

Washington State Auditor's Office
Financial Statements and Federal Single Audit Report

Peninsula School District No. 401
Pierce County

Audit Period
September 1, 2011 through August 31, 2012

Report No. 1009226

Issue Date
March 11, 2013



WASHINGTON
TROY KELLEY
STATE AUDITOR



**Washington State Auditor
Troy Kelley**

March 11, 2013

Board of Directors
Peninsula School District No. 401
Gig Harbor, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on Peninsula School District No. 401'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,

TROY KELLEY
STATE AUDITOR

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Pierce County
September 1, 2011 through August 31, 2012**

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Federal Summary

Peninsula School District No. 401 Pierce County September 1, 2011 through August 31, 2012

The results of our audit of Peninsula School District No. 401 are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

FINANCIAL STATEMENTS

An unqualified 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 reported no 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 unqualified opinion on the District's compliance with requirements applicable to each of its major federal programs.

We reported no 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 (IDEA) - Special Education - Grants to States (IDEA, Part B)
84.173	Special Education Cluster (IDEA) - Special Education - Preschool Grants (IDEA Preschool)

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.

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters in Accordance with *Government Auditing Standards*

**Peninsula School District No. 401
Pierce County
September 1, 2011 through August 31, 2012**

Board of Directors
Peninsula School District No. 401
Gig Harbor, Washington

We have audited the financial statements of Peninsula School District No. 401, Pierce County, Washington, as of and for the year ended August 31, 2012, and have issued our report thereon dated February 7, 2013.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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.

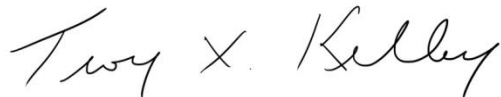
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify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

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the District's financial statements are free of 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*.

This report is intended for the information and use of the audit committee, management, the Board of Directors, federal awarding agencies and pass-through entities. 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.



TROY KELLEY
STATE AUDITOR

February 7, 2013

Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

**Peninsula School District No. 401
Pierce County
September 1, 2011 through August 31, 2012**

Board of Directors
Peninsula School District No. 401
Gig Harbor, Washington

COMPLIANCE

We have audited the compliance of Peninsula School District No. 401, Pierce 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, 2012. The District's major federal programs are identified in the Federal Summary. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the 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, 2012.

INTERNAL CONTROL OVER COMPLIANCE

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

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

This report is intended for the information of the audit committee, management, the Board of Directors, federal awarding agencies and pass-through entities. 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.



TROY KELLEY
STATE AUDITOR

February 7, 2013

Independent Auditor's Report on Financial Statements

Peninsula School District No. 401 Pierce County September 1, 2011 through August 31, 2012

Board of Directors
Peninsula School District No. 401
Gig Harbor, Washington

We have audited the accompanying financial statements of Peninsula School District No. 401, Pierce County, Washington, as of and for the year ended August 31, 2012, as listed on page 9. These financial statements are the responsibility of the District's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1 to the financial statements, the District prepares its financial statements using accounting practices prescribed by Washington State statutes and the *Accounting Manual for Public Schools in the State of Washington*, which demonstrates compliance with the regulatory basis of accounting which differs from accounting principles generally accepted in the United States of America. The differences between the regulatory basis of accounting and the accounting principles generally accepted in the United States of America are also described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Peninsula School District No. 401, as of August 31, 2012, and the changes in financial position thereof for the year then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report 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* and should be considered in assessing the results of our audit.

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 Schedule of Long-Term Liabilities is 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.

This report is intended for the information and use of the audit committee, management, the Board of Directors, federal awarding agencies and pass-through entities of the District. 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.

A handwritten signature in cursive script that reads "Troy X. Kelley".

TROY KELLEY
STATE AUDITOR

February 7, 2013

Financial Section

**Peninsula School District No. 401
Pierce County
September 1, 2011 through August 31, 2012**

FINANCIAL STATEMENTS

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Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental
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E.S.D. 121

Balance Sheet

COUNTY: 27 Pierce

Governmental Funds

August 31, 2012

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
ASSETS:							
Cash and Cash Equivalents	11,239,815.15	871,917.67	2,304,438.88	6,765,848.17	467,054.58	0.00	21,649,074.45
Minus Warrants Outstanding	-2,129,263.33	-27,208.16	0.00	-1,750.00	0.00	0.00	-2,158,221.49
Taxes Receivable	9,240,612.84		1,994,545.67	0.00	0.00		11,235,158.51
Due From Other Funds	52,149.99	0.00	0.00	0.00	0.00	0.00	52,149.99
Due From Other Governmental Units	560,411.30	0.00	0.00	58,380.00	0.00	0.00	618,791.30
Accounts Receivable	97,215.08	0.00	0.00	10,232.43	0.00	0.00	107,447.51
Interfund Loans Receivable	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Accrued Interest Receivable	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Inventory	372,283.24	0.00	0.00	0.00	0.00	0.00	372,283.24
Prepaid Items	21,815.51	0.00	0.00	0.00	0.00	0.00	21,815.51
Investments	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Investments/Cash With Trustee	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Investments-Deferred Compensation	16,161.16	0.00	0.00	0.00	0.00	0.00	16,161.16
Self-Insurance Security Deposit	92,118.00	0.00	0.00	0.00	0.00	0.00	92,118.00
TOTAL ASSETS	19,563,318.94	844,709.51	4,298,984.55	6,832,710.60	467,054.58	0.00	32,006,778.18
LIABILITIES:							
Accounts Payable	827,268.29	17,613.35	0.00	187,861.01	0.00	0.00	1,032,742.65
Contracts Payable Current	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Accrued Interest Payable	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Accrued Salaries	81,770.66	0.00	0.00	0.00	0.00	0.00	81,770.66
Revenue Anticipation Notes Payable	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Payroll Deductions and Taxes Payable	39,397.44	0.00	0.00	0.00	0.00	0.00	39,397.44
Due To Other Governmental Units	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Deferred Compensation Payable	16,161.16	0.00	0.00	0.00	0.00	0.00	16,161.16
Estimated Employee Benefits Payable	1,305,827.99	0.00	0.00	0.00	0.00	0.00	1,305,827.99
Due To Other Funds	0.00	52,149.99	0.00	0.00	0.00	0.00	52,149.99

