

**PORT NECHES-GROVES
INDEPENDENT SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED AUGUST 31, 2022

Port Neches-Groves Independent School District
Annual Financial Report
For The Year Ended August 31, 2022

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Introductory Section

CERTIFICATE OF BOARD

Port Neches-Groves Independent School District
Name of School District

Jefferson
County

123-908
Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and (check one) _____approved _____disapproved for the year ended August 31, 2022, 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 auditors' report, the reason(s) for disapproving it is (are):
(attach list as necessary)

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Financial Section

WEST, DAVIS & COMPANY, LLP
11824 Jollyville Road, Suite 100
Austin, Texas 78759
www.westdavis.com / gary@westdavis.com

Independent Auditors' Report

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

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Port Neches-Groves Independent School District ("the District"), as of and for the year ended August 31, 2022, and the related notes to the financial statements, which collectively comprise the Port Neches-Groves Independent School District' basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements 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, 2022, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Port Neches-Groves Independent School District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Port Neches-Groves Independent School District' management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Port Neches-Groves Independent School District' ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures including examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, and budgetary comparison information and schedule of the District's proportionate share of the net pension liability and schedule of District pension contributions, and schedule of the District's proportionate share of the net OPEB liability and schedule of District OPEB contributions identified as Required Supplementary Information in the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Port Neches-Groves Independent School District' basic financial statements. The introductory section and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not required parts of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements. The accompanying other supplementary information is presented for purposes of additional analysis and is also not a required part of the basic financial statements. The individual nonmajor fund financial statements and other supplementary information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the individual nonmajor fund financial statements and other supplementary information and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information Included in the Annual Report

Management is responsible for the other information included in the annual report. The other information comprises the information included in the annual report but does not include the financial statements and our auditor's report thereon. Our opinions on the financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statement, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated January 9, 2023 on our consideration of Port Neches-Groves Independent School District' 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 solely 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 effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Port Neches-Groves Independent School District' internal control over financial reporting and compliance.



West, Davis & Company, LLP
Austin, Texas
January 9, 2023

Port Neches-Groves Independent School District

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the Annual Financial and Compliance Report, we, the managers of Port Neches-Groves Independent School District (the District), discuss and analyze the District's financial performance for the fiscal year ended August 31, 2022. Please read it in conjunction with the independent auditors' report on page 2, and the District's Basic Financial Statements, which begin on page 10. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

USING THIS ANNUAL REPORT

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

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

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

Reporting the District as a Whole

The Statement of Net Position and the Statement of Activities

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

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

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

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

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

Reporting the District's Most Significant Funds

Fund Financial Statements

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

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

The District as Trustee

Reporting the District's Fiduciary Responsibilities

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Net position of the District's governmental activities increased from \$32.9 million to \$38 million. Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – was a \$(3.7) million at August 31, 2022. This was a result of the implementation of GASB 75. More information is presented in the paragraph following Table II on the next page.

Table I
Port Neches-Groves Independent School District

NET POSITION		
in thousands		
	Governmental Activities	
	2022	2021
Current and other assets	120,400	164,868
Capital assets	165,197	118,067
Total assets	285,597	282,935
Deferred Outflow-Unrealized Loss on Debt	4,380	0
Deferred Outflow-Pensions	4,471	5,091
Deferred Outflow-OPEB	3,831	4,528
Total Deferred Outflows	12,682	9,619
Long-term liabilities	227,407	234,811
Other liabilities	14,444	11,296
Total liabilities	241,851	246,107
Deferred Inflow-Pensions	7,440	2,397
Deferred Inflow-OPEB	10,937	11,162
Total Deferred Inflows	18,377	13,559
Net Position:		
Invested in capital assets, net of related debt	38,510	28,276
Restricted	3,271	3,726
Unrestricted	-3,730	886
Total Net Position	38,051	32,888

Table II
Port Neches-Groves Independent School District

CHANGES IN NET POSITION

in thousands

	Governmental Activities	
	2022	2021
Revenues:		
Program revenues:		
Charges for services	599	1,168
Operating grants and contributions	10,637	7,892
General revenues:		
Maintenance and operations taxes	27,156	26,632
Debt service taxes	12,562	9,213
State aid - formula grants	19,339	19,829
Investment Earnings	-327	180
Miscellaneous	6,290	7,057
Total Revenues	<u>76,256</u>	<u>71,971</u>
Expenses:		
Instruction, curriculum and media services	38,491	37,898
Instructional and school leadership	3,210	2,999
Student support services	5,249	4,810
Child nutrition	2,940	2,643
Extracurricular activities	3,100	2,829
General administration	1,547	1,467
Plant maintenance and security	9,857	9,867
Data processing services	966	920
Community services	32	33
Debt services	5,350	4,900
Recapture payments	0	0
Other Intergovernmental charges	351	360
Total Expenses	<u>71,093</u>	<u>68,726</u>
Change in Net Position	<u>5,163</u>	<u>3,245</u>

NET OTHER PENSION AND POST-EMPLOYMENT BENEFIT PLANS (OPEB) LIABILITY

The District's net OPEB liability at year end totaled \$14.2 million and the net Pension liability was \$6.4 million.

THE DISTRICT'S FUNDS

As the District completed this annual period, its governmental funds (as presented in the balance sheet on page 12) reported a combined fund balance of \$105 million, which is \$48.3 million less than last year's total of \$153 million. This was primarily a result of the expenditure of \$43 million in capital projects and the transfer of \$5 million from the General Fund to support these capital projects.

Over the course of the year, the Board of Trustees revised the District's General Fund budget. Local Revenue was decreased by \$2.7 million while Instruction was increased by \$700 thousand, Cocurricular/Extracurricular by \$1.3 million and Capital Outlay by \$800 thousand.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At year-end, the District had \$165 million invested in a broad range of capital assets, including facilities and equipment for instruction, transportation, athletics, administration, and maintenance. More detailed information about the District's capital assets is presented in Note D to the financial statements.

Debt

At year-end, the District had \$195.3 million in bonds outstanding versus \$204.5 million last year.

More detailed information about the District's long-term liabilities is presented in Note F to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The General Fund Budget for fiscal year 2023 was approved by the Board on August 29, 2022. The approved Budget includes \$53.5 million in revenues, \$56 million in operating expenditures and \$2 million in operating transfers with a net deficit of \$4.6 million. The budget assumes utilizing approximately \$2.5 million of ESSER funds, primarily for payroll costs.

The board adopted a total tax rate of \$1.2811 on August 29, 2022. The maintenance and operations tax rate of \$0.9429 will generate \$29 million in estimated revenue for the General Fund.

Fiscal year 2022-23 budgeted expenditures of \$56 million includes a salary increase for teachers, other professional personnel, and hourly personnel totaling approximately \$1.7 million. The 2022-23 Hiring Schedule did not change from last year. New positions totaling \$940,000 are budgeted and include new staff needed for the transition to the new Primary and Intermediate schools in anticipation of those campuses opening in the fall 2023.

The Debt Service adopted Budget for 2022-23 assumes a tax rate of \$0.3382. The reduced tax rate adopted by the board on August 29, 2022 was possible due to the certified property value growth of approximately 13% from last year received from the Jefferson County Appraisal District.

The District will continue to refine budget estimates, project actual operating results, develop strategies to provide educational services efficiently and effectively, and monitor state legislation affecting school district funding.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

Basic Financial Statements

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

STATEMENT OF NET POSITION

AUGUST 31, 2022

Data Control Codes		1	Governmental Activities
ASSETS:			
1110	Cash and Cash Equivalents	\$	3,007,251
1120	Current Investments		113,434,523
1225	Property Taxes Receivable (Net)		1,005,157
1240	Due from Other Governments		1,593,771
1250	Accrued Interest		88,185
1290	Other Receivables (Net)		28,042
1300	Inventories		70,710
1410	Unrealized Expenses		1,165,217
1490	Other Current Assets		7,000
Capital Assets:			
1510	Land		2,108,614
1520	Buildings and Improvements, Net		95,681,908
1530	Furniture and Equipment, Net		4,484,894
1550	Right to Use Assets, Net		467,822
1580	Construction in Progress		60,111,879
1590	Infrastructure, Net		2,341,699
1000	Total Assets		285,596,672
DEFERRED OUTFLOWS OF RESOURCES:			
	Deferred Outflow Related to Unrealized Loss on Defeasance of Debt		4,379,940
	Deferred Outflow Related to Pensions		4,470,975
	Deferred Outflow Related to OPEB		3,831,049
1700	Total Deferred Outflows of Resources		12,681,964
LIABILITIES:			
2110	Accounts Payable		9,783,478
2140	Interest Payable		297,668
2165	Accrued Liabilities		4,018,298
2300	Unearned Revenue		344,733
Noncurrent Liabilities:			
2501	Due Within One Year		8,150,509
2502	Due in More Than One Year		198,662,368
2540	Net Pension Liability		6,404,257
2545	Net OPEB Liability		14,189,648
2000	Total Liabilities		241,850,959
DEFERRED INFLOWS OF RESOURCES:			
	Deferred Inflow Related to Pensions		7,439,693
	Deferred Inflow Related to OPEB		10,936,723
2600	Total Deferred Inflows of Resources		18,376,416
NET POSITION:			
3200	Net Investment in Capital Assets		38,509,839
Restricted For:			
3850	Debt Service		2,634,757
3870	Campus Activities		636,360
3900	Unrestricted		(3,729,695)
3000	Total Net Position	\$	38,051,261

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, 2022

Data Control Codes	Functions/Programs	1	3	4	Net (Expense) Revenue and Changes in Net Position
		Expenses	Charges for Services	Program Revenues Operating Grants and Contributions	Governmental Activities
	Governmental Activities:				
11	Instruction	\$ 36,116,088	\$ 45,548	\$ 5,865,596	\$ (30,204,944)
12	Instructional Resources and Media Services	795,176	--	2,616	(792,560)
13	Curriculum and Staff Development	1,579,594	--	12,448	(1,567,146)
23	School Leadership	3,209,605	--	35,418	(3,174,187)
31	Guidance, Counseling, and Evaluation Services	2,352,956	--	255,200	(2,097,756)
32	Social Work Services	79,102	--	--	(79,102)
33	Health Services	832,733	--	--	(832,733)
34	Student Transportation	1,984,288	--	15,618	(1,968,670)
35	Food Service	2,940,045	302,180	3,216,690	578,825
36	Cocurricular/Extracurricular Activities	3,099,788	230,510	--	(2,869,278)
41	General Administration	1,547,038	--	--	(1,547,038)
51	Facilities Maintenance and Operations	9,500,794	21,117	1,200,693	(8,278,984)
52	Security and Monitoring Services	356,446	--	--	(356,446)
53	Data Processing Services	965,793	--	--	(965,793)
61	Community Services	32,225	--	32,755	530
72	Interest on Long-term Debt	4,954,018	--	--	(4,954,018)
73	Bond Issuance Costs and Fees	395,992	--	--	(395,992)
91	Contracted Instructional Services between Schools	309	--	--	(309)
95	Payments to Juvenile Justice Alternative Ed. Programs	36,000	--	--	(36,000)
99	Other Intergovernmental Charges	315,196	--	--	(315,196)
TG	Total Governmental Activities	<u>71,093,186</u>	<u>599,355</u>	<u>10,637,034</u>	<u>(59,856,797)</u>
TP	Total Primary Government	<u>\$ 71,093,186</u>	<u>\$ 599,355</u>	<u>\$ 10,637,034</u>	<u>(59,856,797)</u>
	General Revenues:				
MT	Property Taxes, Levied for General Purposes				27,155,517
DT	Property Taxes, Levied for Debt Service				12,562,429
IE	Investment Earnings				(327,467)
GC	Grants and Contributions Not Restricted to Specific Programs				19,338,741
MI	Miscellaneous				6,290,384
TR	Total General Revenues				<u>65,019,604</u>
CN	Change in Net Position				5,162,807
NB	Net Position - Beginning				32,888,454
NE	Net Position - Ending				<u>\$ 38,051,261</u>

