

PORT NECHES- GROVES
INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED AUGUST 31, 2007

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

3636 Professional Drive
Port Arthur, Texas 77642

3302 McFaddin, Suite One
Beaumont, Texas 77706

Port Neches-Groves Independent School District
Annual Financial Report
For the Year Ended August 31, 2007

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Annual Financial Report
For the Year Ended August 31, 2007

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Introductory Section

CERTIFICATE OF BOARD

Port Neches Groves Independent School District

Name of School District
Number

County

123908

Co.-Dist.

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, 2007 at a meeting of the Board of Trustees of such school district on the 15th day of January , 2008.

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 Independent School District
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 Independent School District (the District) as of and for the year ended August 31, 2007, 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 Independent School District as of August 31, 2007, and the respective changes in financial position and cash flows, where applicable, thereof, and the 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 the budgetary comparison information identified as Required Supplementary Information in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2007, 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.

Port Arthur

3636 Professional Drive
Port Arthur, Texas 77642
(409) 983-3277 • Fax: (409) 983-3270

Beaumont

3302 McFaddin, Suite One
Beaumont, Texas 77706
(409) 833-8986 • Fax: (409) 833-4486

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise Port Neches Groves Independent School District'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.

Yours very truly,

Charles E. Reed & Associates, P.C.

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

December 18, 2007

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, 2007. 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 \$36,532,783 at August 31, 2007.
- During the year, the District's expenses were \$3,469,153 less than the \$53,972,333 generated in taxes and other revenues for governmental activities.
- The total cost of the District's programs decreased slightly from last year, and no new programs were added this year.
- The general fund reported a fund balance this year of \$17,677,746.

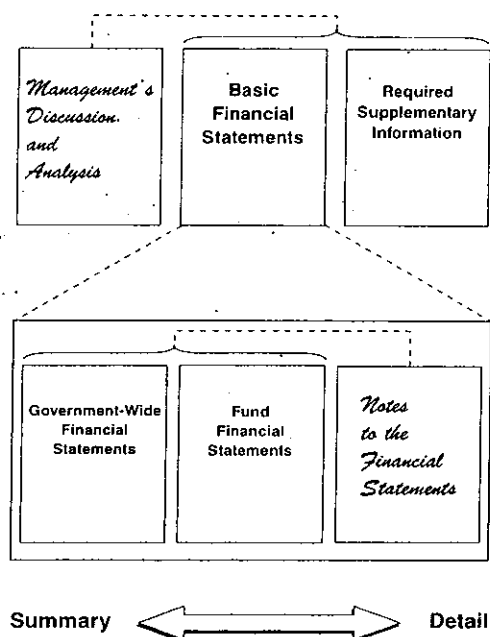
OVERVIEW OF THE FINANCIAL STATEMENTS

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.

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.

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



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 \$36,532,783 at August 31, 2007. (See Table A-1).

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

	<u>2007</u>	<u>2006</u>	<u>Percentage Change 2007-2006</u>
Current assets:			
Cash and investments	\$ 19,871,048	\$ 16,640,166	19.42%
Due from other governments	2,064,689	5,196,100	-60.26%
Other receivables	963,061	826,101	16.58%
Prepaid Expenses	797,754	730,865	9.15%
Inventories - supplies and materials	86,304	115,639	-25.37%
Total current assets	<u>23,782,856</u>	<u>23,508,871</u>	<u>1.17%</u>
Noncurrent assets:			
Capital assets	70,831,086	70,009,477	1.17%
Less accumulated depreciation	<u>(34,620,428)</u>	<u>(33,156,592)</u>	<u>4.41%</u>
Total noncurrent assets	<u>36,210,658</u>	<u>36,852,885</u>	<u>-1.74%</u>
Total Assets	<u>59,993,514</u>	<u>60,361,756</u>	<u>-0.61%</u>
Current liabilities:			
Accounts payable and accrued liabilities	2,181,021	3,057,695	-28.67%
Due to other governments	34,736	884,162	-96.07%
Total current liabilities	<u>2,215,757</u>	<u>3,941,857</u>	<u>-43.79%</u>
Long-term liabilities:			
Long-term debt	21,244,974	23,299,652	-8.82%
Total Liabilities	<u>21,244,974</u>	<u>27,241,509</u>	<u>-22.01%</u>
Net assets:			
Invested in capital assets	15,011,006	13,553,233	10.76%
Restricted	715,029	842,820	-15.16%
Unrestricted	20,806,748	18,724,194	11.12%
Total Net Assets	<u>\$ 36,532,783</u>	<u>\$ 33,120,247</u>	<u>10.30%</u>

Approximately 54% 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 \$53,972,333. A significant portion, 71%, of the District's revenue comes from taxes.

The total cost of all programs and services was \$50,503,180; 60.1% of these costs are for instructional and student services.

Governmental Activities

- Property tax rates reduced approximately 14 cents per \$100 valuation. An increase in taxable values resulted in a small increase in tax revenues to \$40,883,576.