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
LIABILITIES:							
Interfund Loans Payable	0.00		0.00	0.00	0.00		0.00
Deposits	0.00	0.00		0.00			0.00
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
Deferred Revenue	9,349,069.07	207,840.60	1,994,545.67	0.00	0.00	0.00	11,551,455.34
TOTAL LIABILITIES	11,619,494.61	277,603.94	1,994,545.67	187,861.01	0.00	0.00	14,079,505.23
FUND BALANCE:							
Nonspendable Fund Balance	394,098.75	0.00	0.00	0.00	0.00	0.00	394,098.75
Restricted Fund Balance	182,707.05	567,105.57	2,304,438.88	3,271,069.95	467,054.58	0.00	6,792,376.03
Committed Fund Balance	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Assigned Fund Balance	3,416,442.00	0.00	0.00	3,373,779.64	0.00	0.00	6,790,221.64
Unassigned Fund Balance	3,950,576.53	0.00	0.00	0.00	0.00	0.00	3,950,576.53
TOTAL FUND BALANCE	7,943,824.33	567,105.57	2,304,438.88	6,644,849.59	467,054.58	0.00	17,927,272.95
TOTAL LIABILITIES AND FUND BALANCE							
	19,563,318.94	844,709.51	4,298,984.55	6,832,710.60	467,054.58	0.00	32,006,778.18

E.S.D. 121

Statement of Revenues, Expenditures, and Changes in Fund Balance

COUNTY: 27 Pierce

Governmental Funds

For the Year Ended August 31, 2012

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
REVENUES:							
Local	20,785,117.15	1,097,871.99	3,883,478.59	627,675.41	596.33		26,394,739.47
State	55,199,526.77		0.00	0.00	681,811.80		55,881,338.57
Federal	4,678,114.30		0.00	0.00	0.00		4,678,114.30
Federal Stimulus	29,304.00						29,304.00
Other	40,167.77			0.00	0.00	0.00	40,167.77
TOTAL REVENUES	80,732,229.99	1,097,871.99	3,883,478.59	627,675.41	682,408.13	0.00	87,023,664.11
EXPENDITURES:							
CURRENT:							
Regular Instruction	45,224,295.17						45,224,295.17
Federal Stimulus	29,304.00						29,304.00
Special Education	10,811,810.72						10,811,810.72
Vocational Education	3,531,821.67						3,531,821.67
Skills Center	0.00						0.00
Compensatory Programs	2,913,348.07						2,913,348.07
Other Instructional Programs	259,142.38						259,142.38
Community Services	541,302.02						541,302.02
Support Services	17,462,564.01						17,462,564.01
Student Activities/Other		1,191,443.20				0.00	1,191,443.20
CAPITAL OUTLAY:							
Sites				48,563.31			48,563.31
Building				1,000,228.93			1,000,228.93
Equipment				0.00			0.00
Instructional Technology				0.00			0.00
Energy				3,320.06			3,320.06
Transportation Equipment					539,361.76		539,361.76
Sales and Lease						0.00	0.00
Other	136,172.31						136,172.31
DEBT SERVICE:							
Principal	7,719.28		2,915,000.00	0.00	0.00		2,922,719.28
Interest and Other Charges	836.81		1,053,364.91	0.00	0.00		1,054,201.72
Bond/Levy Issuance				750.00			750.00
TOTAL EXPENDITURES	80,918,316.44	1,191,443.20	3,968,364.91	1,052,862.30	539,361.76	0.00	87,670,348.61