The accompanying notes are an integral part of this statement.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS

AUGUST 31, 2022

Data Control Codes	10 General Fund	50 Debt Service Fund
ASSETS:		
1110 Cash and Cash Equivalents	\$ 631,960	\$ 101,787
1120 Current Investments	27,014,839	3,032,607
1225 Taxes Receivable, Net	774,217	230,940
1240 Due from Other Governments	231,413	--
1250 Accrued Interest	18,896	--
1260 Due from Other Funds	610,518	--
1290 Other Receivables	6,136	2,065
1300 Inventories	--	--
1410 Unrealized Expenditures	1,165,217	--
1490 Other Current Assets	7,000	--
1000 Total Assets	<u>30,460,196</u>	<u>3,367,399</u>
LIABILITIES:		
Current Liabilities:		
2110 Accounts Payable	\$ 381,155	\$ --
2150 Payroll Deductions and Withholdings	370,524	--
2160 Accrued Wages Payable	3,078,025	--
2170 Due to Other Funds	--	522,557
2200 Accrued Expenditures	131,192	--
2300 Unearned Revenue	<u>998,280</u>	<u>230,940</u>
2000 Total Liabilities	<u>4,959,176</u>	<u>753,497</u>
FUND BALANCES:		
Nonspendable Fund Balances:		
3410 Inventories	--	--
3430 Prepaid Items	1,165,217	--
Restricted Fund Balances:		
3450 Federal/State Funds Grant Restrictions	--	--
3470 Capital Acquisitions and Contractual Obligations	--	--
3480 Retirement of Long-Term Debt	--	2,613,902
3490 Other Restrictions of Fund Balance	529,330	--
Committed Fund Balances:		
3510 Construction	6,000,000	--
3545 Other Committed Fund Balance	16,500,000	--
3600 Unassigned	<u>1,306,473</u>	<u>--</u>
3000 Total Fund Balances	<u>25,501,020</u>	<u>2,613,902</u>
4000 Total Liabilities and Fund Balances	<u>\$ 30,460,196</u>	<u>\$ 3,367,399</u>

The accompanying notes are an integral part of this statement.

60 Capital Projects Fund Series 2020	Other Governmental Funds	98 Total Governmental Funds
\$ 651,318	\$ 774,122	\$ 2,159,187
83,387,077	--	113,434,523
--	--	1,005,157
--	1,362,358	1,593,771
69,289	--	88,185
522,557	--	1,133,075
--	19,841	28,042
--	70,710	70,710
--	--	1,165,217
--	--	7,000
<u>84,630,241</u>	<u>2,227,031</u>	<u>120,684,867</u>
\$ 9,305,680	\$ 96,644	\$ 9,783,479
--	28,615	399,139
--	341,636	3,419,661
165,595	144,923	833,075
--	1,750	132,942
--	120,669	1,349,889
<u>9,471,275</u>	<u>734,237</u>	<u>15,918,185</u>
--	70,710	70,710
--	--	1,165,217
--	783,469	783,469
75,158,966	2,641	75,161,607
--	--	2,613,902
--	635,974	1,165,304
--	--	6,000,000
--	--	16,500,000
--	--	1,306,473
<u>75,158,966</u>	<u>1,492,794</u>	<u>104,766,682</u>
\$ <u>84,630,241</u>	\$ <u>2,227,031</u>	\$ <u>120,684,867</u>

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET POSITION
 AUGUST 31, 2022

Total fund balances - governmental funds balance sheet	\$ 104,766,682
Amounts reported for governmental activities in the Statement of Net Position ("SNP") are different because:	
Capital assets used in governmental activities are not reported in the funds.	164,728,994
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	1,005,156
The assets and liabilities of internal service funds are included in governmental activities in the SNP.	481,509
Payables for bond principal which are not due in the current period are not reported in the funds.	(195,280,000)
Right to use payables which are not due in the current period are not reported in the funds.	(422,627)
Payables for bond interest which are not due in the current period are not reported in the funds.	(297,668)
Payables for compensated absences which are not due in the current period are not reported in the funds.	(584,353)
Right to Use assets used in governmental activities are not reported in the funds.	467,822
The accounting loss on the defeasance of bonds is not reported in the funds.	4,379,940
Recognition of the District's proportionate share of the net pension liability is not reported in the funds.	(6,404,257)
Deferred Resource Inflows related to the pension plan are not reported in the funds.	(7,439,693)
Deferred Resource Outflows related to the pension plan are not reported in the funds.	4,470,975
Bond premiums are amortized in the SNA but not in the funds.	(10,525,897)
Recognition of the District's proportionate share of the net OPEB liability is not reported in the funds.	(14,189,648)
Deferred Resource Inflows related to the OPEB plan are not reported in the funds.	(10,936,723)
Deferred Resource Outflows related to the OPEB plan are not reported in the funds.	3,831,049
Other reconciling items	--
Net position of governmental activities - Statement of Net Position	\$ <u>38,051,261</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, 2022

Data Control Codes		10 General Fund	50 Debt Service Fund
REVENUES:			
5700	Local and Intermediate Sources	\$ 33,637,395	\$ 12,565,664
5800	State Program Revenues	19,944,246	173,979
5900	Federal Program Revenues	1,057,869	--
5020	Total Revenues	<u>54,639,510</u>	<u>12,739,643</u>
EXPENDITURES:			
Current:			
0011	Instruction	30,255,814	--
0012	Instructional Resources and Media Services	713,041	--
0013	Curriculum and Staff Development	1,393,147	--
0023	School Leadership	2,839,321	--
0031	Guidance, Counseling, and Evaluation Services	1,870,347	--
0032	Social Work Services	69,902	--
0033	Health Services	746,461	--
0034	Student Transportation	2,073,359	--
0035	Food Service	--	--
0036	Cocurricular/Extracurricular Activities	3,387,550	--
0041	General Administration	1,381,149	--
0051	Facilities Maintenance and Operations	7,506,131	--
0052	Security and Monitoring Services	313,533	--
0053	Data Processing Services	913,961	--
0061	Community Services	--	--
0071	Principal on Long-term Debt	180,070	6,210,000
0072	Interest on Long-term Debt	16,659	6,362,855
0073	Bond Issuance Costs and Fees	--	525,582
0081	Capital Outlay	1,194,273	--
0091	Contracted Instructional Services		
0091	Between Public Schools	309	--
0095	Payments to Juvenile Justice Alternative		
0095	Education Programs	36,000	--
0099	Other Intergovernmental Charges	315,196	--
6030	Total Expenditures	<u>55,206,223</u>	<u>13,098,437</u>
1100	Excess (Deficiency) of Revenues Over (Under)		
1100	Expenditures	<u>(566,713)</u>	<u>(358,794)</u>
Other Financing Sources and (Uses):			
7915	Transfers In	--	--
8911	Transfers Out	(5,000,000)	--
7080	Total Other Financing Sources and (Uses)	<u>(5,000,000)</u>	<u>--</u>
1200	Net Change in Fund Balances	<u>(5,566,713)</u>	<u>(358,794)</u>
0100	Fund Balances - Beginning	31,067,733	2,972,696
3000	Fund Balances - Ending	<u>\$ 25,501,020</u>	<u>\$ 2,613,902</u>

The accompanying notes are an integral part of this statement.

EXHIBIT C-2

60 Capital Projects Fund Series 2020	Other Governmental Funds	98 Total Governmental Funds
\$ (302,650)	\$ 393,601	\$ 46,294,010
--	278,941	20,397,166
--	7,631,017	8,688,886
<u>(302,650)</u>	<u>8,303,559</u>	<u>75,380,062</u>
--	3,186,259	33,442,073
--	2,653	715,694
--	12,403	1,405,550
--	20,644	2,859,965
--	237,939	2,108,286
--	--	69,902
--	--	746,461
--	76,154	2,149,513
--	2,873,783	2,873,783
--	--	3,387,550
--	--	1,381,149
--	1,200,693	8,706,824
--	--	313,533
--	--	913,961
--	32,041	32,041
--	--	6,390,070
--	--	6,379,514
(522,557)	--	3,025
48,275,224	--	49,469,497
--	--	309
--	--	36,000
--	--	315,196
<u>47,752,667</u>	<u>7,642,569</u>	<u>123,699,896</u>
<u>(48,055,317)</u>	<u>660,990</u>	<u>(48,319,834)</u>
5,000,000	--	5,000,000
--	--	(5,000,000)
<u>5,000,000</u>	<u>--</u>	<u>--</u>
(43,055,317)	660,990	(48,319,834)
<u>118,214,283</u>	<u>831,804</u>	<u>153,086,516</u>
<u>\$ 75,158,966</u>	<u>\$ 1,492,794</u>	<u>\$ 104,766,682</u>

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2022

Net change in fund balances - total governmental funds \$ (48,319,834)

Amounts reported for governmental activities in the Statement of Activities
("SOA") are different because:

Capital outlays are not reported as expenses in the SOA.	51,588,271
The depreciation of capital assets used in governmental activities is not reported in the funds.	(4,926,239)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	47,335
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	180,070
Repayment of right to use principal is an expenditure in the funds but is not an expense in the SOA.	6,210,000
(Increase) decrease in accrued interest from beginning of period to end of period.	660,745
The net revenue (expense) of internal service funds is reported with governmental activities.	(5,003)
Compensated absences are reported as the amount earned in the SOA but as the amount paid in the funds.	(9,981)
The amortization of right to use assets used in governmental activities is not reported in the funds.	(134,875)
Bond premiums are reported in the funds but not in the SOA.	764,751
The accounting loss on the defeasance of bonds is amortized in the SOA but not in the funds.	(392,967)
GASB 68 required certain expenditures to be de-expended and recorded as deferred resource outflows.	(1,070,613)
Pension contributions made after the measurement date but in current FY were de-expended & reduced NPL.	1,374,918
The District's share of the unrecognized deferred inflows and outflows for the pension plan was amortized.	303,309
GASB 75 required certain expenditures to be de-expended and recorded as deferred resource outflows.	(257,449)
OPEB contributions made after the measurement date but in current FY were de-expended & reduced NPL.	323,274
OPEB expense relating to GASB 75 is recorded in the SOA but not in the funds.	
OPEB expense relating to GASB 75 is recorded in the SOA but not in the funds.	(1,172,905)
Other reconciling items	--

Change in net position of governmental activities - Statement of Activities \$ 5,162,807

The accompanying notes are an integral part of this statement.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

STATEMENT OF NET POSITION

INTERNAL SERVICE FUND

AUGUST 31, 2022

Data Control Codes		Nonmajor Internal Service Fund
		Workers' Compensation Insurance Fund
	ASSETS:	
	Current Assets:	
1110	Cash and Cash Equivalents	\$ 848,064
	Total Current Assets	848,064
1000	Total Assets	848,064
	LIABILITIES:	
	Current Liabilities:	
2170	Due to Other Funds	\$ 300,000
2200	Accrued Expenses	66,556
	Total Current Liabilities	366,556
2000	Total Liabilities	366,556
	NET POSITION:	
3900	Unrestricted	481,508
3000	Total Net Position	\$ 481,508

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 POSITION - INTERNAL SERVICE FUND
 FOR THE YEAR ENDED AUGUST 31, 2022

Data Control Codes		Nonmajor Internal Service Fund
		Workers' Compensation Insurance Fund
	OPERATING REVENUES:	
5700	Local and Intermediate Sources	\$ 86,700
5020	Total Revenues	<u>86,700</u>
	OPERATING EXPENSES:	
6400	Other Operating Costs	<u>91,701</u>
6030	Total Expenses	<u>91,701</u>
1300	Change in Net Position	(5,001)
0100	Total Net Position - Beginning	486,509
3300	Total Net Position - Ending	<u>\$ 481,508</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, 2022

