



# Washington State Auditor's Office

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## Financial Statements and Federal Single Audit Report

# Bainbridge Island School District No. 303

Kitsap County

For the period September 1, 2014 through August 31, 2015

Published March 31, 2016

Report No. 1016336





## Washington State Auditor's Office

March 31, 2016

Board of Directors  
Bainbridge Island School District No. 303  
Bainbridge Island, Washington

### **Report on Financial Statements and Federal Single Audit**

Please find attached our report on Bainbridge Island School District No. 303's financial statements and compliance with federal laws and regulations.

We are issuing this report in order to provide information on the District's financial condition.

Sincerely,

JAN M. JUTTE, CPA, CGFM  
DEPUTY STATE AUDITOR  
OLYMPIA, WA

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## FEDERAL SUMMARY

**Bainbridge Island School District No. 303**  
**Kitsap County**  
**September 1, 2014 through August 31, 2015**

The results of our audit of Bainbridge Island School District No. 303 are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

### Financial Statements

An unmodified opinion was issued on the financial statements.

Internal Control Over Financial Reporting:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the District.

### Federal Awards

Internal Control Over Major Programs:

- *Significant Deficiencies:* We identified deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We issued an unmodified opinion on the District's compliance with requirements applicable to each of its major federal programs.

We reported findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

## Identification of Major Programs:

The following were major programs during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
84.027	Special Education Cluster – Special Education – Grants to States
84.173	Special Education Cluster – Special Education – Preschool Grants

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was \$300,000.

The District qualified as a low-risk auditee under OMB Circular A-133.

## SCHEDULE OF FEDERAL AUDIT FINDINGS AND QUESTIONED COSTS

### Bainbridge Island School District No. 303 Kitsap County September 1, 2014 through August 31, 2015

#### **2015-001    The District did not have adequate internal controls to ensure compliance with federal time and effort requirements.**

**CFDA Number and Title:** 84.027 Special Education – Grants to States (IDEA, Part B)  
84.173 Special Education – Preschool Grants (IDEA Preschool)  
**Federal Grantor Name:** U.S. Department of Education  
**Federal Award/Contract Number:** NA  
**Pass-through Entity Name:** Office of Superintendent of Public Instruction  
**Pass-through Award/Contract Number:** NA  
**Questioned Cost Amount:** \$0

#### ***Description of Condition***

The objective of the Special Education program is to ensure all children with disabilities receive special education and related services to meet their needs. During fiscal year 2015, the District received \$876,638 in Special Education program funds.

Federal regulations require recipients of federal money to establish and follow internal controls to ensure compliance with program requirements. These controls include knowledge of grant requirements and monitoring of program compliance.

We reviewed payroll transactions to determine whether salaries and benefits charged to the grant were supported by federally required time and effort documentation. Depending on the number and type of activities an employee works on, time and effort documentation can be a semi-annual certification or a monthly personnel activity report, such as a time sheet.

Our audit found the District did not design an effective process to monitor and review employees whose positions are funded, in whole or in part, with federal grant funds to ensure semi-annual certifications or monthly personnel activity reports were completed.

We consider this control weakness to be a significant deficiency.

### ***Cause of Condition***

The District did not dedicate sufficient time and resources to ensure an adequate process was in place to obtain and maintain time and effort documentation.

### ***Effect of Condition and Questioned Costs***

Without adequate time and effort documentation, federal grantors cannot be assured salaries and benefits charged to their programs are accurate and valid.

Our audit found the District did not maintain the semi-annual time and effort certification for one of the twelve employees whose positions were fully paid with Special Education funds. This employee charged \$65,663 to the grant.

However, the District provided adequate alternative forms of documentation which indicate the costs charged to the program were allowable. As a result, we are not questioning costs.

### ***Recommendation***

We recommend the District strengthen internal controls over time and effort records to ensure documentation is obtained and maintained to support all payroll costs charged to Federal programs.

### ***District's Response***

*While the district acknowledges that one semi-annual certification document was not maintained, it is important to note that payroll records support the charges to the audited federal program. A monthly report is provided to administrators responsible for federal programs when reimbursement claims are filed. This monthly report of expenditures insures that program directors are familiar with the personnel being charged to a grant and that those charges are in alignment with the grant application. The district understands the importance of collecting and maintaining certification records to support personnel expenditures but does not agree that the failure to maintain this one document indicates an internal control failure that should rise to the level of an audit finding. A process has been put into place to insure that these records will be monitored in the future and that key staff understand their responsibility around collecting and maintaining every semi-annual certification record.*

## ***Auditor's Remarks***

We thank the District for its commitment in resolving the issues and will review the status during our next audit.

## ***Applicable Laws and Regulations***

*Government Auditing Standards*, December 2011 Revision, paragraph 4.23 states:

**4.23** When performing GAGAS financial audits, auditors should communicate in the report on internal control over financial reporting and compliance, based upon the work performed, (1) significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts or grant agreements that has a material effect on the audit; and (4) abuse that has a material effect on the audit.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 935, as follows:

**.11** For purposes of adapting GAAS to a compliance audit, the following terms have the meanings attributed as follows:

**Deficiency in 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 on a timely basis. A deficiency in *design* exists when (a) a control necessary to meet the control objective is missing, or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in *operation* exists when a properly designed control does not operate as designed or the person performing the control does not possess the necessary authority or competence to perform the control effectively.

**Material weakness in internal control over compliance.** A deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material

noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis. In this section, a reasonable possibility exists when the likelihood of the event is either reasonably possible or probable as defined as follows:

**Reasonably possible.** The chance of the future event or events occurring is more than remote but less than likely.

**Remote.** The chance of the future event or events occurring is slight.

**Probable.** The future event or events are likely to occur.

**Significant deficiency in internal control over compliance.** A deficiency, or a combination of deficiencies, in internal control over compliance that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, Section 300, states in part:

The auditee shall:

(b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

(c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.

U.S. Office of Management and Budget Circular A-87, Cost Principles for State, Local and Indian Tribal Governments (2 CFR Part 225), Appendix B, Section 8(h), states in part:

(1) Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit.

(2) No further documentation is required for the salaries and wages of employees who work in a single indirect cost activity.

(3) Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and will be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee.

(4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection Unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:

- (a) More than one Federal award,
- (b) A Federal award and a non-Federal award,
- (c) An indirect cost activity and a direct cost activity,
- (d) Two or more indirect activities which are allocated using different allocation bases, or
- (e) An unallowable activity and a direct or indirect cost activity.

(5) Personnel activity reports or equivalent documentation must meet the following standards:

- (a) They must reflect an after-the-fact distribution of the actual activity of each employee,
- (b) They must account for the total activity for which each employee is compensated,
- (c) They must be prepared at least monthly and must coincide with one or more pay periods, and
- (d) They must be signed by the employee.

(e) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes[.]

**INDEPENDENT AUDITOR'S 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**

**Bainbridge Island School District No. 303  
Kitsap County  
September 1, 2014 through August 31, 2015**

Board of Directors  
Bainbridge Island School District No. 303  
Bainbridge Island, Washington

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 Bainbridge Island School District No. 303, Kitsap County, Washington, as of and for the year ended August 31, 2015, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated March 22, 2016. As discussed in Note 1 to the financial statements, during the year ended August 31, 2015, the District implemented Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's 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 District'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.

## **COMPLIANCE AND OTHER MATTERS**

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other

purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



JAN M. JUTTE, CPA, CGFM  
DEPUTY STATE AUDITOR  
OLYMPIA, WA

March 22, 2016

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR  
EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL  
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB  
CIRCULAR A-133**

**Bainbridge Island School District No. 303  
Kitsap County  
September 1, 2014 through August 31, 2015**

Board of Directors  
Bainbridge Island School District No. 303  
Bainbridge Island, Washington

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL  
PROGRAM**

We have audited the compliance of Bainbridge Island School District No. 303, Kitsap County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2015. The District's major federal programs are identified in the accompanying Federal Summary.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program

occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the District's compliance.

### **Opinion on Each Major Federal Program**

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2015.

## **REPORT ON INTERNAL CONTROL OVER COMPLIANCE**

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

*A 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 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 first paragraph of this section and was not designed to identify all deficiencies in internal

control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Finding 2015-001 that we consider to be a significant deficiency.

