

PORT NECHES-GROVES
INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED AUGUST 31, 2006

Introductory Section

Port Neches-Groves Independent School District
Annual Financial Report
For The Year Ended August 31, 2006

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CERTIFICATE OF BOARD

Port Neches-Groves Independent School District
Name of School District

Jefferson
County

123-908
Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and (check one) _____ approved _____ disapproved for the year ended August 31, 2006, at a meeting of the board of trustees of such school district on the ____ day of _____, _____.

Signature of Board Secretary

Signature of Board President

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

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Financial Section

Independent Auditor's Report on Financial Statements

Board of Trustees
Port Neches-Groves Independent School District
620 Avenue C
Port Neches, Texas 77651-3092

Members of the Board of Trustees:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Port Neches-Groves Independent School District as of and for the year ended August 31, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Port Neches-Groves Independent School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Port Neches-Groves Independent School District as of August 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2006, on our consideration of Port Neches-Groves Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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

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

Respectfully submitted,

Charles E. Reed & Associates, P.C.

CHARLES E. REED & ASSOCIATES, P.C., CPAS

December 19, 2006

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, 2006. Please read it in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

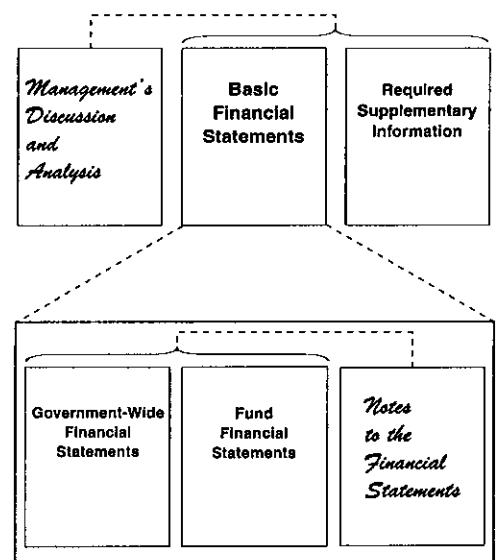
- The District's total combined net assets were \$33,120,247 at August 31, 2006.
- During the year, the District's expenses were \$ 8,373,880 less than the \$61,590,235 generated in taxes and other revenues for governmental activities.
- The total cost of the District's programs increased slightly from last year, and no new programs were added this year.
- The general fund reported a fund balance this year of \$15,635,544.

OVERVIEW OF THE FINANCIAL STATEMENTS

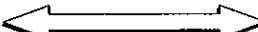
This annual report consists of three parts—*management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include two kinds of statements that present different views of the District:

- 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.

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



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.

Summary  Detail

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 \$33,120,247 at August 31, 2006. (See Table A-1).

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

	Governmental Activities		Percentage Change 2006-2005
	2006	2005	
Current assets:			
Cash and Investments	\$ 16,640,166	\$ 14,336,943	16.06%
Due from other governments	5,196,100	212,245	2348.16%
Other receivables	826,101	746,620	10.65%
Prepaid expenses	730,865	254,446	187.24%
Inventories - supplies and materials	115,639	83,948	37.75%
Total current assets	23,508,871	15,634,202	50.37%
Noncurrent assets:			
Capital assets	70,009,477	69,607,848	0.58%
Less accumulated depreciation	(33,156,592)	(31,860,415)	4.07%
Total noncurrent assets	36,852,885	37,747,433	-2.37%
Total Assets	60,361,756	53,381,635	13.08%
Current Liabilities:			
Accounts payable and accrued liabilities	3,057,695	3,127,212	-2.22%
Due to other fiduciary funds	-	108,403	-100.00%
Due to other governments	884,162	-	100.00%
Total current liabilities	3,941,857	3,235,615	21.83%
Long-term liabilities:			
Long-term debt	23,299,652	25,399,652	-8.27%
Total Liabilities	27,241,509	28,635,267	-4.87%
Net Assets:			
Invested in capital assets	13,553,233	12,347,780	9.76%
Restricted	842,820	1,484,482	-43.22%
Unrestricted	18,724,194	10,914,105	71.56%
Total net assets	\$ 33,120,247	\$ 24,746,367	33.84%

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 \$61,590,235. A significant portion, 66%, of the District's revenue comes from taxes.

The total cost of all programs and services was \$53,216,355; 55.4 % of these costs are for instructional and student services.

Governmental Activities

- Property tax rates reduced a fractional percent. A slight increase in taxable values resulted in a small increase in tax revenues to \$40,658,058.

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

	Governmental Activities		Percentage Change 2006-2005
	2006	2005	
Program Revenues:			
Charges for Services	\$ 1,222,580	\$ 1,327,177	-7.88%
Operating Grants and Contributions Program	4,297,364	2,348,784	82.96%
Grants and Contributions Non-Program	8,433,716	3,900,737	116.21%
General Revenues			
Property Taxes	40,793,007	40,396,210	0.98%
Investment Earnings	1,078,133	542,765	98.64%
Other	5,765,435	2,137,542	169.72%
Total Revenues	61,590,235	50,653,215	21.59%
Instruction	20,561,541	19,818,234	3.75%
Instructional Resources and Media Services	686,116	676,245	1.46%
Curriculum Dev. And Instructional Staff Dev.	615,098	704,855	-12.73%
School Leadership	1,715,550	1,708,436	0.42%
Guidance, Counseling and Evaluation Services	1,155,539	1,146,467	0.79%
Social Work Services	30,678	27,722	10.66%
Health Services	516,286	466,936	10.57%
Student (Pupil) Transportation	1,043,312	715,463	45.82%
Food Services	2,005,657	1,853,246	8.22%
Curricular/Extracurricular Activities	1,150,735	1,257,536	-8.49%
General Administration	1,272,127	1,283,990	-0.92%
Plant Maintenance	8,087,254	4,722,422	71.25%
Security and Monitoring Services	276,886	6,396	4229.05%
Data Processing Services	291,534	249,118	17.03%
Bond Issuance Cost and Fees	3,227	3,637	-11.27%
Contracted Instr. Services Between Public Schools	12,281,733	13,276,017	-7.49%
Payments to Juvenile Justice Alternative Ed. Program	31,500	31,500	0.00%
Other Intergovernmental Charges	414,920	-	100.00%
Interest on Long-term Debt	1,076,662	1,158,146	-7.04%
Total Expenses	53,216,355	49,106,366	8.37%
Excess (Deficiency) Before Other Resources, Uses & Transfers	8,373,880	1,546,849	441.35%
Increase (Decrease) in Net Assets	\$ 8,373,880	\$ 1,546,849	441.35%

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 \$ 53,216,355.
- However, the amount that our taxpayers paid for these activities through property taxes was only \$40,793,007.
- Some of the cost was paid by those who directly benefited from the programs, \$1,222,580, or by grants and contributions, \$4,297,364.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Revenues from governmental fund types totaled \$61,129,575, an increase of 21% over the preceding year. The increase in federal revenues is primarily due to an increase in federal program revenue distributed through other agencies, mainly for Hurricane Rita relief.