	Nonmajor Internal Service Fund Workers' Compensation Insurance Fund
Cash Flows from Operating Activities:	
Cash Receipts (Payments) for Quasi-external Operating Transactions with Other Funds	\$ 230,636
Cash Payments to Suppliers for Services	131,978
Net Cash Provided (Used) by Operating Activities	<u>362,614</u>
 Net Increase (Decrease) in Cash and Cash Equivalents	 362,614
Cash and Cash Equivalents at Beginning of Year	485,450
Cash and Cash Equivalents at End of Year	<u>\$ 848,064</u>
 Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income (Loss)	\$ (5,001)
Adjustments to Reconcile Operating Income to Net Cash	
Provided by Operating Activities	
Depreciation	--
Provision for Uncollectible Accounts	--
Change in Assets and Liabilities:	
Decrease (Increase) in Due to/from Other Funds	443,937
Decrease (Increase) in Other Receivables	--
Increase (Decrease) in Accounts Payable	(229)
Increase (Decrease) in Accrued Expenses	<u>(76,093)</u>
Total Adjustments	<u>367,615</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 362,614</u>

The accompanying notes are an integral part of this statement.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET POSITION

FIDUCIARY FUNDS

AUGUST 31, 2022

		Custodial Fund	
Data Control Codes		Bequests	Student Activity
ASSETS:			
1110	Cash and Cash Equivalents	\$ --	\$ 61,115
1800	Restricted Assets	22,026	--
1000	Total Assets	22,026	61,115
LIABILITIES:			
2000	Total Liabilities	--	--
NET POSITION:			
3800	Held in Trust	\$ 22,026	\$ --
3800	Restricted for Other Purposes	--	61,115
3000	Total Net Position	\$ 22,026	\$ 61,115

The accompanying notes are an integral part of this statement.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

FIDUCIARY FUNDS

FOR THE YEAR ENDED AUGUST 31, 2022

	Private-purpose Trust Fund	Custodial Fund Student Activity
Additions:		
Bequests	\$ --	\$ --
Student fundraising activities		82,264
Total Additions	--	82,264
Deductions:		
Athletic Facilities Improvements	--	--
Cocurricular/Extracurricular Activities		88,163
Total Deductions	--	88,163
Change in Net Assets	--	(5,899)
Net Position-Beginning of the Year	22,026	67,014
Net Position-End of the Year	<u>\$ 22,026</u>	<u>\$ 61,115</u>

The accompanying notes are an integral part of this statement.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2022

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 and there are no component units included within the District's reporting entity.

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

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

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

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

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

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2022

The District reports the following major governmental funds:

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

Debt Service Fund: This fund accounts for the tax levies assessed to pay bond principal and interest as it becomes due. A dedicated interest and sinking fund ad valorem tax rate is set each year.

Capital Projects Fund Series 2020: This fund accounts for the proceeds from tax payor authorized capital building projects and the expenditures associated with those approved projects.

In addition, the District reports the following fund types:

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

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

Custodial Funds: These funds are used to report student activity funds and other resources held in a purely custodial capacity. Custodial funds typically involve only the receipt, temporary investment, and remittance of the 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, 2022

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.

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 when they become due or past due and receivable within the current period.

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

Inventories of supplies on the balance sheet are stated at weighted average cost, while inventories of food commodities are recorded at market values supplied by the Texas Department of Human Services. Inventory items are recorded as expenditures when they are consumed. Supplies are used for almost all functions of activity, while food commodities are used only in the food service program. Although commodities are received at no cost, their fair market value is supplied by the Texas Department of Human Services and recorded as inventory and deferred revenue when received. When requisitioned, inventory and deferred revenue are relieved, expenditures are charged, and revenue is recognized for an equal amount. Inventories also include plant maintenance and operation supplies as well as instructional supplies.

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 capital 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, 2022

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. Deferred Outflows and Inflows of Resources

In addition to assets, the statements of financial position (the government-wide Statement of Net Position and governmental funds balance sheet) will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position and/or fund balance that applies to one or more future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statements of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to one or more future periods and so will not be recognized as an inflow of resources (revenue) until that time.

f. 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.

g. Compensated Absences

On retirement or death of certain employees, the District pays any accrued sick leave and vacation 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.

h. 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 position.

i. Use of Estimates

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

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2022

j. 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 ensure accuracy in building a statewide database for policy development and funding plans.

k. Fund Balances - Governmental Funds

Fund balances of the governmental funds are classified as follows:

Nonspendable Fund Balance - represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaid insurance) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

Restricted Fund Balance - represents amounts that are constrained by external parties, constitutional provisions or enabling legislation.

Committed Fund Balance - represents amounts that can only be used for a specific purpose because of a formal action by the District's Board of Trustees. Committed amounts cannot be used for any other purpose unless the Board of Trustees removes those constraints by taking the same type of formal action. Committed fund balance amounts may be used for other purposes with appropriate due process by the Board of Trustees. Commitments are typically done through adoption and amendment of the budget. Committed fund balance amounts differ from restricted balances in that the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.

Assigned Fund Balance - represents amounts which the District intends to use for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the Board of Trustees or by an official or body to which the Board of Trustees delegates the authority. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service or permanent fund are assigned for purposes in accordance with the nature of their fund type or the fund's primary purpose. Assignments within the general fund convey that the intended use of those amounts is for a specific purpose that is narrower than the general purposes of the District itself.

Unassigned Fund Balance - represents amounts which are unconstrained in that they may be spent for any purpose. Only the general fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification because of overspending for specific purposes for which amounts had been restricted, committed or assigned.

l. Net Position Flow Assumption

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

m. Fund Balance Flow Assumptions

Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first,

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2022

followed by assigned fund balance. Unassigned fund balance is applied last.

4. Pensions

The fiduciary net position of the Teacher Retirement System of Texas (TRS) has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, and information about assets, liabilities and additions to/deductions from TRS fiduciary net position. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

5. Other Post-Employment Benefits

The fiduciary net position of the Teacher Retirement System of Texas (TRS) TRS-Care Plan has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to other post-employment benefits, OPEB expense, and information about assets, liabilities and additions to / deductions from TRS-Care's fiduciary net position. Benefit payments are recognized when due and payable in accordance with the benefit terms. There are no investments as this is a pay-as-you-go plan and all cash is held in a cash account.

6. Implementation of New Standards

In the current fiscal year, the District implemented the following new standard. The applicable provisions of the new standards are summarized below. Implementation is reflected in the financial statements and the notes to the financial statements.

GASB Statement No. 87, *Leases*

The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain leases assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

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>
The following functional over expenditures occurred.			Not applicable
General Fund:			
11	Instructions	\$ 51,264	The Chief Financial Office will monitor all functional activity to verify that appropriations are sufficient to cover all expenditures and the implementation of new accounting standards.
51	Plant Maintenance	171,512	
70	Debt Service	196,729	
Debt Service Fund:			
70	Debt Service	422,180	

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2022

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

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

Fund Name	Deficit Amount	Remarks
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, 2022, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$3,007,251 and the bank balance was \$3,363,243. The District's cash deposits at August 31, 2022 and during the year ended August 31, 2022, were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

2. Investments:

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

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

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

The District's investments at August 31, 2022 are shown below.

Investment or Investment Type	Rating	Maturity 1-5 years	Maturity 5-10 years	Fair Value	
Cash and Equivalents	N/A	\$ N/A	N/A	46,589 **	0.04%
Public Funds Money Market	N/A	N/A	N/A	8,506,322 **	7.50%
Lone Star Investment Pool	AAAm	***		44,467,670 *	39.20%

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2022

Municipal/Local Government:

US Treasury Note	N/A	179,212	--	179,212	0.16%
US Treasury Note	N/A	544,070	--	544,070	0.48%
US Treasury Note	N/A	530,063	--	530,063	0.47%
US Treasury Note	N/A	424,898	--	424,898	0.37%
US Treasury Note	N/A	189,125	--	189,125	0.17%
US Treasury Note	N/A	428,133	--	428,133	0.38%
US Treasury Note	N/A	2,993,906	--	2,993,906	2.64%
US Treasury Note	N/A	2,992,031	--	2,992,031	2.64%
US Treasury Note	N/A	7,449,609	--	7,449,609	6.57%
US Treasury Note	N/A	2,491,015	--	2,491,015	2.20%
US Treasury Note	N/A	2,970,151	--	2,970,151	2.62%
US Treasury Note	N/A	4,950,000	--	4,950,000	4.36%
US Treasury Note	N/A	2,468,916	--	2,468,916	2.18%
US Treasury Note	N/A	2,478,906	--	2,478,906	2.19%
US Treasury Note	N/A	2,953,594	--	2,953,594	2.60%
US Treasury Note	N/A	2,463,672	--	2,463,672	2.17%
US Treasury Note	N/A	4,454,297	--	4,454,297	3.93%
US Treasury Note	N/A	2,452,734	--	2,452,734	2.16%
US Treasury Note	N/A	2,340,000	--	2,346,000	2.07%
US Treasury Note	N/A	1,950,625	--	1,950,625	1.72%
US Treasury Note	N/A	1,456,641	--	1,456,641	1.28%
US Treasury Note	N/A	2,905,312	--	2,905,312	2.56%
US Treasury Note	N/A	1,448,906	--	1,448,906	1.28%
King ETC CN WA	A+	150,111	--	150,111	0.13%
Pueblo Cnty CO	Aa2	253,225	--	253,225	0.22%
Connecticut St	AAA	331,575	--	331,575	0.29%
Texas A&M	AAA	223,191	--	223,191	0.20%
Florida ST BOARD	AAA	370,299	--	370,299	0.33%
Winston-Salem NC LTD	AA+	49,795	--	49,795	0.04%
Marble Falls Tx	AA	60,139	--	60,139	0.05%
Newport News VA	AA+	382,404	--	382,404	0.34%
Eastern IO CCD JO	Aa1	164,106	--	164,106	0.14%
Florida ST BOARD	AAA	358,450	--	358,450	0.32%
New York NY Cty Trans	AAA	63,942	--	63,942	0.06%
Akron OH Go	A+	35,042	--	35,042	0.03%
Dorchester Cnty GO	AA-	250,205	--	250,205	0.22%
Emeryville CA Allc Tx	AA	200,544	--	200,544	0.18%
Apache County A	AA	780,007	--	780,007	0.69%
El Paso TX W/S	AA+	492,320	--	492,320	0.43%
Commercial Paper:					
Noredea Bank ABP	A-1+	2,490,243	--	2,490,243	2.20%
Certificates of Deposit:					
Pinnacle Bk Nashv	N/A	236,528	--	236,528	0.21%
Total Investments				\$ 113,434,523	100.00%

* Not all assets meeting the definition of an investment are required to be reported at fair value. Included among excepted investments are certain investments held by 2a7-like external investment pools. As detailed above, the District has invested funds in specific 2a7-like external investment pools that are valued at amortized cost and not subject to the fair value hierarchy levels.

** Certificates of deposits ("CD's") and time deposits at FDIC insured banks are not subject to the fair value hierarchy levels.

*** Maturity 87 days, this weighted average maturity calculation uses the industry standard definition of stated maturity for floating rate instruments, the number of days until the next reset date.

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FOR THE YEAR ENDED AUGUST 31, 2022

3. Analysis of Specific Deposit and Investment Risks

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

a. Credit Risk

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

b. Custodial Credit Risk

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

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

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

c. Concentration of Credit Risk

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

d. Interest Rate Risk

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

e. Foreign Currency Risk

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

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

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2022

one nationally recognized rating service; and 3) maintain the market value of its underlying investment portfolio within one half of one percent of the value of its shares.