E.S.D. 121

Statement of Revenues, Expenditures, and Changes in Fund Balance

COUNTY: 27 Pierce

Governmental Funds

For the Year Ended August 31, 2012

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
DEBT SERVICE:							
REVENUES OVER (UNDER) EXPENDITURES	-186,086.45	-93,571.21	-84,886.32	-425,186.89	143,046.37	0.00	-646,684.50
OTHER FINANCING SOURCES (USES):							
Bond Sales & Refunding Bond Sales	0.00		24,489,319.85	0.00	0.00		24,489,319.85
Long-Term Financing	0.00			0.00	0.00		0.00
Transfers In	0.00		0.00	0.00	102,715.00		102,715.00
Transfers Out (GL 536)	-102,715.00		0.00	0.00	0.00	0.00	-102,715.00
Other Financing Uses (GL 535)	0.00		-24,327,182.71	0.00	0.00		-24,327,182.71
Other	0.00		0.00	0.00	5,320.75		5,320.75
TOTAL OTHER FINANCING SOURCES (USES)	-102,715.00		162,137.14	0.00	108,035.75	0.00	167,457.89
EXCESS OF REVENUES/OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	-288,801.45	-93,571.21	77,250.82	-425,186.89	251,082.12	0.00	-479,226.61
BEGINNING TOTAL FUND BALANCE	8,232,625.78	660,676.78	2,227,188.06	7,070,036.48	215,972.46	0.00	18,406,499.56
Prior Year(s) Corrections or Restatements	0.00	0.00	0.00	0.00	0.00	0.00	0.00
ENDING TOTAL FUND BALANCE	7,943,824.33	567,105.57	2,304,438.88	6,644,849.59	467,054.58	0.00	17,927,272.95

**PENINSULA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
September 1, 2011 through August 31, 2012**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (SSAP)

The Peninsula 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 operation 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 Peninsula School District presents governmental fund financial statements and related notes on the modified accrual basis of accounting as prescribed by generally accepted accounting principles (GAAP) and required by its regulatory agencies the Office of Superintendent of Public Instruction and the State Auditor's Office. The District's accounting policies, as reflected in the accompanying financial statements, conform to 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 allows for a practice that differs from generally accepted accounting principles in the following manner:

- (1) District wide statements are not presented.
- (2) The financial statements do not report capital assets.
- (3) Debt is not reported in the face of the financial statements. It is reported on the notes to the financial statements and on the Schedule of Long-Term Debt. The Schedule of Long-Term Debt is required supplemental information.
- (4) The original budget is not presented. This information is available through the Office of Superintendent of Public Instruction.
- (5) The Management Discussion and Analysis is not required.
- (6) The financial statements do not report a liability for Other Post-Employment Benefits (GASB Statement 45).
- (7) Other departures from GAAP that are material in nature are indicated throughout the Notes.

The Peninsula School District presents financial information in the basis of funds, each of which is considered a separate accounting entity. The regulatory agencies require all funds be presented as major funds. The operations of each fund are accounted for with a separate set of self-

balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures (or expenses) as appropriate. 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 major 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 Funds

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 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 Bodies 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.

Proprietary Funds

School districts in the State of Washington are not allowed to utilize proprietary fund types, which is a departure from GAAP.

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

The Peninsula School District's accounting policies conform to the Accounting Manual for Public School Districts in the State of Washington, issued jointly by the State Auditor and the Superintendent of Public Instruction. The District's financial statements are presented in conformity with that publication.

The measurement focus for the District's funds is the modified accrual basis and the current financial resources focus. This basis of accounting focuses primarily on the sources, uses, and balances of current financial resources and often has a budgetary orientation. This means that only current assets and current liabilities are included on their balance sheets.

Revenues are recognized as soon as they are measurable and available. "Measurable" means the amount of the transaction can be readily determined. Revenues are considered "available" if they are collected within 60 days after year-end to pay liabilities of the current period. Property taxes receivable 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 accrual 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. The fund liability is incurred when the goods or services have been received. For federal grants, the recognition of expenditures is dependent on the obligation date. (Obligation means a purchase order has been issued, contracts have been awarded, or goods and/or services have been received.)

Budgetary Data

General Budgetary Policies

Chapter 28A.505 RCW and Chapter 392-123 Washington Administrative Code (WAC) mandate school district budget policies and procedures. The board adopts the budget after a public hearing. An appropriation is a prerequisite to expenditure. Appropriations lapse at the end of the fiscal period.

Budgetary Basis of Accounting

For budget and accounting purposes, revenues and expenditures are accounted for on the modified accrual basis as prescribed in law for all governmental funds. 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 Peninsula School 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 in 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 amount are expended.

The government’s fund balance classification policies and procedures.

The Peninsula School District classified 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 had a legal restriction placed in their use either from statute, WAC, or other legal requirements that are 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 an established policy of the board. 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 are 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 within the General Fund.

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

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

Assets, Liabilities, and Fund Equity

All of the District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investment 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.

NOTE 2: CASH DEPOSITS WITH FINANCIAL INSTITUTIONS

The Pierce County Treasurer is the *ex-officio* treasurer for the Peninsula School 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 are insured or registered and held by the District or its agent in the District's name.

During the 2009-2010 fiscal year, the Pierce County Treasurer changed investment strategy to have shorter investment periods (monthly) in order to maximize investment earnings with low interest rates. District cash is invested at the beginning of each month with redemptions coming due on the last day of the month. With this change to investments, there are no investments recorded at the end of the month, or the end of the fiscal year as of August 31.