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

	Government Activities		Percentage Change 2007-2006
	2007	2006	
Program Revenues:			
Charges for Services	\$ 1,684,448	\$ 1,222,580	37.78%
Operating Grants and Program Contributions	4,507,045	4,297,364	4.88%
Grants and Contributions, Non-Program	1,721,533	8,433,716	-79.59%
General Revenues:			
Property Taxes	38,227,465	40,793,007	-6.29%
Investment Earnings	1,394,290	1,078,133	29.32%
Other	6,437,552	5,765,435	11.66%
Total Revenues	53,972,333	61,590,235	-12.37%
Instruction	21,148,192	20,561,541	2.85%
Instructional Resources and Media Services	722,526	686,116	5.31%
Curriculum Development and Instructional Staff Dev.	726,592	615,098	18.13%
School Leadership	1,741,628	1,715,550	1.52%
Guidance, Counseling and Evaluation Services	1,255,655	1,155,539	8.66%
Social Work Services	31,513	30,678	2.72%
Health Services	538,206	516,286	4.25%
Student Transportation	748,840	1,043,312	-28.22%
Food Services	2,045,204	2,005,657	1.97%
Curricular/Extracurricular Activities	1,376,363	1,150,735	19.61%
General Administration	1,360,452	1,272,127	6.94%
Plant Maintenance	5,871,273	8,087,254	-27.40%
Security and Monitoring Services	73,261	276,886	-73.54%
Data Processing Services	356,889	291,534	22.42%
Bond Issuance Cost and Fees	2,538	3,227	-21.35%
Contracted Instructional Serv. Between Public Schools	11,488,138	12,281,733	-6.46%
Payments to Juvenile Justice Alternative Ed. Program	39,375	31,500	25.00%
Other Intergovernmental Charges	-	414,920	-100.00%
Unallocated Depreciation	16,249	-	0.00%
Interest on Long Term Debt	960,286	1,076,662	-10.81%
Total Expenses	50,503,180	53,216,355	-5.10%
Excess (Deficiency) Before Other Resources, Uses & Transfers	3,469,153	8,373,880	-58.57%
Increase (Decrease) in Net Assets	\$ 3,469,153	\$ 8,373,880	-58.57%

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 \$ 50,503,180.
- However, the amount that our taxpayers paid for these activities through property taxes was only \$38,227,465.
- Some of the cost was paid by those who directly benefited from the programs, \$1,684,448, or by grants and contributions, \$4,507,045.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Revenues from governmental fund types totaled \$54,110,107, a decrease of 11% from the preceding year. The decrease in federal revenues is primarily due to the completion to Hurricane Rita relief.

General Fund Budgetary Highlights

Over the course of the year, the District revised its budget 6 times. Even with these adjustments, actual expenditures were \$4,520,209 below final budget amounts in the general fund.

In addition, resources available were \$1,771,126 less than the final budgeted amount. As noted earlier:

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2007, the District had invested \$70,831,087 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
	2007	2006	2007 - 2006
Land	\$ 904,230	\$ 903,230	0.11%
Construction in Progress	94,951	-	0.00%
Buildings and Improvements	65,145,288	64,633,962	0.79%
Equipment and Vehicles	4,686,618	4,472,285	4.79%
Totals at historical cost	70,831,087	70,009,477	1.17%
Total accumulated depreciation	(34,620,428)	(33,156,592)	4.41%
Net capital assets	\$ 36,210,659	\$ 36,852,885	-1.74%

Long-Term Debt

At year-end the District had \$21,199,652 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:

Table A - 4
District's Long-Term Debt

	Governmental Activities		Percentage Change
	2007	2006	2007 - 2006
Bonds payable	\$ 21,199,652	\$ 23,299,652	-9.01%
Total bonds and notes payable	\$ 21,199,652	\$ 23,299,652	-9.01%

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District's Board of Trustees and Superintendent considered many factors when setting the 2007-08 budget. These included the following:

- Average Daily Attendance
- Rate of Return on Investments
- State Aid
- Federal Grants
- State/Federal Requirements

As a result of HB1, the District has reduced the tax rate by 19% to \$1.1925 (\$1.04 for maintenance and operations and \$0.1525 for interest and sinking). Under the new state law, the highest rate the District could adopt for maintenance and operation without an election by the voters was \$1.04. The state revenue has increased \$3 million dollars to offset for the tax rate reduction.

General Fund expenditures are budgeted to decrease 6.4% to 45.5 million. The largest decrease is the amount paid the state for the purchase of student attendance credits. This also is a result from HB1 and the reduction of the tax rate. The District has added no new major programs or initiatives to the 2007-08 budgets.

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 will follow in March 2008 for approximately \$80 million.