### **District's Response to Findings**

The District's response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Federal Audit Findings and Questioned Costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **PURPOSE OF THIS REPORT**

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



JAN M. JUTTE, CPA, CGFM  
DEPUTY STATE AUDITOR  
OLYMPIA, WA

March 22, 2016

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## **Bainbridge Island School District No. 303 Kitsap County September 1, 2014 through August 31, 2015**

Board of Directors  
Bainbridge Island School District No. 303  
Bainbridge Island, Washington

### **REPORT ON THE FINANCIAL STATEMENTS**

We have audited the accompanying financial statements of Bainbridge Island School District No. 303, Kitsap County, Washington, as of and for the year ended August 31, 2015, and the related notes to the financial statements, which collectively comprise the District's financial statements, as listed on page 22.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of Washington State statutes and the *Accounting Manual for Public School Districts in the State of Washington* (Accounting Manual) described in Note 1. This includes determining that the basis of accounting is acceptable for the presentation of the financial statements in the circumstances. Management is also responsible 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.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's

judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements 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, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant account estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **Unmodified Opinion on Regulatory Basis of Accounting (Accounting Manual)**

As described in Note 1, the District has prepared these financial statements to meet the financial reporting requirements of Washington State statutes using accounting practices prescribed by the Accounting Manual. Those accounting practices differ from accounting principles generally accepted in the United States of America (GAAP). The difference in these accounting practices is also described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bainbridge Island School District No. 303, as of August 31, 2015, and the changes in financial position thereof for the year then ended in accordance with the basis of accounting described in Note 1.

### **Unmodified Opinions on the Governmental and Fiduciary Funds Based on U.S. GAAP**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the General, ASB, Debt Service, Capital Projects, Transportation Vehicle, Permanent and Fiduciary funds as of August 31, 2015, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Matters of Emphasis**

As discussed in Note 1 to the financial statements, in 2015, the District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 68, *Accounting and*

*Financial Reporting for Pensions – an amendment of GASB Statement No. 27.* Our opinion is not modified with respect to this matter.

## **Other Matters**

### ***Supplementary and Other Information***

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The accompanying Schedules of Long-Term Liabilities are also presented for purposes of additional analysis, as required by the prescribed Accounting Manual. These schedules are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements, and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

## **OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS**

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2016 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance.

That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



JAN M. JUTTE, CPA, CGFM  
DEPUTY STATE AUDITOR  
OLYMPIA, WA

March 22, 2016

## **FINANCIAL SECTION**

**Bainbridge Island School District No. 303**  
**Kitsap County**  
**September 1, 2014 through August 31, 2015**

### **FINANCIAL STATEMENTS**

Balance Sheet – Governmental Funds – 2015  
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental  
Funds – 2015  
Statement of Fiduciary Net Position – Fiduciary Funds – 2015  
Statement of Changes in Fiduciary Net Position – Fiduciary Funds – 2015  
Notes to Financial Statements – 2015

### **SUPPLEMENTARY AND OTHER INFORMATION**

Schedules of Long-Term Liabilities – 2015  
Schedule of Expenditures of Federal Awards – 2015  
Notes to the Schedule of Expenditures of Federal Awards – 2015

Bainbridge Island School District No. 303

Balance Sheet

Governmental Funds

August 31, 2015

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
<b>ASSETS:</b>							
Cash and Cash Equivalents	1,404,206.04	146,878.90	132,690.20	154,304.25	61,264.76	30.00	1,899,374.15
Minus Warrants Outstanding	-751,806.56	-55,645.73	0.00	-58,188.54	0.00	0.00	-865,640.83
Taxes Receivable	4,469,126.56		3,281,336.54	1,034,524.65	0.00		8,784,987.75
Due From Other Funds	0.00	946.98	0.00	0.00	0.00	0.00	946.98
Due From Other Governmental Units	173,186.45	0.00	0.00	0.00	0.00	0.00	173,186.45
Accounts Receivable	69,753.59	1,960.00	0.00	3,951.55	0.00	0.00	75,665.14
Interfund Loans Receivable	0.00			0.00			0.00
Accrued Interest Receivable	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Inventory	258,800.65	0.00		0.00			258,800.65
Prepaid Items	0.00	0.00			0.00	0.00	0.00
Investments	2,237,428.36	361,668.75	4,031,349.91	9,036,666.86	124,605.97	11,587.93	15,803,307.78
Investments/Cash With Trustee	0.00		2,939,743.50	0.00	0.00	0.00	2,939,743.50
Investments-Deferred Compensation	0.00			0.00			0.00
Self-Insurance Security Deposit	0.00						0.00
<b>TOTAL ASSETS</b>	<b>7,860,695.09</b>	<b>455,808.90</b>	<b>10,385,120.15</b>	<b>10,171,258.77</b>	<b>185,870.73</b>	<b>11,617.93</b>	<b>29,070,371.57</b>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>							
Deferred Outflows of Resources - Other	0.00		0.00	0.00	0.00		0.00
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
<b>TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES</b>	<b>7,860,695.09</b>	<b>455,808.90</b>	<b>10,385,120.15</b>	<b>10,171,258.77</b>	<b>185,870.73</b>	<b>11,617.93</b>	<b>29,070,371.57</b>
<b>LIABILITIES:</b>							
Accounts Payable	461,673.70	0.00	0.00	235,843.68	0.00	0.00	697,517.38
Contracts Payable Current	0.00	0.00		0.00	0.00	0.00	0.00
Accrued Interest Payable			0.00				0.00
Accrued Salaries	-150.66	0.00		0.00			-150.66
Anticipation Notes Payable	0.00		0.00	0.00	0.00		0.00

The accompanying notes are an integral part of this financial statement.

Bainbridge Island School District No. 303

Balance Sheet

Governmental Funds

August 31, 2015

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
<b>LIABILITIES:</b>							
Payroll Deductions and Taxes Payable	3,825.68	0.00		0.00			3,825.68
Due To Other Governmental Units	0.00	0.00		0.00	0.00	0.00	0.00
Deferred Compensation Payable	0.00			0.00			0.00
Estimated Employee Benefits Payable	0.00						0.00
Due To Other Funds	0.00	0.00	0.00	946.98	0.00	0.00	946.98
Interfund Loans Payable	0.00		0.00	0.00	0.00		0.00
Deposits	0.00	0.00		0.00			0.00
Unearned Revenue	214,690.26	129,932.20	0.00	0.00	0.00		344,622.46
Matured Bonds Payable			0.00				0.00
Matured Bond Interest Payable			0.00				0.00
Arbitrage Rebate Payable	0.00		0.00	0.00	0.00		0.00
<b>TOTAL LIABILITIES</b>	<b>680,038.98</b>	<b>129,932.20</b>	<b>0.00</b>	<b>236,790.66</b>	<b>0.00</b>	<b>0.00</b>	<b>1,046,761.84</b>
<b>DEFERRED INFLOWS OF RESOURCES:</b>							
Unavailable Revenue	69,753.59	1,960.00	0.00	3,951.55	0.00	0.00	75,665.14
Unavailable Revenue - Taxes Receivable	4,469,126.56		3,281,336.54	1,034,524.65	0.00		8,784,987.75
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>4,538,880.15</b>	<b>1,960.00</b>	<b>3,281,336.54</b>	<b>1,038,476.20</b>	<b>0.00</b>	<b>0.00</b>	<b>8,860,652.89</b>
<b>FUND BALANCE:</b>							
Nonspendable Fund Balance	258,801.00	0.00	0.00	0.00	0.00	0.00	258,801.00
Restricted Fund Balance	68,195.00	323,916.70	7,103,783.61	7,224,015.35	185,870.73	0.00	14,905,781.39
Committed Fund Balance	0.00	0.00	0.00	1,385,342.09	0.00	0.00	1,385,342.09
Assigned Fund Balance	1,137,779.96	0.00	0.00	286,634.47	0.00	11,617.93	1,436,032.36
Unassigned Fund Balance	1,177,000.00	0.00	0.00	0.00	0.00	0.00	1,177,000.00
<b>TOTAL FUND BALANCE</b>	<b>2,641,775.96</b>	<b>323,916.70</b>	<b>7,103,783.61</b>	<b>8,895,991.91</b>	<b>185,870.73</b>	<b>11,617.93</b>	<b>19,162,956.84</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND FUND BALANCE</b>	<b>7,860,695.09</b>	<b>455,808.90</b>	<b>10,385,120.15</b>	<b>10,171,258.77</b>	<b>185,870.73</b>	<b>11,617.93</b>	<b>29,070,371.57</b>

The accompanying notes are an integral part of this financial statement.