The district's cash and investments with the County Treasurer as of August 31 are as follows:

	August 31, 2012	August 31, 2011
Cash with County Treasurer	\$ 21,396,708	\$ 21,817,403
County Treasurer Investment Pool	\$ 0	\$ 0
Total Cash & Investments	\$ 21,396,708	\$ 21,817,403

NOTE 3: SIGNIFICANT CONTINGENT LIABILITIES

Litigation

The Peninsula School District has no knowledge of any impending or threatened litigation, claims or assessments, or unasserted claims or assessments that are required to be accrued or disclosed in the financial statements as of August 31, 2012.

NOTE 4: SIGNIFICANT EFFECTS OF SUBSEQUENT EVENTS

There were no events after the balance sheet date that would have a material impact on the next or future years.

NOTE 5: ANNUAL PENSION COST AND NET PENSION OBLIGATIONS

General Information

Substantially all Peninsula School District full-time and qualifying part-time employees participate in one of the following statewide retirement systems managed by the Washington State Department of Retirement Systems (DRS), under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans: Teachers' Retirement System (TRS), Public Employees' Retirement System (PERS), or School Employees' Retirement System (SERS). The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov. The following disclosures are made pursuant to GASB Statements No. 27, *Accounting for Pensions by State and Local Government Employers* and No. 50, *Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27*.

Statewide membership by retirement system program as of June 20, 2011:

Program	Active Members	Inactive Vested Members	Retired Members
TRS	66,203	9,204	41,709
PERS	152,417	29,925	79,363
SERS	52,332	10,262	6,428

Data is as of the last actuarial valuation date of June 30, 2011.

Certificated public employees are members of TRS. Noncertificated public 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. Plan 1 members are eligible to retire with full benefits after five years of credited service and attainment of age 60, after 25 years of credited service and attainment of age 55, or after 30 years of credited service.

Plan 2 under the TRS or SERS programs are defined benefit pension plans whose members joined on or after October 1, 1977, but before June 30, 1996, or August 31, 2000, for TRS or SERS respectively. Members are eligible to retire with full benefits after five years of credited service and attainment of age 65, or after 20 years of credited service and attainment of age 55 with the benefit actuarially reduced from age 65, or 30 years of credited service and receive either a reduced benefit or stricter return-to-work rules.

Plan 3 under the TRS and SERS programs are defined benefit, defined contribution pension plans whose members joined on or after July 1, 1996, or September 1, 2000, for TRS and SERS respectively. Members are eligible to retire with full benefits at age 65, or they may retire at age 55 with at least 30 service years and receive either a reduced benefit or stricter return-to-work rules.

Average final compensation (AFC) of Plan 1 TRS and PERS members is the highest average salary during any two consecutive years. For Plan 2 and Plan 3 TRS and SERS members, it is the highest average salary during any five consecutive years.

The retirement allowance of Plan 1 TRS and PERS members is the AFC multiplied by 2 percent per year of service, capped at 60 percent, with a cost-of-living adjustment. For Plan 2 TRS and SERS members, it is the AFC multiplied by 2 percent per year of service with provision for a cost-of-living adjustment. For the defined benefit portion of Plan 3 TRS and SERS member, it is the AFC multiplied by 1 percent per year of service with a cost-of-living adjustment.

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 advice from the Office of the State Actuary. The employee contribution rate for Plan 1 in PERS and TRS is set by statute at 6 percent and does not vary from year to year. The contribution requirements are established under Chapters 41.40, 41.32, and 41.35 RCW for PERS, TRS, and SERS, respectively.

The Peninsula School District's contribution represents its full liability under both systems, except that future rates may be adjusted to meet the system needs.

Contributions

Employee contribution rates effective September 1, 2011 through August 31, 2012:

Plan 1 TRS	6.00%	Plan 1 PERS	6.00%
Plan 2 TRS	4.69%	Plan 2 SERS	4.09%
Plan 3 TRS and SERS 5.00% (minimum) – 15.00% (maximum)			

For Plan 3 TRS and SERS, rates adjusted based upon age may be chosen. The optional rates range begins at 5 percent and increase to a maximum of 15 percent.

Employer contribution rates effective September 1, 2011 through August 31, 2012:

	<i>9/1/11-8/31/12</i>		<i>9/1/11-3/31/12</i>	<i>4/1-6/30/12</i>	<i>7/1-8/31/12</i>
Plan 1 TRS	8.04%	Plan 1 PERS	7.25%	7.08%	7.21%
Plan 2 TRS	8.04%	Plan 2 SERS	7.59%	7.58%	7.58%
Plan 3 TRS	8.04%	Plan 3 SERS	7.59%	7.58%	7.58%

Under current law, the employer must contribute 100 percent of the employer-required contribution. Employer required contributions in dollars (TRS: July 1-June 30, PERS: January 1-December 31, SERS: January 1-December 31):

Peninsula School District Employer Contributions			
PLAN	2011-12	2010-11	2009-10
Plan 1 TRS	\$ 168,733	\$ 205,303	\$ 265,956
Plan 2 TRS	\$ 365,845	\$ 299,430	\$ 305,062
Plan 3 TRS	\$ 2,210,877	\$ 1,803,128	\$ 1,901,074
Plan 1 PERS	\$ 29,507	\$ 26,800	\$ 40,309
Plan 2 SERS	\$ 257,143	\$ 204,569	\$ 289,943
Plan 3 SERS	\$ 408,889	\$ 347,147	\$ 500,709
Totals	\$ 3,440,994	\$ 2,886,377	\$ 3,303,053

Historical trend information showing TRS, PERS and SERS progress in accumulating sufficient assets to pay benefits when due is presented in the State of Washington's June 30, 2012, comprehensive annual financial report. Refer to this report for detailed trend information. It is available from:

State of Washington
 Office of Financial Management
 300 Insurance Building
 P.O. Box 43113
 Olympia, WA 98504-3113

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.