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, 2007

Data Control Codes		Primary Government
		Governmental Activities
ASSETS		
1110	Cash and Cash Equivalents	\$ 820,587
1120	Current Investments	19,050,461
1220	Property Taxes Receivable (Delinquent)	3,476,679
1230	Allowance for Uncollectible Taxes	(2,534,774)
1240	Due from Other Governments	2,064,689
1290	Other Receivables, net	21,156
1300	Inventories	86,304
1410	Deferred Expenses	797,754
Capital Assets:		
1510	Land	904,229
1520	Buildings, Net	33,743,579
1530	Furniture and Equipment, Net	1,467,899
1580	Construction in Progress	94,951
1000	Total Assets	59,993,514
LIABILITIES		
2110	Accounts Payable	343,562
2150	Payroll Deductions & Withholdings	43,258
2160	Accrued Wages Payable	1,442,931
2180	Due to Other Governments	34,736
2200	Accrued Expenses	179,022
2300	Deferred Revenues	172,248
Noncurrent Liabilities		
2502	Due in More Than One Year	21,244,974
2000	Total Liabilities	23,460,731
NET ASSETS		
3200	Invested in Capital Assets, Net of Related Debt	15,011,006
3820	Restricted for Federal and State Programs	330,655
3850	Restricted for Debt Service	384,374
3900	Unrestricted Net Assets	20,806,748
3000	Total Net Assets	\$ 36,532,783

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

PORT NECHES GROVES INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2007

EXHIBIT B-1

FOR THE YEAR ENDED AUGUST 31, 2007

				Net (Expense) Revenue and Changes in Net Assets
Data		Program Revenues		
Control	1	3	4	6
Codes			Operating	Primary Gov.
	Expenses	Charges for	Grants and	Governmental
		Services	Contributions	Activities
Primary Government:				
GOVERNMENTAL ACTIVITIES:				
11 Instruction	\$ 21,148,192	\$ 31,309	\$ 3,108,903	\$ (18,007,981)
12 Instructional Resources and Media Services	722,526	-	36,557	(685,969)
13 Curriculum and Instructional Staff Development	726,592	-	87,572	(639,020)
23 School Leadership	1,741,628	-	84,024	(1,657,604)
31 Guidance, Counseling and Evaluation Services	1,255,655	-	63,546	(1,192,109)
32 Social Work Services	31,513	-	1,277	(30,236)
33 Health Services	538,206	-	29,492	(508,714)
34 Student (Pupil) Transportation	748,840	208,598	25,929	(514,313)
35 Food Services	2,045,204	1,444,541	807,253	206,590
36 Cocurricular/Extracurricular Activities	1,376,363	-	63,388	(1,312,975)
41 General Administration	1,360,452	-	29,596	(1,330,856)
51 Plant Maintenance and Operations	5,871,273	-	127,833	(5,743,440)
52 Security and Monitoring Services	73,261	-	3,415	(69,846)
53 Data Processing Services	356,889	-	12,999	(343,890)
72 Debt Service - Interest on Long Term Debt	960,286	-	-	(960,286)
73 Debt Service - Bond Issuance Cost and Fees	2,538	-	-	(2,538)
81 Facilities Acquisition and Construction	-	-	25,260	25,260
91 Contracted Instructional Services Between Schools	11,488,138	-	-	(11,488,138)
95 Payments to Juvenile Justice Alternative Ed. Prg.	39,375	-	-	(39,375)
98 Unallocated Depreciation	16,249	-	-	(16,249)
[TP] TOTAL PRIMARY GOVERNMENT:	\$ 50,503,180	\$ 1,684,448	\$ 4,507,045	(44,311,687)

Data Control Codes	General Revenues:	
	Taxes:	
MT	Property Taxes, Levied for General Purposes	35,231,462
DT	Property Taxes, Levied for Debt Service	2,996,003
SF	State Aid - Formula Grants	2,925,902
GC	Grants and Contributions not Restricted	1,721,533
IE	Investment Earnings	1,394,290
MI	Miscellaneous Local and Intermediate Revenue	3,511,650
TR	Total General Revenues	47,780,840
CN	Change in Net Assets	3,469,153
NB	Net Assets--Beginning	33,063,630
NE	Net Assets--Ending	\$ 36,532,783

