

PORT NECHES- GROVES
INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED AUGUST 31, 2008

Port Neches-Groves Independent School District
Annual Financial Report
For the Year Ended August 31, 2008

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Port Neches-Groves Independent School District
Annual Financial Report
For the Year Ended August 31, 2008

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Introductory Section

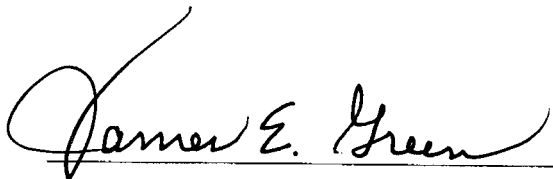
CERTIFICATE OF BOARD

Port Neches Groves ISD
Name of School District

Jefferson
County

123908
Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above-named school district were reviewed and (check one) ☒ approved ☐ disapproved for the year ended August 31, 2008 at a meeting of the Board of Trustees of such school district on the 13th day of January __, 2009..



Signature of Board Secretary



Signature of Board President

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



Financial Section



Charles E. Reed & Associates, P.C.

Certified Public Accountants & Consultants

Member

American Institute of
Certified Public Accountants

Texas Society of
Certified Public Accountants

AICPA Private
Companies Practice Section

**UNQUALIFIED OPINION ON BASIC FINANCIAL STATEMENTS
ACCOMPANIED BY REQUIRED SUPPLEMENTARY INFORMATION AND OTHER
SUPPLEMENTARY INFORMATION INCLUDING THE
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Independent Auditor's Report

Board of Trustees
Port Neches Groves ISD
620 Avenue C
Port Neches, Texas 77651

Members of the Board:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Port Neches Groves ISD (the District) as of and for the year ended August 31, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's administrators. 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 ISD as of August 31, 2008, and the respective changes in financial position and cash flows, where applicable, thereof, and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis and other RSI such as budgetary comparison information, if not presented in the Basic Financial Statements, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2008, on our consideration of the District's internal control over financial reporting and 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 *Governmental Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Beaumont

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Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise Port Neches Groves ISD's basic financial statements.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The Texas Education Agency requires school districts to include certain information in the Annual Financial and Compliance Report in conformity with laws and regulations of the State of Texas. This information is in Exhibits identified in the Table of Contents as J-1 through J-5. Except for Exhibit J-3 (Cash Flow and the Optimum Fund Balance Calculation Schedule) which is marked **UNAUDITED** and on which we express no opinion, these schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Charles E. Reed & Associates, P.C.

Charles E. Reed & Associates, P.C.
Certified Public Accountants

December 3, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Port Neches Groves Independent School District's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended August 31, 2008. Please read it in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

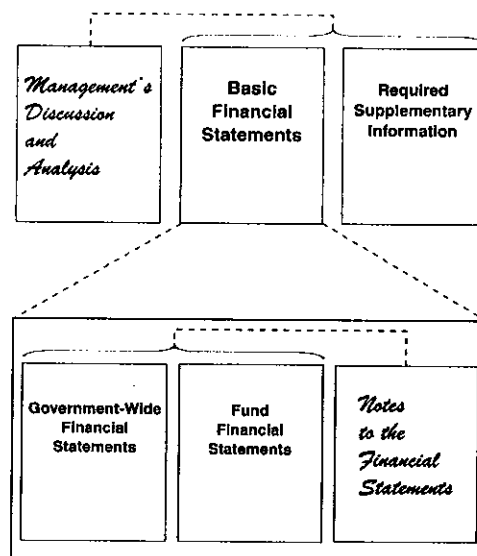
- The District's total combined net assets were \$37,153,140 at August 31, 2008.
- During the year, the District's expenses were \$620,357 less than the \$51,162,778 generated in taxes and other revenues for governmental activities.
- The total cost of the District's programs increased slightly from last year, and no new programs were added this year.
- The general fund reported a fund balance this year of \$14,673,820.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts—*management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include two kinds of statements that present different views of the District:

Figure A-1, Required Components of the District's Annual Financial Report

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the District's overall financial status. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the District's operations in more detail than the government-wide statements.
- The *governmental funds* statements tell how *general government* services were financed in the *short term* as well as what remains for future spending. They reflect the flow of current financial resources and supply the basis for tax levies and the appropriations.
- *Fiduciary fund* statements provide information about the financial relationships in which the District acts solely as a *trustee or agent* for the benefit of others, to whom the resources in question belong.



The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

Government-wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the District's net assets and how they have changed. Net assets—the difference between the District's assets and liabilities—is one way to measure the District's financial health or *position*.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.

- To assess the overall health of the District, one needs to consider additional nonfinancial factors such as changes in the District's tax base

The government-wide financial statements of the District include the *Governmental activities*. Most of the District's basic services are included here, such as instruction, extracurricular activities, curriculum and staff development, health services and general administration. Property taxes and grants finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant *funds*—not the District as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- The Board of Trustees establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The District has the following kinds of funds:

- *Governmental funds*—Most of the District's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explain the relationship (or differences) between them.
- We use *internal service funds* to report activities that provide supplies and services for the District's other programs and activities such as the District's self-insurance program.
- *Fiduciary funds*—The District is the trustee, or *fiduciary*, for certain money raised by student activities. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net assets. The District's combined net assets were \$37,153,140 at August 31, 2008. (See Table A-1).

Table A - 1
Port Neches - Groves School District's Net Assets

	<u>2008</u>	<u>2007</u>	<u>Percentage Change 2008-2007</u>
Current assets:			
Cash and investments	\$ 84,594,924	\$ 19,871,048	325.72%
Due from other governments	2,098,578	2,064,689	1.64%
Other receivables	1,036,163	963,061	7.59%
Prepaid Expenses	484,486	797,754	-39.27%
Inventories - supplies and materials	56,965	86,304	-33.99%
Total current assets	<u>88,271,116</u>	<u>23,782,856</u>	<u>271.15%</u>
Noncurrent assets:			
Capital assets	91,736,714	70,831,086	29.51%
Less accumulated depreciation	<u>(36,090,811)</u>	<u>(34,620,428)</u>	<u>4.25%</u>
Total noncurrent assets	<u>55,645,903</u>	<u>36,210,658</u>	<u>53.67%</u>
Total Assets	<u>143,917,019</u>	<u>59,993,514</u>	<u>139.89%</u>
Current liabilities:			
Accounts payable and accrued liabilities	7,052,896	2,181,021	223.38%
Due to other governments	<u>3,566,667</u>	<u>34,736</u>	<u>10167.93%</u>
Total current liabilities	<u>10,619,563</u>	<u>2,215,757</u>	<u>379.27%</u>
Long-term liabilities:			
Long-term debt	<u>96,144,317</u>	<u>21,244,974</u>	<u>352.55%</u>
Total Liabilities	<u>106,763,880</u>	<u>23,460,731</u>	<u>355.07%</u>
Net assets:			
Invested in capital assets	17,147,330	15,011,006	14.23%
Restricted	1,459,058	715,029	104.06%
Unrestricted	<u>18,546,752</u>	<u>20,806,748</u>	<u>-10.86%</u>
Total Net Assets	<u>\$ 37,153,140</u>	<u>\$ 36,532,783</u>	<u>1.70%</u>

Approximately 41% of the District's restricted net assets represent proceeds from tax for debt service. These proceeds when spent, are restricted for debt service.

