 135,353 |
| 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> | (375,801) |
| <i>Increase (Decrease) in Accounts Payable</i> | 12,530 |
| <i>Increase (Decrease) in Accrued Expenses</i> | 39,775 |
| Total Adjustments | <u>(323,496)</u> |
| Net Cash Provided (Used) by Operating Activities | <u>\$ (188,143)</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, 2010

| Data Control Codes | | Bequests | Agency Fund <hr/> Student Activity <hr/> |
|--------------------------|----------------------------------|------------------|--|
| | ASSETS: | | |
| 1110 | <i>Cash and Cash Equivalents</i> | \$ -- | \$ 720,824 |
| 1800 | <i>Restricted Assets</i> | 36,604 | -- |
| 1000 | Total Assets | <u>\$ 36,604</u> | <u>\$ 720,824</u> |
| | LIABILITIES: | | |
| | Current Liabilities: | | |
| 2190 | <i>Due to Student Groups</i> | \$ -- | \$ 720,824 |
| 2000 | Total Liabilities | <u>--</u> | <u>720,824</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, 2010

| | Private-purpose Trust Fund |
|----------------------------------|----------------------------------|
| | <u>Bequests</u> |
| Additions: | |
| Bequests | \$ -- |
| Total Additions | <u>--</u> |
| Deductions: | |
| Athletic Facilities Improvements | <u>--</u> |
| Total Deductions | <u>--</u> |
| Change in Net Assets | <u>--</u> |
| Net Assets-Beginning of the Year | 36,604 |
| 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, 2010

A. Summary of Significant Accounting Policies

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

1. Reporting Entity

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

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

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

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

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

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

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2010

The District reports the following major governmental funds:

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

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

Capital Projects Series 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

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2010

actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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

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

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.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2010

d. Capital Assets

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

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

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

e. Receivable and Payable Balances

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

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

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.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2010

B. Compliance and Accountability

1. Finance-Related Legal and Contractual Provisions

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

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

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

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

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

C. Deposits and Investments

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

1. Cash Deposits:

At August 31, 2010, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$1,755,219 and the bank balance was \$2,030,053. The District's cash deposits at August 31, 2010 and during the year ended August 31, 2010, were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

2. Investments:

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

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

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

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2010

The District's investments at August 31, 2010 are shown below.

| <u>Investment or Investment Type</u> | <u>Maturity</u> | <u>Ratings</u> | <u>Fair Value</u> | <u>Percentage</u> |
|---|-----------------|----------------|----------------------|-------------------|
| Lone Star Investment Pool-Govt. Overnight | 34 days average | AAA-m | \$ 17,352,126 | 42.45% |
| Texas Short Term Asset Reserve (TexSTAR) Investment Pool | 46 days average | AAA-m | 8,524,906 | 20.86% |
| Certificates of Deposit | N/A | N/A | 15,000,000 | 36.70% |
| Total Investments | | | \$ 40,877,032 | 100.00% |

3. Analysis of Specific Deposit and Investment Risks

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

a. Credit Risk

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

b. Custodial Credit Risk

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

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

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

c. Concentration of Credit Risk

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

d. Interest Rate Risk

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

e. Foreign Currency Risk

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

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2010

Investment Accounting Policy

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

Public Funds Investment Pools

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

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

D. Capital Assets

Capital asset activity for the year ended August 31, 2010, was as follows:

| | Beginning Balances | Increases | Decreases | Ending Balances |
|--|-----------------------|----------------------|----------------------|-----------------------|
| Governmental activities: | | | | |
| <i>Capital assets not being depreciated:</i> | | | | |
| Land | \$ 1,217,225 | \$ -- | \$ -- | \$ 1,217,225 |
| Construction in progress | 64,312,721 | 43,570,629 | 10,314,824 | 97,568,526 |
| Total capital assets not being depreciated | <u>65,529,946</u> | <u>43,570,629</u> | <u>10,314,824</u> | <u>98,785,751</u> |
| <i>Capital assets being depreciated:</i> | | | | |
| Buildings and improvements | 65,245,780 | 10,704,505 | 15,163,518 | 60,786,767 |
| Equipment | 3,013,274 | 160,138 | 288,611 | 2,884,801 |
| Vehicles | 3,406,118 | 41,717 | 423,403 | 3,024,432 |
| Total capital assets being depreciated | <u>71,665,172</u> | <u>10,906,360</u> | <u>15,875,532</u> | <u>66,696,000</u> |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | (33,873,338) | (1,504,935) | (10,710,509) | (24,667,764) |
| Equipment | (1,769,256) | (213,980) | (287,061) | (1,696,175) |
| Vehicles | (2,045,602) | (169,194) | (396,705) | (1,818,091) |
| Total accumulated depreciation | <u>(37,688,196)</u> | <u>(1,888,109)</u> | <u>(11,394,275)</u> | <u>(28,182,030)</u> |
| Total capital assets being depreciated, net | <u>33,976,976</u> | <u>9,018,251</u> | <u>4,481,257</u> | <u>38,513,970</u> |
| Governmental activities capital assets, net | <u>\$ 99,506,922</u> | <u>\$ 52,588,880</u> | <u>\$ 14,796,081</u> | <u>\$ 137,299,721</u> |