**Bainbridge Island School District No. 303**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**

**Governmental Funds**

**For the Year Ended August 31, 2015**

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
<b>REVENUES:</b>							
Local	12,820,150.87	424,073.67	7,270,560.56	1,941,510.86	894.74		22,457,190.70
State	25,459,048.19		0.00	0.00	150,802.46		25,609,850.65
Federal	1,397,626.48		925,455.48	0.00	0.00		2,323,081.96
Federal Stimulus	0.00						0.00
Other	0.00			0.00	0.00	66.11	66.11
<b>TOTAL REVENUES</b>	<b>39,676,825.54</b>	<b>424,073.67</b>	<b>8,196,016.04</b>	<b>1,941,510.86</b>	<b>151,697.20</b>	<b>66.11</b>	<b>50,390,189.42</b>
<b>EXPENDITURES:</b>							
<b>CURRENT:</b>							
Regular Instruction	22,743,934.36						22,743,934.36
Federal Stimulus	0.00						0.00
Special Education	6,224,637.14						6,224,637.14
Vocational Education	1,068,629.99						1,068,629.99
Skill Center	0.00						0.00
Compensatory Programs	690,436.95						690,436.95
Other Instructional Programs	325,077.57						325,077.57
Community Services	28,986.38						28,986.38
Support Services	8,118,661.20						8,118,661.20
Student Activities/Other		437,200.27				0.00	437,200.27
<b>CAPITAL OUTLAY:</b>							
Sites				49,388.66			49,388.66
Building				2,015,074.44			2,015,074.44
Equipment				481,545.78			481,545.78
Instructional Technology				514,150.58			514,150.58
Energy				0.00			0.00
Transportation Equipment					424,534.68		424,534.68
Sales and Lease				0.00			0.00
Other	51,782.72						51,782.72
<b>DEBT SERVICE:</b>							
Principal	0.00		1,895,000.00	0.00	0.00		1,895,000.00
Interest and Other Charges	0.00		3,503,367.73	0.00	0.00		3,503,367.73
Bond/Levy Issuance				0.00	0.00		0.00
<b>TOTAL EXPENDITURES</b>	<b>39,252,146.31</b>	<b>437,200.27</b>	<b>5,398,367.73</b>	<b>3,060,159.46</b>	<b>424,534.68</b>	<b>0.00</b>	<b>48,572,408.45</b>

The accompanying notes are an integral part of this financial statement.

Bainbridge Island School District No. 303

Statement of Revenues, Expenditures, and Changes in Fund Balance

Governmental Funds

For the Year Ended August 31, 2015

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
<b>DEBT SERVICE:</b>							
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	424,679.23	-13,126.60	2,797,648.31	-1,118,648.60	-272,837.48	66.11	1,817,780.97
<b>OTHER FINANCING SOURCES (USES):</b>							
Bond Sales & Refunding Bond Sales	0.00		15,512,419.15	0.00	0.00		15,512,419.15
Long-Term Financing	0.00			0.00	0.00		0.00
Transfers In	306,829.54		0.00	0.00	0.00		306,829.54
Transfers Out (GL 536)	0.00		0.00	-306,829.54	0.00	0.00	-306,829.54
Other Financing Uses (GL 535)	0.00		-15,406,751.23	0.00	0.00		-15,406,751.23
Other	0.00		0.00	0.00	0.00		0.00
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>306,829.54</b>		<b>105,667.92</b>	<b>-306,829.54</b>	<b>0.00</b>	<b>0.00</b>	<b>105,667.92</b>
<b>EXCESS OF REVENUES/OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>	731,508.77	-13,126.60	2,903,316.23	-1,425,478.14	-272,837.48	66.11	1,923,448.89
<b>BEGINNING TOTAL FUND BALANCE</b>	<b>1,910,267.19</b>	<b>337,043.30</b>	<b>4,200,467.38</b>	<b>10,321,470.05</b>	<b>458,708.21</b>	<b>11,551.82</b>	<b>17,239,507.95</b>
Prior Year(s) Corrections or Restatements	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>ENDING TOTAL FUND BALANCE</b>	<b>2,641,775.96</b>	<b>323,916.70</b>	<b>7,103,783.61</b>	<b>8,895,991.91</b>	<b>185,870.73</b>	<b>11,617.93</b>	<b>19,162,956.84</b>

The accompanying notes are an integral part of this financial statement.

Bainbridge Island School District No. 303

Statement Of Fiduciary Net Position

Fiduciary Funds

August 31, 2015

	Private Purpose Trust	Other Trust
<b>ASSETS:</b>		
Imprest Cash	0.00	0.00
Cash On Hand	0.00	0.00
Cash On Deposit with Cty Treas	17,854.84	0.00
Minus Warrants Outstanding	-9,330.43	0.00
Due From Other Funds	0.00	0.00
Accounts Receivable	0.00	0.00
Accrued Interest Receivable	0.00	0.00
Investments	548,392.58	0.00
Investments/Cash With Trustee	0.00	0.00
Other Assets	0.00	
Capital Assets, Land	0.00	
Capital Assets, Buildings	0.00	
Capital Assets, Equipment	0.00	0.00
Accum Depreciation, Buildings	0.00	
Accum Depreciation, Equipment	0.00	0.00
<b>TOTAL ASSETS</b>	<b>556,916.99</b>	<b>0.00</b>
<b>LIABILITIES:</b>		
Accounts Payable	0.00	0.00
Due To Other Funds	0.00	0.00
<b>TOTAL LIABILITIES</b>	<b>0.00</b>	<b>0.00</b>
<b>NET POSITION:</b>		
<b>Held in trust for:</b>		
Held In Trust For Intact Trust Principal	0.00	0.00
Held In Trust For Private Purposes	556,916.99	
Held In Trust For Pension Or Other Post-Employment Benefits		0.00
Held In Trust For Other Purposes	0.00	0.00
<b>TOTAL NET POSITION</b>	<b>556,916.99</b>	<b>0.00</b>

The accompanying notes are an integral part of this financial statement.

Bainbridge Island School District No. 303  
Statement of Changes in Fiduciary Net Position

Fiduciary Funds  
For the Year Ended August 31, 2015

	Private Purpose Trust	Other Trust
<b>ADDITIONS:</b>		
<b>Contributions:</b>		
Private Donations	522,778.46	0.00
Employer		0.00
Members		0.00
Other	0.00	0.00
<b>TOTAL CONTRIBUTIONS</b>	<b>522,778.46</b>	<b>0.00</b>
<b>Investment Income:</b>		
Net Appreciation (Depreciation) in Fair Value	0.00	0.00
Interest and Dividends	1,449.74	0.00
Less Investment Expenses	0.00	0.00
Net Investment Income	1,449.74	0.00
<b>Other Additions:</b>		
Rent or Lease Revenue	0.00	0.00
Total Other Additions	0.00	0.00
<b>TOTAL ADDITIONS</b>	<b>524,228.20</b>	<b>0.00</b>
<b>DEDUCTIONS:</b>		
Benefits		0.00
Refund of Contributions	0.00	0.00
Administrative Expenses	0.00	0.00
Scholarships	500.00	
Other	8,830.43	0.00
<b>TOTAL DEDUCTIONS</b>	<b>9,330.43</b>	<b>0.00</b>
Net Increase (Decrease)	514,897.77	0.00
Net Position--Beginning	42,019.22	0.00
Prior Year(s) Corrections or Restatements	0.00	0.00
<b>NET POSITION--ENDING</b>	<b>556,916.99</b>	<b>0.00</b>

The accompanying notes are an integral part of this financial statement.

**BAINBRIDGE ISLAND SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
September 1, 2014 - August 31, 2015

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Bainbridge Island School District is a municipal corporation organized pursuant to Title 28A *Revised Code of Washington* (RCW) for the purpose of providing public school services to students in grades K-12. Oversight responsibility for the district's operations is vested with the independently elected board of directors. Management of the district is appointed by and is accountable to the board of directors. Fiscal responsibility, including budget authority and the power to set fees, levy property taxes, and issue debt consistent with provisions of state statutes, also rests with the board of directors.

The District presents governmental fund financial statements and related notes on the modified accrual basis of accounting in accordance with the *Accounting Manual for Public School Districts in the State of Washington*, issued jointly by the State Auditor's Office and the Superintendent of Public Instruction by the authority of RCW 43.09.200, RCW 28A.505.140, RCW 28A.505.010(1), and RCW 28A.505.020. This manual prescribes a financial reporting framework that differs from generally accepted accounting principles (GAAP) in the following manner:

- (1) Districtwide statements, as defined in GAAP, are not presented.
- (2) A Schedule of Long-Term Liabilities is presented as supplementary information.
- (3) Supplementary information required by GAAP is not presented.

**Fund Accounting**

Financial transactions of the District are reported in individual funds. Each fund uses a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures (or expenses), as appropriate. All funds are considered major funds. The various funds in the report are grouped into governmental (and fiduciary) funds as follows:

**Governmental Funds**

**General Fund**

This fund is used to account for all expendable financial resources, except for those that are required to be accounted for in another fund. In keeping with the principle of having as few funds as are necessary, activities such as food services, maintenance, data processing, printing, and student transportation are included in the General Fund.