Employers participating in the plan include the State of Washington (which includes general government agencies and higher education institutes), 57 of the state’s K-12 school district and educational service districts (ESDs), and 206 political subdivisions and tribal governments. Additionally, the PEBB plan is available to the retirees of the remaining 247 K-12 school district and ESDs. The Peninsula School 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 2011-2012, the District was required to pay the HCA \$66.01 per month per full-time employee to support the program, for a total payment of \$696,383. 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 Peninsula School 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. This is a departure from GAAP.

NOTE 7: COMMITMENTS UNDER NONCAPITALIZED (OPERATING) LEASES

For the fiscal year ended August 31, 2012, the Peninsula School District had incurred additional long-term debt as follows:

Lessor	Amount	Annual Payments	Final Payment Date	Interest Rate	Balance Due
Dell Financial Services	\$50,882.81	\$12,720.70	2011-2012	0%	\$ -
US Bancorp Government Leasing & Finance	\$389,846.20	\$102,673.08	7/20/2016	2.58%	\$382,126.92
Total Lease-Purchase Commitments					\$382,126.92

On July 20, 2012, Peninsula School District entered into a Master Tax-Exempt Installment Purchase Agreement with U.S. Bancorp Government Leasing and Finance Inc. This capital lease was for the purchase of LAN Equipment for the Technology summer projects scheduled for the Peninsula High School, Purdy Elementary and ESC campuses. The terms of the agreement call for 48 monthly payments of \$8,556.09 per month starting on August 20, 2012. Total amount financed was \$389,846.20.

NOTE 8: CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

The Peninsula School District did not have any major construction projects in progress as of August 31, 2012. Other significant commitments as of August 31, 2012 related to Lighting Retrofit projects, replacement of the stadium seating at Roy Anderson Stadium, move a portable to Purdy Elementary, property evaluation contracted services, new boilers at Voyager Elementary and installation of video surveillance equipment in Peninsula High and Gig Harbor High School's parking lots.

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. Encumbrances in the amount of \$467,674.02 within the General Fund and \$874,253.03 within the Capital Projects Fund were re-encumbered on September 1, 2012.

NOTE 9: REQUIRED DISCLOSURES ABOUT CAPITAL ASSETS

The Peninsula School District's capital assets are insured in the amount of \$155,034,506 for fiscal year 2011-2012. In the opinion of the District's insurance consultant, the amount was sufficient to adequately fund replacement of the District's assets.

NOTE 10: REQUIRED DISCLOSURES ABOUT LONG-TERM LIABILITIES

Long-Term Debt

Bonds payable as of August 31, 2012, are comprised of the following individual issues:

Issue Name	Amount Authorized	Annual Installments	Final Maturity	Interest Rate(s)	Amount Outstanding
General Obligation Bonds as of 8/31/2012					
2003 & 2004 UTGO Refunding	\$21,525,000	\$355,000-4.1M	12/01/19	1.89%	\$21,170,000
2003 UTGO (Refunding 2011)	\$ 4,695,000	\$1.9M - 2.8M	12/01/13	5.00%	\$ 4,695,000
2004 UTGO (Refunding 2011)	\$ 2,950,000	\$100,000-1.4M	12/01/14	5.25%	\$ 1,550,000
Sub-total GO Bonds	\$29,170,000				\$27,415,000
Non-Voted Debt as of 8/31/12	\$ 0				\$ 0
Total All Bonds as of 8/31/12	\$29,170,000				\$27,415,000

The following is a summary of general obligation long-term debt transactions for the year ending August 31, 2012.

Long-term debt payable at 9/1/11	\$ 30,330,000
New Issues	\$ 0
Less Debt retired	\$ 2,915,000
Long-term debt payable at 8/31/12	\$ 27,415,000

The following is a schedule of annual requirements to amortize long-term debt as of August 31, 2012.

Calendar Years Ending December 31,	Principal	Interest	Total
2012	\$ 2,780,000	\$ 1,099,840	\$ 3,879,840
2013	\$ 2,935,000	\$ 999,400	\$ 3,934,400
2014	\$ 3,135,000	\$ 889,350	\$ 4,024,350
2015	\$ 3,320,000	\$ 763,950	\$ 4,083,950
2016	\$ 3,480,000	\$ 631,650	\$ 4,111,650
2017	\$ 3,640,000	\$ 492,450	\$ 4,132,450
2018	\$ 3,990,000	\$ 359,850	\$ 4,349,850
2019	\$ 4,135,000	\$ 200,250	\$ 4,335,250
Totals	\$ 27,415,000	\$ 5,436,740	\$ 32,851,740

Refunded Debt

On September 14, 2011 the District issued \$21,525,000 in general obligation bonds with an average interest rate of 1.89% to refund \$10,000,000 of its outstanding Unlimited Tax General Obligation Bonds, 2003, dated July 1, 2003, with an average interest rate of 5.00% and \$11,200,000 of its outstanding Unlimited Tax General Obligation Bonds, 2004, dated July 15, 2004, with an average interest rate of 5.25%. The net proceeds of \$24,330,944.85 (after the payment of \$158,375.00 in underwriting discount and other issuance expenses) were used to purchase U.S. Government securities and provide a beginning cash balance that were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds, and to provide a deposit of \$3,762.14 to the District's Debt Service Fund. As a result, the refunded bonds are considered to be defeased.