General Fund Budgetary Highlights

Over the course of the year, the District revised its budget 5 times. Even with these adjustments, actual expenditures were \$4,790,212 below final budget amounts in the general fund.

On the other hand, resources available were \$1,804,257 above the final budgeted amount. As noted earlier:

- Property tax collections were more than expected.
- State program revenues were greater than budgeted.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2006, the District had invested \$70,009,477 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 2006-2005
	2006	2005	
Land	\$ 903,230	\$ 903,230	0.00%
Buildings and Improvements	64,633,962	64,633,962	0.00%
Equipment & Vehicles	4,472,285	4,070,656	9.87%
Totals at historical cost	70,009,477	69,607,848	0.58%
Total accumulated depreciation	(33,156,592)	(31,860,415)	4.07%
Net capital assets	\$ 36,852,885	\$ 37,747,433	-2.37%

Long Term Debt

At year-end the District had \$23,299,652 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:

	Governmental Activities		Percentage Change 2006-2005
	2006	2005	
Bonds payable	\$ 23,299,652	\$ 25,399,652	-8.27%
Total bonds & notes payable	23,299,652	25,399,652	-8.27%

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Most repairs needed as a result of Hurricane Rita have been completed, and the District expects to complete all repairs in the current fiscal year. The District did see an increase in property values due mainly to the increase in the petrochemical values which makes up a significant portion of the district's tax base.

The District experienced a loss of almost 70 students in average daily attendance due to residents evacuating for the hurricane and not returning to the area. Enrollment is currently increasing in 2006-2007 and the District expects to fully recover the lost enrollment.

The District's Board of Trustees and Superintendent considered many factors when setting the 2006-2007 budget. Amounts budgeted for revenues in the general fund are \$46.8 million, an increase of 6.6% over the 2006 revenue budget of \$43.9 million. The increase is due primarily to increased state funding due to changes in the state funding formula passed by the Texas Legislature in 2006. The District has reduced the tax rate by 8.7% to \$1.4783 (\$1.37 for maintenance and operations and \$0.1083 for interest and sinking). Under the new state law, the highest rate the District could adopt for maintenance and operations without an election by the voters was \$1.37.

General Fund expenditures are budgeted to increase 8.1% to \$47.9 million. The largest changes are salary and benefit increases. New state law required the District to give each teacher, librarian, counselor, and nurse a pay increase of \$2,000. The District also increased salaries for other employees. The District has added no new major programs or initiatives to the 2006-07 budgets.

If the estimates of this general fund budget are realized, the District does not expect the general fund balance to be significantly affected by the close of 2007.

In other areas, a bond committee has been formed and the district is looking into the possibility of a bond issue in the next May election. An amount has not been decided at this time.

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 INDEPENDENT SCHOOL DISTRICT**STATEMENT OF NET ASSETS**

AUGUST 31, 2006

Data Control Codes		1
		Governmental Activities
ASSETS:		
1110	Cash and Cash Equivalents	\$ 342,468
1120	Current Investments	16,297,698
1225	Property Taxes Receivable (Net)	763,020
1240	Due from Other Governments	5,196,100
1260	Internal Balances	--
1290	Other Receivables (Net)	63,081
1300	Inventories	115,639
1430	Premium and Discount on Issuance of Bonds	730,865
Capital Assets:		
1510	Land	903,230
1520	Buildings and Improvements, Net	34,462,654
1530	Furniture and Equipment, Net	1,487,001
1000	Total Assets	<u>60,361,756</u>
LIABILITIES:		
2110	Accounts Payable	1,037,178
2120	Short-Term Debt Payable	2,100,000
2165	Accrued Liabilities	2,020,517
2180	Due to Other Governments	884,162
2300	Unearned Revenue	--
Noncurrent Liabilities:		
2502	Due in More Than One Year	21,199,652
2000	Total Liabilities	<u>27,241,509</u>
NET ASSETS		
Restricted For:		
3800	Invested in Capital Assets, net of Related Debt	13,553,233
3850	Debt Service	382,938
3840	Food Service	344,243
3860	Capital Projects	--
	Inventory	115,639
	Unreserved	12,047,998
3900	Unrestricted	6,676,196
3000	Total Net Assets	<u>\$ 33,120,247</u>

The accompanying notes are an integral part of this statement.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2006

Data Control Codes	Functions/Programs	1 Expenses	3 Program Revenues		4 Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
			Charges for Services			
						Governmental Activities
	Government Activities:					
11	Instruction	\$ 20,561,541	\$ 32,470	\$ 3,501,532	\$	(17,027,539)
12	Instructional Resources and Media Services	686,116	--	--		(686,116)
13	Curriculum and Staff Development	615,098	--	--		(615,098)
23	School Leadership	1,715,550	--	--		(1,715,550)
31	Guidance, Counseling, & Evaluation Services	1,155,539	--	--		(1,155,539)
32	Social Work Services	30,678	--	--		(30,678)
33	Health Services	516,286	--	26,702		(489,584)
34	Student Transportation	1,043,312	--	--		(1,043,312)
35	Food Service	2,005,657	1,190,110	769,130		(46,417)
36	Cocurricular/Extracurricular Activities	1,150,735	--	--		(1,150,735)
41	General Administration	1,272,127	--	--		(1,272,127)
51	Plant Maintenance and Operations	8,087,254	--	--		(8,087,254)
52	Security and Monitoring Services	276,886	--	--		(276,886)
53	Data Processing Services	291,534	--	--		(291,534)
72	Interest on Long-term Debt	1,076,662	--	--		(1,076,662)
73	Bond Issuance Costs and Fees	3,227	--	--		(3,227)
81	Capital Outlay	--	--	--		--
91	Contracted Instructional Services between Schools	12,281,733	--	--		(12,281,733)
95	Payments to Juvenile Justice Alternative Ed. Programs	31,500	--	--		(31,500)
99	Other Intergovernmental Charges	414,920	--	--		(414,920)
TG	Total Governmental Activities	53,216,355	1,222,580	4,297,364		(47,696,411)
TP	Total Primary Government	\$ 53,216,355	\$ 1,222,580	\$ 4,297,364		(47,696,411)
	General Revenues:					
MT	Property Taxes, Levied for General Purposes					37,594,169
DT	Property Taxes, Levied for Debt Service					3,198,838
IE	Investment Earnings					1,078,133
GC	Grants and Contributions Not Restricted to Specific Programs					8,433,716
MI	Miscellaneous					5,765,435
TR	Total General Revenues					56,070,291
CN	Change in Net Assets					8,373,880
NB	Net Assets - Beginning					24,746,367
NE	Net Assets - Ending					\$ 33,120,247

