

PENDLETON COUNTY BOARD OF EDUCATION  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2007

**Note 1 - Summary of Significant Accounting Policies:**

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

**A. Reporting Entity:**

The Pendleton County Board of Education (School Board) is a corporation created under the authority of West Virginia Code §18-5-1 et seq. and is composed of five members nominated and elected by the voters of the county for four-year terms. The Board is responsible for the supervision and control of the county school district and has the authority, subject to State statutes and the rules and regulations of the State Board, to control and manage all of the public schools and school interests in the county.

GASB Statement 14 establishes the criteria for determining the governmental reporting entity and the component units that should be included within the reporting entity. Under provisions of this statement, the School Board is considered to be a primary government, since it is a separate legal entity, has its own elected governing body, and is fiscally independent of other local governments. The School Board has no component units, defined by GASB Statement 14 as other legally separate organizations for which the elected board members are financially accountable.

**B. District-wide and fund financial statements:**

The *district-wide financial statements* (the statement of net assets and the statement of activities) display information about the School Board as a whole. These statements include the financial activities of the overall government, except for fiduciary fund activities. Fiduciary funds are reported only in the Statement of Fiduciary Net Assets at the fund financial statement level.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the school district's governmental activities. Direct expenses are those that are specifically associated with a function and, therefore, are clearly identifiable to a particular function.

Depreciation expenses for capital assets that can be specifically identified with a function are included in its direct expenses. Depreciation expense for "shared" capital assets (such as a school building that may be used for instructional services, student and instructional staff support services, school administration, and child nutrition services) is distributed proportionally among the various functions. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Interest on general long-term debt liabilities is considered an indirect expense and is reported in the Statement of Activities as a separate line.

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Program revenues include: grants and contributions that are restricted to meeting the operational or capital requirements of a particular function, restricted state aid, tuition, and other fees and charges paid by students. Revenues that are not considered as program revenues are classified as general revenue and include property taxes, unrestricted state aid, unrestricted investment earnings, gain on sale of capital assets, and federal and state grants not restricted to a specific purpose.

The *fund financial statements* provide information about the individual funds maintained by the School Board. All funds maintained by the school district are considered to be major funds for reporting purposes and are discretely presented in the accompanying financial statements.

The funds maintained by the Board are:

General Current Expense Fund: The General Current Expense Fund is the operating fund of the Board and accounts for all revenues and expenditures not encompassed within other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to other funds are accounted for in this fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from the General Current Expense Fund.

Special Revenue Fund: The Special Revenue Fund is an operating fund of the Board and accounts for all revenues and expenditures attributable to state and federal grants and other revenue sources that are legally restricted to expenditure for specific purposes.

Capital Projects Funds: Capital Projects Funds are used to account for all resources used for the acquisition of capital facilities by the Board. These funds can include: a bond construction fund, used to account for the proceeds from the issuance of general obligation bonds; a permanent improvement fund established under the authority of West Virginia Code §18-9B-14 to account for the proceeds of resources used for the support of various building and permanent improvement projects, and; one or more capital projects funds used to account for the resources used in the construction of a specific capital facility.

Agency Funds: Agency funds are used to account for assets that the Board holds for others in an agency capacity. These include: Regional education service agencies (RESA's) and multi-county vocational centers (MCVC's) for the purpose of providing high quality, cost effective educational programs and to provide vocational training, respectively, in which the county board of education serves as the fiscal agent; school activity funds to account for the assets of the individual schools of the district, the student clubs, and school support organizations; and may include a scholarship fund to account for contributions and donations made to the school district by a benefactor for the purpose of providing scholarships for graduates of the school district.

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FOR THE YEAR ENDED JUNE 30, 2007

**C. Measurement Focus and Basis of Accounting**

The *district-wide statements* (Statement of Net Assets and the Statement of Activities) were prepared using the economic resources measurement focus and the full 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 are received. Revenues and expenses resulting from exchange and exchange-like transactions are recognized when the exchange takes place; revenues and expenses resulting from non-exchange transactions, such as property taxes, federal and state grants, state aid to schools, and donations, are recognized in accordance with the requirements of GASB Statement 33. Property taxes are recognized in the fiscal year for which the taxes are levied; state aid to schools is recognized in the year for which the legislative appropriation is made; and grants and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

The *governmental fund financial statements* were prepared using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The Board considers all revenues available if they are collected within sixty (60) days after year-end. Expenditures are recorded generally when the related fund liability is incurred, except for unmatured 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 resources.