The District refunded the 2003 and 2004 bonds to reduce its total debt service over the next eight years by \$1,281,280.48 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$1,200,561.55.

Cash Flows Difference	
Old Debt Service Cash Flows	\$28,036,500.00
Less New Debt Service Cash Flows	(\$26,758,981.66)
Plus Accrued Interest Included in 12/1/2011 Payment	\$0
Plus Bond Proceeds deposited in Debt Service Fund	\$3,762.14
Total Difference	\$1,281,280.48
Economic Gain	
Present Value of Old Debt Service Cash Flows	\$25,686,119.26
Less Present Value of New Debt Service Cash Flows	(\$24,489,319.85)
Plus Accrued Interest Included in 12/1/2011 Payment	\$0
Plus Bond Proceeds deposited in Debt Service Fund	\$3,762.14
Total Gain	\$1,200,561.55

NOTE 11: ENTITY BALANCES AND TRANSFERS

The district did not have any interfund loans as of August 31, 2012.

NOTE 12: ENTITY RISK MANAGEMENT ACTIVITIES

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.

General Property and Liability Insurance

Peninsula School District is one of over 70 school districts, educational service districts, and interlocal cooperative members of the Washington Schools Risk Management Pool, which was formed on August 30, 1986 pursuant to Chapter 48.62 of the Revised Code of Washington. The

purpose of the Pool is to join together in a cooperative manner to provide its members the capability and authority to jointly purchase property and liability insurance, establish and maintain a reserve to pay for self-insurance coverage, provide a plan of self-insurance, and provide related services, including a cooperative program of risk management. The District made payments in the amount of \$650,142 for the 2011-2012 fiscal year to the Washington Schools Risk Management Pool, which is administered by Educational Service District No. 121. For the period 9/1/11 to 8/31/12, the Pool provided liability limits of \$15 million per occurrence and property limits of \$500 million per occurrence (for covered claims). The Pool purchases excess insurance to provide for property claims in excess of \$1 million per occurrence and for liability claims in excess of \$1.5 million per occurrence with a \$4 million loss corridor.

Pool underwriting and rate setting policies have been established by the Pool Executive Board after consultation with actuaries. Pool members are subject to supplemental assessment in the event of deficiencies. There is no limit on the amount of annual premium contribution increases. If the assets of the Pool were to be exhausted, members would be responsible for the Pool's liabilities. The allocation of the liabilities would be determined by the Executive Board. If the Pool were dissolved, the members would receive the net assets. The allocation would be in proportion to each member's contribution less obligations (including incurred but not reported claims).

The Washington Schools Risk Management Pool has published its own financial report for the year ended August 31, 2012, which can be obtained from Puget Sound Risk Management Pool, P. O. Box 88700, Tukwila, WA 98138-9712

Worker's Compensation Trust

Peninsula School District is a member of the Puget Sound Educational Service District Worker's Compensation Trust which is a self-insured pool providing insurance for on-the-job related injuries for participating school districts. For the fiscal year 2011-2012, the district made payments of \$695,800 to this industrial insurance pool, which is administered by the Puget Sound Education Service District on behalf of the member districts. This fund is operated for the district's benefit in-lieu-of the district having to make monthly premium payments to the State of Washington for industrial insurance. This practice enables the district to pay industrial insurance beneficiaries as they become eligible and minimizes the district's costs for the program.

Unemployment Compensation Self-Insurance

Peninsula School District is a member of the Puget Sound Educational Service District Unemployment Pool, a cooperative of over 15 Puget Sound School Districts. The Pool provides administrative services and reviews all unemployment claims and is operated for the District's benefit in-lieu-of the District making monthly premium payments to the State of Washington. Actual employee claims are paid to the State Employment Security Department by the Puget Sound Educational Service District Unemployment Pool. The amount of District payments to the Pool's fund is dependent on the amount of unemployment claims and the amount of the District's share in the Pool's reserve fund. During the 2011-2012 fiscal year, the District made contributions of \$94,110 to the pool. The District's portion of the pool's reserve as of August

31, 2012 met the minimum pool requirement and was sufficient to manage all district claims during the fiscal year.

At year-end, the ending balance in the District's Estimated Unemployment Benefits Payable account is \$102,019. This is separate and independent of the Unemployment Pool reserve.