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2010

Depreciation was charged to functions as follows:

| | |
|---|---------------------|
| Instruction | \$ 979,877 |
| Instructional Resources and Media Services | 35,086 |
| Curriculum and Staff Development | 46,205 |
| School Leadership | 88,578 |
| Guidance, Counseling, & Evaluation Services | 69,088 |
| Social Work Services | 2,968 |
| Health Services | 29,251 |
| Student Transportation | 36,446 |
| Extracurricular Activities | 92,768 |
| General Administration | 53,776 |
| Plant Maintenance and Operations | 424,493 |
| Security and Monitoring Services | 4,909 |
| Data Processing Services | 24,664 |
| | <u>\$ 1,888,109</u> |

E. Interfund Balances and Activities

Due To and From Other Funds

Balances due to and due from other funds at August 31, 2010, consisted of the following:

| <u>Due To Fund</u> | <u>Due From Fund</u> | <u>Amount</u> | <u>Purpose</u> |
|---------------------------------|--------------------------|---------------------|------------------|
| General Fund | Other Governmental Funds | \$ 387,693 | Short-term loans |
| Internal Service-Workers' Comp. | General Fund | 1,648,471 | Short-term loans |
| | Total | <u>\$ 2,036,164</u> | |

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

2. Transfers To and From Other Funds

HELP: This chart is similar to the one above. Only major funds need listed by individual fund name. Both this chart and the one above are patterned after the illustrative notes for "Common County" included in the second GASB 34 implementation guide, issued in 2003. Reference to the debt service fund by name in this chart assumes that it is a major fund.

Transfers to and from other funds at August 31, 2010, consisted of the following:

| <u>Transfers From</u> | <u>Transfers To</u> | <u>Amount</u> | <u>Reason</u> |
|------------------------------|---------------------|------------------|------------------------|
| State Disaster Recovery Fund | General fund | \$ 46,683 | Reimburse expenditures |
| | Total | <u>\$ 46,683</u> | |

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2010

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, 2010, are as follows:

| Series | Interest Rates | Beginning Balance | Increases | Decreases | Ending Balance | Amounts Due Within One Year |
|---------------------------------|----------------|-----------------------|---------------------|---------------------|-----------------------|-----------------------------|
| <u>Governmental activities:</u> | | | | | | |
| 1998 | 4.00% | \$ 5,000,000 | \$ -- | \$ 5,000,000 | \$ -- | \$ -- |
| 2005 | 3.875-4.50% | 7,584,652 | -- | 709,652 | 6,875,000 | 1,025,000 |
| 2007 | 4.00-5.00% | 20,208,539 | -- | 930,000 | 19,278,539 | 950,000 |
| 2008 | 3.75-5.00% | 59,590,000 | -- | 1,315,000 | 58,275,000 | 1,385,000 |
| 2009 | 2.00-5.00% | 45,697,538 | -- | 1,065,000 | 44,632,538 | 1,185,000 |
| 2010 | 2.004.25% | -- | 4,375,000 | 70,000 | 4,305,000 | 495,000 |
| | | <u>138,080,729</u> | <u>4,375,000</u> | <u>9,089,652</u> | <u>133,366,077</u> | <u>5,040,000</u> |
| Accumulated Accretion-CAB's | | 2,019,211 | 116,968 | 335,348 | 1,800,831 | -- |
| Compensated absences * | | 47,060 | 65,992 | -- | 113,052 | -- |
| Deferred Gain/(Loss) Refund | | -- | (81,000) | (8,100) | (72,900) | -- |
| Premium on Bonds * | | 2,005,207 | 309,531 | 114,503 | 2,200,235 | -- |
| Total governmental activities | | <u>\$ 142,152,207</u> | <u>\$ 4,786,491</u> | <u>\$ 9,531,403</u> | <u>\$ 137,407,295</u> | <u>\$ 5,040,000</u> |

* Other long-term liabilities

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

| Liability | Activity Type | Fund |
|----------------------|---------------|--------------|
| Compensated absences | Governmental | General Fund |