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

D. Capital Assets

Capital asset activity for the year ended August 31, 2022, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
<u>Governmental activities:</u>				
Capital assets not being depreciated:				
Land	\$ 2,108,614	\$ --	\$ --	\$ 2,108,614
Construction in progress	12,967,421	49,638,080	2,493,622	60,111,879
Total capital assets not being depreciated	15,076,035	49,638,080	2,493,622	62,220,493
Capital assets being depreciated:				
Buildings and improvements	163,680,538	1,043,706	--	164,724,244
Infrastructure	1,840,663	1,688,204	--	3,528,867
Furniture and equipment	8,163,390	1,222,181	--	9,385,571
Vehicles	5,187,225	489,720	--	5,676,945
Right-to-Use Asset	--	602,697	--	602,697
Total capital assets being depreciated	178,871,816	5,046,508	--	183,918,324
Less accumulated depreciation for:				
Buildings and improvements	(65,241,405)	(3,800,931)	--	(69,042,336)
Infrastructure	(893,708)	(293,460)	--	(1,187,168)
Furniture and equipment	(6,228,803)	(512,788)	--	(6,741,591)
Vehicles	(3,516,971)	(319,060)	--	(3,836,031)
Right-to-Use Asset	--	(134,875)	--	(134,875)
Total accumulated depreciation	(75,880,887)	(5,061,114)	--	(80,942,001)
Total capital assets being depreciated, net	102,990,929	(14,606)	--	102,976,323
Governmental activities capital assets, net	\$ 118,066,964	\$ 49,623,474	\$ 2,493,622	\$ 165,196,816

Depreciation was charged to functions as follows:

	Capital Assets
Instruction	\$ 2,728,415
Instructional Resources and Media Services	65,390
Curriculum and Staff Development	151,046
School Leadership	260,304
Guidance, Counseling, & Evaluation Services	181,958
Social Work Services	6,887
Health Services	68,721
Student Transportation	194,047
Extracurricular Activities	343,764
General Administration	134,462
Plant Maintenance and Operations	662,545
Security and Monitoring Services	42,228
Data Processing Services	86,472
	\$ 4,926,239

Amortization was charged to functions as follows:

Right to Use Asse	Total
\$ 36,655	2,765,070
--	65,390
--	151,046
10,112	270,416
--	181,958
--	6,887
--	68,721
34,351	228,398
--	343,764
--	134,462
48,740	711,285
--	42,228
5,017	91,489
\$ 134,875	5,061,114

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2022

E. Interfund Balances and Activities

1. Due To and From Other Funds

Balances due to and due from other funds at August 31, 2022, consisted of the following:

Due To Fund	Due From Fund	Amount	Purpose
General Fund	Other Governmental Funds	\$ 144,923	Temporary advances
General Fund	Capital Projects Fund	165,595	Temporary advances
Capital Projects Fund	Debt Service Fund	522,557	Temporary advances
General Fund	Nonmajor Internal Service Fund	300,000	Temporary advances
	Total	<u>\$ 1,133,075</u>	

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, 2022, consisted of the following:

Transfers From	Transfers To	Amount	Reason
General fund	Capital Projects Fund	\$ 5,000,000	Supplement other funds sources
	Total	<u>\$ 5,000,000</u>	

F. Long-Term Obligations

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, 2022, are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Governmental activities:					
General obligation bonds	\$ 201,490,000	\$ --	\$ 6,210,000	\$ 195,280,000	\$ 7,965,000
Right to use leases	--	602,697	180,070	422,627	185,509
Premium on bonds	11,290,648	--	764,751	10,525,897	--
Compensated absences *	574,373	9,981	--	584,354	--
	<u>213,355,021</u>	<u>612,678</u>	<u>7,154,821</u>	<u>206,812,878</u>	--
Net Pension Liability *	12,673,876	(5,196,432)	1,073,177	6,404,267	--
Net OPEB Liability *	13,554,930	922,093	287,375	14,189,648	--
Total governmental activities	<u>\$ 239,583,827</u>	<u>\$ (3,661,661)</u>	<u>\$ 8,515,373</u>	<u>\$ 227,406,793</u>	<u>\$ 8,150,509</u>
		Due within one year		\$ 8,150,509	
		Due in more than one year		<u>198,662,369</u>	
				<u>\$ 206,812,878</u>	

* Other long-term liabilities

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2022

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

Liability	Activity Type	Fund
Compensated absences	Governmental	General
Net Pension Liability *	Governmental	General
Net OPEB Liability *	Governmental	General

The balance of bonds outstanding is composed of the following:

Date of Issue	Issue	Interest Rates	Original Issue	Maturity Date	Debt Principal
10/1/13	Series 2013	2.75 to 5.0	7,415,000	2/15/2032	\$ 4,700,000
6/1/14	Series 2014	2.0 to 4.0	9,034,996	2/15/2032	3,580,000
6/1/15	Series 2015	2.25 to 4.0	9,015,000	2/15/2033	6,370,000
1/1/16	Series 2016	3.0 to 4.0	38,055,000	2/15/2033	29,005,000
7/1/16	Series 2016A	3.0 to 5.0	32,360,000	2/15/2034	26,955,000
5/1/20	Series 2020	2.0 to 5.0	64,225,000	2/15/2045	63,625,000
5/1/20	Series 2021	2.0 to 5.0	62,045,000	2/1/2045	61,045,000
					<u>\$ 195,280,000</u>

2. Debt Service Requirements

Debt service requirements on long-term debt at August 31, 2022, are as follows:

Year Ending August 31,	Governmental Activities		
	Notes from Direct Borrowings		
	Principal	Interest	Total
2023	\$ 7,965,000	\$ 5,892,349	\$ 13,857,349
2024	8,030,000	5,535,774	13,565,774
2025	8,110,000	5,183,161	13,293,161
2026	8,200,000	4,823,230	13,023,230
2027	8,300,000	4,458,105	12,758,105
2028-2032	43,650,000	17,503,815	61,153,815
2033-2037	43,375,000	11,009,783	54,384,783
2038-2042	40,255,000	5,804,481	46,059,481
2043-2046	27,395,000	1,157,534	28,552,534
Totals	<u>\$ 195,280,000</u>	<u>\$ 61,368,232</u>	<u>\$ 256,648,232</u>

Leases

The District entered a master lease agreement to lease vehicles for District-wide use. Under the term of the lease, the District pays monthly fees of \$9,200.

The District entered an agreement to lease copiers for District-wide use. Under the agreement the District pays \$7,194 per month.

The District has recognized a right to use asset in the amount of \$602,697 and lease amount of an equal amount related to these agreements. During the fiscal year, the District recorded \$134,875 in amortization expense and \$16,659 in interest expense. The District used a discount rate of 3.9% on the vehicle expense and 2.4% for the copier lease. The discount rates were based on the risk-free rate published by the United States Treasury as the District has no comparable publicly traded debt. The rates are then adjusted for the specific terms of each lease and the rating of the entity.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2022

Remaining obligations associated with the leases are as follows:

<u>Year Ending August 21,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 185,509	\$ 11,220	\$ 196,729
2024	143,656	5,620	149,276
2025	90,708	1,501	92,209
2026	2,754	60	2,814
Totals	<u>\$ 422,627</u>	<u>\$ 18,401</u>	<u>\$ 441,028</u>

3. Advance Refunding of Debt

GASB Statement No. 7, "Advance Refundings Resulting in Defeasance of Debt," provides that refunded debt and assets placed in escrow for the payment of related debt service be excluded from the financial statements. As of August 31, 2022, outstanding balances of bond issues that have been refunded and defeased in-substance by placing existing assets and the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments are as follows.

<u>Bond Issue</u>	<u>Amount</u>
Series 2007	\$ 9,000,000
Series 2008	36,075,000
Series 2009	28,635,000
Total	<u>\$ 73,710,000</u>

G. Leases

Lease activity for the year and the implementation of GASB 87 is detailed in Note F Long-Term Obligations.

H. 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 2022, 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 participates in a cost-sharing multiple-employer defined benefit pension that has a special funding situation. The plan is administered by the Teacher Retirement System of Texas (TRS). It is a defined benefit pension plan established and administered in accordance with the Texas Constitution, Article XVI, Section 67, and Texas Government Code, Title 8, Subtitle C. The pension trust fund is a qualified pension trust under section 401(a) of the Internal Revenue Code. The Texas Legislature establishes benefits and contribution rates within the guidelines of the Texas Constitution. The pension's Board of Trustees does not have the authority to establish or amend benefit terms.

All employees of public, state-supported educational institutions in Texas who are employed for one-half or more of the standard workload and who are not exempted from membership under Texas Government Code, Title 8, Section 822.002 are covered by the system.

2. Pension Plan Fiduciary Net Position

Detail information about the Teacher Retirement System's fiduciary net position is available in a separately issued Annual Comprehensive Financial Report (ACFR) that includes financial statements and required supplementary information. That

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2022

report may be obtained on the Internet at <https://www.trs.texas.gov/Pages/about%20publications.aspx> ; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698, or by calling (512) 542-6592.

3. Benefits Provided

TRS provides service and disability retirement, as well as death and survivor benefits, to eligible employees (and their beneficiaries) of public and higher education in Texas. The pension formula is calculated using 2.3 percent (multiplier) times the average of the five highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered, the three highest annual salaries are used. The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member's age and years of credited service equals 80 or more years. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member's age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered in under a previous rule. There are no automatic post-employment benefit changes; including automatic COLAs. Ad hoc post-employment benefit changes, including ad hoc COLAs can be granted by the Texas Legislature as noted in the Plan description in (1) above.

Texas Government Code section 821.006 prohibits benefit improvements, if, as a result of the particular action, the time required to amortize TRS unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action. Actuarial implications of the funding provided in the manner are determined by the System's actuary.

4. Contributions

Contribution requirements are established or amended pursuant to Article 16, Section 67 of the Texas Constitution which requires the Texas legislature to establish a member contribution rate of not less than 6 percent of the member's annual compensation and a state contribution rate of not less than 6 percent and not more than 10 percent of the aggregate annual compensation paid to members of the System during the fiscal year.

Employee contribution rates are set in state statute, Texas Government Code 825.402. The TRS Pension Reform Bill (Senate Bill 12) of the 86th Texas Legislature amended Texas Government Code 825.402 for member contributions and increased employee and employer contribution rates for fiscal years 2020 thru 2025.

	Contribution Rates	
	2021	2022
Member	7.7%	8.0%
Non-Employer Contributing Entity (State)	7.5%	7.75%
Employers	7.5%	7.75%
District's 2022 Employer Contributions		\$ 1,374,918
District's 2022 Member Contributions		\$ 2,962,384
2021 NECE On-Behalf Contributions (State)		\$ 1,956,357

Contributors to the plan include members, employers and the State of Texas as the only non-employer contributing entity. The State is the employer for senior colleges, medical schools and state agencies including TRS. In each respective role, the State contributes to the plan in accordance with state statutes and the General Appropriations Act (GAA).

As the non-employer contributing entity for public education and junior colleges, the State of Texas contributes to the retirement system an amount equal to the current employer contribution rate times the aggregate annual compensation of all participating members of the pension trust fund during that fiscal year reduced by the

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2022

amounts described below which are paid by the employers. Employers (public school, junior college, other entities or the State of Texas as the employer for senior universities and medical schools) are required to pay the employer contribution rate in the following instances:

- On the portion of the member's salary that exceeds the statutory minimum for members entitled to the statutory minimum under Section 21.402 of the Texas Education Code.
- During a new member's first 90 days of employment.
- When any or all of an employee's salary is paid by federal funding sources, a privately sponsored source, from non-educational and general, or local funds.
- When the employing district is a public junior college or junior college district, the employer shall contribute to the retirement system an amount equal to 50 percent of the state contribution rate for certain instructional or administrative employees; and 100 percent of the state contribution rate for all other employees.

In addition to the employer contributions listed above, there is an additional surcharge an employer is subject to.

- All public schools, charter schools, and regional educational service centers must contribute 1.6 percent of the member's salary beginning in fiscal year 2021, gradually increasing to 2 percent in fiscal year 2025.
- When employing a retiree of the Teacher Retirement System, the employer shall pay both the member contribution and the state contribution as an employment after retirement surcharge.

