



# Washington State Auditor's Office

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## Financial Statements and Federal Single Audit Report

### **Peninsula School District No. 401**

**Pierce County**

**For the period September 1, 2013 through August 31, 2014**

**Published May 26, 2015**

**Report No. 1014296**





## Washington State Auditor

May 26, 2015

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,

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

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## FEDERAL SUMMARY

### Peninsula School District No. 401 Pierce County September 1, 2013 through August 31, 2014

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 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 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 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>
84.010	Title I, Part A Cluster - Title I Grants to Local Educational Agencies
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.

# SCHEDULE OF FEDERAL AUDIT FINDINGS AND QUESTIONED COSTS

## Peninsula School District No. 401

### Pierce County

September 1, 2013 through August 31, 2014

**2014-001 The District did not have adequate internal controls to ensure compliance with federal procurement requirements.**

**CFDA Number and Title:** 84.027 Special Education Grants to States  
84.173 Special Education Preschool Grants

**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 2014, the District spent \$1,819,075 in Special Education Grant funds. Of this amount, the District paid three contractors \$279,377 to provide physical therapy and auditory intervention services. While these services are necessary and allowable, the District must follow federal procurement requirements when selecting the contractors.

The District is required to either go out for bid or request for proposals (RFP) for procurement of professional services over \$100,000. The District is required to obtain price or rate quotations from an adequate number of qualified sources for procurement of services up to \$100,000. However, grant recipients may solicit services from one vendor if they determine the service is available from a sole source.

The District did not go out for bid or RFP for two contracts that were each over \$100,000 and did not get quotations for another that was under \$100,000. The District incorrectly declared two of these vendors as sole source.

We consider these control deficiencies to be material weaknesses.

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

Employees responsible for the program were not aware of the federal requirements pertaining to procurement of professional services and did not have an accurate understanding of the sole source exemption. In addition, monitoring of these activities was inadequate to ensure compliance with federal procurement requirements.

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

The District cannot be assured it obtained the best services at the most competitive price. However, the products purchased are allowable under the federal program, and as a result, we are not questioning these costs.

### ***Recommendation***

We recommend the District:

- Provide training to personnel to ensure they have an adequate understanding of federal procurement requirements.
- Establish and follow internal controls that ensure contracts for professional services are procured in accordance with federal requirements.
- Improve controls over monitoring to ensure compliance with federal procurement requirements.

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

*The District currently has a form, "Use of Federal Funds", to be used for any purchase using Special Education or Federal Funds. Business department administrators will revise the "Use of Federal Funds" form to include specific dollar amount parameters of \$3,000 to \$99,999 for purchases requiring quotes and identifying amounts higher than \$100,000 will require a request for proposal or bid process. The district is also creating request for proposals and process guidelines for common contracted services obtained annually in lieu of hard to fill positions. The request for proposals and processes will be in place for contracting hard to fill positions for the 2015-2016 school year.*

*Business department administrators will train support staff and other administrators on the use of the revised "Use of Federal Funds" form and the request for proposals and/or bid process. Business department staff who monitor and approve purchase orders will ensure that this form is attached, as backup documentation that additional steps have been taken in compliance with federal*

*procurement regulations, for any purchase being made using federal funds. This form and written directions will be posted within the district “forms on line” folder.*

### ***Auditor’s Remarks***

We thank the District for their cooperation and assistance throughout the audit, and the steps they are taking to address this issue. We will review the status of the District’s corrective action 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, states in part:

Section 300 Auditee responsibilities.

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 the 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.

Title 7, Code of Federal Regulations, Section 3016.36; Procurement, states in part:

b) Procurement standards.

(1) Grantees and subgrantees will use their own procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this section . . .

(9) Grantees and subgrantees will maintain records sufficient to detail the significant history of a procurement. These records will include, but are not necessarily limited to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.

(d) Methods of procurement to be followed.

(1) Procurement by small purchase procedures. Small purchase procedures are those relatively simple and informal procurement methods for securing services, supplies, or other property that do not cost more than the simplified acquisition threshold fixed at 41 U.S.C. 403(11) (currently set at \$100,000). If small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources . . .

(2) Procurement by sealed bids (formal advertising). Bids are publicly solicited and a firm-fixed-price contract (lump sum or unit price) is awarded to the responsible bidder whose bid, conforming with all the material terms and conditions of the invitation for bids, is the lowest in price . . .