The accompanying notes are an integral part of this statement.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT**BALANCE SHEET - GOVERNMENTAL FUNDS**

AUGUST 31, 2006

Data Control Codes	10 General Fund	Immediate Aid to Restart Schools	Other Governmental Funds	98 Total Governmental Funds
ASSETS:				
1110 Cash and Cash Equivalents	\$ 109,564	\$ --	\$ 229,464	\$ 339,028
1120 Current Investments	15,111,891	--	1,185,807	16,297,698
1225 Taxes Receivable, Net	715,630	--	47,390	763,020
1240 Due from Other Governments	--	4,929,938	266,162	5,196,100
1260 Due from Other Funds	5,071,392	--	525,648	5,597,040
1290 Other Receivables	1,495	--	61,586	63,081
1300 Inventories	19,436	--	96,203	115,639
1490 Other Current Assets	730,865	--	--	730,865
1000 Total Assets	<u>\$ 21,760,273</u>	<u>\$ 4,929,938</u>	<u>\$ 2,412,260</u>	<u>\$ 29,102,471</u>
LIABILITIES:				
Current Liabilities:				
2110 Accounts Payable	\$ 732,728	\$ 8,791	\$ 294,561	\$ 1,036,080
2150 Payroll Deductions & Withholdings	44,021	--	--	44,021
2160 Accrued Wages Payable	1,361,562	--	139,928	1,501,490
2170 Due to Other Funds	2,170,085	4,921,147	150,244	7,241,476
2180 Due to Other Governments	849,426	--	34,736	884,162
2300 Unearned Revenue	826,346	--	212,087	1,038,433
2530 Vested Vacation Benefits	140,561	--	--	140,561
2000 Total Liabilities	<u>6,124,729</u>	<u>4,929,938</u>	<u>831,556</u>	<u>11,886,223</u>
FUND BALANCES:				
Reserved Fund Balances:				
3410 Investments in Inventory	19,436	--	96,203	115,639
3420 Debt Service	--	--	382,938	382,938
3440 Outstanding Encumbrances	--	--	--	--
3450 Reserve for Food Service	--	--	344,243	344,243
Designated Fund Balance:				
3510 Construction	--	--	757,320	757,320
3590 Other Designated Fund Balances	6,676,196	--	--	6,676,196
3600 Unreserved	8,939,912	--	--	8,939,912
3000 Total Fund Balances	<u>15,635,544</u>	<u>--</u>	<u>1,580,704</u>	<u>17,216,248</u>
4000 Total Liabilities and Fund Balances	<u>\$ 21,760,273</u>	<u>\$ 4,929,938</u>	<u>\$ 2,412,260</u>	<u>\$ 29,102,471</u>

The accompanying notes are an integral part of this statement.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT*RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**TO THE STATEMENT OF NET ASSETS**AUGUST 31, 2006*

Total fund balances - governmental funds balance sheet	\$ 17,216,248
Amounts reported for governmental activities in the statement of net assets ("SNA") are different because:	
The assets and liabilities of internal service funds are included in governmental activities in the SNA.	1,312,334
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	36,852,885
Long-term liabilities are not reported in the funds	(23,299,653)
Deferred revenue is recognized as revenue in the SNA	1,038,433
Other reconciling items	
Net assets of governmental activities - statement of net assets	\$ <u>33,120,247</u>

The accompanying notes are an integral part of this statement.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES****IN FUND BALANCES - GOVERNMENTAL FUNDS****FOR THE YEAR ENDED AUGUST 31, 2006**