*Fiduciary funds* are custodial in nature (assets equal liabilities) and do not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. These funds are used to account for assets that the School Board holds for others in an agency capacity.

**D. Encumbrances:**

Encumbrance accounting is employed in governmental funds. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of the formal budgetary process. Encumbrances outstanding at year-end are reported as reservations of fund balances since they do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

**PENDLETON COUNTY BOARD OF EDUCATION  
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)  
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**E. Cash and Investments:**

Cash on hand and deposits with banking institutions either in checking or savings accounts are presented as cash in the accompanying financial statements. Such deposits at June 30, 2007 were entirely covered by federal depository insurance or secured by adequate bond or other securities held by the banking institution in the Board's name.

Boards of education are authorized by statute to provide excess funds to either the State Consolidated Investment Pool or the Municipal Bond Commission for investment purposes, or to invest such funds in the following classes of securities: Obligations of the United States or any agency thereof, certificates of deposit and repurchase agreements. These investments are considered cash and cash equivalents due to their liquid nature.

The Board had no fixed term investments at June 30, 2007.

Money market/sweep accounts with financial institutions were entirely covered by federal deposit insurance or secured by adequate bond or other securities held by the banking institution in the Board's name. Custodial credit risk is the risk that in event of a bank failure, the Board's deposits may not be returned to it. The Board has limited its custodial credit risk by assuring that these deposits with financial institutions are adequately collateralized.

**F. Food Service receivables:**

The Board had no material food service collectible accounts receivable for the year ended June 30, 2007.

**G. Interfund receivables and payables:**

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans).

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

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 NOTES TO THE FINANCIAL STATEMENTS (CONT'D)  
 FOR THE YEAR ENDED JUNE 30, 2007

**H. Inventories:**

Inventories are valued at cost or, if donated, at fair value when received. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

**I. Prepaid Items:**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**J. Capital Assets:**

Capital assets, which include land, buildings and improvements, furniture and equipment, and vehicles are reported in the district-wide financial statements. The board defines capital assets as assets with an initial, individual cost of \$5,000 or more for land, furniture, vehicles, and equipment and \$100,000 for buildings and an estimated useful life in excess of two years. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at estimated fair value at the date of 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.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase is not capitalized.

Buildings and improvements, furniture and equipment, and vehicles of the Board are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	50
Site Improvements	20 – 35
Furniture and equipment	5 – 20
Vehicles	8 – 12

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**K. Compensated Absences and Special Termination Benefits:**

**Compensated Absences:**

It is the Board's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Vacation benefits can be accumulated up to forty (40) days for employees hired before July 1, 1992, and up to twenty (20) days for employees hired on or after July 1, 1992, and carried forward to the subsequent fiscal year. Sick leave benefits can be accumulated unlimited days and carried forward to the subsequent fiscal year. All vacation pay is accrued when incurred. In lieu of a cash payment at retirement, an employee can elect to use accumulated annual leave toward his/her postemployment health care insurance premium. Employees also earn sick leave benefits which accumulate but do not vest.

**Special Termination Benefits:**

When separated from employment, employees' sick leave benefits are considered ended and no reimbursement is provided. However, upon retirement, an employee's accumulated annual sick leave may be converted to a greater retirement benefit or payment of the retired employee's health insurance premiums. The cost of the increased retirement option is the liability of the West Virginia Consolidated Public Retirement Board.

The payment of health insurance premiums must be absorbed by the last agency employing the retiree. Historically, the West Virginia State Legislature appropriates funds that are used by the Board to pay for its obligations for this special termination benefit. Because such appropriations are at the discretion of the Legislature and not guaranteed, the liability for sick leave convertible to health insurance premiums using the vesting method is recorded in the Board's financial statements. The liability is being reported utilizing the guidance of GASB Statement 16; however, this liability should be recorded utilizing the guidance of GASB Statements 43 and 45 when these statements become effective in fiscal year 2008.