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

PORT NECHES GROVES INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2007

Data Control Codes	10 General Fund	Other Funds	Total Governmental Funds
ASSETS			
1110 Cash and Cash Equivalents	\$ 8,500	\$ 521,888	\$ 530,388
1120 Investments - Current	18,145,365	905,096	19,050,461
1220 Property Taxes - Delinquent	3,233,797	242,882	3,476,679
1230 Allowance for Uncollectible Taxes (Credit)	(2,352,120)	(182,654)	(2,534,774)
1240 Due from Other Governments	1,961,846	102,843	2,064,689
1260 Due from Other Funds	123,254	159,529	282,783
1290 Other Receivables	11,291	9,865	21,156
1300 Inventories	12,876	73,428	86,304
1410 Deferred Expenditures	797,754	-	797,754
1000 Total Assets	<u>\$ 21,942,563</u>	<u>\$ 1,832,877</u>	<u>\$ 23,775,440</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
2110 Accounts Payable	\$ 297,364	\$ 46,063	\$ 343,427
2150 Payroll Deductions and Withholdings Payable	43,258	-	43,258
2160 Accrued Wages Payable	1,337,908	105,023	1,442,931
2170 Due to Other Funds	1,643,814	123,254	1,767,068
2180 Due to Other Governments	-	34,736	34,736
2300 Deferred Revenues	942,473	130,435	1,072,908
2000 Total Liabilities	<u>\$ 4,264,817</u>	<u>\$ 439,511</u>	<u>\$ 4,704,328</u>
Fund Balances:			
Reserved For:			
3410 Investments in Inventory	\$ 29,281	\$ 61,953	\$ 91,234
3420 Retirement of Long Term Debt	-	384,374	384,374
3450 Food Service	-	330,655	330,655
Unreserved Designated For:			
3510 Construction	-	805,158	805,158
3590 Other Purposes	6,000,000	-	6,000,000
Unreserved and Undesignated:			
3600 Reported in the General Fund	11,648,465	-	11,648,465
3610 Reported in Special Revenue Funds	-	175,514	175,514
3620 Reported in Capital Projects Funds	-	(364,288)	(364,288)
3000 Total Fund Balances	<u>\$ 17,677,746</u>	<u>\$ 1,393,366</u>	<u>\$ 19,071,112</u>
4000 Total Liabilities and Fund Balances	<u>\$ 21,942,563</u>	<u>\$ 1,832,877</u>	<u>\$ 23,775,440</u>

The notes to the financial statements 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, 2007

Total Fund Balances - Governmental Funds	\$ 19,071,112
1 The District uses an internal service fund for Workmen's Comp insurance. 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.	1,595,327
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 \$69,106,247 and the accumulated depreciation was \$33,156,592. 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.	13,496,614
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 2007 capital outlays and debt principal payments is to increase (decrease) net assets.	2,932,906
4 The 2007 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets.	(1,463,836)
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, 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.	900,660
19 Net Assets of Governmental Activities	\$ 36,532,783

PORT NECHES GROVES INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2007

Data Control Codes	10 General Fund	Other Funds	Total Governmental Funds
REVENUES:			
5700 Total Local and Intermediate Sources	\$ 40,400,217	\$ 4,581,066	\$ 44,981,283
5800 State Program Revenues	6,117,482	632,748	6,750,230
5900 Federal Program Revenues	14,524	2,364,070	2,378,594
5020 Total Revenues	46,532,223	7,577,884	54,110,107
EXPENDITURES:			
Current:			
0011 Instruction	18,050,577	2,126,019	20,176,596
0012 Instructional Resources and Media Services	677,583	1,223	678,806
0013 Curriculum and Instructional Staff Development	630,632	65,707	696,339
0023 School Leadership	1,719,436	-	1,719,436
0031 Guidance, Counseling and Evaluation Services	1,251,903	2,971	1,254,874
0032 Social Work Services	31,513	-	31,513
0033 Health Services	537,084	-	537,084
0034 Student (Pupil) Transportation	691,018	-	691,018
0035 Food Services	-	2,054,424	2,054,424
0036 Cocurricular/Extracurricular Activities	1,414,233	22,912	1,437,145
0041 General Administration	1,356,402	-	1,356,402
0051 Facilities Maintenance and Operations	5,991,012	-	5,991,012
0052 Security and Monitoring Services	70,367	2,894	73,261
0053 Data Processing Services	359,719	-	359,719
Debt Service:			
0071 Debt Service - Principal on Long Term Debt	-	2,100,000	2,100,000
0072 Debt Service - Interest on Long Term Debt	-	960,286	960,286
0073 Debt Service - Bond Issuance Cost and Fees	-	2,538	2,538
Capital Outlay:			
0081 Facilities Acquisition and Construction	181,029	426,248	607,277
Intergovernmental:			
0091 Contracted Instructional Services Between Schools	11,488,138	-	11,488,138
0095 Payments to Juvenile Justice Alternative Ed. Prg.	39,375	-	39,375
6030 Total Expenditures	44,490,021	7,765,222	52,255,243
1200 Net Change in Fund Balances	2,042,202	(187,338)	1,854,864
0100 Fund Balance - September 1 (Beginning)	15,635,544	1,580,704	17,216,248
3000 Fund Balance - August 31 (Ending)	\$ 17,677,746	\$ 1,393,366	\$ 19,071,112

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

PORT NECHES GROVES INDEPENDENT SCHOOL DISTRICT
 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, 2007

Total Net Change in Fund Balances - Governmental Funds	\$ 1,854,864
The District uses internal service funds to charge the costs of Workmen's Comp insurance 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 net assets.	282,993
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 2007 capital outlays and debt principal payments is to increase net assets.	2,932,906
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.	(1,463,836)
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, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to (decrease) net assets.	(137,774)
Change in Net Assets of Governmental Activities	\$ 3,469,153.