Changes in net assets. The District's total revenues were \$51,162,778. A significant portion, 67%, of the District's revenue comes from taxes.

The total cost of all programs and services was \$50,542,421; 62% of these costs are for instructional and student services.

Governmental Activities

- Property tax rates reduced approximately .29 cents per \$100 valuation. Despite a slight increase in taxable values, tax revenues decreased to \$ 35,434,296.

Table A-2
Changes in Port Neches Groves School District's Net Assets

	Government Activities		Percentage Change 2007-2006
	2008	2007	
Program Revenues:			
Charges for Services	\$ 1,673,079	\$ 1,684,448	-0.67%
Operating Grants and Program Contributions	4,606,339	4,507,045	2.20%
Grants and Contributions, Non-Program	1,186,970	1,721,533	-31.05%
General Revenues:			
Property Taxes	34,062,473	38,227,465	-10.90%
Investment Earnings	1,899,803	1,394,290	36.26%
Other	7,734,114	6,437,552	20.14%
Total Revenues	<u>51,162,778</u>	<u>53,972,333</u>	<u>-5.21%</u>
Instruction	21,936,906	21,148,192	3.73%
Instructional Resources and Media Services	749,149	722,526	3.68%
Curriculum Development and Instructional Staff Dev.	903,673	726,592	24.37%
School Leadership	1,719,437	1,741,628	-1.27%
Guidance, Counseling and Evaluation Services	1,285,360	1,255,655	2.37%
Social Work Services	22,636	31,513	-28.17%
Health Services	566,202	538,206	5.20%
Student Transportation	710,773	748,840	-5.08%
Food Services	2,086,886	2,045,204	2.04%
Curricular/Extracurricular Activities	1,476,163	1,376,363	7.25%
General Administration	966,005	1,360,452	-28.99%
Plant Maintenance	5,922,594	5,871,273	0.87%
Security and Monitoring Services	81,012	73,261	10.58%
Data Processing Services	388,485	356,889	8.85%
Bond Issuance Cost and Fees	570,776	2,538	22389.20%
Contracted Instructional Serve Between Public Schools	8,965,417	11,488,138	-21.96%
Payments to Juvenile Justice Alternative Ed. Program	47,250	39,375	20.00%
Other Intergovernmental Charges	533,132	-	0.00%
Unallocated Depreciation	-	16,249	0.00%
Interest on Long Term Debt	1,610,564	960,286	67.72%
Total Expenses	<u>50,542,420</u>	<u>50,503,180</u>	<u>0.08%</u>
Excess (Deficiency) Before Other Resources, Uses & Transfers	620,358	3,469,153	-82.12%
Increase (Decrease) in Net Assets	<u>\$ 620,358</u>	<u>\$ 3,469,153</u>	<u>-82.12%</u>

The following information presents the cost of each of the District's largest functions as well as each function's net cost (total cost less fees generated by the activities and intergovernmental aid). The net cost reflects what was funded by state revenues as well as local tax dollars.

- The cost of all *governmental* activities this year was \$ 50,542,421.
- However, the amount that our taxpayers paid for these activities through property taxes was only \$34,062,473.
- Some of the cost was paid by those who directly benefited from the programs, \$1,673,079, or by grants and contributions, \$4,606,339.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Revenues from governmental fund types totaled \$51,125,921, a decrease of 5.5% from the preceding year.

General Fund Budgetary Highlights

Over the course of the year, the District revised its budget 8 times. Even with these adjustments, actual expenditures were \$2,456,955 below final budget amounts in the general fund.

In addition, resources available were \$365,698 less than the final budgeted amount. As noted earlier:

- State program revenues were less than budgeted.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2008, the District had invested \$91,736,715 in a broad range of capital assets, including land, buildings, equipment, and vehicles. (See Table A-3.)

Table A-3
District's Capital Assets

	Governmental Activities		Percentage Change 2008 - 2007
	2008	2007	
Land	\$ 1,217,227	\$ 904,230	34.61%
Construction in Progress	19,205,562	94,951	20126.81%
Buildings and Improvements	65,194,243	65,145,288	0.08%
Equipment and Vehicles	6,119,683	4,686,618	30.58%
Totals at historical cost	91,736,715	70,831,087	29.51%
Total accumulated depreciation	(36,090,811)	(34,620,428)	4.25%
Net capital assets	<u>\$ 55,645,904</u>	<u>\$ 36,210,659</u>	<u>53.67%</u>

Long-Term Debt

At year-end the District had \$95,408,191 in bonds outstanding as shown in Table A-4. More detailed information about the District's debt is presented in the notes to the financial statements. See below Table A-4, District's Long-term Debt:

Table A - 4
District's Long-Term Debt

	Governmental Activities		Percentage Change 2008 - 2007
	2008	2007	
Bonds payable	\$ 95,408,191	\$ 21,199,652	350.05%
Total bonds and notes payable	<u>\$ 95,408,191</u>	<u>\$ 21,199,652</u>	<u>350.05%</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District's Board of Trustees and Superintendent considered many factors when setting the 2008-09 budget. These included the following:

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

General Fund expenditures are budgeted to increase 8.6% to \$ 45.0 million. The largest increase is attributable to a Foreign Trade Zone agreement with local industry that will generate approximately \$1.4 million dollars to the District. General Fund expenditures are budgeted to increase 3.4% to \$48.2 million. The largest increase is a salary increase of 3% for employees for fiscal year 2009. The District has added no new major programs or initiatives to the 2008-09 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 will be used to build two new middle schools to replace the existing schools and do major renovations to the high school and stadium. The elementary schools will receive new roofs and some repairs. The debt service tax rate is not projected to exceed \$0.3867 per \$100 of valuation.

The district issued \$17.3 million dollars in Unlimited Tax School Building Bonds and \$5 million in Refunding Bonds on September 6, 2007. The second issue took place in May of 2008 for \$60 million. The District plans to issue another \$50 million in May 2009.

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 demonstrate 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 office at Port Neches-Groves Independent School District, 620 Avenue C, Port Neches, Texas 77656.