**L. Long-term Obligations:**

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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NOTES TO THE FINANCIAL STATEMENTS (CONTD)  
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In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures. Capital lease payments are reported in the general current expense or special revenue fund.

**M. Restricted Net Assets:**

For the district-wide statement of net assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

**N. Fund Equity:**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent that portion of fund equity committed by official Board action prior to June 30 of each year for specific purposes. Said specific purposes and amounts are recorded in the official Board minutes of the fiscal year ended June 30, 2007.

**O. Elimination and Reclassifications:**

In the process of aggregating data for the statement of net assets and the statement of activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the "grossing up" effect on assets and liabilities within the governmental activities column.

**P. Accounting Estimates:**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statement and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

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NOTES TO THE FINANCIAL STATEMENTS (CONTD)  
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**Q. Restricted Resources:**

Restricted resources should be applied first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**R. Recent Accounting Statements:**

In June 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Post Employment Benefits other than Pensions*. This statement establishes accounting and reporting for other post employment benefits (OPEB) expense/expenditures and related OPEB assets or liabilities, note disclosures, and required supplementary information in the financial statements of state and local governments. The Board intends to adopt the provisions of this statement for the year ended June 30, 2008.

**Note 2 - Stewardship, Compliance and Accountability:**

**A. Budgets and Budgetary Accounting:**

All boards of education within West Virginia are required by statute to prepare annual budgets and levy rate estimates on prescribed forms and submit these for approval. Budgets are presented on the modified accrual basis of accounting for all governmental funds. Budgets are not adopted for agency funds. The following procedures are followed in preparing the annual budget:

1. Pursuant to State statute, the Board is required to hold a meeting or meetings between the seventh and twenty-eighth days of March to ascertain its financial condition and to determine the amount that is to be raised from the levy of taxes for the fiscal year commencing July 1. The Board adjourns the meeting and submits its Schedule of Proposed Levy Rates to the State Auditor's Office for approval. The Board then reconvenes its meeting on the third Tuesday of April to formally lay the approved levy.
2. The Board is also required to submit its proposed budget for the subsequent year to the State Board of Education for approval by the date established in the budget calendar. The Board is also required to hold a public hearing on the proposed budget before it is submitted for approval. The proposed budget must be made available for public inspection for at least 10 days before the public hearing is held.

Revisions to the budget are authorized only with the prior written approval of the State Board of Education.

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**NOTES TO THE FINANCIAL STATEMENTS (CONT'D)**  
**FOR THE YEAR ENDED JUNE 30, 2007**

**B. Excess of Expenditures Over Appropriations:**

For the year ended June 30, 2007, expenditures exceeded appropriations in the funds listed at the function level, which, according to State Board Policy, is the level at which budgetary controls must be maintained.

**GENERAL CURRENT EXPENSE FUND:**

<u>Function</u>	<u>Amount</u>
Instructional	\$ 200,853
Student Transportation	\$ 1,151

The over expenditures in these programs were partially funded by a reduction of expenditures in the remaining instructional programs, available beginning fund balance, revenues received in excess of the anticipated amounts. However, the general current expense fund did have a negative fund balance of \$116,204 and a negative undesignated fund balance of \$183,902 for the year ended June 30, 2007.

**CAPITAL PROJECTS FUND:**

<u>Function</u>	<u>Amount</u>
Facilities	\$ 270,739

The over expenditures in these programs were funded by revenues received in excess of the anticipated amounts budgeted.

**C. Deficiencies in Net Changes in Fund Balances and Deficit Fund Balances:**

The following funds had deficiencies in net changes in fund balances for the year ended June 30, 2007:

<u>Fund</u>	<u>Amount</u>
General Current Expense Fund	\$ <u>122,494</u>

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The reduction in net fund balance resulted in the fund having a deficit fund balance for June 30, 2007. (see below)

The following funds have a deficit fund balance at June 30, 2007.