2. Debt Service Requirements

Debt service requirements on long-term debt at August 31, 2010, are as follows:

| Year Ending August 31, | Governmental Activities | | |
|------------------------|-------------------------|----------------------|-----------------------|
| | Principal | Interest | Total |
| 2011 | \$ 5,040,000 | \$ 5,832,066 | \$ 10,872,066 |
| 2012 | 5,240,000 | 5,623,160 | 10,863,160 |
| 2013 | 5,395,000 | 5,427,916 | 10,822,916 |
| 2014 | 5,223,539 | 5,524,708 | 10,748,247 |
| 2015 | 5,610,000 | 5,043,841 | 10,653,841 |
| 2016-2020 | 23,627,538 | 24,275,484 | 47,903,022 |
| 2021-2025 | 25,530,000 | 16,957,090 | 42,487,090 |
| 2026-2030 | 32,280,000 | 10,341,688 | 42,621,688 |
| 2031-2035 | 25,420,000 | 2,193,250 | 27,613,250 |
| Totals | <u>\$ 133,366,077</u> | <u>\$ 81,219,203</u> | <u>\$ 214,585,280</u> |

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2010

3. Advance Refunding of Debt

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

| <u>Bond Issue</u> | <u>Amount</u> |
|-------------------|---------------------|
| Series 1998 | \$ 4,500,000 |
| Total | <u>\$ 4,500,000</u> |

G. Risk Management

The District is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2010, the District purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

H. Pension Plan

1. Plan Description

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

2. Funding Policy

Under provisions in State law, plan members are required to contribute 6.4% of their annual covered salary and the State of Texas contributes an amount equal to 6.58% of the District's covered payroll. The District's employees' contributions to the System for the years ending August 31, 2010, 2009 and 2008 were \$1,688,391, \$1,662,554 and \$1,580,091, 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, 2010, 2009 and 2008 were \$267,131, \$278,871 and \$161,813, respectively, and were equal to the required contributions for each year. The amount contributed by the State on behalf of the District was \$1,735,878 for the year ended August 31, 2010.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2010

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 2010, 2009 and 2008. 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, 2010, 2009, and 2008, the State's contributions to TRS-Care were \$263,811, \$259,774, and \$246,889, respectively, the active member contributions were \$171,477, \$168,853, and \$160,478, respectively, and the District's contributions were \$145,096, \$142,876, and \$135,789, respectively, which equaled the required contributions each year.

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. For the fiscal years ended August 31, 2010, 2009, and 2008, 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, 2010, 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).

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2010

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, 2010.

3. Commitments

The District has numerous ongoing capital projects underway relating the 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 | \$ 9,568,037 |
| Groves Middle School | 3,301,601 |
| Port-Neches Middle School | 2,540,923 |
| Buses | 1,069,682 |
| Bond Fees | 892,557 |
| Other | 750,382 |
| Total | <u>\$ 18,123,182</u> |

L. Prior Period Adjustment

A prior period adjustment was made to properly state prior year tax revenue. This entry resulting from a judgment in a lawsuit filed by a taxpayer. The taxpayer asserted that the values place on certain property were unreasonable. Amounts disputed were not paid by the taxpayer. The judgment dated July 28, 2010, resulted in the District recovering additional tax revenue in the amount of \$2.5 million. This recovery was credited to beginning fund balance since the revenue related to prior years.