**Capital Projects Funds**

These funds account for financial resources to be used for the construction or acquisition of major capital assets. There are two funds that are considered to be of the capital projects fund type: the Capital Projects Fund and the Transportation Vehicle Fund.

Capital Projects Fund - This fund is used to account for resources set-aside for the acquisition and construction of capital assets such as land and buildings.

Transportation Vehicle Fund - This fund is used to account for the purchase, major repair, rebuilding, and debt service expenditures that relate to pupil transportation equipment.

### Debt Service Fund

This fund is used to account for the accumulation of resources for and the payment of matured general long-term debt principal and interest.

### Special Revenue Fund

In Washington State, the only allowable special revenue fund for school districts is the Associated Student Body (ASB) Fund. This fund is accounted for in the District's financial statements as the financial resources legally belong to the District. As a special revenue fund, amounts within the ASB Fund may only be used for those purposes that relate to the operation of the Associated Student Body of the District.

### Permanent Funds

These funds are used to report resources that are legally restricted such that only earnings, and not principal, may be expended. Amounts in the Permanent Fund may only be spent in support of the District's programs and may not be used to the benefit of any individual.

### FIDUCIARY FUNDS

Fiduciary funds include pension and other employee benefit trust funds, private purpose trust funds and agency funds, and are used to account for assets that are held by the District in a trustee and agency capacity.

Private-Purpose Trust Fund – This fund is used to account for resources legally held in trust by the District. The trust agreement details whether principal and interest may both be spent, or whether only interest may be spent. Money from a Private-Purpose Trust Fund may not be used to support the District's programs, and may be used to benefit individuals, private organizations, or other governments.

### **The measurement focus and basis of accounting used in the government-wide statements.**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered "measurable" if the amount of the transaction can be readily determined. Revenues are considered "available" if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days after year-end. Property taxes receivables are measurable but not available and are, therefore, not accrued. Categorical program claims and interdistrict billings are measurable and available and are, therefore, accrued.

Expenditures are recognized under the modified basis of accounting when the related fund liability is incurred, except for unmatured principal and interest on long-term debt which are recorded when due. Purchases of capital assets are expensed during the year of acquisition. For federal grants, the recognition of expenditures is dependent on the obligation date. (Obligations means a purchase order has been issued, contracts have been awarded, or goods and/or services received.)

### **Budgets**

Chapter 28A.505 RCW and Chapter 392-123 *Washington Administrative Code* (WAC) mandate school district budget policies and procedures. The board adopts annual appropriated budgets for all

governmental funds. These budgets are appropriated at the fund level. The budget constitutes the legal authority for expenditures at that level. Appropriations lapse at the end of the fiscal period.

Budgets are adopted on the same modified accrual basis as used for financial reporting. Fund balance is budgeted as available resources and, under statute, may not be negative, unless the District enters into binding conditions with state oversight pursuant to RCW 28A.505.110.

**The government's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.**

The District receives state funding for specific categorical education-related programs. Amounts that are received for these programs that are not used in the current fiscal year may be carried forward into the subsequent fiscal year, where they may be used only for the same purpose as they were originally received. When the District has such carryover, those funds are expended before any amounts received in the current year are expended.

Additionally, the District has other restrictions placed on its financial resources. When expenditures are recorded for purposes for which a restriction or commitment of fund balance is available, those funds that are restricted or committed to that purpose are considered first before any unrestricted or unassigned amounts are expended.

**The government's fund balance classifications policies and procedures.**

The District classifies ending fund balance for its governmental funds into five categories.

Nonspendable Fund Balance. The amounts reported as Nonspendable are resources of the District that are not in spendable format. They are either non-liquid resources such as inventory or prepaid items, or the resources are legally or contractually required to be maintained intact.

Restricted Fund Balance. Amounts that are reported as Restricted are those resources of the District that have a legal restriction placed on their use either by statute, WAC or other legal requirements beyond the control of the board of directors. Restricted fund balance includes anticipated recovery of revenues that have been received but are restricted as to their usage.

Committed Fund Balance. Amounts that are reported as Committed are those resources of the District that have had a limitation placed upon their usage by formal action of the District's board of directors. Commitments are made either through a formal adopted board resolution or are related to a school board policy. Commitments may only be changed when the resources are used for the intended purpose or the limitation is removed by a subsequent formal action of the board of directors.

Assigned Fund Balance. In the General Fund, amounts that are reported as Assigned are those resources that the District has set aside for specific purposes. These accounts reflect tentative management plans for future financial resource use such as the replacement of equipment or the assignment of resources for contingencies. Assignments reduce the amount reported as Unassigned Fund Balance, but may not reduce that balance below zero.

In other governmental funds, Assigned fund balance represents a positive ending spendable fund balance once all restrictions and commitments are considered. These resources are only available for expenditure in that fund and may not be used in any other fund without formal action by the District's board of directors and as allowed by statute.

Unassigned Fund Balance. In the General Fund, amounts that reported as Unassigned are those net spendable resources of the District that are not otherwise Restricted, Committed, or Assigned, and may be used for any purpose with the General Fund.

In other governmental funds, Unassigned fund balance represents a deficit ending spendable fund balance once all restrictions and commitments are considered.

A negative Unassigned fund balance means that the legal restrictions and formal commitments of the District exceed its currently available resources.

### **Cash and Cash Equivalents**

All of the District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

### **Inventory**

Inventory is valued at cost using the first-in, first-out (FIFO) method. The "consumption method" of inventory is used, which charges inventory as an expenditure when it is consumed. A portion of fund balance, representing inventory, is considered Nonspendable. (Such reserves for inventory indicate that a portion of net current assets is set aside to replace or increase the inventory.) USDA commodity inventory consists of food donated by the U.S. Department of Agriculture. It is valued at the prices paid by the USDA for the commodities.

### **Accounting and Reporting Changes for 2014-15**

Effective for the 2014-15 school year, the district implemented provisions of GASB Statement No. 68 Accounting and Financial Reporting for Pensions. As a result, the Schedule of Long-Term Liabilities now includes the district's proportionate share of the net pension liability for the cost-sharing, multiple-employer plans in which the district participates.

## **NOTE 2 – CASH DEPOSITS WITH FINANCIAL INSTITUTIONS**

The Kitsap County Treasurer is the *ex officio* treasurer for the District and holds all accounts of the District. The District directs the County Treasurer to invest those financial resources of the District that the District has determined are not needed to meet the current financial obligations of the District.

All of the district's investments (except for investments of deferred compensation plans,) during the year and at year-end were insured or registered and held by the district or its agent in the District's name.

Investments are presented at market value.

The district's investments as of August 31, 2015, are as follows:

	Governmental Funds <u>Investments</u>	Private Purpose Trust <u>Investments</u>	Total <u>Investments</u>
County Treasurer's Investment Pool	<u>15,803,308</u>	<u>548,392</u>	<u>16,351,700</u>
Total Investments	<u>15,803,308</u>	<u>548,392</u>	<u>16,351,700</u>

### **NOTE 3 - SIGNIFICANT CONTINGENT LIABILITIES**

#### **Litigation**

The Bainbridge Island School District has no known legal obligations that would materially impact the financial position of the district.

#### **Arbitrage Rebate**

The Tax Reform Act of 1986 requires the district to rebate the earnings on the investment of bond and revenue anticipation notes proceeds, in excess of their yield, to the Federal Government. This requirement is effective for the district's current bond issues. Of the rebate, 90 percent is due and payable 5 years from the date bonds were issued and at 5-year intervals thereafter. The remaining 10 percent is payable 60 days after they are retired. Because positive arbitrage can be offset against negative arbitrage, the rebatable amount fluctuates each year and may or may not be owing at the payment intervals. The district is not contingently liable for arbitrage rebate at August 31, 2015.

### **NOTE 4 – SIGNIFICANT EFFECTS OF SUBSEQUENT EVENTS**

There were not events after the balance sheet date that would have a material impact on the next or future fiscal years.

### **NOTE 5 – PENSION PLANS**

#### **General Information**

The Washington State Department of Retirement Systems (DRS), a department within the primary government of the state of Washington, prepares a stand-alone comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each pension plan. The pension plan's basic financial statement is accounted for using the accrual basis of accounting. The measurement date of the pension plans is June 30. 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.

The school district is reporting the net pension liability in the notes and on the Schedule of Long-term Liabilities calculated as the district's proportionate allocation percentage multiplied by the total plan collective net pension liability.