<u>Fund</u>	<u>Amount</u>
General Current Expense Fund	\$ <u>116,204</u>

**Note 3 - Change in Accounting Policy:**

The Board changed its method of accounting for the following items in order to comply with accounting principles generally accepted in the United States of America:

*GASB 34:* For the year ended June 30, 2007, the Board adopted Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 37, *Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments: Omnibus*, GASB Statement No. 38, *Certain Financial Statement Note Disclosure*, and GASB Statement No. 33, *Accounting and Financial Reporting for Certain Shared Nonexchange Revenues*. These statements establish standards for external financial reporting for state and local governments. GASB Statement No. 34 reports equity as "net assets" rather than "fund balance". Net assets are classified into four categories according to the availability of assets for satisfaction of Board obligations. The Board's net assets are classified as follows:

- ❑ **Invested in capital assets, net of related debt** – This represents the Board's total investment in capital assets, net of accumulated depreciation and reduce by the balances of any outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested capital assets, net of related debt.
- ❑ **Restricted net assets, expendable** – This includes resources in which the Board is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties including amounts deposited with trustees as required by revenue bond indentures.
- ❑ **Restricted net assets, nonexpendable** – This includes endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to the principal. The Board does not have any restricted nonexpendable assets at June 30, 2007.

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- **Unrestricted net assets** – This represents resources derived from other than capital assets or restricted net assets. These resources are used for transactions relating to the general operation of the Board, and may be used at the discretion of the Board to meet current expenses for any lawful purpose.

As a result of the adoption of GASB Statement No. 34, and related statements and the conversion of the financial statements from the statutory basis of accounting prescribed or permitted by the West Virginia Department of Education to accounting principles generally accepted in the United States of America, beginning net assets, as reconciled from beginning fund balance, was restated. Such effects of the restatement are as follows:

Total fund balances – July 1, 2006, as previously reported	\$ 197,893
Restatement of beginning fund balance for conversion to generally accepted accounting principles	( <u>127,794</u> )
Total fund balances – July 1, 2006, as restated	70,099
Net changes in fund balances for the fiscal year ended June 30, 2007	( 20,385)
Adjustments to reconcile fund balances to net assets – July 1, 2006:	
Capital assets, net of accumulated depreciation of \$5,236,313	12,888,834
Property taxes receivable	31,479
E-Rate receivable	32,739
Compensated absences	( 58,684)
Accrued sick leave payable	( <u>2,251,889</u> )
Total net assets, July 1, 2007	\$ <u>10,692,193</u>

For the year ended June 30, 2007, the Board also implemented GASB Statement No. 40 Deposit and Investment Risk Disclosures, which updated the credit risk and disclosure requirements of GASB Statement No. 3, and established more comprehensive disclosure requirements, addressing interest rate risk and concentration of credit risk of the deposits and investments of state and local governments. The implementation of this statement resulted in additional disclosures relating to cash and investments.

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**Note 4 - Risk Management:**

The Board is exposed to various risks or loss related to torts, theft, or damage to and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The Board, pursuant to the provisions of State law, participates in the following risk management programs administered by the State.

**Board of Risk and Insurance Management (BRIM):** The Board participates in the West Virginia Board of Risk and Insurance Management, a common risk insurance pool for all State agencies, component units, boards of education and other local governmental agencies who wish to participate. The Board pays an annual premium to BRIM for its general insurance coverage. Fund underwriting and rate setting policies are established by BRIM. The cost of all coverage as determined by BRIM is paid by the participants. The BRIM risk pool retains the risk of the first \$2 million per property event and purchases excess insurance on losses above that level. BRIM has \$1 million per occurrence coverage maximum on all third-party liability claims.

**Public Employees Insurance Agency (PEIA):** The Board provides employees health and basic life insurance benefits through the Public Employees Insurance Agency. PEIA was established by the State of West Virginia to provide a program of health and life insurance for employees of State agencies, institutions of higher learning, boards of education, and component units of the State. In addition, local governmental agencies and certain charitable and public service organizations may request to be covered. PEIA provides a general employee benefit insurance program which includes hospital, surgical, major medical, prescription drug and basic life and accidental death. Fund underwriting and rate setting policies are established by the PEIA Finance Board. The cost of all coverage as determined by the Finance Board is paid by the participants.

Coverage under these programs is limited to \$1 million lifetime for health and \$10,000 of life insurance coverage. Members may purchase up to an additional \$500,000 of life insurance coverage. Premiums are established by PEIA and are paid monthly. The PEIA risk pool retains the risk for the health and prescription features of its indemnity plan, has fully transferred the risks of coverage of the Managed Care Organization (MCO) Plan to the plan provider and has transferred risk of life insurance coverage to a third party insurer.