Vision Self-Insurance

In October 2007, the Peninsula School District implemented an employee health benefit self-insurance program to provide vision coverage for district employees and their families as authorized by RCW 48.62. Northwest Administrators, Inc. acts as the third party administrator for the vision insurance program. An initial payment of \$50,000 was made to establish a reserve for claim payments. Actual claims paid by the TPA are reimbursed on a monthly basis in order to maintain a \$50,000 balance. This balance is adequate to provide for three to four months of run out claims. For the 2011-2012 fiscal year, the District made contributions to the reserve account totaling \$208,204. Actual claims paid and reimbursed to Northwest Administrators amounted to \$171,670. Incurred But Not Reported (IBNR) reserves and additional contingency liability reserves are held by the District for the explicit purpose of funding the employee benefit claim liabilities. As of August 31, 2012, the ending balance in the district's Estimated Other Employee Insurance Claims Payable account was \$1.2 million.

NOTE 13: 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 14: JOINT VENTURES AND JOINTLY GOVERNED ORGANIZATIONS

The Peninsula School District is a member of the King County Director's Association, a purchasing cooperative consisting of more than 200 school districts throughout the state, designed to pool the member districts' purchasing power. The District's equity of \$108,691.38 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 as of December 31, 2011. During calendar year 2011, the District's purchases through KCDA contracts amounted to \$490,100.15 and incurred service fees of \$49,399.80. The District may withdraw from the joint venture and will receive its equity in ten annual allocations of merchandise or 15 annual payments.

NOTE 15: FUND BALANCE CLASSIFICATION DETAILS

The District’s financial statements include the following amounts presented in the aggregate.

	General Fund	ASB Fund	Capital Projects Fund	Debt Service Fund	Transportation Vehicle Fund
Nonspendable Fund Balance					
Inventory & Prepaid Items	\$394,099				
Restricted Fund Balance					
Carryover of Restricted Revenues	\$ 90,589				
Debt Service					
Arbitrage Rebate					
Uninsured Risks	\$ 92,118				
Other Items		\$567,106	\$3,271,070	\$2,304,439	\$467,055
Committed Fund Balance					
Minimum Fund Balance Policy					
Other Commitments					
Assigned Fund Balance					
Contingencies	\$1,756,625				
Other Capital Projects					
Other Purposes	\$1,659,817				
Fund Purposes			\$3,373,780		

In addition, the Capital Projects Fund has the following amounts in Restricted Fund Balance, based on the source of the revenues:

Restricted from Bond Proceeds	\$ 10,106
Restricted from Levy Proceeds	\$ 0
Restricted from State Proceeds	\$ 252,509
Restricted from Federal Proceeds	\$ 0
Restricted from Other Proceeds – Pierce County Impact Fees	\$ 2,089,652
Restricted from Impact Fee Proceeds – City of Gig Harbor	\$ 918,803
Restricted from Mitigation Fee Proceeds	\$ 0
Restricted from Undistributed Proceeds	\$ 0

**NOTE 16: POST-EMPLOYMENT BENEFIT PLANS OTHER THAN PENSION PLANS
– BOTH IN SEPARATELY ISSUED PLAN FINANCIAL STATEMENTS AND
EMPLOYER STATEMENTS**

457 Plans – Deferred Compensation Plans

District employees have the option of participating in an IRC, Section 457, Deferred Compensation Plan administered by the state. The district does not retain any rights to legal access of the plan assets.

The District also administers an IRC, Section 457, Deferred Compensation plan for which there are neither current employees nor contributions being made. The District retains a right of legal access to the plan assets (valued at market) until paid or made available to the employees, subject only to the claims of the district's general creditor. The ending investment balance as of June 30, 2012 was \$16,161.16.

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 two types of deferrals: elective deferrals (employee contribution) and non-elective contribution (employer matching).

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 National Benefit Services, LLC for the District. The plan assets are assets of the District employees, not the school district, and therefore not reflected on these financial statements. The District does not make any discretionary or matching employer contributions to the plan. Only elective deferral employee contributions were made to the plan during 2011-2012.

NOTE 17: TERMINATION BENEFITS

Compensated Absences

Employees earn sick leave at a rate of one day for each contract month worked up to a maximum of one contract year. Year-round employees earn 12 sick leave days per contract year and non year-round employees earn up to 11 sick leave days per contract year.

Under the provisions of RCW 28A.400.210, 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 out of an amount up to the maximum annual accumulation of 12 days. For buyout 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. At the time of separation from District employment an eligible employee or the employee's estate shall receive remuneration at a rate equal to one day's current compensation of the employee for every four days of accrued sick leave.

Vacation leave is earned in accordance with District bargaining agreements for employees qualifying for vacation benefits. Employees may accrue up to 30 days of annual leave. Vacation cash-out options are offered every August to employees within qualifying bargaining groups that have vacation buyback language that specifies the maximum number of unused vacation days that can be converted into compensation. All vacation days used for cash-out compensation are deducted from the employee's accumulated vacation leave balance. Vacation pay that is expected to be liquidated with expendable available financial resources is reported as expenditure and a fund liability of the governmental fund that will pay it.