5. Actuarial Assumptions

The total pension liability in the August 31, 2020 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	August 31, 2020 rolled forward to August 31, 2021
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Fair Value
Single Discount Rate	7.25%
Long-term expected Investment Rate of Return	7.25%
Municipal Bond Rate as of August 2020	1.95% *
Last year ending August 31 in Projection Period	2120
Inflation	2.30%
Salary Increases including inflation	3.05% to 9.05%
Ad hoc post-employment benefit changes	None

* The source for the rate is the Fixed Income Market Data/Yield Curve/Data Municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-Year Municipal GO AA Index"

The actuarial methods and assumptions used in the determination of the total pension liability are the same assumptions used in the actuarial valuation as of August 31, 2020. For a full description of these assumptions, please see the actuarial valuation report dated November 9, 2020.

6. Discount Rate

A single discount rate of 7.25 percent was used to measure the total pension liability. The single discount rate was based on the expected rate of return on plan investments of 7.25 percent. The projection of cash flows used to determine this single discount rate assumed that contributions from active members, employers and the non-employer contributing entity will be made at the rates set by the legislature during the 2019 session. It

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2022

is assumed that future employer and state contributions will be 8.50 percent of payroll in fiscal year 2020 gradually increasing to 9.55 percent of payroll over the next several years. This includes all employer and state contributions for active and rehired retirees.

Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The long-term rate of return on pension plan investments is 7.25 percent. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the System's target asset allocation as of August 31, 2021 are summarized below:

Asset Class *	Target Allocation **	Long-Term Expected Arithmetic Real Rate of Return ***	Expected Contribution to Long-Term Portfolio Returns
Global Equity			
USA	18.0%	3.6%	0.94%
Non-U.S. Developed	13.0%	4.4%	0.83%
Emerging Markets	9.0%	4.6%	0.74%
Private Equity	14.0%	6.3%	1.36%
Stable Value			
Government Bonds	16.0%	(0.2)%	0.01%
Absolute Return	0.0%	1.1%	0.00%
Stable Value Hedge Funds	5.0%	2.2%	0.12%
Real Return			
Real Estate	15.0%	4.5%	1.00%
Energy, Natural Resources and Infrastructure	6.0%	4.7%	0.35%
Commodities	0.0%	1.7%	0.00%
Risk Parity	8.0%	2.8%	0.28%
Asset Allocation Leverage			
Cash	2.0%	(0.7)%	(0.01)%
Asset Allocation Leverage	(6.0%)	(0.5)%	0.03%
Inflation Expectation			2.20%
Volatility Drag ****	-		(0.95)%
Expected Return	100.0%		6.90%
* Absolute Return includes Credit Sensitive Investments. ** Target allocations are based on the FY2021 policy model. *** Capital Market Assumptions come from Aon Hewitt (as of 08/31/2021) **** The volatility drag results from the conversion between arithmetic and geometric mean returns.			

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2022

7. Discount Rate Sensitivity Analysis

The following table presents the Net Pension Liability of the plan using a discount rate of 7.25 percent, and what the net position liability would be if it were calculated using a discount rate that is one percentage point lower (6.25%) or one percentage point higher (8.25%) than the current rate.

	1% Decrease in Discount Rate (6.25%)	Discount Rate (7.25%)	1% Increase in Discount Rate (8.25%)
District's proportionate share of the net pension liability:	\$ 13,994,318	\$ 6,404,257	\$ 246,414

8. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At August 31, 2022, the District reported a liability of \$6,404,257 for its proportionate share of the TRS net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the collective net pension liability	\$ 6,404,257
State's proportionate share that is associated with District	<u>11,674,701</u>
Total	<u>\$ 18,078,958</u>

The net pension liability was measured as of August 31, 2020 and rolled forward to August 31, 2021 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2020 thru August 31, 2021.

At August 31, 2021 the employer's proportion of the collective net pension liability was 0.0251478088 percent which was an increase (decrease) of 0.0014839567 percent from its proportion measured as of August 31, 2020.

9. Changes Since the Prior Actuarial Valuation

There were no changes in assumptions since the prior measurement date.

For the year ended August 31, 2022, the District recognized pension expense of \$813,978 and revenue of \$46,674 for support provided by the State.

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2022

At August 31, 2022, the District reported its proportionate share of the TRS deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between Expected and Actual Actuarial Experience	\$ 10,717	\$ 450,865
Changes in Actuarial Assumptions	2,263,780	986,814
Difference Between Projected and Actual Investment Earnings	--	5,369,886
Changes in Proportion and Difference between District's Contributions and the Proportionate Share of Contributions	821,560	632,128
Total as of August 31, 2021 measurement date	3,096,057	7,439,693
Contributions paid to TRS subsequent to the measurement date of the Net Pension Liability (to be calculated by employer)	1,374,918	--
Total	\$ 4,470,975	\$ 7,439,693

The net amounts of the District's balances of deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended August 31,	Pension Expense Amount
2023	\$ (694,336)
2024	\$ (789,383)
2025	\$ (1,297,016)
2026	\$ (1,622,650)
2027	\$ 38,178
Thereafter	\$ 21,571

J. Defined Other Post-Employment Benefit Plans

1. Plan Description

The District participates in the Texas Public School Retired Employees Group Insurance Program (TRS-Care). It is a multiple-employer, cost-sharing defined Other Post-Employment Benefit (OPEB) plan with a special funding situation. The TRS-Care program was established in 1986 by the Texas Legislature.

The TRS Board of Trustees administers the TRS-Care program and the related fund in accordance with Texas Insurance Code Chapter 1575. The Board of Trustees is granted the authority to establish basic and optional group insurance coverage for participants as well as to amend benefit terms as needed under Chapter 1575.052. The Board may adopt rules, plans, procedures, and orders reasonably necessary to administer the program, including minimum benefits and financing standards.

2. OPEB Plan Fiduciary Net Position

Detail information about the TRS-Care's fiduciary net position is available in the separately issued TRS Annual Comprehensive Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at https://www.trs.texas.gov/Pages/about_publications.aspx; by writing to TRS at 1000 Red River Street, Austin, TX 78701-2698; or by calling (512) 542-6592.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2022

3. Benefits Provided

TRS-Care provides health insurance coverage to retirees from public and charter schools, regional education service centers and other educational districts who are members of the TRS pension plan. Optional dependent coverage is available for an additional fee.

Eligible non-Medicare retirees and their dependents may enroll in TRS-Care Standard, a high-deductible health plan. Eligible Medicare retirees and their dependents may enroll in the TRS-Care Medicare Advantage medical plan and the TRS-Care Medicare Rx prescription drug plan. To qualify for TRS-Care coverage, a retiree must have at least 10 years of service credit in the TRS pension system. There are no automatic post-employment benefit changes; including automatic COLAs.

The premium rates for retirees are reflected in the following table.

TRS-Care Monthly Premium Rates		
	Medicare	Non-Medicare
Retiree or Surviving Spouse	\$ 135	\$ 200
Retiree and Spouse	529	689
Retiree or Surviving Spouse and Children	468	408
Retiree and Family	1,020	999

4. Contributions

Contribution rates for the TRS-Care plan are established in state statute by the Texas Legislature, and there is no continuing obligation to provide benefits beyond each fiscal year. The TRS-Care plan is currently funded on a pay-as-you-go basis and is subject to change based on available funding. Funding for TRS-Care is provided by retiree premium contributions and contributions from the state, active employees, and school districts based upon public school district payroll. The TRS board of trustees does not have the authority to set or amend contribution rates.

Texas Insurance Code, Section 1575.202 establishes the state's contribution rate which is 1.25 percent of the employee's salary. Section 1575.203 establishes the active employee's rate which is 0.65 percent of pay. Section 1575.204 establishes an employer contribution rate of not less than 0.25 percent or not more than 0.75 percent of the salary of each active employee of the public or charter school. The actual employer contribution rate is prescribed by the Legislature in the General Appropriations Act. The following table shows contributions to the TRS-Care plan by type of contributor.

Contribution Rates	
	<u>2022</u>
Active Employee	0.65%
Non-Employer Contributing Entity (State)	1.25%
Employers	0.75%
Federal/Private Funding remitted by Employers	1.25%

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FOR THE YEAR ENDED AUGUST 31, 2022

District's 2022 Employer Contributions	\$	323,274
District's 2022 Member Contributions	\$	240,722
2021 NECE On-Behalf Contributions (state)	\$	385,018

In addition to the employer contributions listed above, there is an additional surcharge all TRS employers are subject to *(regardless of whether they participate in the TRS Care OPEB Program)*. When hiring a TRS retiree, employers are required to pay TRS Care a monthly surcharge of \$535 per retiree.

TRS-Care received supplemental appropriations from the State of Texas as the Non-Employer Contributing Entity in the amount of \$5,520,343 in fiscal year 2021 for consumer protections against medical and health care billing by certain out-of-network providers.

5. Actuarial Assumptions

The actuarial valuation was performed as of August 31, 2020. Update procedures were used to roll forward the Total OPEB Liability to August 31, 2021. The actuarial valuation was determined using the following actuarial assumptions:

The actuarial valuation of the OPEB plan offered through TRS-Care is similar to the actuarial valuation performed for the pension plan, except that the OPEB valuation is more complex. The demographic assumptions were developed in the experience study performed for TRS for the period ending August 31, 2017. The following assumptions and other inputs used for members of TRS-Care are based on an established pattern of practice and are identical to the assumptions used in the August 31, 2020 TRS pension actuarial valuation that was rolled forward to August 31, 2021:

Rates of Mortality	Rates of Disability
Rates of Retirement	General Inflation
Rates of Termination	Wage Inflation

The active mortality rates were based on 90 percent of the RP-2014 Employee Mortality Tables for males and females. The post-retirement mortality rates for healthy lives were based on the 2018 TRS of Texas Healthy Pensioner Mortality Tables, with full generational projection using the ultimate improvement rates from the mortality projection scale MP-2018.

Additional Actuarial Methods and Assumptions:

Valuation Date	August 31, 2020 rolled forward to August 31, 2021
Actuarial Cost Method	Individual Entry-Age Normal
Inflation	2.30%
Single Discount Rate	1.95% as of August 31, 2021
Aging Factors	Based on plan specific experience
Expenses	Third-party administrative expenses related to the delivery of health care benefits are included in the the age-adjusted claims costs.
Projected Salary Increases	3.05% to 9.05%, including inflation
Health Care Trend Rates	8.5% to 4.25%
Election Rates	Normal Retirement - 65% participation rate prior to age 65 and 40% participation rate after age 65. Pre-65 retirees - 25% are assumed to discontinue coverage at age 65.
Ad hoc post-employment benefit changes	None

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

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FOR THE YEAR ENDED AUGUST 31, 2022

The initial medical trend rates were 8.50 percent for Medicare retirees and 7.10 percent for non-Medicare retirees. There was an initial prescription drug trend rate of 8.50 percent for all retirees. The initial trend rates decrease to an ultimate trend rate of 4.25 percent over a period of 12 years.

6. Discount Rate

A single discount rate of 1.95 percent was used to measure the Total OPEB Liability. This was a decrease of 0.38 percent in the discount rate since the previous year. Because the plan is essentially a "pay-as-you-go" plan, the single discount rate is equal to the prevailing municipal bond rate. The projection of cash flows used to determine the discount rate assumed that contributions from active members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to **not be able** to make all future benefit payments of current plan members. Therefore, the municipal bond rate was used for the long-term rate of return and was applied to all periods of projected benefit payments to determine the total OPEB liability.

The source of the municipal bond rate is the Fidelity "20-year Municipal GO AA Index" as of August 31, 2021 using the Fixed Income Market Data/Yield Curve/ Data Municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds.