Data Control Codes				
	10 General Fund	Immediate Aid to Restart School Operations	Other Governmental Funds	98 Total Governmental Funds
REVENUES:				
5700 <i>Local and Intermediate Sources</i>	\$ 43,714,604	\$ --	\$ 4,683,891	\$ 48,398,495
5800 <i>State Program Revenues</i>	3,501,532	--	566,810	4,068,342
5900 <i>Federal Program Revenues</i>	26,702	4,929,938	3,706,098	8,662,738
5020 Total Revenues	<u>47,242,838</u>	<u>4,929,938</u>	<u>8,956,799</u>	<u>61,129,575</u>
EXPENDITURES:				
Current:				
0011 <i>Instruction</i>	17,430,250	129,372	1,947,632	19,507,254
0012 <i>Instructional Resources and Media Services</i>	629,730	3,688	7,565	640,983
0013 <i>Curriculum and Staff Development</i>	518,966	1,323	62,734	583,023
0023 <i>School Leadership</i>	1,664,942	--	20,860	1,685,802
0031 <i>Guidance, Counseling, & Evaluation Services</i>	994,338	--	154,956	1,149,294
0032 <i>Social Work Services</i>	30,678	--	--	30,678
0033 <i>Health Services</i>	492,453	--	20,001	512,454
0034 <i>Student Transportation</i>	653,285	8,047	309,455	970,787
0035 <i>Food Service</i>	--	262	1,973,178	1,973,440
0036 <i>Cocurricular/Extracurricular Activities</i>	1,108,646	--	930	1,109,576
0041 <i>General Administration</i>	1,247,183	--	2,519	1,249,702
0051 <i>Plant Maintenance and Operations</i>	5,880,953	1,306,756	946,695	8,134,404
0052 <i>Security and Monitoring Services</i>	15,276	258,329	3,281	276,886
0053 <i>Data Processing Services</i>	290,514	183,780	1,020	475,314
0071 <i>Principal on Long-term Debt</i>	--	--	2,100,000	2,100,000
0072 <i>Interest on Long-term Debt</i>	--	--	1,076,662	1,076,662
0073 <i>Bond Issuance Costs and Fees</i>	--	--	3,227	3,227
0081 <i>Capital Outlay</i>	--	--	214,168	214,168
0091 <i>Contracted Instructional Services</i>				
0091 <i>Between Public Schools</i>	12,281,733	--	--	12,281,733
0095 <i>Payments to Juvenile Justice Alternative</i>				
0095 <i>Education Programs</i>	31,500	--	--	31,500
6030 Total Expenditures	<u>43,270,447</u>	<u>1,891,557</u>	<u>8,844,883</u>	<u>54,006,887</u>
1100 Excess (Deficiency) of Revenues Over (Under)				
1100 Expenditures	<u>3,972,391</u>	<u>3,038,381</u>	<u>111,916</u>	<u>7,122,688</u>
Other Financing Sources and (Uses):				
7912 <i>Sale of Real or Personal Property</i>	3,870	--	--	3,870
7915 <i>Transfers In</i>	3,038,381	--	--	3,038,381
8911 <i>Transfers Out</i>	--	(3,038,381)	--	(3,038,381)
7080 Total Other Financing Sources and (Uses)	<u>3,042,251</u>	<u>(3,038,381)</u>	<u>--</u>	<u>3,870</u>
1200 Net Change in Fund Balances	<u>7,014,642</u>	<u>--</u>	<u>111,916</u>	<u>7,126,558</u>
0100 Fund Balances - Beginning	<u>8,620,871</u>	<u>--</u>	<u>1,468,788</u>	<u>10,089,659</u>
3000 Fund Balances - Ending	<u>\$ 15,635,513</u>	<u>\$ --</u>	<u>\$ 1,580,704</u>	<u>\$ 17,216,217</u>

The accompanying notes are an integral part of this statement.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

*RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2006*

Net change in fund balances - total governmental funds	\$ 7,126,558
Amounts reported for governmental activities in the statement of activities are different because:	
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	94,221
Government funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.	(894,497)
The issuance of long-term debt (e.g. general obligation bonds) provides current financial resources in governmental funds, while the repayment of the principal of long-term debt consumed the current financial resources of governmental funds. neither transaction, however, has any effect on similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is in the net effect of these differences in the treatment of long-term debt and related items.	2,100,000
The net revenue (expense) of internal service funds is reported with governmental activities.	(52,402)
Change in net assets of governmental activities - statement of activities	\$ <u>8,373,880</u>

The accompanying notes are an integral part of this statement.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT**STATEMENT OF NET ASSETS****INTERNAL SERVICE FUND****AUGUST 31, 2006**

AS0007 51, 2000

Data Control Codes		Nonmajor Internal Service Fund	Insurance Fund
	ASSETS:		
	Current Assets:		
1110	Cash and Cash Equivalents	\$	3,440
	Receivables:		
1260	Due from Other Funds		1,644,437
	Total Current Assets		1,647,877
1000	Total Assets	\$	1,647,877
	LIABILITIES:		
	Current Liabilities:		
2110	Accounts Payable	\$	1,098
2200	Accrued Expenditures/Expenses		334,445
	Total Current Liabilities		335,543
2000	Total Liabilities		335,543
	NET ASSETS:		
3900	Unrestricted Net Assets		1,312,334
3000	Total Net Assets	\$	1,312,334

The accompanying notes are an integral part of this statement.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT**STATEMENT OF REVENUES, EXPENSES, AND CHANGES****IN FUND NET ASSETS - INTERNAL SERVICE FUND****FOR THE YEAR ENDED AUGUST 31, 2006**

Data Control Codes		Nonmajor Internal Service Fund
		Insurance Fund
	OPERATING REVENUES:	
5700	<i>Local and Intermediate Sources</i>	\$ 362,518
5020	Total Revenues	<u>362,518</u>
	OPERATING EXPENSES:	
6400	<i>Other Operating Costs</i>	<u>414,920</u>
6030	Total Expenses	<u>414,920</u>
1300	Change in Net Assets	(52,402)
0100	Total Net Assets - Beginning	1,364,736
3300	Total Net Assets - Ending	<u>\$ 1,312,334</u>

The accompanying notes are an integral part of this statement.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

FOR THE YEAR ENDED AUGUST 31, 2006

	Internal Service Fund
	Nonmajor Insurance Fund
Cash Flows from Operating Activities:	
<i>Cash Received from Customers</i>	\$ 69,116
<i>Cash Payments to Other Suppliers for Goods and Services</i>	(121,517)
Net Cash Provided (Used) by Operating Activities	(52,401)
Cash Flows from Non-capital Financing Activities:	
<i>Proceeds (Payments) from (for) Borrowings</i>	293,403
<i>Loans (To) Primary Government</i>	(1,644,437)
Net Cash Provided (Used) by Non-capital Financing Activities	(1,351,034)
Net Increase (Decrease) in Cash and Cash Equivalents	(1,403,435)
Cash and Cash Equivalents at Beginning of Year	1,406,875
Cash and Cash Equivalents at End of Year	\$ 3,440
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income (Loss)	\$ (52,402)
Change in Assets and Liabilities:	
<i>Decrease (Increase) in Receivables</i>	(1,644,436)
<i>Increase (Decrease) in Accounts Payable</i>	1,098
<i>Increase (Decrease) in Accrued Expenses</i>	292,305
Total Adjustments	(1,403,435)
Net Cash Provided (Used) by Operating Activities	\$ (1,403,435)

The accompanying notes are an integral part of this statement.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT**STATEMENT OF FIDUCIARY NET ASSETS****FIDUCIARY FUNDS****AUGUST 31, 2006**

Data Control Codes		Agency Fund	
		Student Activity	
	ASSETS:		
1110	<i>Cash and Cash Equivalents</i>	\$	650,662
1000	Total Assets	\$	650,662
	LIABILITIES:		
	Current Liabilities:		
2110	<i>Accounts Payable</i>	\$	650,662
2000	Total Liabilities		650,662
	NET ASSETS		
3000	Total Net Assets	\$	

The accompanying notes are an integral part of this statement.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2006