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

PORT NECHES GROVES INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
AUGUST 31, 2007

Governmental
Activities -

Internal
Service Fund

ASSETS

Current Assets:

Cash and Cash Equivalents
Due from Other Funds

\$ 290,199

1,484,285

Total Assets

1,774,484

LIABILITIES

Current Liabilities:

Accounts Payable
Accrued Expenses

135

179,022

Total Liabilities

179,157

NET ASSETS

Unrestricted Net Assets

1,595,327

Total Net Assets

\$ 1,595,327

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

PORT NECHES GROVES INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2007

	Governmental Activities -
	Internal Service Fund
OPERATING REVENUES:	
Local and Intermediate Sources	\$ 388,740
Total Operating Revenues	388,740
OPERATING EXPENSES:	
Other Operating Costs	105,747
Total Operating Expenses	105,747
Operating Income	282,993
Total Net Assets - September 1 (Beginning)	1,312,334
Total Net Assets - August 31 (Ending)	\$ 1,595,327

The notes to the financial statements 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, 2007

	Governmental Activities -
	Internal Service Fund
<u>Cash Flows from Operating Activities:</u>	
Cash Received for Workmen's Comp.	\$ 392,505
Cash Payments for Workmen's Comp.	(105,747)
Net Cash Provided by Operating Activities	<u>286,758</u>
Net Increase in Cash and Cash Equivalents	286,758
Cash and Cash Equivalents at Beginning of the Year:	<u>3,440</u>
Cash and Cash Equivalents at the End of the Year:	<u>\$ 290,198</u>
<u>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</u>	
Operating Income:	\$ 282,993
Effect of Increases and Decreases in Current Assets and Liabilities:	
Decrease (increase) in Receivables	160,151
Increase (Decrease) in Accrued Expenses	(155,423)
Increase (decrease) in Accounts Payable	(963)
Net Cash Provided by Operating Activities	<u>\$ 286,758</u>

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

PORT NECHES GROVES INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
AUGUST 31, 2007

	Agency Fund
ASSETS	
Cash and Cash Equivalents	\$ 716,394
Total Assets	<u>\$ 716,394</u>
LIABILITIES	
Accounts Payable	\$ 716,394
Total Liabilities	<u>\$ 716,394</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, 2007

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, 2007

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.

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.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2007

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 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.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED AUGUST 31, 2007

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.

i. Data Control Codes

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

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED AUGUST 31, 2007

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, 2007, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$820,587 and the bank balance was \$925,436. The District's cash deposits at August 31, 2007 and during the year ended August 31, 2007, 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, 2007

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, 2007 are shown below.

<u>Investment or Investment Type</u>	<u>Maturity</u>	<u>Share Value</u>
Lone Star Investment Pool	N/A	\$ 19,050,461
Total Investments		<u>\$ 19,060,461</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, 2007

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, 2007

D. Capital Assets

Capital asset activity for the year ended August 31, 2007, was as follows:

	2006 Beginning Balances	Increases	Decreases	2007 Ending Balances
<u>Governmental Activities:</u>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 903,230	\$ 1,000	\$ -	\$ 904,230
Construction in Progress	-	94,951	-	94,951
Total Capital Assets not being depreciated	903,230	95,951	-	999,181
<i>Capital assets being depreciated:</i>				
Buildings and Improvements	64,633,962	511,326	-	65,145,288
Equipment	1,939,248	146,540	-	2,085,788
Vehicles	2,533,037	67,793	-	2,600,830
Total Capital Assets being depreciated	69,106,247	725,659	-	69,831,906
Less accumulated depreciation for:				
Buildings and Improvements	(30,171,308)	(1,230,401)	-	(31,401,709)
Equipment	(1,383,872)	(95,258)	-	(1,479,130)
Vehicles	(1,601,412)	(138,177)	-	(1,739,589)
Total accumulated depreciation	(33,156,592)	(1,463,836)	-	(34,620,428)
Total capital assets being depreciated, net	35,949,655	(738,177)	-	35,211,478
Governmental activities capital assets, net	\$ 36,852,885	\$ (642,226)	\$ -	\$ 36,210,659

Depreciation was charged to functions as follows:

Instruction	1,087,396
Instructional Resources and Media Services	46,550
Curriculum and Staff Development	33,083
School Leadership	30,682
Guidance, Counseling & Evaluation Services	6,441
Health Services	3,952
Student Transportation	74,802
Food Services	33,229
Extracurricular Activities	42,451
General Administration	6,880
Plant Maintenance and Operations	82,121
Other	16,249
	<u>1,463,836</u>

E. Interfund Balances and Activities

1. Due To and From Other Funds

Balances due to and due from other funds at August 31, 2007 consisted of the following:

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2007

Due to Fund	Due from Fund	Amount	Purpose
General Fund	Other Governmental Funds	\$ 123,254	Short-term Loans
Other Governmental Funds	General Fund	1,643,814	Short-term Loans
	Total	<u>\$ 1,767,068</u>	

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

2. Transfers To and From Other Funds

There were no interfund transfers during the fiscal year ended August 31, 2007.