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**Workers Compensation Fund (WCF):** West Virginia has a single private insurance company, BrickStreet Insurance, which provides workers' compensation coverage to all employers in the state. Other private insurance companies can begin to offer coverage to private-sector employers beginning July 1, 2008 and to government employers July 1, 2012. Nearly every employer in the State, including all boards of education, that has a payroll must have coverage. The cost of all coverage, as determined by BrickStreet, is paid by the employers.

The WCF risk pool retains the risk related to the compensation of injured employees under the program.

**Note 5 - Property Taxes:**

All property in the State is classified as follows for ad valorem tax purposes:

- Class I -** All tangible personal property employed exclusively in agriculture, including horticulture and grazing; all products of agriculture, including livestock, while owned by the producer.
- Class II -** All property owned, used and occupied by the owner exclusively for residential purposes; all farms, including land used for horticulture and grazing, occupied and cultivated by their owners or bona fide tenants.
- Class III -** All real and personal property situated outside of municipalities, exclusive of Class I and II property.
- Class IV -** All real and personal property situated inside of municipalities, exclusive of Class I and II property.

According to West Virginia Code §11-8-6c, the maximum rates that county boards of education may impose on the various classes of property are: Class I - 22.95¢ per \$100 of assessed valuation; Class II - 45.90¢ per \$100 of assessed valuation; Class III - 91.80¢ per \$100 of assessed valuation; and Class IV - 91.80¢ per \$100 of assessed valuation.

Pursuant to West Virginia Code §11-8-6f, however, the rates of levy for county boards are to be reduced uniformly statewide and proportionately for all classes of property so that the total statewide property tax revenues to be realized from the regular levy tax collections for the forthcoming year will not increase by more than one percent of the current year's projected property tax revenues, exclusive of increases due to new construction, improvements to existing real property, or newly acquired personal property, unless the State Legislature holds a public hearing. The amounts to be paid to the Assessors Valuation Fund are also to be excluded from the calculation.

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County boards of education are also authorized to impose an additional (excess) levy not to extend beyond five years if approved by at least a majority of the voters. The rates of levy cannot exceed the maximum rates specified above and must be proportional for all classes of property.

The assessed valuations and levy rates levied by the Board per \$100 of assessed valuation for each class of property for the fiscal year ended June 30, 2007 were:

<u>Class of Property</u>	<u>Assessed Valuations For Tax Purposes</u>	<u>Current Expense</u>
Class I	\$ 715,154	20.05¢
Class II	628,222,280	40.10¢
Class III	141,401,047	80.20¢
Class IV	546,957,740	80.20¢

The taxes on real property and the interest and other charges upon such taxes attach as an enforceable lien on the first day of July each year. There is no lien denominated as such on personal property. However, statutes provide that the sheriff of a county may distrain for delinquent taxes any goods and chattels belonging to a person assessed. All current taxes assessed on real and personal property may be paid in two installments. The first installment is payable on September first of the year for which the assessment is made, and becomes delinquent on October first, and the second installment is payable on the first day of the following March and becomes delinquent on April first.

Taxes paid on or before the date when they are payable, including both first and second installments, are subject to a discount of two and one-half percent. If taxes are not paid on or before the date on which they become delinquent, including both first and second installments, interest at the rate of nine percent per annum is added from the date they become delinquent until paid.

**Note 6 - Excess Levy:**

The Board did not have an excess levy in effect during the fiscal year ended June 30, 2007.

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**Note 7 - Capital Assets:**

Capital asset balances and activity for the year ended June 30, 2007, is as follows:

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Capital assets, non-depreciable:				
Land	\$ 474,820	\$ -0-	\$ -0-	\$ 474,820
Construction in process	<u>-0-</u>	<u>300,904</u>	<u>-0-</u>	<u>300,904</u>
Total non-depreciable capital assets	<u>474,820</u>	<u>300,904</u>	<u>-0-</u>	<u>775,724</u>
Capital assets, depreciable:				
Buildings and improvements	15,001,143	-0-	-0-	15,001,143
Furniture and equipment	753,462	-0-	( 55,251)	698,211
Vehicles	<u>1,633,451</u>	<u>121,200</u>	<u>( 72,000)</u>	<u>1,682,651</u>
Total depreciable capital assets	<u>17,388,056</u>	<u>121,200</u>	<u>(127,251)</u>	<u>17,382,005</u>
Less accumulated depreciation for:				
Land improvements	18,788	2,505	-0-	21,293
Buildings and improvements	3,408,212	299,543	-0-	3,707,755
Furniture and equipment	582,398	32,582	55,251	559,729
Vehicles	<u>937,345</u>	<u>114,773</u>	<u>72,000</u>	<u>980,118</u>
Total accumulated depreciation	<u>4,946,743</u>	<u>449,403</u>	<u>127,251</u>	<u>5,268,895</u>
Total depreciable capital assets, net	<u>12,441,313</u>	<u>(328,203)</u>	<u>-0-</u>	<u>12,113,110</u>
Total capital assets, net	\$ <u>12,916,133</u>	\$ <u>( 27,299)</u>	\$ <u>-0-</u>	\$ <u>12,888,834</u>

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Depreciation expense was charged to functions/programs of the governmental activities as follows:

Instruction	\$ 267,704
Supporting Services:	
Central administration	23,432
Operation and maintenance of facilities	10,031
Transportation	114,773
Food services	<u>33,463</u>
 Total depreciation expense – governmental activities	 \$ <u>449,403</u>

**Note 8 - Long-term debt:**

Long-term liability activity for the year ended June 30, 2007 is as follows:

<u>Bonds payable</u>	<u>Balance</u> <u>Beginning of</u> <u>Year</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>End of Year</u>	<u>Amounts</u> <u>due within</u> <u>one year</u>	<u>Amounts due</u> <u>past one year</u>
Compensated absences	\$ 50,502	\$ 8,182	\$ -0-	\$ 58,684	\$ 58,684	\$ -0-
Accrued sick leave	<u>2,205,190</u>	<u>46,699</u>	<u>-0-</u>	<u>2,251,889</u>	<u>123,629</u>	<u>2,128,260</u>
Long-term liabilities	\$ <u>2,255,692</u>	\$ <u>54,881</u>	\$ <u>-0-</u>	\$ <u>2,310,573</u>	\$ <u>182,313</u>	\$ <u>2,128,260</u>

**Note 9 - Employee Retirement System:**

All full-time board of education employees are required to participate in one of two statewide, cost-sharing, multiple-employer retirement benefit plans, the Teachers' Defined Benefit Retirement System or the Teachers' Defined Contribution Retirement System. For the year ended June 30, 2007, the Board's total payroll for all employees was \$6,267,290 and the payroll was \$6,030,050 for employees covered by the two retirement programs.

Of the total amount appropriated by the State for retirement, the portion equal to the employers' average required contribution rate for both the defined benefit and the defined contribution plans is considered to be the employers' contribution for the current cash flow requirements for personnel funded under the Public School Support Program and is reflected as state revenue (Contributions For/On Behalf of the LEA) in the Board's financial statements. The balance is considered to be the State's contribution toward the past service unfunded liability and is not included either as revenue or an expenditure in the Board's financial statements.

**PENDLETON COUNTY BOARD OF EDUCATION  
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)  
FOR THE YEAR ENDED JUNE 30, 2007**

**Trend Information:** Ten-year historical trend information relating to the accumulation of assets and the unfunded liability of both plans is available from the Consolidated Public Retirement Board.

**Conversion of leave for post-retirement:** Upon retirement, an employee's vacation and sick leave may be converted to a greater retirement benefit or payment of health insurance premiums. The cost of the increased retirement benefit or payment of health insurance premiums must be absorbed by the last agency employing the retiree.

**Teachers' Defined Benefit Retirement System:**

**Plan Description:** The Teachers' Defined Benefit Retirement System is a cost-sharing, multiple-employer public employee defined benefit retirement system which was established on July 1, 1941 and was closed for new members on July 1, 1991. Beginning July 1, 2005, all new employees become members of this plan. To qualify for full benefits, a member must be age 60 with at least five years of credited service, or be age 55 with at least 30 years of credited service or any age with at least 35 years of credited service. A member may receive a disability benefit after completing ten years of service, if the member is disabled for six months, unable to perform his or her regular occupation, and the Retirement Board expects the disability to be permanent.