A. Summary of Significant Accounting Policies

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

1. Reporting Entity

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

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

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

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

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

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

The District reports the following major governmental funds:

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

Immediate Aid to Restart School Operations: This fund accounted for the federal funds given to the District under the program of the same name. The program was the result of Hurricane Rita. There was no legal requirement to adopt a budget for this fund and accordingly none was adopted.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2006

A. Summary of Significant Accounting Policies

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PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2006

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. 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.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2006

3. Financial Statement Amounts

a. Cash and Cash Equivalents

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

b. Property Taxes

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

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

c. Inventories and Prepaid Items

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

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

d. Capital Assets

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

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

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

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.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2006

f. Compensated Absences

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

g Interfund Activity

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

h. Use of Estimates

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

i. Data Control Codes

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

B. Compliance and Accountability

1. Finance-Related Legal and Contractual Provisions

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

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

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

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

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

C. Deposits and Investments

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

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2006

1. Cash Deposits:

At August 31, 2006, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$638,520 and the bank balance was \$1,069,131. The District's cash deposits at August 31, 2006 and during the year ended August 31, 2006, were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

2. Investments:

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

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

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

The District's investment at August 31, 2006 are shown below.

<u>Investment or Investment Type</u>	<u>Maturity</u>	<u>Share Value</u>
Lone Star Investment Pool	N/A	\$ 16,297,498
Total Investments		\$ 16,297,498

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.

At August 31, 2006, the District's investments, other than those which are obligations of or guaranteed by the U. S. Government, are rated as to credit quality as follows:

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.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2006

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

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

c. **Concentration of Credit Risk**

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

d. **Interest Rate Risk**

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

e. **Foreign Currency Risk**

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

Investment Accounting Policy

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

Public Funds Investment Pools

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

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

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2006

D. Capital Assets

Capital asset activity for the year ended August 31, 2006, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 903,230	\$ --	\$ --	\$ 903,230
Construction in progress	--	--	--	--
Total capital assets not being depreciated	903,230	--	--	903,230
<i>Capital assets being depreciated:</i>				
Buildings and improvements	64,633,962	--	--	64,633,962
Equipment	1,486,906	452,342	--	1,939,248
Vehicles	2,583,750	72,377	123,090	2,533,037
Total capital assets being depreciated	68,704,618	524,719	123,090	69,106,247
Less accumulated depreciation for:				
Buildings and improvements	(28,940,907)	(1,230,401)	--	(30,171,308)
Equipment	(1,329,965)	(53,907)	--	(1,383,872)
Vehicles	(1,589,543)	(134,959)	123,090	(1,601,412)
Total accumulated depreciation	(31,860,415)	(1,419,267)	--	(33,156,592)
Total capital assets being depreciated, net	36,844,203	(894,548)	--	35,949,655
Governmental activities capital assets, net	\$ 37,747,433	\$ (894,548)	\$ --	\$ 36,852,885

	Beginning Balances	Increases	Decreases	Ending Balances
--	-----------------------	-----------	-----------	--------------------

Depreciation was charged to functions as follows:

Instruction	\$ 1,054,287
Instructional Resources and Media Services	45,133
Curriculum and Staff Development	32,075
School Leadership	29,748
Guidance, Counseling, & Evaluation Services	6,245
Health Services	3,832
Student Transportation	72,525
Food Services	32,217
Extracurricular Activities	41,159
General Administration	6,671
Plant Maintenance and Operations	79,621
Other	15,754
	\$ 1,419,267

E. Interfund Balances and Activities

1. Due To and From Other Funds

Balances due to and due from other funds at August 31, 2006, consisted of the following:

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2006

Due To Fund	Due From Fund	Amount	Purpose
General Fund	Other Governmental Funds	\$ 150,245	Short-term loans
General Fund	Immediate Aid to Restart Schools	4,921,147	For transfer of federal receipts
Other Governmental Funds	General Fund	2,170,084	Specify purpose here
	Other Balances	--	
	Total	\$ 7,241,476	

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

2. Transfers To and From Other Funds

Transfers to and from other funds at August 31, 2006, consisted of the following:

Transfers From	Transfers To	Amount	Reason
General fund	Immediate Aid to Restart Schools	3,038,381	Reimburse expenditures
	Total	\$ 3,038,381	

F. Short-Term Debt Activity

The District accounts for short-term debts for maintenance purposes 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. Changes in long-term obligations for the year ended August 31, 2006, are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Governmental activities:					
General obligation bonds	\$ 25,399,652	\$ --	\$ 2,100,000	\$ 23,299,652	\$ 2,100,000
Compensated absences *	51,572	5,045	--	56,617	--
Total governmental activities	\$ 25,451,224	\$ 5,045	\$ 2,100,000	\$ 23,356,269	\$ 2,100,000

* Other long-term liabilities

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

Liability	Activity Type	Fund
Compensated absences	Governmental	General

2. Debt Service Requirements

Debt service requirements on long-term debt at August 31, 2006, are as follows:

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2006

Year Ending August 31,	Governmental Activities		
	Principal	Interest	Total
2007	\$ 2,100,000	\$ 960,287	\$ 3,060,287
2008	2,065,000	873,476	2,938,476
2009	2,050,000	781,188	2,831,188
2010	1,709,652	1,036,098	2,745,750
2011	2,025,000	630,500	2,655,500
2012-2016	9,900,000	1,931,250	11,831,250
2017-2019	3,450,000	180,875	3,630,875
Totals	\$ 23,299,652	\$ 6,393,674	\$ 29,693,326

H. Commitments Under Noncapitalized Leases

I. Risk Management

The District is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2006, 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.

J. 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, 2006, 2005 and 2004 were \$1,411,285, \$1,410,330 and \$1,386,669, 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, 2006, 2005 and 2004 were \$161,797, \$164,911 and \$144,944, respectively, and were equal to the required contributions for each year. The amount contributed by the State on behalf of the District was \$1,341,996 for the year ended August 31, 2006.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2006

K. Health Care Coverage

During the period ended August 31, 2006 employees of the District were covered by a statewide health insurance plan, TRS Active Care. The District paid premiums of \$174 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 files with the Texas State Board of insurance, Austin, Texas , and are public records.

L. Commitments and Contingencies

1. Contingencies

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

2. Litigation

No reportable litigation was pending against the District at August 31,2006.