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, 2007 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	\$ 23,299,652	\$ -	\$ 2,100,000	\$ 21,199,652	\$ 2,065,000
Compensated Absences*	56,617	-	11,294	45,323	-
Total Governmental Activities	<u>\$ 23,356,269</u>	<u>\$ -</u>	<u>\$ 2,111,294</u>	<u>\$ 21,244,975</u>	<u>\$ 2,065,000</u>

*Other Long-Term Liabilities

PORT NECHES-GROVE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2007

2. Debt Service Requirements

Debt service requirements on long-term debt at August 31, 2007 are as follows:

	Principal	Interest	Total
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	2,000,000	549,625	2,549,625
2013-2017	9,850,000	1,510,625	11,360,625
2018-2019	1,500,000	51,875	1,551,875
	<u>\$ 21,199,652</u>	<u>\$ 5,433,387</u>	<u>\$ 26,633,039</u>

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 2007 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.

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, 2007, 2006 and 2005 were \$1,536,097, \$1,411,285 and \$1,410,330 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, 2007, 2006 and 2005 were \$178,854, \$161,797 and \$164,911, respectively, and were equal to the required contributions for each year. The amount contributed by the State on behalf of the District was \$1,484,571 for the year ended August 31, 2007.

PORT NECHES-GROVE INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED AUGUST 31, 2007

J. Health Care Coverage

During the period ended August 31, 2007 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.

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.

2. Litigation

No reportable litigation was pending against the District at August 31, 2007.

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	\$ 7,488
Bridge City ISD	8,869
Nederland ISD	25,243
Total	<u>\$ 41,600</u>

M. Subsequent Events

On May 12, 2007, voters approved a new bond issue in an amount not to exceed \$123,000,000.

The first bond series in the amount of \$22,263,539 closed September 6, 2007. The District plans to issue the second bond series in March, 2008, for approximately \$80 million.

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 INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED AUGUST 31, 2007

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	\$ 40,578,739	\$ 42,041,097	\$ 40,400,217	\$ (1,640,880)
5800 State Program Revenues	6,233,816	6,239,252	6,117,482	(121,770)
5900 Federal Program Revenues	23,000	23,000	14,524	(8,476)
5020 Total Revenues	46,835,555	48,303,349	46,532,223	(1,771,126)
EXPENDITURES:				
Current:				
0011 Instruction	19,059,500	19,088,676	18,050,577	1,038,099
0012 Instructional Resources and Media Services	686,535	711,237	677,583	33,654
0013 Curriculum and Instructional Staff Development	710,345	709,922	630,632	79,290
0023 School Leadership	1,807,927	1,765,998	1,719,436	46,562
0031 Guidance, Counseling and Evaluation Services	1,287,098	1,289,913	1,251,903	38,010
0032 Social Work Services	39,314	37,847	31,513	6,334
0033 Health Services	565,137	565,632	537,084	28,548
0034 Student (Pupil) Transportation	885,888	902,978	691,018	211,960
0036 Cocurricular/Extracurricular Activities	1,493,080	1,593,055	1,414,233	178,822
0041 General Administration	1,630,790	1,644,010	1,356,402	287,608
0051 Facilities Maintenance and Operations	6,439,223	6,872,628	5,991,012	881,616
0052 Security and Monitoring Services	59,517	109,111	70,367	38,744
0053 Data Processing Services	388,394	382,521	359,719	22,802
Capital Outlay:				
0081 Facilities Acquisition and Construction	-	515,000	181,029	333,971
Intergovernmental:				
0091 Contracted Instructional Services Between Schools	12,782,327	12,782,327	11,488,138	1,294,189
0095 Payments to Juvenile Justice Alternative Ed. Prg.	31,500	39,375	39,375	-
6030 Total Expenditures	47,866,575	49,010,230	44,490,021	4,520,209
1200 Net Change in Fund Balances	(1,031,020)	(706,881)	2,042,202	2,749,083
0100 Fund Balance - September 1 (Beginning)	15,635,544	15,635,544	15,635,544	-
3000 Fund Balance - August 31 (Ending)	\$ 14,604,524	\$ 14,928,663	\$ 17,677,746	\$ 2,749,083

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.

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(10) Beginning Balance 9/1/2006	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2007
\$ 270,631	\$ -	\$ 27,874	\$ 1,309	\$ (2,678)	\$ 238,770
26,449	-	2,510	392	(45)	23,502
26,524	-	3,053	508	(44)	22,919
44,274	-	11,302	1,387	(161)	31,424
41,199	-	8,851	1,046	-	31,302
62,648	-	12,359	1,288	(3,553)	45,448
91,034	-	23,992	2,132	(3,527)	61,383
153,732	-	53,238	4,536	(4,241)	91,717
290,530	-	131,181	10,407	(14,683)	134,259
-	40,883,576	35,082,835	2,985,039	(19,750)	2,795,952
\$ 1,007,021	\$ 40,883,576	\$ 35,357,195	\$ 3,008,044	\$ (48,682)	\$ 3,476,676