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, 2010

| Data Control Codes | 1 | | 2 | | 3 | | Variance with Final Budget Positive (Negative) |
|---|---|-------------------|-------------------|-------------------|------------------|--|--|
| | Budgeted Amounts | | | | Actual | | |
| | Original | Final | | | | | |
| REVENUES: | | | | | | | |
| 5700 | Local and Intermediate Sources | \$ 30,242,493 | \$ 30,242,493 | \$ 30,430,284 | \$ 187,791 | | |
| 5800 | State Program Revenues | 9,066,826 | 9,066,826 | 10,474,428 | 1,407,602 | | |
| 5900 | Federal Program Revenues | -- | -- | 21,807 | 21,807 | | |
| 5020 | Total Revenues | <u>39,309,319</u> | <u>39,309,319</u> | <u>40,926,519</u> | <u>1,617,200</u> | | |
| EXPENDITURES: | | | | | | | |
| Current: | | | | | | | |
| Instructional & Instructional Related Services: | | | | | | | |
| 0011 | Instruction | 20,181,270 | 20,142,658 | 19,375,076 | 767,582 | | |
| 0012 | Instructional Resources and Media Services | 722,631 | 724,308 | 658,994 | 65,314 | | |
| 0013 | Curriculum and Staff Development | 951,635 | 951,635 | 886,625 | 65,010 | | |
| | Total Instruction & Instr. Related Services | <u>21,855,536</u> | <u>21,818,601</u> | <u>20,920,695</u> | <u>897,906</u> | | |
| Instructional and School Leadership: | | | | | | | |
| 0023 | School Leadership | 1,824,335 | 1,824,335 | 1,761,998 | 62,337 | | |
| | Total Instructional & School Leadership | <u>1,824,335</u> | <u>1,824,335</u> | <u>1,761,998</u> | <u>62,337</u> | | |
| Support Services - Student (Pupil): | | | | | | | |
| 0031 | Guidance, Counseling and Evaluation Services | 1,422,922 | 1,423,192 | 1,339,208 | 83,984 | | |
| 0032 | Social Work Services | 61,120 | 61,120 | 46,226 | 14,894 | | |
| 0033 | Health Services | 602,447 | 603,676 | 567,246 | 36,430 | | |
| 0034 | Student (Pupil) Transportation | 750,624 | 750,624 | 636,327 | 114,297 | | |
| 0036 | Cocurricular/Extracurricular Activities | 1,910,630 | 1,938,559 | 1,747,974 | 190,585 | | |
| | Total Support Services - Student (Pupil) | <u>4,747,743</u> | <u>4,777,171</u> | <u>4,336,981</u> | <u>440,190</u> | | |
| Administrative Support Services: | | | | | | | |
| 0041 | General Administration | 1,107,550 | 1,107,550 | 963,102 | 144,448 | | |
| | Total Administrative Support Services | <u>1,107,550</u> | <u>1,107,550</u> | <u>963,102</u> | <u>144,448</u> | | |
| Support Services - Nonstudent Based: | | | | | | | |
| 0051 | Plant Maintenance and Operations | 6,742,736 | 6,742,736 | 5,945,081 | 797,655 | | |
| 0052 | Security and Monitoring Services | 101,106 | 121,106 | 116,535 | 4,571 | | |
| 0053 | Data Processing Services | 507,969 | 515,476 | 485,143 | 30,333 | | |
| | Total Support Services - Nonstudent Based | <u>7,351,811</u> | <u>7,379,318</u> | <u>6,546,759</u> | <u>832,559</u> | | |
| Intergovernmental Charges: | | | | | | | |
| 0091 | Contracted Instr. Services Between Public Schools | 5,852,400 | 5,852,400 | 5,488,976 | 363,424 | | |
| 0095 | Payments to Juvenile Justice Alternative | | | | | | |
| 0095 | Education Programs | 47,250 | 47,250 | 47,250 | -- | | |
| 0099 | Other Intergovernmental Charges | 560,060 | 540,060 | 450,884 | 89,176 | | |
| | Total Intergovernmental Charges | <u>6,459,710</u> | <u>6,439,710</u> | <u>5,987,110</u> | <u>452,600</u> | | |
| 6030 | Total Expenditures | <u>43,346,685</u> | <u>43,346,685</u> | <u>40,516,645</u> | <u>2,830,040</u> | | |
| 1100 | Excess (Deficiency) of Revenues Over (Under) | | | | | | |
| 1100 | Expenditures | (4,037,366) | (4,037,366) | 409,874 | 4,447,240 | | |

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

EXHIBIT G-1

GENERAL FUND

Page 2 of 2

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2010

| 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> | -- | -- | 54,724 | 54,724 |
| 7915 | | | | |
| <i>Transfers In</i> | -- | -- | 46,683 | 46,683 |
| 7080 | | | | |
| Total Other Financing Sources and (Uses) | -- | -- | 101,407 | 101,407 |
| 1200 | | | | |
| Net Change in Fund Balance | (4,037,366) | (4,037,366) | 511,281 | 4,548,647 |
| 0100 | | | | |
| Fund Balance - Beginning | 14,450,509 | 14,450,509 | 14,450,509 | -- |
| 1300 | | | | |
| Prior Period Adjustment | -- | -- | 2,513,872 | 2,513,872 |
| 0100 | | | | |
| Fund Balance - Beginning, as Restated | 14,450,509 | 14,450,509 | 16,964,381 | 2,513,872 |
| 3000 | | | | |
| Fund Balance - Ending | \$ 10,413,143 | \$ 10,413,143 | \$ 17,475,662 | \$ 7,062,519 |