M. 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	\$ 14,425
Bridge City ISD	10,819
Nederland ISD	19,835
Total	\$ <u>45,079</u>

N. Subsequent Events

TOTAL Petrochemicals, one of the District's major taxpayers, has filed suit against the appraisal district to have their taxable value lowered. No amount has been specified.

Required Supplementary Information

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

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2006

EXHIBIT G-1

Page 1 of 2

Data Control Codes		1	2	3	Variance with Final Budget Positive (Negative)
		Budgeted Amounts			
		Original	Final	Actual	
REVENUES:					
5700	Local and Intermediate Sources	\$ 41,102,670	\$ 42,602,670	\$ 43,714,604	\$ 1,111,934
5800	State Program Revenues	2,808,253	2,813,911	3,501,532	687,621
5900	Federal Program Revenues	22,000	22,000	26,702	4,702
5020	Total Revenues	43,932,923	45,438,581	47,242,838	1,804,257
EXPENDITURES:					
Current:					
Instruction & Instructional Related Services:					
0011	Instruction	18,194,688	18,440,685	17,430,250	1,010,435
0012	Instructional Resources and Media Services	637,038	643,989	629,730	14,259
0013	Curriculum and Staff Development	609,354	609,332	518,966	90,366
	Total Instruction & Instr. Related Services	19,441,080	19,694,006	18,578,946	1,115,060
Instructional and School Leadership:					
0023	School Leadership	1,727,207	1,758,360	1,664,942	93,418
	Total Instructional & School Leadership	1,727,207	1,758,360	1,664,942	93,418
Support Services - Student (Pupil):					
0031	Guidance, Counseling and Evaluation Services	1,030,239	1,116,760	994,338	122,422
0032	Social Work Services	29,574	33,074	30,678	2,396
0033	Health Services	506,714	512,596	492,453	20,143
0034	Student (Pupil) Transportation	896,708	902,055	653,285	248,770
0036	Cocurricular/Extracurricular Activities	1,272,265	1,275,939	1,108,646	167,293
	Total Support Services - Student (Pupil)	3,735,500	3,840,424	3,279,400	561,024
Administrative Support Services:					
0041	General Administration	1,489,998	1,492,672	1,247,183	245,489
	Total Administrative Support Services	1,489,998	1,492,672	1,247,183	245,489
Support Services - Nonstudent Based:					
0051	Plant Maintenance and Operations	4,833,902	8,221,043	5,880,953	2,340,090
0052	Security and Monitoring Services	19,000	24,658	15,276	9,382
0053	Data Processing Services	313,271	343,606	290,514	53,092
	Total Support Services - Nonstudent Based	5,166,173	8,589,307	6,186,743	2,402,564
Capital Outlay:					
0081	Capital Outlay	25,000	--	--	--
	Total Capital Outlay	25,000	--	--	--
Intergovernmental Charges:					
0091	Contracted Instr. Services Between Public Schools	12,654,390	12,654,390	12,281,733	372,657
0095	Payments to Juvenile Justice Alternative Ed. Program	31,500	31,500	31,500	--
	Total Intergovernmental Charges	12,685,890	12,685,890	12,313,233	372,657
6030	Total Expenditures	44,270,848	48,060,659	43,270,447	4,790,212
1100	Excess (Deficiency) of Revenues Over (Under)				
1100	Expenditures	(337,925)	(2,622,078)	3,972,391	6,594,469
Other Financing Sources (Uses):					
7912	Sale of Real or Personal Property	--	--	3,870	3,870
7915	Transfers In	--	2,746,771	3,038,381	291,610

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2006

EXHIBIT G-1

Page 2 of 2

Data		1	2	3	Variance with
Control					Final Budget
Codes		Budgeted Amounts			Positive
		Original	Final	Actual	(Negative)
7080	Total Other Financing Sources and (Uses)	--	2,746,771	3,042,251	295,480
1200	Net Change in Fund Balance	(337,925)	124,693	7,014,642	6,889,949
0100	Fund Balance - Beginning	--	--	8,620,902	8,620,902
3000	Fund Balance - Ending	\$ (337,925)	\$ 124,693	\$ 15,635,544	\$ 15,510,851

Other Supplementary Information

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

10 Beginning Balance 9/1/05	20 Current Year's Total Levy	31 Maintenance Collections	32 Debt Service Collections	40 Entire Year's Adjustments	50 Ending Balance 8/31/06
\$ 234,487	\$ --	\$ 1,087	\$ 70	\$ --	\$ 233,330
37,940	--	458	51	(130)	37,301
27,198	--	629	98	(22)	26,449
28,410	--	1,495	249	(142)	26,524
48,788	--	3,905	479	(130)	44,274
48,436	--	5,346	631	(1,260)	41,199
80,711	--	15,030	1,567	(1,466)	62,648
142,995	--	46,360	4,120	(1,481)	91,034
315,750	--	128,364	10,936	(22,718)	153,732
--	40,658,058	37,146,505	3,169,575	(51,448)	290,530
\$ 964,715	\$ 40,658,058	\$ 37,349,179	\$ 3,187,776	\$ (78,797)	\$ 1,007,021
\$ --	\$ --	\$ --	\$ --	\$ --	\$ --