7. Discount Rate Sensitivity Analysis

The following schedule shows the impact of the Net OPEB Liability if the discount rate used was 1 percentage point lower than and 1 percentage point higher than the discount rate that was used (1.95%) in measuring the Net OPEB Liability.

	1% Decrease in Discount Rate (0.95%)	Current Single Discount Rate (1.95%)	1% Increase in Discount Rate (2.95%)
District's proportionate share of the Net OPEB Liability:	\$ 17,115,985	\$ 14,189,648	\$ 11,886,526

8. OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs

At August 31, 2022, the District reported a liability of \$14,189,648 for its proportionate share of the TRS's Net OPEB liability. This liability reflects a reduction for State OPEB support provided to the District. The amount recognized by the District as its proportionate share of the net OPEB liability, the related State support, and the total portion of the Net OPEB Liability that was associated with the District were as follows:

District's proportionate share of the collective net OPEB liability	\$ 14,189,648
State's proportionate share that is associated with the District	\$ 19,010,966
Total	\$ 33,200,614

The Net OPEB liability was measured as of August 31, 2020 and rolled forward to August 31, 2021 and the Total OPEB Liability used to calculate the Net OPEB Liability was determined by an actuarial valuation as of that date. The District's proportion of the Net OPEB Liability was based on the District's contributions to OPEB relative to the contributions of all employers to the plan for the period September 1, 2020 thru August 31, 2021.

At August 31, 2022 the District's proportion of the collective net OPEB liability was 0.0367850776, compared to 0.0356572482 as of August 31, 2020.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2022

The following schedule shows the impact of the Net OPEB Liability if a healthcare trend rate that is 1 percent less than and 1 percent greater than the health trend rates assumed.

	1% Decrease in Healthcare Trend Rate	Current Single Healthcare Trend Rate	1% Increase in Healthcare Trend Rate
District's proportionate share of Net OPEB Liability:	\$ 11,493,145	\$ 14,189,648	\$ 17,807,686

9. Changes Since the Prior Actuarial Valuation

The following were changes to the actuarial assumptions or other inputs that affected measurement of the Total OPEB liability (TOL) since the prior measurement period:

- The discount rate was changed from 2.33 percent as of August 31, 2020 to 1.95 percent as of August 31, 2021. This change increased the Total OPEB Liability.

Changes of Benefit Terms Since the Prior Measurement Date - There were no changes in benefit terms since the prior measurement date.

The amount of OPEB expense recognized by the District in the reporting period was \$728,704 and revenue of \$(701,650).

At August 31, 2022, the District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to other post-employment benefits from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 610,932	\$ 6,868,782
Changes in actuarial assumptions	1,571,670	3,000,848
Difference between projected and actual investment earnings	15,406	--
Changes in proportion and difference between the District's contributions and the proportionate share of contributions	1,309,767	1,067,093
Total as of August 31, 2021 measurement date	3,507,775	10,936,723
Contributions paid to TRS subsequent to the measurement date	323,274	
Total	\$ 3,831,049	\$ 10,936,723

The net amounts of the District's balances of deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended August 31:	OPEB Expense Amount
2023	\$ (1,452,469)
2024	\$ (1,452,816)
2025	\$ (1,452,721)
2026	\$ (1,079,214)
2027	\$ (573,546)
Thereafter	\$ (1,418,185)

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2022

For the year ended August 31, 2022, the District recognized OPEB expense of \$728,704 and revenue of \$(701,650) for support provided by the State.

10. Medicare Part D Subsidies

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. For the fiscal year ended August 31, 2022, the subsidy payment received by TRS-Care on behalf of the District was \$156,227.

K. Employee Health Care Coverage

During the current fiscal year, employees of the District were covered by a statewide health insurance plan, TRS Active Care. The District paid premiums of \$429 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. The Teacher Retirement System of Texas (TRS) manages TRS Active Care. Administration is provided by Blue Cross Blue Shield.

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

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, 2022.

M. Tax Abatement

The District's Board of Trustees approved several Agreements with multiple companies for Limitations on Appraised Value of Property for School District Maintenance and Operations Taxes pursuant to the Chapter 313 of the Texas Tax Code, i.e., the Texas Economic Development Act, as set forth in Chapter 313 of the Texas Tax Code, as amended. Each company qualified for a tax limitation agreement under Texas Tax Code 313.024(b)(5), as a manufacturing project.

Value limitation agreements are a part of a state program, originally created in 2001, which allows school districts to limit the taxable value of an approved project for Maintenance and Operations (M&O) for a period of years specified in statute. The project(s) under the Chapter 313 agreement must be consistent with the state's goal to "encourage large scale capital investments in this state." Chapter 313 of the Texas Tax Code grants eligibility to companies engaged in manufacturing, research and development, renewable electric energy production, clean coal projects, nuclear power generation and data centers.

In order to qualify for a value limitation agreement, each applicant has been required to meet a series of capital investment, job creation, and wage requirements specified by state law. At the time of the application's approval, each of the agreements were deemed to have done so by both the District's Board of Trustees and the Texas

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2022

Comptroller's Office, which recommended approval of the projects. The applications, agreements, and requisite state reporting documentation can be viewed at the Texas Comptroller's website:

<https://www.comptroller.texas.gov/economy/local/ch313/agreement-docs.php>

After approval, the applicant company must maintain a viable presence in the District for the entire period of the value limitation plus a period of years thereafter. In addition, there are specific reporting requirements, which are monitored on an annual and biennial basis in order to ensure relevant job, wage, and operational requirements are being met.

In the event that an entity terminates this Agreement without the consent of the District, or in the event that the company or its successor-in-interest fails to comply in any material respect with the terms of this Agreement or to meet any material obligation under this Agreement, then the District shall be entitled to the recapture of all ad valorem tax revenue lost as a result of this Agreement together with the payment of penalty and interest, on that recaptured ad valorem tax revenue. Penalties on said amounts shall be calculated in accordance with the methodology set forth in Texas Tax Code 33.01(a), or its successor statute. Interest on said amounts shall be calculated in accordance with the methodology set forth in Texas Tax Code 33.01(c), or its successor statute. The Agreement provides an administrative procedure to determine any company liability. Ultimately, enforcement of any payment obligation is through the local state district court.

Following is the information relating to the agreements at year-end.

Project: Huntsman Petrochemical LLC (Agreement #267)

First Year Value Limitation: 2016

Fiscal Year: 2022/Tax Year 2021

(A)	(B)	(C)	(D)	(E)	(F)	(G)
Project Value	Project's Value Limitation Amount	Amount of Applicant's M&O Taxes Paid	Amount of Applicant's M&O Taxes Reduced	Company Revenue Loss Paymt to School District	Company Supplemental Payment To School District	Net Benefit (Loss) to the School District (C+E+F)
<u>\$113,248,100</u>	<u>\$30,000,000</u>	<u>\$306,270</u>	<u>\$849,880</u>	<u>--</u>	<u>\$339,952</u>	<u>\$646,222</u>

Project: Air Liquide Large Industries U.S., LP (Agreement #354)

First Year Value Limitation: 2017

Fiscal Year: 2022/Tax Year 2021

(A)	(B)	(C)	(D)	(E)	(F)	(G)
Project Value	Project's Value Limitation Amount	Amount of Applicant's M&O Taxes Paid	Amount of Applicant's M&O Taxes Reduced	Company Revenue Loss Paymt to School District	Company Supplemental Payment To School District	Net Benefit (Loss) to the School District (C+E+F)
<u>\$85,335,500</u>	<u>\$30,000,000</u>	<u>\$306,270</u>	<u>\$564,920</u>	<u>--</u>	<u>\$265,596</u>	<u>\$571,866</u>

Project: Bayport Polymers LLC (Agreement #1029)

First Year Value Limitation: 2017

Fiscal Year: 2022/Tax Year 2021

(A)	(B)	(C)	(D)	(E)	(F)	(G)
Project Value	Project's Value Limitation Amount	Amount of Applicant's M&O Taxes Paid	Amount of Applicant's M&O Taxes Reduced	Company Revenue Loss Paymt to School District	Company Supplemental Payment To School District	Net Benefit (Loss) to the School District (C+E+F)
<u>\$772,323,300</u>	<u>\$30,000,000</u>	<u>\$306,270</u>	<u>\$7,578,379</u>	<u>\$3,613,240</u>	<u>\$47,200</u>	<u>\$4,390,710</u>

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2022

N. Adoption of New Standard

As of September 1, 2021, the District adopted GASB Statement No. 87, Leases. The implementation of this standard established a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract.

Beginning net position was not restated since the right to use obligations were initiated in the current year.

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, 2022

EXHIBIT G-1

Page 1 of 2

Data Control Codes		1	2	3	Variance with Final Budget Positive (Negative)
		Budgeted Amounts		Actual	
		Original	Final		
REVENUES:					
5700	Local and Intermediate Sources	\$ 36,672,529	\$ 32,934,400	\$ 33,637,395	\$ 702,995
5800	State Program Revenues	17,969,724	19,918,130	19,944,246	26,116
5900	Federal Program Revenues	737,270	737,270	1,057,869	320,599
5020	Total Revenues	55,379,523	53,589,800	54,639,510	1,049,710
EXPENDITURES:					
Current:					
Instruction and Instructional Related Services:					
0011	Instruction	29,475,948	30,204,550	30,255,814	(51,264)
0012	Instructional Resources and Media Services	723,894	723,894	713,041	10,853
0013	Curriculum and Staff Development	1,621,135	1,672,135	1,393,147	278,988
	Total Instruction and Instr. Related Services	31,820,977	32,600,579	32,362,002	238,577
Instructional and School Leadership:					
0023	School Leadership	2,881,655	2,881,655	2,839,321	42,334
	Total Instructional and School Leadership	2,881,655	2,881,655	2,839,321	42,334
Support Services - Student (Pupil):					
0031	Guidance, Counseling and Evaluation Services	2,014,341	2,014,341	1,870,347	143,994
0032	Social Work Services	76,247	76,247	69,902	6,345
0033	Health Services	760,764	760,764	746,461	14,303
0034	Student (Pupil) Transportation	1,527,048	2,148,168	2,073,359	74,809
0036	Cocurricular/Extracurricular Activities	2,480,599	3,805,589	3,387,550	418,039
	Total Support Services - Student (Pupil)	6,858,999	8,805,109	8,147,619	657,490
Administrative Support Services:					
0041	General Administration	1,488,856	1,488,546	1,381,149	107,397
	Total Administrative Support Services	1,488,856	1,488,546	1,381,149	107,397
Support Services - Nonstudent Based:					
0051	Plant Maintenance and Operations	7,876,746	7,334,619	7,506,131	(171,512)
0052	Security and Monitoring Services	325,741	467,476	313,533	153,943
0053	Data Processing Services	889,276	957,276	913,961	43,315
	Total Support Services - Nonstudent Based	9,091,763	8,759,371	8,733,625	25,746
Debt Service:					
0071	Principal on Long-Term Debt	--	--	180,070	(180,070)
0072	Interest on Long-Term Debt	--	--	16,659	(16,659)
	Total Debt Service	--	--	196,729	(196,729)
Capital Outlay:					
0081	Capital Outlay	450,000	1,365,000	1,194,273	170,727
	Total Capital Outlay	450,000	1,365,000	1,194,273	170,727
Intergovernmental Charges:					
0091	Contracted Instr. Services Between Public Schools	--	310	309	1
0095	Payments to Juvenile Justice Alternative				
0095	Education Programs	36,000	36,000	36,000	--
0099	Other Intergovernmental Charges	400,000	421,000	315,196	105,804
	Total Intergovernmental Charges	436,000	457,310	351,505	105,805
6030	Total Expenditures	53,028,250	56,357,570	55,206,223	1,151,347