Upon retirement members select one of five benefit payment options. If a member terminates employment with at least five years of credited service, he may freeze his membership until he qualifies for retirement or he may withdraw his contributions from the plan. The employers' contributions remain with the plan. Retirement benefits are based on two percent of the average member's five highest fiscal years of total earnings from covered employment during the member's last 15 years of service.

The normal form of benefit is a single life annuity paid monthly, in an amount equal to 2% of the final average salary times years of credited service. Other forms of benefits may be elected subject to actuarial reduction: Cash Refund Annuity, 50% or 100% Contingent Joint and Survivor Annuities, and ten year Certain and Life Annuities. Pre-retirement death benefits are paid to the spouse of a deceased member who had attained the age 50 and completed 25 years of credited service. The annuity payment is computed as if the member had retired on the date of death with a 100% Joint and Survivor pension. If the member's age and service are less than that required, the sum of the accumulated member's and employer contributions with interest is paid to the member's beneficiary or estate.

**PENDLETON COUNTY BOARD OF EDUCATION  
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)  
FOR THE YEAR ENDED JUNE 30, 2007**

**Funding Status:** According to the 2006 Actuarial Valuation Report of the Teachers' Retirement System, the plan's actuarial unfunded liability was \$ 4.7 billion as of July 1, 2006.

**Contribution Requirements and Payments Made:** This is a fully qualified plan by the Internal Revenue Service. Therefore, all employee contributions are tax deferred. Participants contribute 6% of their gross compensation and the board of education contributes 15% of covered members' gross compensation to the retirement plan, for a total of 21% annually for those who became members prior to July 1, 1991. Participants who became members after July 1, 2005 contribute 6% of their gross compensation and the board of education contributes 7.5% of covered members' gross compensation to the retirement plan, for a total of 13.5% annually.

The employer's contributions are derived from state appropriations and county funds. Federally funded grant programs provide the funding for the employer contributions for salaries paid from federal grants.

The required contributions for the year ended June 30, 2007 and the two previous years were:

<u>Year ended June 30</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Required contributions	\$ 334,533,000	\$ 339,815,000	\$ 327,068,000
As a % of current year covered payroll	23.66 %	23.83 %	23.50 %

Total payments reflected in the Board's financial statements to the defined benefit plan for FY 2007 were:

Employees' contributions (6%)	\$ 233,535
Employer's contributions (15% or 7.5%)	<u>566,317</u>
Total contributions	\$ <u>799,852</u>

**Teachers' Defined Contribution Retirement System:**

**Plan Description:** All Board employees hired after July 1, 1991 but before July 1, 2005, participated in the Teachers' Defined Contribution Retirement System. Employees in the Teachers' Defined Benefit System could freeze their benefits in the old plan and become a member of this plan. Members with less than five years of service in the old defined benefit plan could change to this plan and transfer the funds that were deposited in the old plan to this plan. Once a member transferred to the defined contribution plan, the member was not allowed to rejoin the defined benefit plan.

PENDLETON COUNTY BOARD OF EDUCATION  
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)  
FOR THE YEAR ENDED JUNE 30, 2007

Effective July 1, 2005, the Teachers' Defined Contribution Plan was closed to new membership. All employees hired after that date became members of the Teachers' Defined Benefit Retirement System which was reopened for participation on July 1, 2005. A merger whereby the Defined Contribution Plan would cease to exist and all assets and members be transferred into the Defined Benefit Plan was slated to occur on July 1, 2006. However, that merger was ruled unconstitutional and is now being appealed by the CPRB.

A unique feature of the Teachers' Defined Contribution Plan is that each member chooses the investment options and may make changes at the beginning of each calendar quarter. Seven investment options are provided from which a participant may choose in multiples of five percent. The investment options are: Vanguard Money Market Fund, Bond Fund of America, Franklin Income Fund, Fidelity Growth Opportunities, Washington Mutual Investors, Federated Max-Cap, and Valic Individually Allocated Fixed Annuity.