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, 2010

| Data Control Codes | 1 | 2 | 3 |
|--|---------------------|---------------------|------------------------------------|
| | Budget | Actual | Variance Positive (Negative) |
| REVENUES: | | | |
| 5700 <i>Local and Intermediate Sources</i> | \$ -- | \$ 11,219 | \$ 11,219 |
| 5020 <i>Total Revenues</i> | <u>--</u> | <u>11,219</u> | <u>11,219</u> |
| EXPENDITURES: | | | |
| Capital Outlay: | | | |
| 0081 <i>Capital Outlay</i> | 13,952,054 | 12,969,127 | 982,927 |
| <i>Total Capital Outlay</i> | <u>13,952,054</u> | <u>12,969,127</u> | <u>982,927</u> |
| 6030 <i>Total Expenditures</i> | <u>13,952,054</u> | <u>12,969,127</u> | <u>982,927</u> |
| 1100 <i>Excess (Deficiency) of Revenues Over (Under)</i> | | | |
| 1100 <i>Expenditures</i> | (13,952,054) | (12,957,908) | 994,146 |
| 1200 <i>Net Change in Fund Balance</i> | <u>(13,952,054)</u> | <u>(12,957,908)</u> | <u>994,146</u> |
| 0100 <i>Fund Balance - Beginning</i> | 13,619,731 | 13,619,731 | -- |
| 3000 <i>Fund Balance - Ending</i> | <u>\$ (332,323)</u> | <u>\$ 661,823</u> | <u>\$ 994,146</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, 2010

| Data Control Codes | 1 | 2 | 3 |
|--|---------------------|----------------------|------------------------------|
| | Budget | Actual | Variance Positive (Negative) |
| REVENUES: | | | |
| 5700 <i>Local and Intermediate Sources</i> | \$ -- | \$ 123,674 | \$ 123,674 |
| 5020 <i>Total Revenues</i> | <u>--</u> | <u>123,674</u> | <u>123,674</u> |
| EXPENDITURES: | | | |
| Current: | | | |
| Support Services - Student (Pupil): | | | |
| 0034 <i>Student (Pupil) Transportation</i> | 1,972,229 | -- | 1,972,229 |
| <i>Total Support Services - Student (Pupil)</i> | <u>1,972,229</u> | <u>--</u> | <u>1,972,229</u> |
| Capital Outlay: | | | |
| 0081 <i>Capital Outlay</i> | 42,816,309 | 30,473,549 | 12,342,760 |
| <i>Total Capital Outlay</i> | <u>42,816,309</u> | <u>30,473,549</u> | <u>12,342,760</u> |
| 6030 <i>Total Expenditures</i> | <u>44,788,538</u> | <u>30,473,549</u> | <u>14,314,989</u> |
| 1100 <i>Excess (Deficiency) of Revenues Over (Under)</i> | | | |
| 1100 <i>Expenditures</i> | (44,788,538) | (30,349,875) | 14,438,663 |
| 1200 <i>Net Change in Fund Balance</i> | <u>(44,788,538)</u> | <u>(30,349,875)</u> | <u>14,438,663</u> |
| 0100 <i>Fund Balance - Beginning</i> | 45,542,540 | 45,542,540 | -- |
| 3000 <i>Fund Balance - Ending</i> | <u>\$ 754,002</u> | <u>\$ 15,192,665</u> | <u>\$ 14,438,663</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, 2010*

| Year Ended August 31 | Tax Rates | | 3 Assessed/Appraised Value For School Tax Purposes |
|--------------------------------|------------------|-------------------|---|
| | 1 Maintenance | 2 Debt Service | |
| 2001 and Prior Years | \$ Various | \$ Various | \$ Various |
| 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 | 1.04 | .244 | 3,206,853,115 |
| 2010 (School Year Under Audit) | 1.04 | .415 | 2,713,116,770 |

1000 Totals

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

| 10 Beginning Balance 9/1/09 | 20 Current Year's Total Levy | 31 Maintenance Collections | 32 Debt Service Collections | 40 Entire Year's Adjustments | 50 Ending Balance 8/31/10 |
|--------------------------------------|---------------------------------------|----------------------------------|-----------------------------------|---------------------------------------|------------------------------------|
| \$ 202,017 | \$ -- | \$ 4,718 | \$ 634 | \$ (18,624) | \$ 178,041 |
| 27,807 | -- | 1,800 | 213 | (390) | 25,404 |
| 31,613 | -- | 1,937 | 202 | (396) | 29,078 |
| 30,582 | -- | 3,200 | 284 | (423) | 26,675 |
| 45,756 | -- | 9,903 | 844 | (432) | 34,577 |
| 61,598 | -- | 10,557 | 838 | (1,487) | 48,716 |
| 2,602,135 | -- | (12,447) | 24,214 | (2,536,357) | 54,011 |
| 1,297,799 | -- | (77,540) | 105,125 | (1,203,968) | 66,246 |
| 331,320 | -- | (11,059) | (2,594) | (206,824) | 138,149 |
| -- | 39,475,849 | 26,853,494 | 11,250,167 | (1,008,536) | 363,652 |
| <u>\$ 4,630,627</u> | <u>\$ 39,475,849</u> | <u>\$ 26,784,563</u> | <u>\$ 11,379,927</u> | <u>\$ (4,977,437)</u> | <u>\$ 964,549</u> |
| \$ -- | \$ -- | \$ -- | \$ -- | \$ -- | \$ -- |