Basic Financial Statements

PORT NECHES GROVES ISD
STATEMENT OF NET ASSETS
AUGUST 31, 2008

EXHIBIT A-1

Data		Primary Government
Control		
Codes		Governmental Activities
ASSETS		
1110	Cash and Cash Equivalents	\$ 1,252,715
1120	Current Investments	83,342,209
1220	Property Taxes Receivable (Delinquent)	4,690,219
1230	Allowance for Uncollectible Taxes	(3,717,583)
1240	Due from Other Governments	2,098,578
1290	Other Receivables, net	63,527
1300	Inventories	56,965
1410	Deferred Expenses	484,486
Capital Assets:		
1510	Land	1,217,226
1520	Buildings, Net	32,559,957
1530	Furniture and Equipment, Net	2,663,158
1580	Construction in Progress	19,205,562
1000	Total Assets	143,917,019
LIABILITIES		
2110	Accounts Payable	5,201,752
2120	Short Term Debt Payable	120,134
2150	Payroll Deductions & Withholdings	44,792
2160	Accrued Wages Payable	1,343,352
2180	Due to Other Governments	3,566,667
2200	Accrued Expenses	210,509
2300	Deferred Revenues	132,357
Noncurrent Liabilities		
2501	Due Within One Year	3,025,000
2502	Due in More Than One Year	93,119,317
2000	Total Liabilities	106,763,880
NET ASSETS		
3200	Invested in Capital Assets, Net of Related Debt	17,147,330
3850	Restricted for Debt Service	600,185
3860	Restricted for Capital Projects	858,873
3900	Unrestricted Net Assets	18,546,752
3000	Total Net Assets	\$ 37,153,140

The notes to the financial statements are an integral part of this statement.

PORT NECHES GROVES ISD
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2008

EXHIBIT B-1

Data Control Codes	1	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		3	4	
		Charges for Services	Operating Grants and Contributions	
	Expenses			Primary Gov. Governmental Activities
Primary Government:				
GOVERNMENTAL ACTIVITIES:				
11 Instruction	\$ 21,936,906	\$ 37,309	\$ 3,105,321	\$ (18,794,276)
12 Instructional Resources and Media Services	749,149	-	39,163	(709,986)
13 Curriculum and Instructional Staff Development	903,673	-	99,138	(804,535)
23 School Leadership	1,719,437	-	72,148	(1,647,289)
31 Guidance, Counseling and Evaluation Services	1,285,360	-	72,805	(1,212,555)
32 Social Work Services	22,636	-	952	(21,684)
33 Health Services	566,202	-	51,602	(514,600)
34 Student (Pupil) Transportation	710,773	-	28,377	(682,396)
35 Food Services	2,086,886	1,397,084	813,983	124,181
36 Extracurricular Activities	1,476,163	238,686	132,371	(1,105,106)
41 General Administration	966,005	-	29,322	(936,683)
51 Plant Maintenance and Operations	5,922,594	-	145,326	(5,777,268)
52 Security and Monitoring Services	81,012	-	900	(80,112)
53 Data Processing Services	388,485	-	14,931	(373,554)
72 Debt Service - Interest on Long Term Debt	1,610,564	-	-	(1,610,564)
73 Debt Service - Bond Issuance Cost and Fees	570,776	-	-	(570,776)
81 Facilities Acquisition and Construction	1	-	-	(1)
91 Contracted Instructional Services Between Schools	8,965,417	-	-	(8,965,417)
95 Payments to Juvenile Justice Alternative Ed. Prg.	47,250	-	-	(47,250)
99 Other Intergovernmental Charges	533,132	-	-	(533,132)
[TP] TOTAL PRIMARY GOVERNMENT:	\$ 50,542,421	\$ 1,673,079	\$ 4,606,339	(44,263,003)

Data Control Codes		
General Revenues:		
Taxes:		
MT	Property Taxes, Levied for General Purposes	29,440,338
DT	Property Taxes, Levied for Debt Service	4,622,135
SF	State Aid - Formula Grants	5,747,443
GC	Grants and Contributions not Restricted	1,186,970
IE	Investment Earnings	1,899,803
MI	Miscellaneous Local and Intermediate Revenue	1,986,671
TR	Total General Revenues	44,883,360
CN	Change in Net Assets	620,357
NB	Net Assets--Beginning	36,532,783
NE	Net Assets--Ending	\$ 37,153,140

The notes to the financial statements are an integral part of this statement.

PORT NECHES GROVES ISD
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2008

EXHIBIT C-1

Data Control Codes	10 General Fund	60 Capital Projects	Other Funds	Total Governmental Funds
ASSETS				
1110 Cash and Cash Equivalents	\$ 5,500	\$ 3,456	\$ 619,189	\$ 628,145
1120 Investments - Current	19,038,642	63,718,965	584,602	83,342,209
1220 Property Taxes - Delinquent	4,280,867	-	409,352	4,690,219
1230 Allowance for Uncollectible Taxes (Credit)	(3,381,107)	-	(336,476)	(3,717,583)
1240 Due from Other Governments	1,988,708	-	109,870	2,098,578
1260 Due from Other Funds	33,184	-	-	33,184
1290 Other Receivables	53,950	2,768	6,809	63,527
1300 Inventories	-	-	56,965	56,965
1410 Deferred Expenditures	484,486	-	-	484,486
1000 Total Assets	\$ 22,504,230	\$ 63,725,189	\$ 1,450,311	\$ 87,679,730
LIABILITIES AND FUND BALANCES				
Liabilities:				
2110 Accounts Payable	\$ 484,097	\$ 4,669,029	\$ 42,804	\$ 5,195,930
2120 Bonds, Loans & Other Liabilities Payable -	120,134	-	-	120,134
2150 Payroll Deductions and Withholdings Payable	44,792	-	-	44,792
2160 Accrued Wages Payable	1,221,666	-	121,686	1,343,352
2170 Due to Other Funds	1,427,399	1,400	31,784	1,460,583
2180 Due to Other Governments	3,566,667	-	-	3,566,667
2300 Deferred Revenues	965,655	-	104,219	1,069,874
2000 Total Liabilities	\$ 7,830,410	\$ 4,670,429	\$ 300,493	\$ 12,801,332
Fund Balances:				
Reserved For:				
3410 Investments in Inventory	\$ -	\$ -	\$ 48,009	\$ 48,009
3420 Retirement of Long Term Debt	-	-	600,185	600,185
3450 Food Service	-	-	501,625	501,625
3470 Capital Acquisition Program	-	58,500,889	-	58,500,889
Unreserved Designated For:				
3510 Construction	-	553,871	-	553,871
3590 Other Purposes	6,000,000	-	-	6,000,000
Unreserved and Undesignated:				
3600 Reported in the General Fund	8,673,820	-	-	8,673,820
3000 Total Fund Balances	\$ 14,673,820	\$ 59,054,760	\$ 1,149,819	\$ 74,878,399
4000 Total Liabilities and Fund Balances	\$ 22,504,230	\$ 63,725,189	\$ 1,450,312	\$ 87,679,731

The notes to the financial statements are an integral part of this statement.