Detailed information about the pension plans' fiduciary net position is available in the separately issued DRS CAFR. Copies of the report may be obtained by contacting the Washington State Department of Retirement Systems, P.O. Box 48380, Olympia, WA 98504-8380; or online at <http://www.drs.wa.gov/administrations/annual-report>.

#### **Membership Participation**

Substantially all school district full-time and qualifying part-time employees participate in one of the following three contributory, multi-employer, cost-sharing statewide retirement systems managed by DRS: Teachers' Retirement System (TRS), Public Employees' Retirement System (PERS) and School Employees' Retirement System (SERS).

Membership participation by retirement plan as of June 30, 2015, was as follows:

Plan	Active Members	Inactive Vested Members	Retired Members
PERS 1	4,782	1,178	51,070
SERS 2	22,950	5,357	5,796
SERS 3	30,832	6,963	4,825
TRS 1	1,824	323	35,639
TRS 2	13,632	2,357	3,894
TRS 3	51,837	7,655	6,094

The latest actuarial valuation date for all plans was June 30, 2014.

Source: Washington State Office of the State Actuary

## Membership & Plan Benefits

Certificated employees are members of TRS. Classified employees are members of PERS (if Plan 1) or SERS. Plan 1 under the TRS and PERS programs are defined benefit pension plans whose members joined the system on or before September 30, 1977. TRS 1 and PERS 1 are closed to new entrants.

TRS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component. TRS eligibility for membership requires service as a certificated public school employee working in an instructional, administrative or supervisory capacity.

TRS is comprised of three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

TRS Plan 1 provides retirement, disability and death benefits. TRS 1 members were vested after the completion of five years of eligible service. Retirement benefits are determined as two percent of the average final compensation (AFC), for each year of service credit, up to a maximum of 60 percent, divided by twelve. The AFC is the total earnable compensation for the two consecutive highest-paid fiscal years, divided by two. Members are eligible for retirement at any age after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. Other benefits include temporary and permanent disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries.

TRS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the average final compensation (AFC) per year of service for Plan 2 members and one percent of AFC for Plan 3 members. The AFC is the monthly average of the 60 consecutive highest-paid service credit months. There is no cap on years of service credit. Members are eligible for normal retirement at the age of 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. TRS Plan 2/3 members, who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a reduced benefit.

The benefit is reduced by a factor that varies according to age, for each year before age 65. TRS Plan 2/3 members who have 30 or more years of service credit, were hired prior to May 1, 2013, and are at least 55

years old, can retire under one of two provisions: With a benefit that is reduced by three percent for each year before age 65; or with a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

TRS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service.

TRS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit.

Other benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the Consumer Price Index), capped at three percent annually and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries.

PERS Plan 1 provides retirement, disability and death benefits. PERS 1 members were vested after the completion of five years of eligible service. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service.

Members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits. PERS Plan 1 retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries.

SERS is a cost-sharing multiple-employer retirement system comprised of two separate plans for membership purposes. SERS Plan 2 is a defined benefit plan and SERS Plan 3 is a defined benefit plan with a defined contribution component. SERS members include classified employees of school districts and educational service districts.

SERS is reported as two separate plans for accounting purposes: Plan 2/3 and Plan 3. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members.

Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

SERS provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and one percent of AFC for Plan 3. The AFC is the monthly average of the member's 60 highest-paid consecutive service months before retirement, termination or death. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. SERS members, who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a reduced benefit.

The benefit is reduced by a factor that varies according to age, for each year before age 65. SERS members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions, if hired prior to May 2, 2013: With a benefit that is reduced by three percent for each year before age 65; or with a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

SERS members hired on or after May 1, 2013, have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service. SERS retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the Consumer Price Index), capped at three percent annually and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries.

## Plan Contributions

The employer contribution rates for PERS, TRS, and SERS (Plans 1, 2, and 3) and the TRS and SERS Plan 2 employee contribution rates are established by the Pension Funding Council based upon the rates set by the Legislature. The methods used to determine the contribution requirements are established under chapters 41.40, 41.32, and 41.35 RCW for PERS, TRS and SERS respectively. Employers do not contribute to the defined contribution portions of TRS Plan 3 or SERS Plan 3. Under current law the employer must contribute 100 percent of the employer-required contribution. The employee contribution rate for Plan 1 in PERS and TRS is set by statute at six percent and does not vary from year to year.

The Employer and employee contribution rates for the PERS plan are effective as of July 1. SERS and TRS contribution rates are effective as of September 1. The pension plan contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

Pension Rates			
	7/1/15 Rate	7/1/14 Rate	
<b>PERS 1</b>			
Member Contribution Rate	6.00%	6.00%	
Employer Contribution Rate	11.18%	9.21%	
Pension Rates			
	9/1/15 Rate	9/1/14 Rate	
<b>TRS 1</b>			
Member Contribution Rate	6.00%	6.00%	
Employer Contribution Rate	13.13%	10.39%	
<b>TRS 2</b>			
Member Contribution Rate	5.95%	4.96%	
Employer Contribution Rate	13.13%	10.39%	
<b>TRS 3</b>			
Member Contribution Rate	varies*	varies*	
Employer Contribution Rate	13.13%	10.39%	**
<b>SERS 2</b>			
Member Contribution Rate	5.63%	4.64%	
Employer Contribution Rate	11.58%	9.82%	
<b>SERS 3</b>			
Member Contribution Rate	varies*	varies*	
Employer Contribution Rate	11.58%	9.82%	**
<i>Note: The DRS administrative rate of .0018 is included in the employer rate.</i>			
* = Variable from 5% to 15% based on rate selected by the member.			
** = Defined benefit portion only.			

## The Collective Net Pension Liability

The collective net pension liabilities for the pension plans districts participated in are reported in the following tables.

The Net Pension Liability as of June 30, 2015:				
Dollars in Thousands	PERS 1	SERS 2/3	TRS 1	TRS 2/3
Total Pension Liability	\$12,789,242	\$4,473,428	\$9,237,730	\$11,220,833
Plan fiduciary net position	(\$7,558,312)	(\$4,067,277)	(\$6,069,588)	(\$10,377,031)
Participating employers' net pension liability	\$5,230,930	\$406,151	\$3,168,142	\$843,802
Plan fiduciary net position as a percentage of the total pension liability	59.10%	90.92%	65.70%	92.48%

## The School District's Proportionate Share of the Net Pension Liability (NPL)

At June 30, 2015, the school district reported a total liability of \$ 19,291,757 for its proportionate shares of the individual plans' collective net pension liability. Proportion of net pension liability is based on annual contributions for each of the employers participating in the DRS administered plans. At June 30, 2015, the district's proportionate share of each plan's net pension liability is reported below:

June 30, 2015	PERS 1	SERS 2/3	TRS 1	TRS 2/3
District's Annual Contributions	249,682	344,193	835,744	1,001,504
Proportionate Share of the Net Pension Liability	2,841,764	1,437,891	11,832,123	3,179 979

At June 30, 2015, the school district's percentage of the proportionate share of the collective net pension liability was as follows and the changed in the allocation percentage from the prior period is illustrated below.

Allocation percentages	PERS 1	SERS 2/3	TRS 1	TRS 2/3
Current year proportionate share of the Net Pension Liability	0.054326%	0.354029%	0.373472%	0.376863%
Prior year proportionate share of the Net Pension Liability	0.052080%	0.372913%	0.378488%	0.385880%
Net difference percentage	<b>0.002246%</b>	<b>-0.018884%</b>	<b>-0.005016%</b>	<b>-0.009017%</b>

## Actuarial Assumptions

Capital Market Assumptions (CMAs) and expected rates of return by asset class provided by the Washington State Investment Board. The Office of the State Actuary relied on the CMAs in the selection of the long-term expected rate of return for reporting purposes.

The total pension liabilities for TRS 1, TRS 2/3, PERS 1 and SERS 2/3 were determined by actuarial valuation as of June 30, 2014, with the results rolled forward to June 30, 2015, using the following actuarial assumptions, applied to all prior periods included in the measurement:

Inflation	3.0% total economic inflation, 3.75% salary inflation
Salary increases	In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
Investment rate of return	7.50%

## Mortality Rates

Mortality rates used in the plans were based on the RP-2000 Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries. The Office of the State Actuary applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year, throughout their lifetime. The actuarial assumptions used in the June 30, 2014, valuation were based on the results of the 2007–2012 Experience Study. Additional assumptions for subsequent events and law changes are current as of the 2014 actuarial valuation report.