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT**EXHIBIT G-1**

GENERAL FUND

Page 2 of 2

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2022

Data Control Codes		1	2	3	Variance with Final Budget
		Budgeted Amounts		Actual	Positive
		Original	Final		(Negative)
1100	Excess (Deficiency) of Revenues Over (Under)				
1100	Expenditures	<u>2,351,273</u>	<u>(2,767,770)</u>	<u>(566,713)</u>	<u>2,201,057</u>
	Other Financing Sources (Uses):				
8911	Transfers Out	<u>--</u>	<u>(5,000,000)</u>	<u>(5,000,000)</u>	<u>--</u>
7080	Total Other Financing Sources and (Uses)	<u>--</u>	<u>(5,000,000)</u>	<u>(5,000,000)</u>	<u>--</u>
1200	Net Change in Fund Balance	<u>2,351,273</u>	<u>(7,767,770)</u>	<u>(5,566,713)</u>	<u>2,201,057</u>
0100	Fund Balance - Beginning	<u>31,067,733</u>	<u>31,067,733</u>	<u>31,067,733</u>	<u>--</u>
3000	Fund Balance - Ending	<u>\$ 33,419,006</u>	<u>\$ 23,299,963</u>	<u>\$ 25,501,020</u>	<u>\$ 2,201,057</u>

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY TEACHER RETIREMENT SYSTEM OF TEXAS LAST TEN FISCAL YEARS *

	Measurement Period Ended August 31,				
	2021	2020	2019	2018	2017
District's proportion of the net pension liability (asset)	0.025147809%	0.023663852%	0.025060223%	0.026145122%	0.025592201%
District's proportionate share of the net pension liability (asset)	\$ 6,404,257	\$ 12,673,876	\$ 13,027,087	\$ 14,390,909	\$ 8,183,007
State's proportionate share of the net pension liability (asset) associated with the District	11,674,701	25,228,353	23,576,237	26,767,363	16,320,177
Total	<u>\$ 18,078,958</u>	<u>\$ 37,902,229</u>	<u>\$ 36,603,324</u>	<u>\$ 41,158,272</u>	<u>\$ 24,503,184</u>
District's covered-employee payroll	\$ 34,344,338	\$ 33,515,164	\$ 30,700,504	\$ 31,508,910	\$ 31,113,436
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	18.65%	37.82%	42.43%	45.67%	26.30%
Plan fiduciary net position as a percentage of the total pension liability	88.79%	75.54%	75.24%	73.74%	82.17%

* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this schedule provides the information only for those years for which information is available.

Measurement Period Ended August 31,				
2016	2015	2014	2013	2012
0.024362300%	0.024523300%	0.012967200%	--	--
\$ 9,206,140	\$ 8,668,660	\$ 3,463,718	\$ --	\$ --
19,557,138	18,673,867	16,118,283	--	--
<u>\$ 28,763,278</u>	<u>\$ 27,342,527</u>	<u>\$ 19,582,001</u>	<u>\$ --</u>	<u>\$ --</u>
\$ 29,728,222	\$ 28,227,303	\$ 27,053,033	\$ --	\$ --
30.97%	30.71%	12.80%	--	--
78.00%	78.43%	83.25%	--	--

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF DISTRICT CONTRIBUTIONS TEACHER RETIREMENT SYSTEM OF TEXAS LAST TEN FISCAL YEARS *

	Fiscal Year				
	2022	2021	2020	2019	2018
Contractually required contribution	\$ 1,374,918	\$ 1,070,613	\$ 976,275	\$ 873,522	\$ 875,297
Contributions in relation to the contractually required contribution	(1,374,918)	(1,070,613)	(976,275)	(873,522)	(875,297)
Contribution deficiency (excess)	\$ --	\$ --	\$ --	\$ --	\$ --
District's covered-employee payroll	\$ 37,029,823	\$ 34,344,338	\$ 33,515,164	\$ 30,700,504	\$ 31,508,910
Contributions as a percentage of covered-employee payroll	3.71%	3.12%	2.91%	2.85%	2.78%

* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this schedule provides the information for those years for which information is available.

Fiscal Year				
2017	2016	2015	2014	2013
\$ 850,198	\$ 788,279	\$ 726,146	\$ --	\$ --
(850,198)	(788,279)	(726,146)	--	--
<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>
\$ 31,113,436	\$ 29,728,222	\$ 28,227,303	\$ --	\$ --
2.73%	2.65%	2.57%	--	--

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY TEACHER RETIREMENT SYSTEM OF TEXAS LAST TEN FISCAL YEARS *

	Measurement Year Ended August 31,				
	2021	2020	2019	2018	2017
District's proportion of the collective net OPEB liability	0.036785078%	0.035657248%	0.036312467%	0.038106444%	0.036093017%
District's proportionate share of the collective net OPEB liability	\$ 14,189,648	\$ 13,554,930	\$ 17,172,611	\$ 19,026,897	\$ 15,695,499
State proportionate share of the collective net OPEB liability associated with the District	\$ 19,010,966	\$ 18,214,577	\$ 22,818,558	\$ 26,775,012	\$ 24,594,347
Total	<u>\$ 33,200,614</u>	<u>\$ 31,769,507</u>	<u>\$ 39,991,169</u>	<u>\$ 45,801,909</u>	<u>\$ 40,289,846</u>
District's covered-employee payroll	\$ 28,652,480	\$ 33,515,164	\$ 30,700,504	\$ 31,508,910	\$ 31,113,436
District's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	49.52%	40.44%	55.94%	60.39%	50.45%
Plan fiduciary net position as a percentage of the total OPEB liability	6.18%	4.99%	2.66%	1.57%	0.91%

* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this schedule provides the information only for those years for which information is available.

Measurement Year Ended August 31,				
2016	2015	2014	2013	2012
--	--	--	--	--
\$ --	\$ --	\$ --	\$ --	\$ --
\$ --	\$ --	\$ --	\$ --	\$ --
\$ --	\$ --	\$ --	\$ --	\$ --
\$ --	\$ --	\$ --	\$ --	\$ --
--	--	--	--	--
--	--	--	--	--

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S OPEB CONTRIBUTIONS

TEACHER RETIREMENT SYSTEM OF TEXAS

LAST TEN FISCAL YEARS *

	Fiscal Year Ended				
	2022	2021	2020	2019	2018
Statutorily or contractually required District contribution	\$ 323,274	\$ 261,580	\$ 259,366	\$ 233,254	\$ 238,317
Contributions recognized by OPEB in relation to statutorily or contractually required contribution	323,274	261,580	259,366	233,254	238,317
Contribution deficiency (excess)	\$ --	\$ --	\$ --	\$ --	\$ --
District's covered-employee payroll	\$ 37,353,097	\$ 34,344,011	\$ 33,515,164	\$ 30,700,504	\$ 31,508,910
Contributions as a percentage of covered-employee payroll	0.87%	0.76%	0.77%	0.76%	0.76%

* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this schedule provides the information for those years for which information is available.

<u>2017</u>		<u>2016</u>		<u>2015</u>		<u>2014</u>		<u>2013</u>	
\$	--	\$	--	\$	--	\$	--	\$	--
<u>--</u>		<u>--</u>		<u>--</u>		<u>--</u>		<u>--</u>	
\$	<u>--</u>	\$	<u>--</u>	\$	<u>--</u>	\$	<u>--</u>	\$	<u>--</u>
\$	--	\$	--	\$	--	\$	--	\$	--
--		--		--		--		--	

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION FOR THE YEAR ENDED AUGUST 31, 2022

Budget

The official budget was prepared for adoption for all Governmental Fund Types. The budget was prepared in accordance with accounting practices generally accepted in the United States of America. The following procedures are followed in establishing the budgetary data.:

- a. Prior to August 21 of the preceding fiscal year, the District prepares a budget for the next succeeding fiscal year. The operating budget includes proposed expenditures and the means of financing them.
- b. A meeting of the Board is then called for the purpose of adopting the proposed budget after ten days' public notice of the meeting has been given.
- c. Prior to the beginning of the fiscal year, the budget is legally enacted through passage of a resolution by the board.

Once a budget is approved, it can be amended at function and fund level only by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings.

Each amendment must have Board approval. Such amendments are made before the fact, are reflected in the official minutes of the Board and are not made after fiscal year end as required by law.

Each amendment is controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year end.

Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Texas law, appropriations lapse at August 31, and encumbrances outstanding at that time are to be either cancelled or appropriately provided for in the subsequent year's budget. There were no end-of-year outstanding encumbrances that were provided for in the subsequent year's budget.

Defined Benefit Pension Plan

Changes of benefit terms

There were no changes of benefit terms that affected measurement of the total pension liability during the measurement period.

Changes of assumptions

There were no changes of assumptions or other inputs that affected measurement of the total pension liability during the measurement period.

Other Post-Employment Benefit Plan

Changes of benefit terms

There were no changes of benefit terms that affected measurement of the total OPEB liability during the measurement period.

Changes of assumptions

There were no changes of assumptions or other inputs that affected measurement of the total OPEB liability during the measurement period.

Other Supplementary Information

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

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICTSCHEDULE OF DELINQUENT TAXES RECEIVABLE
FOR THE YEAR ENDED AUGUST 31, 2022

Year Ended August 31	1		2		3	
	Tax Rates				Assessed/Appraised Value For School Tax Purposes	
	Maintenance		Debt Service			
2013 and Prior Years	\$	Various	\$	Various	\$	Various
2014		1.04		.394		2,642,811,541
2015		1.04		.4044		2,425,173,531
2016		1.04		.4044		2,458,412,016
2017		1.04		.4044		2,416,051,716
2018		1.17		.2744		2,309,528,693
2019		1.17		.2744		2,387,787,055
2020		1.0684		.2744		2,664,748,762
2021		1.0547		.2744		2,707,753,269
2022 (School Year Under Audit)		1.0209		.355		2,947,299,429
1000 Totals						
9000 - Portion of Row 1000 for Taxes Paid into Tax Increment Zone Under Chapter 311, Tax Code						

10 Beginning Balance 9/1/21	20 Current Year's Total Levy	31 Maintenance Collections	32 Debt Service Collections	40 Entire Year's Adjustments	50 Ending Balance 8/31/22
\$ 230,218	\$ --	\$ 9,969	\$ 2,364	\$ (13,950)	\$ 203,935
26,200	--	2,434	922	(128)	22,716
57,781	--	3,651	1,420	(130)	52,580
64,799	--	5,049	1,963	(101)	57,686
68,651	--	10,507	4,086	(398)	53,660
88,872	--	17,091	4,008	(347)	67,426
106,691	--	22,786	5,344	(445)	78,116
165,416	--	26,357	6,770	(22,390)	109,899
306,777	--	62,441	17,051	(69,052)	158,233
--	40,551,893	26,782,730	12,440,443	(970,811)	357,909
<u>\$ 1,115,405</u>	<u>\$ 40,551,893</u>	<u>\$ 26,943,015</u>	<u>\$ 12,484,371</u>	<u>\$ (1,077,752)</u>	<u>\$ 1,162,160</u>
\$ --	\$ --	\$ --	\$ --	\$ --	\$ --

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

USE OF FUNDS REPORT - SELECT STATE ALLOTMENT PROGRAM
AS OF AUGUST 31, 2022

<u>Data Control Codes</u>		<u>Responses</u>
<u>Section A: Compensatory Education Programs</u>		
AP1	Did your LEA expend any state compensatory education program state allotment funds during the district's fiscal year?	Yes
AP2	Does the LEA have written policies and procedures for its state compensatory education program?	Yes
AP3	List the total state allotment funds received for state compensatory education programs during the district's fiscal year.	\$ 3,036,110
AP4	List the actual direct program expenditures for state compensatory education programs during the LEA's fiscal year. (PICs 24, 26, 28 29, 30, 34)	\$ 2,121,188
<u>Section B: Bilingual Education Programs</u>		
AP5	Did your LEA expend any bilingual education program state allotment funds during the LEA's fiscal year?	Yes
AP6	Does the LEA have written policies and procedures for its bilingual education program?	Yes
AP7	List the total state allotment funds received for bilingual education programs during the LEA's fiscal year.	\$ 214,274
AP8	List the actual direct program expenditures for bilingual education programs during the LEA's fiscal year. (PICs 25, 35)	\$ 142,330