PORT NECHES GROVES ISD
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET ASSETS
AUGUST 31, 2008

EXHIBIT C-2

Total Fund Balances - Governmental Funds	\$ 74,878,399
1 The District uses internal service funds to charge the costs of certain activities, such as self-insurance and printing, to appropriate functions in other funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. The net effect of this consolidation is to increase(decrease) net assets.	1,961,289
2 Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$70,831,087 and the accumulated depreciation was \$34,620,428. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase (decrease) net assets.	14,965,684
3 Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2008 capital outlays and debt principal payments is to increase (decrease) net assets.	(54,119,366)
4 The 2008 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets.	(1,470,383)
5 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net assets.	937,517
19 Net Assets of Governmental Activities	\$ 37,153,140

The notes to the financial statements are an integral part of this statement.

PORT NECHES GROVES ISD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2008

EXHIBIT C-3

Data Control Codes	10 General Fund	60 Capital Projects	Other Funds	Total Governmental Funds
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 32,526,566	\$ 971,813	\$ 6,134,889	\$ 39,633,268
5800 State Program Revenues	8,556,512	-	650,618	9,207,130
5900 Federal Program Revenues	-	-	2,285,523	2,285,523
5020 Total Revenues	41,083,078	971,813	9,071,030	51,125,921
EXPENDITURES:				
Current:				
0011 Instruction	18,927,380	-	2,025,754	20,953,134
0012 Instructional Resources and Media Services	706,022	-	321	706,343
0013 Curriculum and Instructional Staff Development	805,370	-	69,098	874,468
0023 School Leadership	1,699,121	-	-	1,699,121
0031 Guidance, Counseling and Evaluation Services	1,286,304	-	820	1,287,124
0032 Social Work Services	22,782	-	-	22,782
0033 Health Services	546,460	-	19,102	565,562
0034 Student (Pupil) Transportation	655,544	545,912	-	1,201,456
0035 Food Services	-	-	2,208,022	2,208,022
0036 Extracurricular Activities	2,103,604	-	18,550	2,122,154
0041 General Administration	964,510	-	-	964,510
0051 Facilities Maintenance and Operations	6,037,049	-	-	6,037,049
0052 Security and Monitoring Services	81,122	-	-	81,122
0053 Data Processing Services	415,950	926,488	-	1,342,438
Debt Service:				
0071 Debt Service - Principal on Long Term Debt	-	-	3,055,000	3,055,000
0072 Debt Service - Interest on Long Term Debt	-	-	1,556,959	1,556,959
0073 Debt Service - Bond Issuance Cost and Fees	-	-	570,776	570,776
Capital Outlay:				
0081 Facilities Acquisition and Construction	361,952	18,185,524	-	18,547,476
Intergovernmental:				
0091 Contracted Instructional Services Between Schools	8,965,417	-	-	8,965,417
0095 Payments to Juvenile Justice Alternative Ed. Prg.	47,250	-	-	47,250
0099 Other Intergovernmental Charges	533,132	-	-	533,132
6030 Total Expenditures	44,158,969	19,657,924	9,524,402	73,341,295
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	(3,075,891)	(18,686,111)	(453,372)	(22,215,374)
OTHER FINANCING SOURCES (USES):				
7901 Refunding Bonds Issued	-	-	4,965,000	4,965,000
7911 Capital Related Debt Issued (Regular Bonds)	-	77,298,539	-	77,298,539
7915 Transfers In	71,965	-	-	71,965
7916 Premium or Discount on Issuance of Bonds	-	1,461	643,242	644,703
7917 Prepaid Interest	-	-	139,480	139,480
8911 Transfers Out (Use)	-	-	(71,965)	(71,965)
8940 Payment to Bond Refunding Escrow Agent (Use)	-	-	(5,025,061)	(5,025,061)
7080 Total Other Financing Sources (Uses)	71,965	77,300,000	650,696	78,022,661
1200 Net Change in Fund Balances	(3,003,926)	58,613,889	197,324	55,807,287
0100 Fund Balance - September 1 (Beginning)	17,677,746	440,870	952,496	19,071,112
3000 Fund Balance - August 31 (Ending)	\$ 14,673,820	\$ 59,054,759	\$ 1,149,820	\$ 74,878,399

The notes to the financial statements are an integral part of this statement.

PORT NECHES GROVES ISD
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED AUGUST 31, 2008

Total Net Change in Fund Balances - Governmental Funds	\$ 55,807,287
The District uses internal service funds to charge the costs of certain activities, such as self-insurance and printing, to appropriate functions in other funds. The net income (loss) of internal service funds are reported with governmental activities. The net effect of this consolidation is to increase (decrease) net assets.	365,962
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2008 capital outlays and debt principal payments is to increase (decrease) net assets.	(54,119,366)
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net assets.	(1,470,383)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net assets.	36,857
Change in Net Assets of Governmental Activities	\$ 620,357

The notes to the financial statements are an integral part of this statement.

PORT NECHES GROVES ISD
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
AUGUST 31, 2008

Governmental
Activities -

Internal
Service Fund

ASSETS

Current Assets:

Cash and Cash Equivalents
Due from Other Funds

\$ 624,570
1,427,399

Total Assets

2,051,969

LIABILITIES

Current Liabilities:

Accounts Payable
Accrued Expenses

5,822
84,858

Total Liabilities

90,680

NET ASSETS

Unrestricted Net Assets

1,961,290

Total Net Assets

\$ 1,961,290

The notes to the financial statements are an integral part of this statement.

PORT NECHES GROVES ISD
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2008

	Governmental Activities -
	Internal Service Fund
OPERATING REVENUES:	
Local and Intermediate Sources	\$ 400,546
Total Operating Revenues	400,546
OPERATING EXPENSES:	
Other Operating Costs	34,583
Total Operating Expenses	34,583
Operating Income	365,963
Total Net Assets - September 1 (Beginning)	1,595,327
Total Net Assets - August 31 (Ending)	\$ 1,961,290

The notes to the financial statements are an integral part of this statement.

PORT NECHES GROVES ISD
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2008

	Governmental Activities -
	Internal Service Fund
<u>Cash Flows from Operating Activities:</u>	
Cash Received for Workman's Comp	\$ 457,433
Cash Payments for Workman's Comp	(123,061)
Net Cash Provided by Operating Activities	334,372
Net Increase in Cash and Cash Equivalents	334,372
Cash and Cash Equivalents at Beginning of the Year:	290,198
Cash and Cash Equivalents at the End of the Year:	\$ 624,570
<u>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</u>	
Operating Income:	\$ 365,963
Effect of Increases and Decreases in Current Assets and Liabilities:	
Decrease (increase) in Receivables	56,887
Increase (decrease) in Accounts Payable	5,686
Increase (decrease) in Accrued Expenses	(94,164)
Net Cash Provided by Operating Activities	\$ 334,372

The notes to the financial statements are an integral part of this statement.