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES FOR COMPUTATION OF INDIRECT COST FOR 2011-2012
 GENERAL AND SPECIAL REVENUE FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2010

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 | \$ -- | \$ -- | \$ 222,097 | \$ 256,852 | \$ 197,003 | \$ -- | \$ 675,952 |
| 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 | -- | -- | 60,634 | -- | -- | -- | 60,634 |
| 6212 | Audit Services | -- | -- | -- | 14,750 | -- | -- | 14,750 |
| 6213 | Tax Appraisal and Collection | -- | 5,715 | -- | -- | -- | -- | 5,715 |
| 621X | Other Prof. Services | -- | -- | 4,000 | 2,735 | 40,125 | -- | 46,860 |
| 6220 | Tuition and Transfer Payments | -- | -- | -- | -- | -- | -- | -- |
| 6230 | Education Service Centers | 1,500 | -- | 1,500 | -- | 6,000 | -- | 9,000 |
| 6240 | Contr. Maint. and Repair | -- | -- | -- | -- | -- | -- | -- |
| 6250 | Utilities | -- | -- | -- | -- | -- | -- | -- |
| 6260 | Rentals | -- | -- | 9,167 | 12,270 | 2,297 | -- | 23,734 |
| 6290 | Miscellaneous Contr. | -- | -- | -- | -- | -- | -- | -- |
| 6310 | Operational Supplies, Materials | -- | -- | -- | -- | -- | -- | -- |
| 6320 | Textbooks and Reading | -- | -- | -- | -- | -- | -- | -- |
| 6330 | Testing Materials | -- | -- | -- | -- | -- | -- | -- |
| 63XX | Other Supplies, Materials | 602 | -- | 1,212 | 23,687 | 3,836 | -- | 29,337 |
| 6410 | Travel, Subsistence, Stipends | 5,172 | -- | 5,162 | 5,229 | 1,963 | -- | 17,526 |
| 6420 | Ins. and Bonding Costs | -- | -- | -- | 15,052 | -- | -- | 15,052 |
| 6430 | Election Costs | 12,331 | -- | -- | -- | -- | -- | 12,331 |
| 6490 | Miscellaneous Operating | 4,090 | -- | 23,739 | 5,896 | 7,562 | -- | 41,287 |
| 6500 | Debt Service | -- | -- | -- | -- | -- | -- | -- |
| 6600 | Capital Outlay | -- | -- | -- | -- | -- | 12,957 | 12,957 |

Total \$ 23,695 \$ 5,715 \$ 327,511 \$ 336,471 \$ 258,786 \$ 12,957 \$ 965,135

Total Expenditures for General and Special Revenue Funds (9) \$ 46,561,446

LESS: Deductions of Unallowable Costs

FISCAL YEAR

| | | |
|--|------|--------------|
| Total Capital Outlay (6600) | (10) | \$ 587,238 |
| Total Debt & Lease (6500) | (11) | \$ -- |
| Plant Maintenance (Function 51, 6100-6400) | (12) | \$ 5,975,692 |
| Food (Function 35, 6341 and 6499) | (13) | \$ 914,617 |
| Stipends (6413) | (14) | \$ -- |
| Column 4 (above) - Total Indirect Cost | | \$ 336,471 |

Subtotal 7,814,018

Net Allowed Direct Cost \$ 38,747,428

CUMULATIVE

| | | |
|---|------|-------|
| Total Cost of Buildings Before Depreciation (1520) | (15) | \$ -- |
| Historical Cost of Buildings over 50 years old | (16) | -- |
| Amount of Federal Money in Building Cost (Net of #16) | (17) | -- |
| Total Cost of Furniture & Equipment Before Depreciation (1530 & 1540) | (18) | -- |
| Historical Cost of Furniture & Equipment over 16 years old | (19) | -- |
| Amount of Federal Money in Furniture & Equipment (Net of #19) | (20) | \$ -- |

(8) Note A - \$2,033 in Function 53 expenditures and no 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, 2010

| Data Control Codes | Explanation | Amount |
|--------------------|--|----------------|
| 1 | Total General Fund Fund Balance as of August 31, 2010 (Exhibit C-1 object 3000 for the General Fund only) | \$ 17,475,662 |
| 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) | 10,119,862 |
| 4 | Estimated amount needed to cover fall cash flow deficits in the General Fund (net of borrowed funds and funds representing deferred revenues) | 6,026,988 |
| 5 | Estimate of one month's average cash disbursements during the regular school session (9/1/10 - 5/31/11) | 3,252,817 |
| 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) | 19,399,667 |
| 11 | Excess (Deficit) Undesignated Unreserved General Fund Fund Balance (Line 1 minus Line 10) | \$ (1,924,005) |

If Item 11 is a Positive Number

Explanation of need for and/or projected use of net positive

Undesignated Unreserved General Fund Fund Balance:

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

EXHIBIT J-4

NATIONAL SCHOOL BREAKFAST AND LUNCH PROGRAM
 BUDGETARY COMPARISON SCHEDULE
 FOR THE YEAR ENDED AUGUST 31, 2010

| Data Control Codes | 1 | 2 | 3 |
|---|-------------------|-------------------|------------------------------------|
| | Budget | Actual | Variance Positive (Negative) |
| REVENUES: | | | |
| 5700 <i>Local and Intermediate Sources</i> | \$ 1,603,659 | \$ 1,642,918 | \$ 39,259 |
| 5800 <i>State Program Revenues</i> | 57,850 | 55,965 | (1,885) |
| 5900 <i>Federal Program Revenues</i> | 738,598 | 888,548 | 149,950 |
| 5020 Total Revenues | <u>2,400,107</u> | <u>2,587,431</u> | <u>187,324</u> |
| EXPENDITURES: | | | |
| Current: | | | |
| Support Services - Student (Pupil): | | | |
| 0035 <i>Food Services</i> | 2,517,556 | 2,368,491 | 149,065 |
| Total Support Services - Student (Pupil) | <u>2,517,556</u> | <u>2,368,491</u> | <u>149,065</u> |
| 6030 Total Expenditures | <u>2,517,556</u> | <u>2,368,491</u> | <u>149,065</u> |
| 1100 Excess (Deficiency) of Revenues Over (Under) | | | |
| 1100 Expenditures | (117,449) | 218,940 | 336,389 |
| 1200 Net Change in Fund Balance | <u>(117,449)</u> | <u>218,940</u> | <u>336,389</u> |
| 0100 Fund Balance - Beginning | 498,089 | 498,089 | -- |
| 3000 Fund Balance - Ending | <u>\$ 380,640</u> | <u>\$ 717,029</u> | <u>\$ 336,389</u> |

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

EXHIBIT J-5

DEBT SERVICE FUND
 BUDGETARY COMPARISON SCHEDULE
 FOR THE YEAR ENDED AUGUST 31, 2010

| Data Control Codes | 1 | 2 | 3 |
|--|--------------------|---------------------|------------------------------------|
| | Budget | Actual | Variance Positive (Negative) |
| REVENUES: | | | |
| 5700 <i>Local and Intermediate Sources</i> | \$ 10,903,378 | \$ 11,487,807 | \$ 584,429 |
| 5020 <i>Total Revenues</i> | <u>10,903,378</u> | <u>11,487,807</u> | <u>584,429</u> |
| EXPENDITURES: | | | |
| Debt Service: | | | |
| 0071 <i>Principal on Long-Term Debt</i> | 4,519,653 | 4,589,652 | (69,999) |
| 0072 <i>Interest on Long-Term Debt</i> | 6,379,214 | 6,308,180 | 71,034 |
| 0073 <i>Bond Issuance Costs and Fees</i> | 107,307 | 98,191 | 9,116 |
| <i>Total Debt Service</i> | <u>11,006,174</u> | <u>10,996,023</u> | <u>10,151</u> |
| 6030 <i>Total Expenditures</i> | <u>11,006,174</u> | <u>10,996,023</u> | <u>10,151</u> |
| 1100 <i>Excess (Deficiency) of Revenues Over (Under)</i> | | | |
| 1100 <i>Expenditures</i> | <u>(102,796)</u> | 491,784 | <u>594,580</u> |
| Other Financing Sources (Uses): | | | |
| 7901 <i>Refunding Bonds Issued</i> | -- | 4,375,000 | 4,375,000 |
| 7911 <i>Capital-Related Debt Issued (Regular Bonds)</i> | 4,375,000 | -- | (4,375,000) |
| 7916 <i>Premium or Discount on Issuance of Bonds</i> | 309,531 | 309,531 | -- |
| 7917 <i>Prepaid Interest</i> | 8,621 | 8,621 | -- |
| 8949 <i>Other Uses</i> | <u>(4,581,000)</u> | <u>(4,581,000)</u> | <u>--</u> |
| 7080 <i>Total Other Financing Sources and (Uses)</i> | <u>112,152</u> | <u>112,152</u> | <u>--</u> |
| 1200 <i>Net Change in Fund Balance</i> | 9,356 | 603,936 | 594,580 |
| 0100 <i>Fund Balance - Beginning</i> | 705,326 | 705,326 | -- |
| 3000 <i>Fund Balance - Ending</i> | <u>\$ 714,682</u> | <u>\$ 1,309,262</u> | <u>\$ 594,580</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, 2010, which collectively comprise the Port Neches-Groves Independent School District's basic financial statements and have issued our report thereon dated January 20, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

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

West, Davis & Company

West, Davis & Company, LLP

January 20, 2011

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, 2010. 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, 2010.