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT**EXHIBIT J-3**

NATIONAL SCHOOL BREAKFAST AND LUNCH PROGRAM
 BUDGETARY COMPARISON SCHEDULE
 FOR THE YEAR ENDED AUGUST 31, 2022

Data Control Codes		1	2	3
		Budget	Actual	Variance Positive (Negative)
REVENUES:				
5700	Local and Intermediate Sources	\$ 270,900	\$ 308,558	\$ 37,658
5800	State Program Revenues	55,700	76,557	20,857
5900	Federal Program Revenues	2,709,765	3,216,690	506,925
5020	Total Revenues	<u>3,036,365</u>	<u>3,601,805</u>	<u>565,440</u>
EXPENDITURES:				
Current:				
Support Services - Student (Pupil):				
0035	Food Services	2,982,463	2,873,783	108,680
	Total Support Services - Student (Pupil)	<u>2,982,463</u>	<u>2,873,783</u>	<u>108,680</u>
6030	Total Expenditures	<u>2,982,463</u>	<u>2,873,783</u>	<u>108,680</u>
1100	Excess (Deficiency) of Revenues Over (Under)			
1100	Expenditures	53,902	728,022	674,120
1200	Net Change in Fund Balance	53,902	728,022	674,120
0100	Fund Balance - Beginning	125,771	125,771	--
3000	Fund Balance - Ending	<u>\$ 179,673</u>	<u>\$ 853,793</u>	<u>\$ 674,120</u>

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

EXHIBIT J-4

DEBT SERVICE FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED AUGUST 31, 2022

Data Control Codes		1	2	3
		Budget	Actual	Variance Positive (Negative)
REVENUES:				
5700	Local and Intermediate Sources	\$ 12,556,555	\$ 12,565,664	\$ 9,109
5800	State Program Revenues	173,979	173,979	--
5020	Total Revenues	12,730,534	12,739,643	9,109
EXPENDITURES:				
Debt Service:				
0071	Principal on Long-Term Debt	6,210,000	6,210,000	--
0072	Interest on Long-Term Debt	6,460,482	6,362,855	97,627
0073	Bond Issuance Costs and Fees	5,775	525,582	(519,807)
	Total Debt Service	12,676,257	13,098,437	(422,180)
6030	Total Expenditures	12,676,257	13,098,437	(422,180)
1100	Excess (Deficiency) of Revenues Over (Under)			
1100	Expenditures	54,277	(358,794)	(413,071)
1200	Net Change in Fund Balance	54,277	(358,794)	(413,071)
0100	Fund Balance - Beginning	2,972,696	2,972,696	--
3000	Fund Balance - Ending	\$ 3,026,973	\$ 2,613,902	\$ (413,071)

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Independent Auditors' Report on Internal Control over Financial Reporting and
On Compliance and Other Matters Based on an Audit of Financial Statements
Performed In Accordance With Government Auditing Standards

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

Members of the Board of Trustees:

We have audited, 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, 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, 2022, and the related notes to the financial statements, which collectively comprise Port Neches-Groves Independent School District' basic financial statements, and have issued our report thereon dated January 9, 2023.

Report on Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Port Neches-Groves Independent School District' financial statements are free from 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 financial statements. 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink, appearing to read "West, Davis & Company, LLP".

West, Davis & Company, LLP
Austin, Texas
January 9, 2023

WEST, DAVIS & COMPANY, LLP
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Independent Auditors' Report on Compliance for Each Major Federal Program and
Report on Internal Control Over Compliance Required by the Uniform Guidance

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

Members of the Board of Trustees:

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Port Neches-Groves Independent School District' compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on Port Neches-Groves Independent School District' major federal program for the year ended August 31, 2022. Port Neches-Groves Independent School District' major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Port Neches-Groves Independent School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended August 31, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Port Neches-Groves Independent School District and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Port Neches-Groves Independent School District' compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to Port Neches-Groves Independent School District' federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Port Neches-Groves Independent School District' compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Port Neches-Groves Independent School District' compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Port Neches-Groves Independent School District's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- obtain an understanding of Port Neches-Groves Independent School District' internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Port Neches-Groves Independent School District's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink, appearing to read "West, Davis & Company".

West, Davis & Company, LLP
Austin, Texas
January 9, 2023

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2022

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

One or more material weaknesses identified? Yes X No

One or more significant deficiencies 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:

One or more material weaknesses identified? Yes X No

One or more significant deficiencies identified that are not considered to be material weaknesses? Yes X None Reported

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

Version of compliance supplement used in audit: April 2022

Any audit findings disclosed that are required to be reported in accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200, para. 200.516(a)?? Yes X No

Identification of major programs:

<u>Assistance Listing Number(s)</u>	<u>Name of Federal Program or Cluster</u>
Child Nutrition Cluster:	
10.553	School Breakfast Program
10.555	School Lunch Program

Dollar threshold used to distinguish between type A and type B programs: \$750,000

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, 2022

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
<u>Finding 2021-1</u>		
Compliance with the Public Funds Investment Act	Implemented	N/A

Condition:

The District's investment reporting did not include the book and market value of each invested assets.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED AUGUST 31, 2022

None.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2022

EXHIBIT K-1

Page 1 of 2

(1)	(2)	(2A)	(3)	
Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal ALN Number	Pass- Through Entity Identifying Number	Passed Through to Subrecipients	Federal Expenditures
CHILD NUTRITION CLUSTER:				
<u>U. S. Department of Agriculture</u>				
Passed Through State Department of Education:				
School Breakfast Program	10.553	71402201	\$	\$ 487,241
Supply Chain Assistance Grants	10.555	123-908	--	76,020
National School Lunch Program	10.555	71302101	--	2,373,255
Total ALN Number 10.555			--	2,449,275
Total Passed Through State Department of Education			--	2,936,516
Total U. S. Department of Agriculture			--	2,936,516
Total Child Nutrition Cluster			--	2,936,516
FOOD DISTRIBUTION CLUSTER:				
<u>U. S. Department of Agriculture</u>				
Passed Through State Department of Education:				
Commodity Supplemental Food Program (Non-Cash)	10.565	123-908	--	280,174
Total U. S. Department of Agriculture			--	280,174
Total Food Distribution Cluster			--	280,174
Total U. S. Department of Agriculture				3,216,690
SPECIAL EDUCATION (IDEA) CLUSTER:				
<u>U. S. Department of Education</u>				
Passed Through State Department of Education:				
IDEA-Part B, Formula	84.027A	2166000112390	--	386
IDEA-Part B, Formula	84.027A	226000112390	--	871,891
IDEA-Part B, Formula	84.027A	23660012123908600	--	69,033
Total ALN Number 84.027A			--	941,310
IDEA-Part B, Preschool	84.173A	22661011239086610	--	29,806
IDEA-Part B, Preschool	84.173A	236610011239086000	--	2,536
Total ALN Number 84.173A			--	32,342
IDEA-Part B, Formula-Amer Rescue Plan (ARP) Act 2021	84.173X	225360011239085000	--	100,840
IDEA-Part B, Preschool-Amer Rescue Plan (ARP) Act 2021	84.173X	225360011239085000	--	4,455
Total ALN Number 84.173X			--	105,295
Total Passed Through State Department of Education			--	1,078,947
Total U. S. Department of Education			--	1,078,947
Total Special Education (IDEA) Cluster			--	1,078,947

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2022

EXHIBIT K-1

Page 2 of 2

(1)	(2)	(2A)	(3)
Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal ALN Number	Pass- Through Entity Identifying Number	Passed Through to Subrecipients Federal Expenditures
OTHER PROGRAMS:			
<u>U. S. Department of Education</u>			
Direct Programs:			
Title IV, Part A, Subpart 1	84.424A	22680101123908	-- 59,371
Title IV, Part A, Subpart 1	84.424A	2368010112390	-- 5,205
Total Direct Programs			\$ -- \$ 64,576
Passed Through State Department of Education:			
ESEA Title I Part A - Improving Basic Programs	84.010A	2261010112390	-- 587,485
ESEA Title I Part A - Improving Basic Programs	84.010A	23610101123908	-- 54,720
Total ALN Number 84.010A			-- 642,205
 Career and Technical Education - Basic Grant	 84.048A	 22420006123908	 -- 40,761
 Title III, Part A-English Language Acquisition & Lang Enhance	 84.365A	 22671001123908	 -- 34,727
 ESEA Title II, Part A-Teacher & Principal Training & Recruiting	 84.367A	 2269450112390	 -- 191,827
ESEA Title II, Part A-Teacher & Principal Training & Recruiting	84.367A	22694501123908	-- 11,071
Total ALN Number 84.367A			-- 202,898
 ESSER Fund II of the CRRSA Act	 84.425D	 215221001123908	 -- 1,200,693
 ESSER Fund III of the American Rescue Plan Act of 2021	 84.425U	 21528001123908	 -- 1,459,168
Total Passed Through State Department of Education			-- 3,645,028
Total U. S. Department of Education			-- 3,645,028
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ -- \$ 7,940,665

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, 2022

Basis of Presentation

The accompanying schedule of expenditures of federal awards ("the Schedule") includes the federal grant activity of Port Neches-Groves Independent School District. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Therefore, some amounts may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. These expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule, if any, represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

Federal grants are considered to be earned to the extent of expenditures made under the provisions of the grant.

School health and related services revenues are considered earned income at the local government level and thus are not included in the Schedule of Expenditures of Federal Awards. The following is a reconciliation of Federal Revenues on Exhibit C-2 to the Schedule of Expenditures of Federal Awards:

Total expenditures of federal awards per Exhibit K-1	\$	7,940,665
General fund - federal revenue		
School Health and Related Services (SHARS)		748,221
Total federal revenues per Exhibit C-2	\$	<u><u>8,688,886</u></u>

Port Neches-Groves Independent School District has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

PORT NECHES-GROVES INDEPENDENT SCHOOL DISTRICTSCHEDULE OF REQUIRED RESPONSES TO SELECTED SCHOOL FIRST INDICATORS
AS OF AUGUST 31, 2022

Data Control Codes		Responses
SF1	Was there an unmodified opinion in the Annual Financial Report on the financial statements as a whole?	Yes
SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning nonpayment of any terms of any debt agreement at fiscal year-end?	No
SF3	Did the school district make timely payments to the Teacher Retirement System (TRS), Texas Workforce Commission (TWC), Internal Revenue Service (IRS), and other government agencies? (If the school district was issued a warrant hold and the warrant hold was not cleared within 30 days from the date the warrant hold was issued, the school district is considered to not have made timely payments.) Payments to the TRS and TWC are considered timely if a warrant hold that was issued in connection to the untimely payment was cleared within 30 days from the date the warrant hold was issued. Payments to the IRS are considered timely if a penalty or delinquent payment notice was cleared within 30 days from the date the notice was issued.	Yes
SF4	Was the school district issued a warrant hold? Even if the issue surrounding the initial warrant hold was resolved and cleared within 30 days, the school district is considered to have been issued a warrant hold.	No
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls over financial reporting and compliance for local, state or federal funds?	No
SF6	Was there any disclosure in the Annual Financial Report of material noncompliance for grants, contracts and laws related to local, state, or federal funds?	No
SF7	Did the school district post the required financial information on its website in accordance with Government Code, Local Government code, Texas Education Code, Texas Administrative Code and other statutes, laws and rules that were in effect at the school district's fiscal year-end?	Yes
SF8	Did the school board members discuss the school district's property values at a board meeting within 120 days before the school district adopted its budget?	Yes
SF9	Total accumulated accretion on CABs included in government-wide financial statements at fiscal year-end	\$ --