PORT NECHES GROVES ISD
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
AUGUST 31, 2008

	Agency Fund
ASSETS	
Cash and Cash Equivalents	\$ 724,809
Total Assets	<u>\$ 724,809</u>
LIABILITIES	
Accounts Payable	\$ 724,809
Total Liabilities	<u>\$ 724,809</u>

The notes to the financial statements are an integral part of this statement.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2008

A. Summary 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" and there are no component units included within the reporting entity.

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

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

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

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

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

The District reports the following major governmental funds:

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2008

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.

Capital Projects Funds: These funds account for bond revenues for capital projects and for the related capital projects expenditure.

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.

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

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

b. Measurement Focus, Basis of Accounting

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

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

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2008

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 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 Fund are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

c. Inventories and Prepaid Items

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

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

d. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2008

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 required the use of management's estimates.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2008

i. Data Control Codes

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

B. Compliance and Accountability

1. Finance-Related Legal and Contractual Provisions

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

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

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

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

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

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, 2008, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$1,252,715 and the bank balance was \$1,485,792. The District's cash deposits at August 31, 2008 and during the year ended August 31, 2008, 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.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2008

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

District adhered to the requirements of the Act. Additionally, investment practices of the District were in accordance with local policies.

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

The District's investment at August 31, 2008 are shown below.

<u>Investment or Investment Type</u>	<u>Maturity</u>	<u>Share Value</u>
Lone Star Investment Pool	N/A	\$ 83,342,209
Total Investments		<u>\$ 83,342,209</u>

3. Analysis of Specific Deposit and Investment Risks

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

a. Credit Risk

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

b. Custodial Credit Risk

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

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

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

c. Concentration of Credit Risk

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

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2008

d. Interest Rate Risk

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

e. Foreign Currency Risk

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

Investment Accounting Policy

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

Public Funds Investment Pools

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

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

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2008

D. Capital Assets

Capital asset activity for the year ended August 31, 2008, was as follows:

	2007 Beginning Balances	Increases	Decreases	2008 Ending Balances
<u>Governmental Activities:</u>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 904,230	\$ 312,997	\$ -	\$ 1,217,227
Construction in Progress	94,951	19,110,611	-	19,205,562
Total Capital Assets not being depreciated	999,181	19,423,608	-	20,422,789
<i>Capital assets being depreciated:</i>				
Buildings and Improvements	65,145,288	48,955	-	65,194,243
Equipment	2,085,788	837,184	-	2,922,972
Vehicles	2,600,830	595,881	-	3,196,711
Total Capital Assets being depreciated	69,831,906	1,482,020	-	71,313,926
Less accumulated depreciation for:				
Buildings and Improvements	(31,401,709)	(1,232,577)	-	(32,634,286)
Equipment	(1,479,130)	(102,848)	-	(1,581,978)
Vehicles	(1,739,589)	(134,958)	-	(1,874,547)
Total accumulated depreciation	(34,620,428)	(1,470,383)	-	(36,090,811)
Total capital assets being depreciated, net	35,211,478	11,637	-	35,223,115
Governmental activities capital assets, net	\$ 36,210,659	\$ 19,435,245	\$ -	\$ 55,645,904

Depreciation was charged to functions as follows:

Instruction	\$ 1,108,580
Instructional Resources and Media Services	46,758
Curriculum and Staff Development	33,231
School Leadership	30,819
Guidance, Counseling & Evaluation Services	6,470
Health Services	3,970
Student Transportation	75,137
Food Services	33,378
Extracurricular Activities	42,641
General Administration	6,911
Plant Maintenance and Operations	82,488
	<u>\$ 1,470,383</u>

E. Interfund Balances and Activities

1. Due To and From Other Funds

Balances due to and due from other funds at August 31, 2008 consisted of the following:

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2008

<u>Due to Fund</u>	<u>Due from Fund</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Other Governmental Funds	\$ 33,184	Short-term Loans
Other Governmental Funds	General Fund	1,427,399	Short-term Loans
	Total	<u>\$ 1,460,583</u>	

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

2. Transfers To and From Other Funds

During the year \$71,965 in FEMA funds was transferred to the General Fund when the District was reimbursed for funds previously expended.

F. Short-Term Debt Activity

The District accounts for short-term debts for maintenance purpose through the General Fund. The proceeds from loans are shown in the financial statements as Other Resources.

G. 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. Bond interest rates range from 3.375% to 6%. Changes in long-term obligations for the year ended August 31, 2008 are as follows:

<u>Governmental Activities:</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Amounts Due within One Year</u>
General Obligation Bonds and Refunding Bonds	\$ 21,199,652	\$ 82,263,539	\$ 8,055,000	\$ 95,408,191	\$ 3,025,000
Accreted Interest	-	42,373	-	42,373	-
Unamortized Premium	-	644,703	-	644,703	-
Compensated Absences*	45,323	3,727	-	49,050	-
Total Governmental Activities	<u>\$ 21,244,975</u>	<u>\$ 82,954,342</u>	<u>\$ 8,055,000</u>	<u>\$ 96,144,317</u>	<u>\$ 3,025,000</u>
*Other Long-Term Liabilities					

The Capital Appreciation Bonds face value is \$393,191 and interest accretes to \$510,000 at maturity.

PORT NECHES-GROVE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2008

2. Debt Service Requirements

Debt service requirements on long-term debt at August 31, 2008 are as follows:

	Principal	Interest	Total
2009	\$ 3,025,000	\$ 5,241,353	\$ 8,266,353
2010	3,454,652	4,497,589	7,952,241
2011	3,860,000	4,011,891	7,871,891
2012	3,915,000	3,855,910	7,770,910
2013	4,005,000	3,706,241	7,711,241
2014-2018	20,058,539	16,263,393	36,321,932
2019-2023	15,260,000	12,023,543	27,283,543
2024-2028	18,840,000	8,027,188	26,867,188
2029-2033	22,990,000	2,873,493	25,863,493
	<u>\$ 95,408,191</u>	<u>\$ 60,500,601</u>	<u>\$ 155,908,792</u>

3. General Obligation Bond

The following is a summary of the general obligation bonds of PNGISD:

	Original Issuance Amount	Interest Rate	Maturity Date	Outstanding at August 31, 2008
Series 1997	\$ 7,000,000	4.75-6.75%	2/15/2018	\$ - *
Series 1998	\$ 7,500,000	4.00-6.00%	2/15/2019	\$ 5,500,000
Series 2005	\$ 9,840,000	2.25-5.00%	8/15/2017	\$ 8,475,000
CAB	\$ 159,652		8/15/2010	\$ 159,652
Series 2007	\$ 22,030,000	4.00-5.00%	2/15/2027	\$ 21,040,000
CAB	\$ 233,539	4.25%	2/15/2014	\$ 233,539
Series 2008	\$ 60,000,000	3.75-5.00%	2/15/2030	\$ 60,000,000

Accreted Interest on Capital Appreciation Bonds (CAB) \$ 42,373

* Advance Refunding: \$4,965,000 of the 2007 issue provided resources to purchase U.S. Government State and Local Securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payment of the Series 1997 bonds outstanding of \$5,000,000.