(3) Procurement by competitive proposals. The technique of competitive proposals is normally conducted with more than one source submitting an offer, and either a fixed price or cost-reimbursement type contract is awarded. It is generally used when conditions are not appropriate for the use of sealed bids . . .

(4) Procurement by noncompetitive proposals is procurement through solicitation of a proposal from only one source, or after solicitation of a number of sources, competition is determined inadequate.

# SCHEDULE OF FEDERAL AUDIT FINDINGS AND QUESTIONED COSTS

## Peninsula School District No. 401 Pierce County September 1, 2013 through August 31, 2014

**2014-002 Peninsula School District did not comply with time and effort requirements for its Special Education or Title I federal grant programs.**

**CFDA Number and Title:** 84.027/84.173 Special Education Cluster  
84.010 Title I Part A  
**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*

For the fiscal year ended August 31, 2014, the District spent \$1,819,075 in Special Education funds and \$660,672 in Title I funds.

Any employee compensation charged to federal grants must be supported by documentation that meets the standards of the Office of Management and Budget (OMB) Circular A-87 (cost principles), including written and certified (after-the-fact) documentation of actual work. Depending on the number and type of activities employees work, time and effort documentation can be documented on a semi-annual certification or a monthly personnel activity report, such as a timesheet.

The Special Education Cluster and Title I programs were audited as major programs. We reviewed the District's internal controls over time and effort documentation. We found the District did not have a process in place to ensure time and effort documentation was obtained for employees charged to federal programs. Employee payroll costs charged were based on budgeted hours, not actual time. This deficiency is considered a material weakness in internal controls.

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

The District has experienced turnover in key positions responsible for maintaining time and effort documentation. Due to the turnover, staff was unsure of whose responsibility it was to obtain the records and some staff members were not aware of the requirements.

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

Although the District was unable to provide time and effort documentation, we were able to review alternative documentation, such as schedules, contracts, and timesheets to ensure salaries and benefits charged to the major programs were allowable. For this reason, we are not questioning those costs.

### ***Recommendation***

We recommend the District ensure all employees responsible for obtaining time and effort records are knowledgeable of federal regulations to ensure adequate time and effort records are maintained in compliance with federal standards.

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

*The district has taken immediate action to re-implement time and effort processes for all federal grant programs. District office support staff responsible for distribution and collection of time and effort documents have been trained and provided written guidance on time and effort federal requirements. Several meetings have been held to provide additional support and guidance to support staff to reinforce the process and ensure that the documentation being collected is complete and appropriate. Administrators responsible for federal grant programs have also participated in the meetings and received the same guidance on time and effort requirements.*

*Written instructions will be developed to identify steps and processes for time and effort. These instructions will be available to department support staff responsible for time and effort documentation and processes. These instructions will support any new staff members in regards to their job duties and tasks relating to time and effort processes and record keeping. This should also ensure that time and effort functions do not go undone if there is significant turnover in support staff and administrators within a department in the future.*

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

We thank the District for their cooperation and assistance throughout the audit, and the steps they are taking to address this issue. We will review the status of the District's corrective action during our next audit.

## *Applicable Laws and Regulations*

U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, Section 300 – Auditee Responsibilities, 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 the 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

*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-87, Cost Principles for State, Local and Indian Tribal Governments (2 CFR Part 225), Attachment 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.

(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

(5) 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 . . . .

# SCHEDULE OF FEDERAL AUDIT FINDINGS AND QUESTIONED COSTS

## Peninsula School District No. 401 Pierce County September 1, 2013 through August 31, 2014

### 2014-003 Peninsula School District lacks adequate internal controls to ensure compliance with federal Title I requirements.

**CFDA Number and Title:** 84.010 Title I, Part A  
**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 Title I program is to improve the teaching and learning of children who are at risk of not meeting state academic standards and who reside in areas with high concentrations of children from low-income families. During fiscal year 2014, Peninsula School District spent \$660,672 in federal Title I funds.

#### Schoolwide Plans

The District operates schoolwide plans at four schools: Evergreen Elementary, Minter Creek Elementary, Vaughn Elementary, and Key Peninsula Middle School. The Elementary and Secondary Education Act authorizes schoolwide programs as an alternative to targeted assistance as a means to better serve all children in a school building. Unlike targeted assistance programs, in which a school ranks and serves individual students, a schoolwide program combines federal and state resources to enhance a school's entire educational program. When a District uses this alternative, it must evaluate and revise the plan annually to ensure students continue to improve.