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

EXHIBIT J-2

SCHEDULE OF EXPENDITURES FOR COMPUTATION OF INDIRECT COST FOR 2007-2008

GENERAL AND SPECIAL REVENUE FUNDS

FOR THE YEAR ENDED AUGUST 31, 2006

FUNCTION 41 AND RELATED FUNCTION 53 - GENERAL ADMINISTRATION

Account Number	Account Name	1 (702) School Board	2 (703) Tax Collection	3 (701) Supt's Office	4 (750) Indirect Cost	5 (720) Direct Cost	6 (Other) Misc.	7 Total
611X-6146	Payroll Costs	\$ --	\$ --	\$ 187,326	\$ 199,734	\$ 150,874	\$ 3,481	\$ 541,415
6149	Fringe Benefits (Unused Leave for Separating Employees in Function 41 and Related 53)	--	--	--	--	--	--	--
6149	Fringe Benefits (Unused Leave for Separating Employees in all Functions except Function 41 and Related 53)	--	--	--	--	--	--	--
6211	Legal Services	--	--	35,786	--	--	--	35,786
6212	Audit Services	--	--	--	16,700	--	--	16,700
6213	Tax Appraisal and Collection	--	440,125	--	--	--	--	440,125
621X	Other Prof. Services	--	--	30,371	35,372	--	--	65,743
6220	Tuition and Transfer Payments	--	--	--	--	--	--	--
6230	Education Service Centers	1,200	--	3,750	--	1,400	--	6,350
6240	Contr. Maint. and Repair	--	--	--	8,678	--	--	8,678
6250	Utilities	--	--	--	--	--	--	--
6260	Rentals	--	--	2,030	18,231	1,638	--	21,899
6290	Miscellaneous Contr.	--	--	--	20,850	--	--	20,850
6310	Operational Supplies, Materials	--	--	--	--	--	--	--
6320	Textbooks and Reading	--	--	--	--	--	--	--
6330	Testing Materials	--	--	--	--	--	--	--
63XX	Other Supplies, Materials	5,121	--	1,396	21,463	6,742	--	34,722
6410	Travel, Subsistence, Stipends	6,922	--	5,233	4,188	3,012	--	19,355
6420	Ins. and Bonding Costs	--	--	--	18,883	--	--	18,883
6430	Election Costs	6,559	--	--	--	--	--	6,559
6490	Miscellaneous Operating	6,445	--	16,508	5,196	5,634	--	33,783
6500	Debt Service	--	--	--	--	--	--	--
6600	Capital Outlay	--	--	--	--	--	--	--

Total \$ 26,247 \$ 440,125 \$ 282,400 \$ 349,295 \$ 169,300 \$ 3,481 \$ 1,270,848

Total expenditures for General and Special Revenue Funds (9) \$ 50,815,541

LESS: Deductions of Unallowable Costs

FISCAL YEAR

Total Capital Outlay (6600)	(10)	\$ 3,510,051
Total Debt & Lease (6500)	(11)	\$ --
Plant Maintenance (Function 51, 6100-6400)	(12)	\$ 5,759,007
Food (Function 35, 6341 and 6499)	(13)	\$ 722,344
Stipends (6413)	(14)	\$ --
Column 4 (above) - Total Indirect Cost		\$ 349,295

Subtotal 10,340,697

Net Allowed Direct Cost \$ 40,474,844

CUMULATIVE

Total Cost of Buildings Before Depreciation (1520)	(15)	\$ 64,633,962
Historical Cost of Buildings 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)	4,472,285
Historical Cost of Furniture & Equipment over 16 years old	(19)	121,940
Amount of Federal Money in Furniture & Equipment (Net of #19)	(20)	\$ --

(8) Note A - \$21,146 in Function 53 expenditures are included in this report on administrative costs.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT**EXHIBIT J-3****FUND BALANCE AND CASH FLOW CALCULATION WORKSHEET (UNAUDITED)****GENERAL FUND****AS OF AUGUST 31, 2006**

Data Control Codes	Explanation	Amount
1	Total General Fund Fund Balance as of August 31, 2006 (Exhibit C-1 object 3000 for the General Fund only)	\$ 15,635,544
2	Total General Fund Reserved Fund Balance (from Exhibit C-1 - total of object 3400s for the General Fund only)	--
3	Total General Fund Designated Fund Balance (from Exhibit C-1 - total of object 3500s for the General Fund only)	6,676,196
4	Estimated amount needed to cover fall cash flow deficits in the General Fund (net of borrowed funds and funds representing deferred revenues)	5,139,050
5	Estimate of one month's average cash disbursements during the regular school session (9/1/06 - 5/31/07)	4,052,993
6	Estimate of delayed payments from state sources (58XX) including August payment delays	--
7	Estimate of underpayment from state sources equal to variance between Legislative Payment Estimate (LPE) and District Planning Estimate (DPE) or District's calculated earned state aid amount	--
8	Estimate of delayed payments from federal sources (59XX)	--
9	Estimate of expenditures to be reimbursed to General Fund from Capital Projects Fund (uses of General Fund cash after bond referendum and prior to issuance of bonds)	--
10	General Fund Optimum Fund Balance and Cash Flow (Lines 2+3+4+5+6+7+8+9)	15,868,239
11	Excess (Deficit) Undesignated Unreserved General Fund Fund Balance (Line 1 minus Line 10)	\$ (232,695)

If Item 11 is a Positive Number

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

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

EXHIBIT J-4

NATIONAL SCHOOL BREAKFAST AND LUNCH PROGRAM

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2006

Data Control Codes		1	2	3 Variance Positive (Negative)
		Budget	Actual	
REVENUES:				
5700	Local and Intermediate Sources	\$ 1,278,000	\$ 1,190,110	\$ (87,890)
5800	State Program Revenues	53,416	43,307	(10,109)
5900	Federal Program Revenues	607,700	725,823	118,123
5020	Total Revenues	1,939,116	1,959,240	20,124
EXPENDITURES:				
Current:				
	Support Services - Student (Pupil):			
0035	Food Services	1,971,388	1,927,117	44,271
	Total Support Services - Student (Pupil)	1,971,388	1,927,117	44,271
6030	Total Expenditures	1,971,388	1,927,117	44,271
1100	Excess (Deficiency) of Revenues Over (Under)			
1100	Expenditures	(32,272)	32,123	64,395
1200	Net Change in Fund Balance	(32,272)	32,123	64,395
0100	Fund Balance - Beginning	--	360,485	360,485
3000	Fund Balance - Ending	\$ (32,272)	\$ 392,608	\$ 424,880

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

EXHIBIT J-5

DEBT SERVICE FUND

BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED AUGUST 31, 2006

Data Control Codes		1	2	3 Variance Positive (Negative)
		Budget	Actual	
REVENUES:				
5700	Local and Intermediate Sources	\$ 3,229,703	\$ 3,235,650	\$ 5,947
5020	Total Revenues	3,229,703	3,235,650	5,947
EXPENDITURES:				
Debt Service:				
0071	Principal on Long-Term Debt	2,100,000	2,100,000	--
0072	Interest on Long-Term Debt	1,076,663	1,076,662	1
0073	Bond Issuance Costs and Fees	5,000	3,227	1,773
	Total Debt Service	3,181,663	3,179,889	1,774
6030	Total Expenditures	3,181,663	3,179,889	1,774
1100	Excess (Deficiency) of Revenues Over (Under)			
1100	Expenditures	48,040	55,761	7,721
1200	Net Change in Fund Balance	48,040	55,761	7,721
0100	Fund Balance - Beginning	--	327,177	327,177
3000	Fund Balance - Ending	\$ 48,040	\$ 382,938	\$ 334,898

Independent Auditor's Report

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

Board of Trustees
Port Neches-Groves Independent School District
620 Avenue C
Port Neches, Texas 77651-3092

Members of the Board of Trustees:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Port Neches-Groves Independent School District as of and for the year ended August 31, 2006, which collectively comprise the Port Neches-Groves Independent School District's basic financial statements and have issued our report thereon dated December 19, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Port Neches-Groves Independent School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we considered to be material weaknesses.