As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental activities column of the statement of net assets. The reacquisition price was lower than the net carrying amount of the old debt by \$35,000. This advance refunding was undertaken to reduce total debt service payments over the next 10 years by \$209,802 and resulted in an economic gain of \$161,872.

H. Risk Management

The District is exposed to various risks of loss related to torts, theft, damager destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2008 the District purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

PORT NECHES-GROVE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2008

I. 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 6.0% of the District's covered payroll. The District's employees' contributions to the System for the years ending August 31, 2008, 2007 and 2006 were \$1,580,091, \$1,536,097, and \$1,411,285 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, 2008, 2007 and 2006 were \$161,813, \$178,854, and \$161,797, respectively, and were equal to the required contributions for each year. The amount contributed by the State on behalf of the District was \$1,586,746 for the year ended August 31, 2008.

J. Health Care Coverage

During the period ended August 31, 2008 employees of the District were covered by a statewide health insurance plan, TRS Active Care. The District paid premiums of \$266 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. The Teacher Retirement System (TRS) manages TRS Active Care. Administration of the Plan is provided by two companies: Blue Cross & Blue Shield of Texas administers the medical plan while Medco Health was assigned the prescription drug plan. The latest financial information on TRS Active Care is available from TRS (See note J-1). The districts continued participation in the plan is mandatory under state law. Latest financial statements for the plan have been filed with the Texas State Board of Insurance, Austin, Texas, and are public records.

K. Commitment 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.

PORT NECHES-GROVE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2008

2. Litigation

No reportable litigation was pending against the District at August 31, 2008.

L. Shared Services Arrangements

Shared Services Arrangement - Fiscal Agent

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

<u>Member Districts</u>	<u>Expenditures</u>
Port Neches-Groves ISD	\$ 5,586
Nederland ISD	<u>32,842</u>
Total	<u>\$ 38,428</u>

M. Subsequent Events

The District suffered damage to various building during Hurricane Ike in September 2008. The buildings are covered by insurance, subject to 2% deductible. The District is estimating the damage at around \$1 million. Because Jefferson County was declared a national disaster area, the District expects to receive reimbursement from the Federal Emergency Management Agency (FEMA) for the amount of the insurance deductible and any uninsured damages.

Required Supplementary Information

Required supplementary information included financial information and disclosures required by the Governmental Accounting Standards Board but not considered a part of the basic financial statements.

PORT NECHES GROVES ISD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED AUGUST 31, 2008

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 32,167,908	\$ 32,167,908	\$ 32,526,566	\$ 358,658
5800 State Program Revenues	9,280,868	9,280,868	8,556,512	(724,356)
5020 Total Revenues	41,448,776	41,448,776	41,083,078	(365,698)
EXPENDITURES:				
Current:				
0011 Instruction	19,728,108	19,719,980	18,927,380	792,600
0012 Instructional Resources and Media Services	730,656	730,656	706,022	24,634
0013 Curriculum and Instructional Staff Development	856,325	861,753	805,370	56,383
0023 School Leadership	1,781,327	1,781,327	1,699,121	82,206
0031 Guidance, Counseling and Evaluation Services	1,347,417	1,347,417	1,286,304	61,113
0032 Social Work Services	25,727	26,727	22,782	3,945
0033 Health Services	601,849	601,849	546,460	55,389
0034 Student (Pupil) Transportation	890,174	837,174	655,544	181,630
0036 Extracurricular Activities	1,519,508	2,255,028	2,103,604	151,424
0041 General Administration	1,660,020	1,077,320	964,510	112,810
0051 Facilities Maintenance and Operations	6,493,645	6,493,645	6,037,049	456,596
0052 Security and Monitoring Services	125,339	125,839	81,122	44,717
0053 Data Processing Services	432,389	433,589	415,950	17,639
Capital Outlay:				
0081 Facilities Acquisition and Construction	-	363,955	361,952	2,003
Intergovernmental:				
0091 Contracted Instructional Services Between Schools	9,329,715	9,329,715	8,965,417	364,298
0095 Payments to Juvenile Justice Alternative Ed. Prg.	47,250	47,250	47,250	-
0099 Other Intergovernmental Charges	-	582,700	533,132	49,568
6030 Total Expenditures	45,569,449	46,615,924	44,158,969	2,456,955
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	(4,120,673)	(5,167,148)	(3,075,891)	2,091,257
OTHER FINANCING SOURCES (USES):				
7915 Transfers In	-	-	71,965	71,965
7080 Total Other Financing Sources (Uses)	-	-	71,965	71,965
1200 Net Change in Fund Balances	(4,120,673)	(5,167,148)	(3,003,926)	2,163,222
0100 Fund Balance - September 1 (Beginning)	17,677,746	17,677,746	17,677,746	-
3000 Fund Balance - August 31 (Ending)	\$ 13,557,073	\$ 12,510,598	\$ 14,673,820	\$ 2,163,222

T.E.A. REQUIRED SCHEDULES

PORT NECHES GROVES ISD
SCHEDULE OF DELINQUENT TAXES RECEIVABLE
FISCAL YEAR ENDED AUGUST 31, 2008

Last 10 Years Ended August 31	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
1999 and prior years	Various	Various	\$ Various
2000	1.460000	0.243000	1,688,207,787
2001	1.500000	0.185000	1,895,177,375
2002	1.500000	0.177200	2,162,764,052
2003	1.500000	0.165600	2,397,553,130
2004	1.500000	0.133300	2,594,166,526
2005	1.500000	0.127800	2,520,174,524
2006	1.500000	0.119000	2,547,235,457
2007	1.370000	0.108300	2,786,936,542
2008 (School year under audit)	1.040000	0.152500	2,787,768,285
100 TOTALS			

(10) Beginning Balance 9/1/2007	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2008
\$ 262,272	\$ -	\$ 26,675	\$ 2,163	\$ (4,322)	\$ 229,112
22,919	-	1,906	317	(44)	20,652
31,424	-	1,400	172	-	29,852
31,302	-	1,803	213	-	29,286
45,448	-	4,246	443	(616)	40,143
61,383	-	14,794	1,314	17,356	62,631
91,717	-	23,480	2,000	16,284	82,521
134,259	-	40,821	3,239	14,624	104,823
2,795,952	-	100,950	7,980	(21,333)	2,665,689
-	35,434,237	29,202,221	4,589,476	(217,028)	1,425,512
<u>\$ 3,476,676</u>	<u>\$ 35,434,237</u>	<u>\$ 29,418,296</u>	<u>\$ 4,607,317</u>	<u>\$ (195,079)</u>	<u>\$ 4,690,221</u>