PORT NECHES GROVES INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES FOR COMPUTATIONS OF INDIRECT COST FOR 2008-2009
GENERAL AND SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED AUGUST 31, 2007

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	\$ -	\$ -	\$ 197,921	\$ 238,800	\$ 182,515	\$ -	\$ 619,236
6149	Leave for Separating Employees in Fn 41 & 53	-	-	-	-	-	-	-
6149	Leave - Separating Employees not in 41 & 53	-	-	-	-	-	-	-
6211	Legal Services	-	-	55,057	-	-	-	55,057
6212	Audit Services	-	-	-	13,500	-	-	13,500
6213	Tax Appraisal and Collection	-	421,935	-	-	-	-	421,935
621X	Other Professional Services	-	-	26,814	2,296	35,918	-	65,028
6220	Tuition and Transfer Payments	-	-	-	-	-	-	-
6230	Education Service Centers	1,500	-	2,000	-	4,909	-	8,409
6240	Contr. Maint. and Repair	-	-	-	7,974	-	-	7,974
6250	Utilities	-	-	-	-	-	-	-
6260	Rentals	-	-	5,822	11,174	1,984	-	18,980
6290	Miscellaneous Contr.	-	-	-	33,144	-	-	33,144
6320	Textbooks and Reading	-	-	-	-	-	-	-
6330	Testing Materials	-	-	-	-	-	-	-
63XX	Other Supplies Materials	-	-	1,785	19,266	7,941	-	28,992
6410	Travel, Subsistence, Stipends	9,164	-	9,249	2,890	6,602	-	27,905
6420	Ins. and Bonding Costs	-	-	-	18,744	-	-	18,744
6430	Election Costs	30,968	-	-	-	-	-	30,968
6490	Miscellaneous Operating	8,825	-	19,917	5,538	6,172	-	40,452
6500	Debt Service	-	-	-	-	-	-	-
6600	Capital Outlay	-	-	-	-	-	-	-
6000	TOTAL	\$ 50,457	\$ 421,935	\$ 318,565	\$ 353,326	\$ 246,041	\$ -	\$ 1,390,324

Total expenditures/expenses for General and Special Revenue Funds: (9) \$ 48,791,432
LESS: Deductions of Unallowable Costs

FISCAL YEAR

Total Capital Outlay (6600)	(10)	\$ 790,589
Total Debt & Lease(6500)	(11)	-
Plant Maintenance (Function 51, 6100-6400)	(12)	5,875,369
Food (Function 35, 6341 and 6499)	(13)	702,590
Stipends (6413)	(14)	-
Column 4 (above) - Total Indirect Cost		353,326

SubTotal:

7,721,874

Net Allowed Direct Cost

\$ 41,069,558

CUMULATIVE

Total Cost of Buildings before Depreciation (1520)	(15)	\$ 65,145,288
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)	\$ 4,710,133
Historical Cost of Furniture & Equipment over 16 years old	(19)	\$ 176,879
Amount of Federal Money in Furniture & Equipment (Net of #19)	(20)	\$ -

(8) NOTE A: \$38,081 in Function 53 expenditures are included in this report on administrative costs.

PORT NECHES GROVES INDEPENDENT SCHOOL DISTRICT
FUND BALANCE AND CASH FLOW CALCULATION WORKSHEET
FOR THE YEAR ENDED AUGUST 31, 2007

1	Total General Fund Balance as of 8/31/07 (Exhibit C-1 object 3000 for the General Fund Only)	\$ 17,677,746
2	Total Reserved Fund Balance (from Exhibit C-1 - total of object 3400s for the General Fund Only)	\$ 29,281
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.)	4,467,415
5	Estimate of one month's average cash disbursements during the regular school session (9/1/07-5/31/08).	3,979,200
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>14,475,896</u>
11	Excess (Deficit) Undesignated Unreserved General Fund Balance (Line 1 minus Line 10)	<u>\$ 3,201,850</u>

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

The district anticipates increases in property insurance, utilities, and gasoline. This excess will also be used to pay for future salary increases and the purchase of land.

PORT NECHES GROVES INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - CHILD NUTRITION PROGRAM
FOR THE YEAR ENDED AUGUST 31, 2007

FOR THE YEAR ENDED AUGUST 31, 2010					
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	\$ 1,360,300	\$ 1,360,300	\$ 1,473,711	\$ 113,411
5800	State Program Revenues	52,200	52,200	46,114	(6,086)
5900	Federal Program Revenues	761,029	801,029	709,827	(91,202)
5020	Total Revenues	2,173,529	2,213,529	2,229,652	16,123
EXPENDITURES:					
0035	Food Services	2,137,865	2,195,865	2,054,138	141,727
6030	Total Expenditures	2,137,865	2,195,865	2,054,138	141,727
1200	Net Change in Fund Balances	35,664	17,664	175,514	157,850
0100	Fund Balance - September 1 (Beginning)	392,608	392,608	392,608	-
3000	Fund Balance - August 31 (Ending)	\$ 428,272	\$ 410,272	\$ 568,122	\$ 157,850