Description	Beginning Outstanding Debt September 1, 2011	Amount Issued/Increased	Amount Redeemed/Decreased	Ending Outstanding Debt August 31, 2012
Total Voted Bonds	30,005,000.00	21,525,000.00	24,115,000.00	27,415,000.00
Total Non-Voted Notes/Bonds	0.00	0.00	0.00	0.00
Qualified Zone Academy Bonds (QZAB)	0.00	0.00	0.00	0.00
Qualified School Construction Bonds(QSCB)	0.00	0.00	0.00	0.00
Other Long-Term Debt				
Capital Leases	12,720.71	389,846.20	20,439.99	382,126.92
Contracts Payable (GL 603)	0.00	0.00	0.00	0.00
NonCancellable Operating Leases	0.00	0.00	0.00	0.00
Claims & Judgments	0.00	0.00	0.00	0.00
Compensated Absences	2,401,092.97	69,157.24	17,556.97	2,452,693.24
Other Long-Term Liabilities	0.00	0.00	0.00	0.00
Total Other Long-Term Liabilities	2,413,813.68	459,003.44	37,996.96	2,834,820.16
TOTAL LONG-TERM LIABILITIES	32,418,813.68	21,984,003.44	24,152,996.96	30,249,820.16

PENINSULA SCHOOL DISTRICT #401
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ending August 31, 2012

1	2	3	4	5	6	7	8	9	
					Expenditures				
Federal Agency Name	Pass Through Agency	Federal Program Title	CFDA No.	Other Id Number	From Direct Awards	From Pass Through Awards	Total	Footnote	
USDA	WA OSPI	School Breakfast Program	10.553		\$ -	\$ 225,713.55	\$ 225,713.55		
	WA OSPI	National School Lunch Program Cash Assistance	10.555		\$ -	\$ 807,393.12	\$ 807,393.12		
	WA OSPI	National School Lunch Program Non Cash Asst - Commodities	10.555		\$ -	\$ 102,673.44	\$ 102,673.44	2	
	WA State Treasurer	Schools and Roads - Grants to States	10.665		\$ -	\$ 7,989.59	\$ 7,989.59		
Subtotal US Department of Agriculture					\$ -	\$ 1,143,769.70	\$ 1,143,769.70		
Dept of Land Mgmt	Pierce Co Treasurer	Federal In-Lieu of Taxes	15.226			\$ 23,691.28	\$ 23,691.28		
Subtotal US Department of Land Management					\$ -	\$ 23,691.28	\$ 23,691.28		
Dept of Transp	PSESD 121	Job Access_Revers Commute	20.516			\$ 12,257.16	\$ 12,257.16		
Subtotal US Department of Transportation					\$ -	\$ 12,257.16	\$ 12,257.16		
Dept of Education	WA OSPI	Title I Grants to LEAs	84.010		\$ -	\$ 810,128.42	\$ 810,128.42	3A	
	WA OSPI	Special Ed - State Grants	84.027A		\$ -	\$ 1,932,931.00	\$ 1,932,931.00	3A	
	WA OSPI	Voc Ed Basic Grants to States	84.048		\$ -	\$ 40,254.00	\$ 40,254.00	3A	
			Indian Education - Grants to LEAs	84.060A		\$ 265,000.00	\$ -	\$ 265,000.00	3A, 4
	WA OSPI	Special Ed - Preschool Grants	84.173		\$ -	\$ 89,481.00	\$ 89,481.00	3A	
	PSESD 121	Twenty-First Century Comm Learning Centers	84.287		\$ -	\$ 22,000.00	\$ 22,000.00		
	University Place SD	Math and Science Partnerships	84.366B		\$ -	\$ 13,717.27	\$ 13,717.27		
	Snoqualmie Valley SD Consortium	Title III LEP - English Language Acquisition Grants	84.365		\$ -	\$ 14,665.00	\$ 14,665.00	3B	
	WA OSPI	Title II - Improving Teacher Quality State Grants	84.367		\$ -	\$ 289,634.00	\$ 289,634.00	3A	
WA OSPI	Education Jobs Fund	84.410		\$ -	\$ 29,304.00	\$ 29,304.00			
Subtotal US Department of Education					\$ 265,000.00	\$ 3,242,114.69	\$ 3,507,114.69		
Dept of Health & Human Services	PSESD 121	EPSDT Medicaid Admin Match/ECEAP	93.778		\$ -	\$ 1,601.19	\$ 1,601.19		
					\$ -	\$ -	\$ -		
Subtotal US Department of Health/Human Services					\$ -	\$ 1,601.19	\$ 1,601.19		
Totals					\$ 265,000.00	\$ 4,423,434.02	\$ 4,688,434.02		

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

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE 1—BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal Awards is prepared on the same basis of accounting as the Peninsula School District's financial statements. The 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—NONCASH AWARDS

The amount of food commodities reported on the schedule is the market value of commodities distributed to the school district during the current fiscal year. The value is determined by the USDA.

NOTE 3—FEDERAL INDIRECT RATE

- (A) The district used the federal restricted rate of 2.74 percent for this program.
- (B) The district used the federal restricted rate of 2.00 percent for this program.

NOTE 4—AMOUNTS PASSED THROUGH TO SUBRECIPIENTS

Of the amount shown for this program, \$262,550 was passed-through to subrecipients.



ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

Our mission is to work with our audit clients and citizens as an advocate for government accountability. As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

The State Auditor's Office employees are located around the state to deliver services effectively and efficiently.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments and fraud, whistleblower and citizen hotline investigations.

The results of our work are widely distributed through a variety of reports, which are available on our Web site and through our free, electronic subscription service.

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