PORT NECHES GROVES ISD
SCHEDULE OF EXPENDITURES FOR COMPUTATIONS OF INDIRECT COST FOR 2008-2009
GENERAL AND SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED AUGUST 31, 2008

FUNCTION 41 AND RELATED FUNCTION 53 - GENERAL ADMINISTRATION

Account Number	Account Name	1 (702) School Board	2 (703) Tax Collections	3 (701) Supt's Office	4 (750) Indirect Cost	5 (720) Direct Cost	6 (other) Miscellaneous	7 Total
611X-6146	PAYROLL COSTS	\$ -	\$ -	\$ 211,202	\$ 245,939	\$ 191,873	\$ -	\$ 649,014
6149	Leave for Separating Employees in Fn 41 & 53	-	-	-	-	-	-	-
6149	Leave - Separating Employees not in 41 & 53	-	-	-	-	-	-	-
6211	Legal Services	-	-	53,362	-	-	-	53,362
6212	Audit Services	-	-	-	14,000	-	-	14,000
6213	Tax Appraisal and Collection	-	4,322	-	-	-	-	4,322
621X	Other Professional Services	-	-	13,360	38,542	48,492	-	100,394
6220	Tuition and Transfer Payments	-	-	-	-	-	-	-
6230	Education Service Centers	1,500	-	2,000	-	800	-	4,300
6240	Contr. Maint. and Repair	-	-	-	4,654	-	-	4,654
6250	Utilities	-	-	-	-	-	-	-
6260	Rentals	-	-	5,615	10,244	2,214	-	18,073
6290	Miscellaneous Contr.	-	-	-	51,043	-	-	51,043
6320	Textbooks and Reading	-	-	-	-	-	-	-
6330	Testing Materials	-	-	-	-	-	-	-
63XX	Other Supplies Materials	863	-	1,273	18,357	7,779	-	28,272
6410	Travel, Subsistence, Stipends	5,355	-	8,662	5,245	4,373	-	23,635
6420	Ins. and Bonding Costs	-	-	-	15,127	-	-	15,127
6430	Election Costs	15,040	-	-	-	-	-	15,040
6490	Miscellaneous Operating	12,170	-	14,857	5,704	5,700	-	38,431
6500	Debt Service	-	-	-	-	-	-	-
6600	Capital Outlay	-	-	-	-	-	-	-
6000	TOTAL	\$ 34,928	\$ 4,322	\$ 310,331	\$ 408,855	\$ 261,231	\$ -	\$ 1,019,667

Total expenditures/expenses for General and Special Revenue Funds: (9) \$ 48,500,636

LESS: Deductions of Unallowable Costs

FISCAL YEAR

Total Capital Outlay (6600)	(10) \$ 1,655,048
Total Debt & Lease(6500)	(11) -
Plant Maintenance (Function 51, 6100-6400)	(12) 5,966,179
Food (Function 35, 6341 and 6499)	(13) 772,098
Stipends (6413)	(14) -
Column 4 (above) - Total Indirect Cost	408,855

SubTotal: 8,802,180

Net Allowed Direct Cost \$ 39,698,456

CUMULATIVE

Total Cost of Buildings before Depreciation (1520)	(15) \$ 65,195,243
Historical Cost of Building over 50 years old	(16) \$ 2,000,000
Amount of Federal Money in Building Cost (Net of #16)	(17) \$ -
Total Cost of Furniture & Equipment before Depreciation (1530 & 1540)	(18) \$ 6,119,683
Historical Cost of Furniture & Equipment over 16 years old	(19) \$ 207,611
Amount of Federal Money in Furniture & Equipment (Net of #19)	(20) \$ -

(8) NOTE A: \$59,393 in Function 53 expenditures are included in this report on administrative costs.

PORT NECHES GROVES ISD
FUND BALANCE AND CASH FLOW CALCULATION WORKSHEET
GENERAL FUND AS OF AUGUST 31, 2008

UNAUDITED

1	Total General Fund Balance as of 8/31/08 (Exhibit C-1 object 3000 for the General Fund Only)	\$ 14,673,820
2	Total Reserved Fund Balance (from Exhibit C-1 - total of object 3400s for the General Fund Only)	\$ -
3	Total Designated Fund Balance (from Exhibit C-1 - total of object 3500s for the General Fund Only)	6,000,000
4	Estimated amount needed to cover fall cash flow deficits in the General Fund (Net of borrowed funds and funds representing deferred revenues.)	4,492,499
5	Estimate of one month's average cash disbursements during the regular school session (9/1/08-5/31/09).	4,203,183
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	Optimum Fund Balance and Cash Flow (Lines 2+3+4+5+6+7+8+9)	<u>14,695,682</u>
11	Excess (Deficit) Undesignated Unreserved General Fund Balance (Line 1 minus Line 10)	<u>\$ (21,862)</u>

PORT NECHES GROVES ISD
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL - CHILD NUTRITION PROGRAM
 FOR THE YEAR ENDED AUGUST 31, 2008

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 1,405,500	\$ 1,405,500	\$ 1,423,340	\$ 17,840
5800	State Program Revenues	51,300	51,300	51,196	(104)
5900	Federal Program Revenues	714,939	714,939	714,459	(480)
5020	Total Revenues	2,171,739	2,171,739	2,188,995	17,256
EXPENDITURES:					
0035	Food Services	2,209,945	2,251,945	2,207,483	44,462
6030	Total Expenditures	2,209,945	2,251,945	2,207,483	44,462
1200	Net Change in Fund Balances	(38,206)	(80,206)	(18,488)	61,718
0100	Fund Balance - September 1 (Beginning)	568,122	568,122	568,122	-
3000	Fund Balance - August 31 (Ending)	\$ 529,916	\$ 487,916	\$ 549,634	\$ 61,718

PORT NECHES GROVES ISD
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - DEBT SERVICE FUND
FOR THE YEAR ENDED AUGUST 31, 2008

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 4,661,075	\$ 4,661,075	\$ 4,675,886	\$ 14,811
5020 Total Revenues	4,661,075	4,661,075	4,675,886	14,811
EXPENDITURES:				
Debt Service:				
0071 Debt Service - Principal on Long Term Debt	3,055,000	3,055,000	3,055,000	-
0072 Debt Service - Interest on Long Term Debt	1,556,960	1,556,960	1,540,100	16,860
0073 Debt Service - Bond Issuance Cost and Fees	5,000	55,764	52,226	3,538
6030 Total Expenditures	4,616,960	4,667,724	4,647,326	20,398
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	44,115	(6,649)	28,560	35,209
OTHER FINANCING SOURCES (USES):				
7901 Refunding Bonds Issued	-	-	4,965,000	4,965,000
7911 Capital Related Debt Issued (Regular Bonds)	-	5,075,825	-	(5,075,825)
7916 Premium or Discount on Issuance of Bonds	-	-	643,241	643,241
7917 Prepaid Interest	-	-	139,480	139,480
8940 Payment to Bond Refunding Escrow Agent (Use)	-	-	(5,025,061)	(5,025,061)
8949 Other (Uses)	-	(5,025,061)	-	5,025,061
7080 Total Other Financing Sources (Uses)	-	50,764	722,660	671,896
1200 Net Change in Fund Balances	44,115	44,115	751,220	707,105
0100 Fund Balance - September 1 (Beginning)	384,374	384,374	384,374	-
3000 Fund Balance - August 31 (Ending)	\$ 428,489	\$ 428,489	\$ 1,135,594	\$ 707,105