## Long-term Expected Rate of Return

The long-term expected rate of return on pension plan investments was determined using a building-block method in which a best-estimate of expected future rates of return (expected returns, net of pension plan investment expense, but including inflation) are developed for each major asset class by the Washington State Investment Board (WSIB). Those expected returns make up one component of WSIB's CMAs. The CMAs contain three pieces of information for each class of assets the WSIB currently invest in:

- Expected annual return
- Standard deviation of the annual return;
- Correlations between the annual returns of each asset class with every other asset class

WSIB uses the CMAs and their target asset allocation to simulate future investment returns over various time horizons.

The long-term expected rate of return of 7.50% percent approximately equals the median of the simulated investment returns over a fifty-year time horizon, increased slightly to remove WSIB's implicit and small short-term downward adjustment due to assumed mean reversion. WSIB's implicit short-term adjustment, while small and appropriate over a ten to fifteen-year period, becomes amplified over a fifty-year measurement period.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plans' target asset allocation as of June 30, 2015, are summarized in the following table:

TRS1, TRS 2/3, PERS 1, and SERS 2/3		
Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Fixed Income	20.00%	1.70%
Tangible Assets	5.00%	4.40%
Real Estate	15.00%	5.80%
Global Equity	37.00%	6.60%
Private Equity	23.00%	9.60%

The inflation component used to create the above table is 2.20 percent, and represents WSIB's most recent long-term estimate of broad economic inflation.

## Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent. To determine the discount rate, an asset sufficiency test was completed to test whether the pension plan's fiduciary net position was sufficient

to make all projected future benefit payments of current plan members. Consistent with current law, the completed asset sufficiency test included an assumed 7.70 percent long-term discount rate to determine funding liabilities for calculating future contributions rate requirements. Consistent with the long-term expected rate of return, a 7.50 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue to be made at contractually required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

Therefore, the long-term expected rate of return of 7.50 percent on pension plan investments was applied to determine the total pension liability.

### Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following table presents the Bainbridge Island School District's proportionate share of the collective net pension liability (NPL) calculated using the discount rate of 7.5 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage-point lower (6.5 percent) or one percentage-point higher (8.5 percent) than the current rate. Amounts are calculated using the school district's specific allocation percentage, by plan, to determine the proportionate share of the collective net pension liability.

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
<b>PERS1 NPL</b>	\$6,368,671,000	\$5,230,930,000	\$4,252,577,000
Allocation Percentage	0.054326%	0.054326%	0.054326%
Proportionate Share of Collective NPL	\$3,459,856	\$2,841,764	\$2,310,263
<b>SERS2/3 NPL</b>	\$1,282,039,000	\$406,151,000	\$(273,474,000)
Allocation Percentage	0.354029%	0.354029%	0.354029%
Proportionate Share of Collective NPL	\$4,538,785	\$1,437,891	\$(968,176)
<b>TRS1 NPL</b>	\$3,982,571,000	\$3,168,142,000	\$2,467,801,000
Allocation Percentage	0.373472%	0.373472%	0.373472%
Proportionate Share of Collective NPL	\$14,873,788	\$11,832,123	\$9,216,546
<b>TRS2/3 NPL</b>	\$3,570,229,000	\$843,802,000	\$(1,183,066,000)
Allocation Percentage	0.376863%	0.376863%	0.376863%
Proportionate Share of Collective NPL	\$13,454,878	\$3,179,979	\$(4,458,540)

**NOTE 6 – ANNUAL OTHER POST-EMPLOYMENT BENEFIT COST AND NET OPEB OBLIGATIONS**

The State, through the Health Care Authority (HCA), administers an agent multi-employer Other Post-Employment Benefit plan. The Public Employees Benefits Board (PEBB), created within the HCA, is authorized to design benefits and determine the terms and conditions of employee and retired employee participation and coverage, including establishment of eligibility criteria for both active and retired employees. Programs include (medical, dental, life insurance and long-term disability insurance)<sup>(5)</sup>.

Employers participating in the plan include the State of Washington (which includes general government agencies and higher education institutions), 60 of the state's K–12 school districts and educational service districts (ESDs), and 221 political subdivisions and tribal governments. Additionally, the PEBB plan is available to the retirees of the remaining 237 K–12 school districts and ESDs. The District's retirees are eligible to participate in the PEBB plan under this arrangement.

According to state law, the Washington State Treasurer collects a fee from all school district entities which have employees that are not current active members of the state Health Care Authority but participate in the state retirement system. The purpose of this fee is to cover the impact of the subsidized rate of health care benefits for school retirees that elect to purchase their health care benefits through the state Health Care Authority. For the fiscal year 2014-15, the District was required to pay the HCA \$ 66.64 per month per full-time equivalent employee to support the program, for a total payment of \$ 331,046. This assessment to the District is set forth in the State's operating budget and is subject to change on an annual basis. This amount is not actuarially determined and is not placed in a trust to pay the obligations for post-employment health care benefits.

The District has no control over the benefits offered to retirees, the rates charged to retirees, nor the fee paid to the Health Care Authority. The District does not determine its Annual Required Contribution nor the Net Other Post-Employment Benefit obligation associated with this plan. Accordingly, these amounts are not shown on the financial statements.

**NOTE 7 - CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS** 2564.50

Construction in progress is composed of:

<u>Project</u>	<u>Project Authorization Amount</u>	<u>Expended As of 8/31/15</u>	<u>Additional Local Funds Committed</u>
BHS Modernization (09)	2,538,987	464,038	2,074,949
Blakely Improvements (06)	896,741	603,468	293,273
Blakely Improvements (09)	873,250	86,842	786,408
Ordway Improvements (09)	1,170,571	258,305	912,266
Wilkes Improvements (06)	178,977	166,433	12,544
Sakai/Woodward Schools (06)	109,235	75,667	33,568
Sakai Improvements (09)	242,250	97,718	144,532
Woodward Improvements (09)	2,564,350	2,544,458	19,892
Commodore Improvements (06)	1,286,182	1,246,942	39,240
Commodore Improvements (09)	1,050,263	362,595	687,668
Tech Levy Improvements	2,257,737	1,487,942	769,795
Wilkes Replacement	28,962,180	28,886,678	75,502
Transportation Facility	749,504	443,348	306,156
District-wide Security	473,533	104,465	369,068
Energy Conservation	947,026	131,716	815,310
CPAdmin/Constr. Mgmt 09 Bond	2,314,997	1,952,745	362,252
<b>TOTAL</b>	<b>46,615,783</b>	<b>38,913,360</b>	<b>7,702,423</b>

## Encumbrances

Encumbrance accounting is employed in governmental funds. Purchase orders, contracts, and other commitments for the expenditure of moneys are recorded in order to reserve a portion of the applicable appropriation. Encumbrances lapse at the end of the fiscal year and may be re-encumbered the following year. The following encumbrance amount was re-encumbered in the Capital Projects Fund on September 1, 2015: \$ 976,529.

## **NOTE 8- CAPITAL ASSETS**

The district's fixed assets were insured in the amount of \$141,393,880 for fiscal 2014-15. In the opinion of the district's insurance consultant, this amount is sufficient to adequately fund replacement of the district's assets.

## **NOTE 9 – REQUIRED DISCLOSURES ABOUT LONG-TERM LIABILITIES**

### **Long-Term Debt**

Bonds payable at August 31, 2015, are comprised of the following individual issue:

Issue Name	Amount Authrzd	Annual Instllmts	Final Maturity	Interest Rates	Amount Outstand.
2007 UTGO	19,815,000	- 0 -	12/01/26	4.00-5.00%	- 0 -
2009 UTGO	4,925,000	605,000	12/01/19	2.00-4.00%	2,920,000
2009 BABS	16,075,000	- 0 -	12/01/29	.650-5.848%	14,865,000
2010 QSCB	14,000,000	- 0 -	06/01/29		14,000,000
2012 UTGO	9,995,000	100,000	12/01/25	2.00-3.00%	9,580,000
2013 UTGO	9,010,000	100,000	12/01/23	2.00-3.00%	8,810,000
2013 UTGO	7,805,000	720,000	12/01/16	0.38-0.75%	6,880,000
2014 UTGO	6,750,000	270,000	12/01/33	2.00-4.00%	6,480,000
2014 UTGO	6,625,000	100,000	12/01/20	2.38-5.00%	6,525,000
2014 UTGO	13,770,000	- 0 -	12/01/26	1.75-5.00%	13,770,000
Total General Obligation Bonds					\$83,830,000

The following is a summary of general obligation long-term debt transactions of the district for the year ended August 31, 2015.