Internal Control Over Compliance

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

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

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

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

West, Davis & Company

West, Davis & Company, LLP

January 20, 2011

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2010

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 OMB Circular A-133? Yes No

Identification of major programs:

| <u>CFDA Number(s)</u> | <u>Name of Federal Program or Cluster</u> |
|-----------------------|--|
| 84.027A | IDEA-B Formula |
| 84.027A | IDEA-B Discretionary |
| 84.391A | ARRA - IDEA-B Formula |
| 84.394A | ARRA - IDEA-B Preschool |
| 84.394A | ARRA of 2009 Title XIV State Fiscal Stabilization Fund |

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

EXHIBIT K-1

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2010

| (1) | (2) | (2A) | (3) |
|---|---------------------------|--|-------------------------|
| Federal Grantor/ Pass-Through Grantor/ Program Title | Federal CFDA Number | Pass-Through Entity Identifying Number | Federal Expenditures |
| U. S. DEPARTMENT OF EDUCATION | | | |
| Passed Through State Department of Education: | | | |
| <i>Title II Part D Enhancing Education Through Technology</i> | 4.318X | 10630001123908 | \$ 4,560 |
| <i>ESEA Title I Part A - Improving Basic Programs *</i> | 84.010A | 08610101123908 | 417,464 |
| <i>IDEA-B Formula *</i> | 84.027A | 086600011239086600 | 852,562 |
| <i>IDEA-B Discretionary *</i> | 84.027A | 106600021239086677 | 258,697 |
| Total CFDA Number 84.027A | | | <u>1,111,259</u> |
| <i>Career and Technical - Basic Grant</i> | 84.048 | 123-908 | 36,988 |
| <i>IDEA-B Preschool *</i> | 84.173A | 086610011239086610 | 27,726 |
| <i>ESEA Title IV Part A-Safe & Drug-Free Schools & Communities Act</i> | 84.186A | 10691001123908 | 10,220 |
| <i>Career and Technical - Technical Preparation</i> | 84.243a | 123-908 | 1,430 |
| <i>Title III Part A English Language Acquisition and Language Enhancement</i> | 84.365A | 10671001123908 | 11,883 |
| <i>ESEA Title II Part A - Teacher & Principal Training & Recruiting</i> | 84.367A | 08694501123908 | 129,892 |
| <i>ARRA - ESEA, Title I, Part A - Improving Basic Programs *</i> | 84.389A | 10551001123908 | 94,756 |
| <i>ARRA - IDEA-Part B Formula *</i> | 84.391A | 10554001123908 | 185,612 |
| <i>ARRA - IDEA Part B, Preschool *</i> | 84.392A | 10555001123908 | 17,978 |
| <i>ARRA of 2009 Title XIV State Fiscal Stabilization Fund *</i> | 84.394A | 10557001123908 | 1,340,237 |
| Total Passed Through State Department of Education | | | <u>3,390,005</u> |
| Total U. S. Department of Education | | | <u>3,390,005</u> |
| U. S. DEPARTMENT OF AGRICULTURE | | | |
| Passed Through State Department of Education: | | | |
| Commodity Supplemental Food Program (Non-cash) | 10.550 | 123007A | 117,825 |
| School Breakfast Program * | 10.553 | 71401001 | 128,236 |
| National School Lunch Program * | 10.555 | 71301001 | 642,487 |
| Total Passed Through State Department of Education | | | <u>888,548</u> |
| Total U. S. Department of Agriculture | | | <u>888,548</u> |
| FEDERAL EMERGENCY MANAGEMENT AGENCY | | | |
| Direct Program: | | | |
| <i>Disaster Grants - FEMA Hurricane Reimbursement</i> | 97.036 | 123-908 | 2,053 |
| Total FEDERAL EMERGENCY MANAGEMENT AGENCY | | | \$ 2,053 |
| TOTAL EXPENDITURES OF FEDERAL AWARDS | | | <u>\$ 4,280,606</u> |

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

The accompanying notes are an integral part of this schedule.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2010

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, 2010

| <u>Data Control Codes</u> | <u>Responses</u> |
|---|------------------|
| SF2 Were there any disclosures in the Annual Financial Report and/or other sources of information concerning default on bonded indebtedness obligations? | No |
| SF4 Did the district receive a clean audit? - Was there an unqualified opinion in the Annual Financial Report? | Yes |
| SF5 Did the Annual Financial Report disclose any instances of material weaknesses in internal controls? | No |
| SF9 Was there any disclosure in the Annual Financial Report of material noncompliance? | No |
| SF10 What was the total accumulated accretion on capital appreciation bonds included in the government-wide financial statements at fiscal year-end? | \$ 1,800,831 |