Employees are eligible to participate from the date of employment. Employee contributions are fully vested, and employer contributions and earnings vest with the member as follows: one-third after 6 years, two-thirds after 9 years, and 100% after 12 years. The member is fully vested at death or disability. As of June 30, 2006, this plan had approximately \$748.3 million in net assets for pension benefits. Retirement or disability benefits are based solely on the accumulation of dollars in the member's individual account at the time of retirement. The accounting administration of the Plan is the responsibility of Milliman & Robertson, an independent third party administrator.

**Funding Status:** There is no unfunded liability for a defined contribution plan since a member's total maximum lifetime benefit is limited to that which has accumulated in the member's account from employee and employer contributions and all investment earnings thereon. Any forfeited, unvested employer contributions are, by statute, to be transferred to the Teachers' Defined Benefit Retirement System.

**Contribution Requirements and Payments Made:** This is a fully-qualified plan by the Internal Revenue Service. Therefore, all employee contributions are tax deferred. Participants contribute 4.5% of their gross salary and the board of education contributes 7.5% of covered members' gross compensation to the retirement plan, for a total of 12% annually.

**PENDLETON COUNTY BOARD OF EDUCATION  
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)  
FOR THE YEAR ENDED JUNE 30, 2007**

Total payments reflected in the Board's financial statements to the defined benefit plan for FY 2007 were:

Employees' contributions (4.5%)	\$	96,269
Employer's contributions (7.5%)		<u>160,337</u>
 Total contributions	 \$	 <u>256,606</u>

**Note 10 - Pending Litigation:**

The Board is involved in a number of legal proceedings and claims, involving students, employees and citizens who have sued the Board for damages. While it is not possible to determine the ultimate outcome of any lawsuit with certainty, management believes that the ultimate outcome will not have a material adverse effect on the financial position of the Board. The Board's insurance through the State Board of Risk and Insurance Management appears adequate to fully cover any potential liability.

**Note 11 - Restatement of Beginning Fund Balance:**

The fund balance at the beginning of the year of the following fund(s) required restatement:

	<u>General Current Expense Fund</u>	<u>Special Revenue Fund</u>
Fund balance at June 30, 2006, as previously stated	\$ 15,538	\$ 182,355
Total adjustments (see below)	( 9,248)	(118,546)
Fund balance at June 30, 2006 – restated	\$ <u>6,290</u>	\$ <u>63,809</u>

The adjustments consisted of the following:

**General Current Expense Fund:**

Conversion to generally accepted accounting principles: timing difference in the recognition of accounts payable of \$9,338. Adjustment of \$90 to balance the general current expense fund to the actual balance in WVEIS.

**Special Revenue Fund:**

Conversion to generally accepted accounting principles: reclassification of Reserve for Special Projects to Deferred Revenue of \$118,546.

PENDLETON COUNTY BOARD OF EDUCATION  
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)  
FOR THE YEAR ENDED JUNE 30, 2007

**Note 12 - Commitments, Contingencies and Subsequent Events:**

During the fiscal year ended June 30, 2007, the Board was awarded two separate grants of \$4,829,279 and \$618,748, respective, from the School Building Authority (SBA) to finance the construction of Brandywine Elementary School. Total SBA funding for the project was \$5,548,027, including a \$100,000 grant received in fiscal year 2006.

Subsequent to June 30, 2007, the following additional commitments for construction and other capital improvements have been entered into:

City Windows and Construction	\$ 4,817,425
R. Paul Clayton, Clerk of the Works	\$ 58,080

**Note 13 - Interfund Balances and Transfers**

**Interfund Transfers:**

During the year ended June 30, 2007, the General Current Expense fund transferred \$227,695 to the Special Revenue Fund for the Child Nutrition Department and bus replacement. In addition, the Special Revenue Fund transferred \$11,658 to the General Current Expense Fund as a result of indirect costs.

**Note 14 - Major Sources of Revenue:**

The largest single source of revenue received by the Board is state aid funds through the Public School Support Program. In addition, the Board receives financial assistance from federal and state governments in the form of grants. The disbursement of funds received under these programs generally require compliance with terms and conditions specified in the grant agreements and is subject to audit by the Board's independent auditor and state and federal regulatory agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable fund. Based on prior experience, the Board believes such disallowance, if any, would be immaterial.