Long-Term Debt Payable at 9/1/14	\$85,885,000
Debt Retired	(15,825,000)
Debt Addition	<u>13,770,000</u>
Long-Term Debt Payable at 8/31/15	\$83,830,000

The following is a schedule of annual requirements to amortize long-term debt at August 31:

<u>Years Ending August 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	4,160,000	3,290,136	7,450,136
2017	4,195,000	3,248,633	7,443,633
2018	3,980,000	3,149,865	7,129,865
2019	4,150,000	2,986,814	7,136,814
2020	4,415,000	2,839,154	7,254,154
2021-2025	25,745,000	11,448,769	37,193,769
2026-2030	35,420,000	5,818,289	41,238,289
2031-2034	<u>1,765,000</u>	<u>144,900</u>	<u>1,909,900</u>
Total	83,830,000	32,926,560	116,756,560

At August 31, 2015 the district had \$7,103,784 available in the Debt Service Fund to service the general obligation bonds.

### **Bonds Authorized But Unissued**

The qualified electors of the District authorized the issuance of \$42 million of unlimited tax general obligation bonds at a special election held on November 3, 2009. The District has now issued all bonds under the authorization.

### **Refunded Debt**

On November 25, 2014, the District issued \$13,770,000 in general obligation bonds with an average interest rate of 2.46% to advance refund \$13,930,000 of outstanding 2007 series bonds with an average interest rate of 5%. The net proceeds of \$15,406,751 after payment of \$100,690 in underwriting fees, insurance, and other issuance costs were used to purchase U.S. Government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the bonds. As a result, the bonds are considered defeased.

The District advance refunded 2007 series bonds to reduce its total debt service payments over the term of the bonds by \$1,294,394 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$1,151,934.

### **Sinking Fund**

In 2010, the District issued \$14,000,000 worth of Qualified School Construction Bonds. As a condition of selling the bonds, the District is required to maintain a sinking fund account. The Sinking Fund Account is maintained by the Kitsap County Treasurer with, and held by, the Custodian (US Bank) and constitutes a part of the Debt Service Fund for the District. The District is required to make annual deposits into the sinking fund in amounts necessary to bring the amount on deposit in the Sinking Fund Account to the balances set forth below.

Deposit Date	Mandatory Balance	Deposit Date	Mandatory Balance
12/01/11	\$ 736,842	12/01/21	\$8,105,263
12/01/12	1,473,684	12/01/22	8,842,105
12/01/13	2,210,526	12/01/23	9,578,947
12/01/14	2,947,368	12/01/24	10,315,789
12/01/15	3,684,211	12/01/25	11,052,632
12/01/16	4,421,053	12/01/26	11,789,474
12/01/17	5,157,895	12/01/27	12,526,316
12/01/18	5,894,737	12/01/28	13,263,158
12/01/19	6,631,579	06/01/29	14,000,000
12/01/20	7,368,421		

The balance of the sinking fund as of May 31, 2015 was \$ 2,932,293.

## **NOTE 10 - RISK MANAGEMENT**

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

### **WASHINGTON SCHOOLS RISK MANAGEMENT POOL**

The district is a member of the Washington Schools Risk Management Pool (Pool). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The Pool was formed in 1986 when educational service districts and school districts in the state of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. Over 90 schools and educational service districts have joined the Pool.

The Pool allows members to jointly purchase insurance coverage, establish a plan of self-insurance, and provide related services, such as risk management. The Pool provides the following coverages for its members: property, liability, vehicle, public official liability, crime, employment practices, machinery breakdown and network security.

Members make an annual contribution to fund the Pool. The Pool acquires reinsurance from unrelated underwriters that are subject to a per-occurrence self-insured retention of \$1 million. Members are responsible for varied deductibles for both liability and property claims. Insurance carriers cover losses over \$1 million to the maximum limits of each policy. Since the Pool is a cooperative program, there is a joint liability among the participating members.

Members contract to remain in the Pool for a minimum of three years and must give notice two and one half years before terminating participation. The Interlocal Governmental Agreement is renewed automatically each year after the initial three-year period. Even after termination, a member is still responsible for contributions to the Pool for any unresolved, unreported, and in-process claims for the period they were a signatory to the Interlocal Governmental Agreement if the assets of the Pool were exhausted.

The Pool is fully funded by its member participants.

The Pool is governed by a board of directors which is comprised of one designated representative from each participating member. An executive board is elected at the annual meeting, and is responsible for overseeing the business affairs of the Pool.

### **ESD 114 REGION WORKERS' COMPENSATION TRUST**

The Bainbridge Island School District is a member of the ESD 114 Region Workers' Compensation Trust. Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The pool was formed on April 15, 1984 when districts in the state of Washington joined together by signing the Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services for workers' compensation. Fifteen districts have joined the pool.

Members make an annual contribution to fund the pool. The pool acquires reinsurance to reduce its exposure to large losses that is subject to a per-occurrence deductible of \$350,000. Since the pool is a cooperative program, there is a joint liability among the participating members.

New districts applying for membership may do so on approval of a majority vote of the advisory board. Members contract to remain in the pool for one year, and must give notice 30 days before terminating participation. The Interlocal Governmental Agreement is renewed automatically each year after the initial one-year period. Even after termination, a member is still responsible for contributions to the pool for any unresolved, unreported, and in-process claims for the period they were a signatory to the Interlocal Governmental Agreement.

The pool is fully funded by its member participants. Members file claims with ESD 114. Fees paid to ESD 114 for the year ended August 31, 2015 were \$ 183,686.

A board of directors governs the pool, which is comprised of one designated representative from each participating member. An executive committee is elected by the board and is responsible for advising the pool administrator regarding the business affairs of the pool.

### **UNEMPLOYMENT COMPENSATION INSURANCE POOL COOPERATIVE**

The Bainbridge Island School District is a member of the Unemployment Compensation Insurance Pool Cooperative. Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The pool was formed in January 1981 when districts in the state of Washington joined together by signing the Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services for unemployment insurance. Sixteen districts have joined the pool.

Members make an annual contribution to fund the pool. Since the pool is a cooperative program, there is a joint liability among the participating members.

New districts applying for membership may do so on approval of a majority vote of the advisory board. Members contract to remain in the pool for one year, and must give notice 45 days before terminating participation. The Interlocal Governmental Agreement is renewed automatically each year after the initial one year period. Even after termination, a member is still responsible for contributions to the pool for any unresolved, unreported, and in-process claims for the period they were a signatory to the Interlocal Governmental Agreement.

The pool is fully funded by its member participants. Claims are managed by Employer's Unity, Inc., which has been contracted to perform claims management services for the pool. Fees paid to the third party administrator under this arrangement for the years ended August 31, 2015 were \$ 3,828.

A board of directors governs the pool, which is comprised of one designated representative from each participating member. An executive committee is elected by the board and is responsible for advising the pool administrator regarding the business affairs of the pool.

### **NOTE 11 – PROPERTY TAXES**

Property tax revenues are collected as the result of special levies passed by the voters in the district. Taxes are levied on January 1. The taxpayer has the option of paying all taxes on April 30 or one-half then and one-half on October 31. Typically, slightly more than half of the collections are made on the April 30 date. The October 31 collection is not available in time to cover liabilities for the fiscal period ended August 31.

Therefore, the fall portion of property taxes is not accrued as revenue. Instead, the taxes due on October 31 are recorded as deferred revenue.

#### **NOTE 12 - JOINT VENTURES AND JOINTLY GOVERNED ORGANIZATIONS**

The district is a member of the King County Directors' Association (KCDA). KCDA is a purchasing cooperative designed to pool the member districts' purchasing power. The district's current equity of \$53,375 is the accumulation of the annual assignment of KCDA's operating surplus based upon the percentage derived from KCDA's total sales to the district compared to all other districts applied against paid administrative fees. The district may withdraw from the joint venture and will receive its equity in ten annual allocations of merchandise or 15 annual payments.

#### **NOTE 13 – FUND BALANCE CLASSIFICATION DETAILS**

	General Fund	ASB Fund	Capital Projects Fund	Debt Service Fund	Transportation Vehicle Fund
Nonspendable Fund Balance					
Inventory	\$ 258,801				
Restricted Fund Balance					
Carryover of Restricted Revenues	\$ 68,195				
Debt Service				\$7,103,784	
From Bond Proceeds			\$ 7,224,015		
From Levy Proceeds			\$ 1,385,342		
Fund Purposes		\$ 323,917			\$ 185,871
Committed Fund Balance					
Assigned Fund Balance					
Other Purposes	\$ 1,137,780				
Fund Purposes			\$ 286,634		\$
Unassigned Fund Balance	\$ 1,177,000				

The board of directors has established a minimum fund balance policy for the general fund to provide for financial stability and contingencies within the District. The policy is that the District shall maintain at least 3% of the current year's expenditures towards a minimum fund balance. Portions of fund balance that are set aside for the purpose of meeting this policy are recorded on the financial statements as part of Unassigned fund balance.