PORT NECHES GROVES INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - DEBT SERVICE FUND
FOR THE YEAR ENDED AUGUST 31, 2007

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	\$ 3,110,288	\$ 3,110,288	\$ 3,064,260	\$ (46,028)
5020	Total Revenues	3,110,288	3,110,288	3,064,260	(46,028)
EXPENDITURES:					
Debt Service:					
0071	Debt Service - Principal on Long Term Debt	2,100,000	2,100,000	2,100,000	-
0072	Debt Service - Interest on Long Term Debt	960,288	960,288	960,286	2
0073	Debt Service - Bond Issuance Cost and Fees	5,000	5,000	2,538	2,462
6030	Total Expenditures	3,065,288	3,065,288	3,062,824	2,464
1200	Net Change in Fund Balances	45,000	45,000	1,436	(43,564)
0100	Fund Balance - September 1 (Beginning)	382,938	382,938	382,938	-
3000	Fund Balance - August 31 (Ending)	\$ 427,938	\$ 427,938	\$ 384,374	\$ (43,564)



Charles E. Reed & Associates, P.C.

Certified Public Accountants & Consultants

Member

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Certified Public Accountants

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Companies Practice Section

**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**

Independent Auditor's Report

Board of Trustees
Port Neches Groves Independent School District
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 Independent School District (the District) as of and for the year ended August 31, 2007. These collectively comprise the District's basic financial statements. We have issued our report on them dated December 18, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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.

Port Arthur

3636 Professional Drive
Port Arthur, Texas 77642
(409) 983-3277 • Fax: (409) 983-3270

Beaumont

3302 McFaddin, Suite One
Beaumont, Texas 77706
(409) 833-8986 • Fax: (409) 833-4486

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

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 for the information 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.

Yours very truly,

Charles E. Reed & Associates, P.C.

Charles E. Reed & Associates, P.C.

Certified Public Accountants

December 18, 2007



Charles E. Reed & Associates, P.C.

Certified Public Accountants & Consultants

Member

American Institute of
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Texas Society of
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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 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, 2007. 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 Independent School District'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 Independent School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Port Neches Groves Independent School District's compliance with those requirements.

In our opinion, Port Neches Groves Independent School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended August 31, 2007.

Internal Control Over Compliance

The administration 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 the District's internal control over compliance with

Port Arthur

3636 Professional Drive
Port Arthur, Texas 77642
(409) 983-3277 • Fax: (409) 983-3270

Beaumont

3302 McFaddin, Suite One
Beaumont, Texas 77706
(409) 833-8986 • Fax: (409) 833-4486

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.

Yours very truly,

Charles E. Reed & Associates, P.C.

Charles E. Reed & Associates, P.C.

Certified Public Accountants

December 18, 2007

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2007

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
- Reportable condition 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
- Reportable condition 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
84.010A	ESEA Title I, Part A
10.555	School Lunch

The threshold used to distinguish the type of federal program was \$ 500,000.

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

Section II-Financial Statements Findings

None

Section III - 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, 2007

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

PORT NECHES GROVES INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2007

(1)	(2)	(3)	(4)
FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	Federal CFDA Number	Pass-Through Entity Identifying Number	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	\$ 326,120
ESEA, Title I, Part A - Improving Basic Programs	84.010A	4610101123908	17,725
Total CFDA Number 84.010A			343,845
IDEA - Part B, Formula	84.027	466000112390844	784,155
IDEA - Part B, Formula	84.027	466000112390844	28,065
IDEA - Part B, Discretionary	84.027	466000112390844	210,066
Total CFDA Number 84.027			1,022,286
Vocational Education - Basic Grant	84.048		34,830
IDEA - Part B, Preschool	84.173	466100112390844	35,561
IDEA - Part B, Preschool	84.173	466100112390844	1,609
Total CFDA Number 84.173			37,170
ESEA Title IV - Safe and Drug-Free Schools	84.186A		12,755
Title V, Part A - Innovative Programs	84.298		7,206
Title II, Part D - Enhancing Ed. Through Technology	84.318		4,258
Title III, Part A - English Language Acquisition	84.365A	4694501123908	9,256
ESEA, Title II, Part A, Teacher/Principal Training	84.367A	4694501123908	115,518
ESEA, Title II, Part A, Teacher/Principal Training	84.367A	4694501123908	7,036
Total CFDA Number 84.367A			122,554
Total Passed Through State Department of Education			\$ 1,594,160
TOTAL DEPARTMENT OF EDUCATION			\$ 1,594,160
U.S. DEPARTMENT OF AGRICULTURE			
<u>Passed Through the State Department of Agriculture</u>			
National School Breakfast & Lunch Program*	10.555	123-908	\$ 709,827
Total Passed Through the State Department of Agriculture			\$ 709,827
TOTAL DEPARTMENT OF AGRICULTURE			\$ 709,827
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 2,303,987

*Clustered Programs as required by Compliance Supplement March, 2007

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT
NOTED TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2007

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.