**REPORTS ON
INTERNAL CONTROLS, COMPLIANCE
AND
FEDERAL AWARDS**



Charles E. Reed & Associates, P.C.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENTAL AUDITING STANDARDS**

Member

American Institute of
Certified Public Accountants

Texas Society of
Certified Public Accountants

AICPA Private
Companies Practice Section

Board of Trustees
Port Neches Groves ISD
620 Avenue C
Port Neches, Texas 77651

Members of the Board:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Port Neches Groves ISD (the District) as of and for the year ended August 31, 2008, which collectively comprise the District's basic financial statements. We have issued our report on them dated December 3, 2008. 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 ISD's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of Port Neches Groves ISD's internal control over financial reporting. Accordingly we do not express an opinion on the effectiveness of Port Neches Groves ISD's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency or combination of control deficiencies that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principals such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in finding #08-01 in the accompanying schedule of findings and questioned costs to be a significant deficiency in internal control over financial reporting.

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A material weakness is a significant deficiency or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Port Neches Groves ISD'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*.

Port Neches Groves ISD's response to the findings identified in our audit will be submitted under separate cover by the District's management. We did not audit the District's responses and, accordingly we express no opinion on it.

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



Charles E. Reed & Associates, P.C.
Certified Public Accountants

Port Arthur, Texas
December 3, 2008



Charles E. Reed & Associates, P.C.

Certified Public Accountants & Consultants

Member

American Institute of
Certified Public Accountants

Texas Society of
Certified Public Accountants

AICPA Private
Companies Practice Section

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB
CIRCULAR A-133**

Independent Auditor's Report

Board of Trustees
620 Avenue C
Port Neches, Texas 77651

Members of the Board:

Compliance

We have audited the compliance of Port Neches Groves ISD 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, 2008. The 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 ISD's administrators. Our responsibility is to express an opinion on the 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 ISD'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 ISD's compliance with those requirements.

In our opinion, Port Neches Groves ISD 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, 2008.

Internal Control Over Compliance

The administration of Port Neches Groves ISD is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the

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(409) 983-3277 • Fax: (409) 983-3270

Silsbee
295 Hwy. 327 East
Silsbee, Texas 77656
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District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion of the effectiveness of internal control over compliance. Accordingly we do not express an opinion on the effectiveness of the District's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency or combination of control deficiencies that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

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

This report is intended for the information and use of the District's trustees, the audit committee, the administration, Texas Education Agency, federal awarding agencies and pass-through entities and is not intended to be used and should not be used by anyone other than these specified parties.

Charles E. Reed & Associates, P.C.
Charles E. Reed & Associates, P.C.
Certified Public Accountants

December 3, 2008

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2008

Section I-Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal Control over financial reporting:

- Material weakness identified? ☐ Yes ☒ No
- Significant deficiency that is not considered to be a material weakness? ☒ Yes ☐ No
- Noncompliance material to financial statements noted? ☐ Yes ☒ No

Federal Awards

Internal control over major programs

- Material weakness identified? ☐ Yes ☒ No
- Significant Deficiency identified that is not considered to be a material weakness? ☐ Yes ☒ No

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

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

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
84.027	IDEA, Part B

The threshold used to distinguish the type of federal program was \$ 300,000.

Auditee qualified as low-risk auditee? ☒ Yes ☐ No

Section II-Financial Statements Findings

Finding #08-01 Significant Deficiency in Internal Control Over Financial Reporting-Failure to Properly Record Bond Issuance Proceeds.

Criteria: In accordance with current District policies and Texas Education Agency guidance, the District should have procedures in place to prevent control deficiencies over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

A significant deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatements of the financial statements will not be prevented or detected by the District's internal control.

Condition: During our audit we found that the prepaid interest and premium on bonds issued had not been properly recorded in the funds. This resulted in distorted financial information,

Recommendation: Further research should be performed when the District's staff is unsure of the proper method of recording transactions.

Section III - Federal Award Findings and Questioned Costs

None

Section IV - Status of Prior Year Findings

None - N/A

Section V - Corrective Action Plan

A fully developed corrective action plan will be submitted under a separate cover.

PORT NECHES GROVES ISD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2008

(1) FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	(2) Federal CFDA Number	(3) Pass-Through Entity Identifying Number	(4) Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
<u>Passed Through State Department of Education</u>			
ESEA, Title I, Part A - Improving Basic Programs	84.010A	4610101123908	\$ 331,977
ESEA, Title I, Part A - Improving Basic Programs	84.010A	4610101123908	18,313
Total CFDA Number 84.010A			350,290
IDEA - Part B, Formula	84.027	466000112390844	757,569
IDEA - Part B, Formula	84.027	466000112390844	29,213
IDEA - Part B, Discretionary	84.027	466000112390844	88,031
Total CFDA Number 84.027			874,813
Career and Technical - Basic Grant	84.048		28,797
IDEA - Part B, Preschool	84.173	466100112390844	32,900
IDEA - Part B, Preschool	84.173	466100112390844	1,690
Total CFDA Number 84.173			34,590
ESEA Title IV - Safe and Drug-Free Schools	84.186A		12,558
Title V, Part A - Innovative Programs	84.298		5,246
Title II, Part D - Enhancing Ed. Through Technology	84.318		3,032
Title III, Part A - English Language Acquisition	84.365A	4694501123908	9,247
ESEA, Title II, Part A, Teacher/Principal Training	84.367A	4694501123908	156,312
ESEA, Title II, Part A, Teacher/Principal Training	84.367A	4694501123908	7,353
Total CFDA Number 84.367A			163,665
ESEA Title VI - Class Size Reduction	FD289		2,311
Total Passed Through State Department of Education			\$ 1,484,549
TOTAL DEPARTMENT OF EDUCATION			\$ 1,484,549
U.S. DEPARTMENT OF AGRICULTURE			
<u>Passed Through the State Department of Agriculture</u>			
National School Breakfast & Lunch Program*	10.555	123-908	\$ 714,459
Total Passed Through the State Department of Agriculture			\$ 714,459
TOTAL DEPARTMENT OF AGRICULTURE			\$ 714,459
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 2,199,008

*Clustered Programs as required by Compliance Supplement March, 2008

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2008

Basis of Presentation

The accompanying schedule of expenditures of federal awards included 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.