Compliance and Other Matters

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

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

Respectfully submitted,


CHARLES E. REED & ASSOCIATES, P.C., CPA'S

December 19, 2006

Independent Auditor's Report

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

Board of Trustees
Port Neches-Groves Independent School District
620 Avenue C
Port Neches, Texas 77651-3092

Members of the Board of Trustees:

Compliance

We have audited the compliance of Port Neches-Groves Independent School District with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended August 31, 2006. Port Neches-Groves Independent School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Port Neches-Groves Independent School District's management. Our responsibility is to express an opinion on Port Neches-Groves Independent School District's compliance based on our audit.

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

In our opinion, Port Neches-Groves Independent School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended August 31, 2006.

Internal Control Over Compliance

The management of Port Neches-Groves Independent School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Port Neches-Groves Independent School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the

internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we considered to be material weaknesses.

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

Respectfully submitted,

Charles E. Reed & Associates, P.C.

CHARLES E. REED & ASSOCIATES, P.C., CPA'S

December 19, 2006

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FOR THE YEAR ENDED AUGUST 31, 2006

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued:

Unqualified

Internal control over financial reporting:

Material weakness(es) identified?

____ Yes X No

Reportable condition(s) identified that are
not considered to be material weaknesses?

____ Yes X None Reported

Noncompliance material to financial
statements noted?

____ Yes X No

2. Federal Awards

Internal control over major programs:

Material weakness(es) identified?

____ Yes X No

Reportable condition(s) identified that are
not considered to be material weaknesses?

____ Yes X None Reported

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

Unqualified

Any audit findings disclosed that are required
to be reported in accordance with section 510(a)
of Circular A-133?

____ Yes X No

Identification of major programs:

CFDA Number(s)

84.938A

97.036

Name of Federal Program or Cluster

Immediate Aid to Restart School Operations

FEMA - Hurricane Rita Projects

Dollar threshold used to distinguish between
type A and type B programs:

500,000

Auditee qualified as low-risk auditee?

X Yes ____ No

B. Financial Statement Findings

NONE

C. Federal Award Findings and Questioned Costs

NONE

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2006

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
None		

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED AUGUST 31, 2006

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED AUGUST 31, 2006

EXHIBIT K-1

Page 1 of 2

	(1)	(2)	(2A)	(3)
Data Control Codes	Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
	U. S. DEPARTMENT OF EDUCATION			
	Passed Through State Department of Education:			
211	ESEA Title I Part A - Improving Basic Programs	84.010A	4610101123908	\$ --
211	ESEA Title I Part A - Improving Basic Programs	84.010A	4610101123908	266,486
211	ESEA Title I Part A - Improving Basic Programs	84.010A	4610101123908	17,897
	Total CFDA Number 84.010A			284,383
224	IDEA-B Formula	84.027	466000112390844	--
224	IDEA-B Formula	84.027	466000112390844	965,760
224	IDEA-B Formula	84.027	466000112390844	32,719
226	IDEA-B Discretionary	84.027	46600112390844	104,871
	Total CFDA Number 84.027			1,103,350
244	Vocational Education - Basic Grant	84.048		36,547
225	IDEA-B Preschool	84.173	466100112390844	--
225	IDEA-B Preschool	84.173	466100112390844	20,385
225	IDEA-B Preschool	84.173	466100112390844	2,454
	Total CFDA Number 84.173			22,839
204	ESEA Title IV Part A-Safe & Drug-Free Schools & Communities Act	84.186A		12,665
243	Vocational Education - Technical Preparation	84.243A		4,486
269	Title V, Part A - Innovative Programs	84.298		7,091
262	Title II Part D Enhancing Education Through Technology	84.318		4,726
255	ESEA Title II Part A - Teacher & Principal Training & Recruiting	84.367A	4694501123908	--
255	ESEA Title II Part A - Teacher & Principal Training & Recruiting	84.367A	4694501123908	142,258
255	ESEA Title II Part A - Teacher & Principal Training & Recruiting	84.367A		2,658
	Total CFDA Number 84.367A			144,916
	Immediate Aid to Restart School Operations	84.938A	123-908	4,929,938
	Impact Aid	84.938C	123-908	44,136
	Impact Aid	84.938C	123-908	167,151
	Total CFDA Number 84.938C			211,287
	Total Passed Through State Department of Education			6,762,228
	Total U. S. Department of Education			6,762,228
	U. S. DEPARTMENT OF AGRICULTURE			
	Passed Through State Department of Education:			
240	School Breakfast Program *	10.553	123-908	88,806
240	National School Lunch Program *	10.555	123-908	534,123
241	Commodity Supplemental Food Program	10.565	123-908	102,894
	Total Passed Through State Department of Education			725,823
	Total U. S. Department of Agriculture			\$ 725,823

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED AUGUST 31, 2006

EXHIBIT K-1

Page 2 of 2

	(1)	(2)	(2A)	(3)
Data Control Codes	Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
	DEPARTMENT OF THE INTERIOR			
	Passed Through State Department of Education:			
	Debris Clean-up - Hurricane Rita	97.036	123-908	30,208
	FEMA - Hurricane Rita Projects	97.036	123-908	1,117,777
	Total CFDA Number 97.036			<u>1,147,985</u>
	Total Passed Through State Department of Education			<u>1,147,985</u>
	Total Department of the Interior			<u>1,147,985</u>
	TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 8,636,036</u></u>

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

The accompanying notes are an integral part of this schedule.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED AUGUST 31, 2006

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Port Neches-Groves Independent School District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general purpose financial statements.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REQUIRED RESPONSES TO SELECTED SCHOOL FIRST INDICATORS
AS OF AUGUST 31, 2006

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