#### **NOTE 14 – POST-EMPLOYMENT BENEFIT PLANS OTHER THAN PENSION PLANS-BOTH IN SEPARATELY ISSUED PLAN FINANCIAL STATEMENTS AND EMPLOYER STATEMENTS**

##### **457 Plan – Deferred Compensation Plan**

District employees have the option of participating in a deferred compensation plan as defined in §457 of the Internal Revenue Code that is administered by the state deferred compensation plan, or the District.

##### **403(b) Plan – Tax Sheltered Annuity (TSA)**

The District offers a tax deferred annuity plan for its employees. The plan permits participants to defer a portion of their salary until future years under elective deferrals (employee contribution).

The District complies with IRS regulations that require school districts to have a written plan to include participating investment companies, types of investments, loans, transfers, and various requirements. The plan is administered by {a third party administrator}. The plan assets are assets of the District employees, not the school district, and are therefore not reflected on these financial statements.

#### **NOTE 15 – TERMINATION OF BENFITS**

##### **Compensated Absences**

Employees earn sick leave at a rate of 12 days per year up to a maximum of one contract year.

Under the provisions of Chapter 28A.400.210 RCW, sick leave accumulated by district employees is reimbursed at death or retirement at the rate of one day for each four days of accrued leave, limited to 180 accrued days. This chapter also provides for an annual buy-back of an amount up to the maximum annual accumulation of 12 days. For buy-back purposes employees may accumulate such leave to a maximum of 192 days, including the annual accumulation, as of December 31 of each year.

These expenditures are recorded when paid, except termination sick leave that is accrued upon death, retirement, or upon termination provided the employee is at least 55 years of age and has sufficient years of service. Vested sick leave was computed using the vesting method. The vesting method assumes that once an employee reaches a certain milestone they become eligible for termination payment for unused sick leave.

Bainbridge Island School District No. 303  
Schedule of Long-Term Liabilities: GENERAL FUND

For the Year Ended August 31, 2015

Description	Beginning Outstanding Debt September 1, 2014	Amount Issued / Increased	Amount Redeemed / Decreased	Ending Outstanding Debt August 31, 2015	Amount Due Within One Year
<b>Non-Voted Debt and Liabilities</b>					
Capital Leases	0.00	0.00	0.00	0.00	0.00
Contracts Payable	0.00	0.00	0.00	0.00	0.00
Non-Cancellable Operating Leases	0.00	0.00	0.00	0.00	0.00
Claims & Judgements	0.00	0.00	0.00	0.00	0.00
Compensated Absences	1,266,001.84	55,827.91	23,661.43	1,298,168.32	192,918.13
Long-Term Notes	0.00	0.00	0.00	0.00	0.00
Anticipation Notes Payable	0.00	0.00	0.00	0.00	0.00
Lines of Credit	0.00	0.00	0.00	0.00	0.00
Other Non-Voted Debt	0.00	0.00	0.00	0.00	0.00
<b>Other Liabilities</b>					
Non-Voted Notes Not Recorded as Debt	0.00	0.00	0.00	0.00	0.00
Net Pension Liabilities:					
Net Pension Liabilities TRS 1	0.00	11,832,123.00	0.00	11,832,123.00	
Net Pension Liabilities TRS 2/3	0.00	3,179,979.00	0.00	3,179,979.00	
Net Pension Liabilities SERS 2/3	0.00	1,437,891.00	0.00	1,437,891.00	
Net Pension Liabilities PERS 1	0.00	2,841,764.00	0.00	2,841,764.00	
Total Long-Term Liabilities	1,266,001.84	19,347,584.91	23,661.43	20,589,925.32	192,918.13

Bainbridge Island School District No. 303  
Schedule of Long-Term Liabilities: DEBT SERVICE FUND  
For the Year Ended August 31, 2015

Description	Beginning Outstanding Debt September 1, 2014	Amount Issued / Increased	Amount Redeemed / Decreased	Ending Outstanding Debt August 31, 2015	Amount Due Within One Year
<b>Voted Debt</b>					
Voted Bonds	85,885,000.00	13,770,000.00	15,825,000.00	83,830,000.00	4,865,000.00
LOCAL Program Proceeds Issued in Lieu of Bonds	0.00	0.00	0.00	0.00	0.00
<b>Non-Voted Debt</b>					
Non-Voted Bonds	0.00	0.00	0.00	0.00	0.00
LOCAL Program Proceeds	0.00	0.00	0.00	0.00	0.00
Total Long-Term Liabilities	85,885,000.00	13,770,000.00	15,825,000.00	83,830,000.00	4,865,000.00

**BAINBRIDGE ISLAND SCHOOL DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the year ending August 31, 2015

1	2	3	4	5	6	7	8	9
Expenditures								
Federal Agency Name	Pass Through Agency	Federal Program Title	CFDA Number	Other Identification Number	From Direct Awards	From Pass Through Awards	Total	Footnote
USDA	WA OSPI	School Breakfast Program	10.553			\$4,027.54	\$4,027.54	1
		National School Lunch-Cash Assistance	10.555			\$131,694.02	\$131,694.02	1
		National School Lunch-Non Cash	10.555			\$58,490.86	\$58,490.86	3
		<b>Subtotal US Department of Agriculture</b>			<b>\$0.00</b>	<b>\$194,212.42</b>	<b>\$194,212.42</b>	
US Dept. of Ed.	WA OSPI	Title 1 Grants to Local Educational Agencies	84.010	201877		\$195,363.85	\$195,363.85	1,2,4
		Special Education Grants to State	84.027	305136		\$686,208.00	\$686,208.00	1,2,4
		Special Education Grants to State	84.027	337704		\$159,667.00	\$159,667.00	1
		Safety Net						
		Career & Technical Education - Basic Grants	84.048	173291		\$14,083.00	\$14,083.00	1,4
		to State						
		Indian Education Grants to Local Educational Agencies	84.060	S060A141224	\$12,583.00		\$12,583.00	1,2
		Special Education Preschool Grants	84.173	363143		\$30,763.00	\$30,763.00	1,2,4
		Improving Teacher Quality State Grants	84.367	523587		\$104,746.21	\$104,746.21	1,2
		<b>Subtotal US Department of Education</b>			<b>\$12,583.00</b>	<b>\$1,190,831.06</b>	<b>\$1,203,414.06</b>	
<b>TOTAL FEDERAL AWARDS EXPENDED</b>					<b>\$12,583.00</b>	<b>\$1,385,043.48</b>	<b>\$1,397,626.48</b>	

**NOTES TO THE SCHEDULE**

**NOTE 1 – BASIS OF ACCOUNTING**

The Schedule of Expenditures of Federal Awards is prepared on the same basis of accounting as the Bainbridge Island School District's financial statements. The Bainbridge Island School District uses the modified accrual basis of accounting. Expenditures represent only the federally funded portions of the program. District records should be consulted to determine amounts expended or matched from non-federal sources.

**NOTE 2 - PROGRAM COSTS/MATCHING CONTRIBUTIONS**

The amounts shown as current year expenses represent only the federal grant portion of the program costs. Entire program costs, including the district's portion, may be more than shown.

**NOTE 3 - NON CASH AWARDS - FOOD COMMODITIES**

The amount of food commodities reported on the schedule is the value of commodities distributed by the School District during the current year and priced as prescribed by the USDA.

**NOTE 4 - FEDERAL INDIRECT RATE**

The Bainbridge Island School District used the federal restricted rate of .0412%.

*The Accompanying Notes to the Schedule of Expenditures of Federal Awards are an Integral Part of this Schedule.*

## CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED UNDER OMB CIRCULAR A-133

### Bainbridge Island School District No. 303 Kitsap County September 1, 2014 through August 31, 2015

This schedule presents the corrective action planned by the auditee for findings reported in this report in accordance with OMB Circular A-133. The information in this schedule is the representation of the Bainbridge Island School District No. 303.

<b>Finding ref number:</b> 2015-001	<b>Finding caption:</b> The District did not have adequate internal controls to ensure compliance with federal time and effort requirements.
<b>Name, address, and telephone of auditee contact person:</b> Peggy Paige, Director of Business Services 8489 Madison Avenue N.E. Bainbridge island, WA 98110 (206) 780-1061	
<b>Corrective action the auditee plans to take in response to the finding:</b> <i>Internal controls will be strengthened through ongoing training of key support personnel and administrators responsible for federal programs. Administrators will monitor and reconcile actual work assignments from payroll records with time and effort reports (certifications) completed by employees charged to federal programs.</i>	
<b>Anticipated date to complete the corrective action:</b> Training and monitoring to begin March 2016. Current year charges will be reviewed to insure certifications are in place to support payroll expense charged to federal programs.	

## ABOUT THE STATE AUDITOR'S OFFICE

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