Schoolwide plans are required to contain specific elements. Our audit concluded the District did not have adequate internal controls to ensure all required components were included in the schoolwide plans.



### Performance Reporting

Districts must report graduation rate data for all public high schools to the Office of Superintendent of Public Instruction (OSPI) annually. This is done through the submission of a Graduation Rate Report that indicates the student's enrollment status; i.e. graduated, transferred out, dropped out, migrated to another country, or deceased. A student's status must be adequately supported and updated when errors or changes are noted.

We evaluated the adequacy of the District's system for submitting and updating student enrollment statuses to OSPI. We concluded the District does not ensure information recorded on the Graduation Rate Report agrees with support information and correction of errors or updates to students' status are not consistently made.

We consider these control deficiencies to be material weaknesses.

### *Cause of Condition*

#### Schoolwide Plans

The District experienced turnover and did not dedicate the necessary time, resources or training to new staff members to ensure all required components were included in the schoolwide plans.

#### Performance Reporting

The District did not dedicate sufficient staff time to ensure an adequate process was in place to report the students' status accurately, including monitoring the reporting of status corrections. A student's status may be updated at the school-building level. However, the District's main office does not have a process in place to adequately monitor these updates or ensure the updates are reported to OSPI.

### *Effect of Condition and Questioned Costs*

#### Schoolwide Plans

If the District does not use all the required elements to evaluate the schoolwide program annually, it will not know if expected results were achieved or if the plan should be revised to better serve students. All four schools operating under schoolwide plans were missing two of the ten requirements, including:

- Identification of the federal grants and other state and local resources to be used.

- Information that only allowable funding sources would be used.

### Performance Reporting

Four of the 22 students selected for testing were incorrectly listed as graduated, dropped out, transferred or continuously enrolled. However, this information was reported to OSPI. Although, there are no questioned costs, the District is at risk of misrepresenting their graduation rates.

## ***Recommendation***

### Schoolwide Plans

We recommend the District establish internal controls to ensure schoolwide plans are properly evaluated and include all required components. In addition, we recommend the District ensure employees responsible for drafting schoolwide plans receive adequate training.

### Performance Reporting

We recommend the District establish internal controls to ensure accurate reporting of student status, and ensure corrections or updates of student status are monitored and reported to OSPI.

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

### *Schoolwide Plans:*

*The District has implemented a new system to ensure that #10 Coordination of Resources, is evident in each schoolwide plan. A new form has been created that allows anyone to easily see the local, state and federal resources that are used in each Title I schoolwide plan. The form also describes how the funds are used. In addition to this form, the buildings have been trained to use this information to make decisions about services to students in a schoolwide model in addition to evaluating their achievement data annually. The District has current processes in place where each school evaluates their schoolwide plan annually using their achievement data. The current schoolwide plans also describe how the state, local, and federal resources are used embedded throughout the plans. The addition of the #10 form will allow easy identification of funding resources and how they are being used to support each schoolwide plan.*

### *Performance Reporting:*

*The District has a monthly process for reporting student status to OSPI during the current fiscal year. The District recognizes that changes to student status relating to prior fiscal years do not get captured in the monthly reporting during the*

*current year. Student status changes for prior years need to be reported through a separate process for the year in which it relates. The Director of Assessment and her support staff should be notified by school building staff when student status changes have been made relating to prior years. A communication protocol will be developed and given to staff in school buildings that update student status information to identify the process of reporting changes to the Assessment Department. This will initiate a separate student status reporting for the prior year identified. Building staff will be trained on the use of the communication protocol and the Assessment Department will monitor and work with school building staff to ensure that corrections and updates of student status are correctly reported to OSPI.*

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

We thank the District for their cooperation and assistance throughout the audit, and the steps they are taking to address this issue. We will review the status of the District's corrective action during our next audit.

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

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 the 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.

*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 internal controls over compliance 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:

**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.

Title 34, Code of Federal Regulations, Section 200.26(c) - § 200.26 Core elements of a schoolwide program, states in part:

(c) *Evaluation.* A school operating a schoolwide program must—

(1) Annually evaluate the implementation of, and results achieved by, the schoolwide program, using data from the State's annual assessments and other indicators of academic achievement;

(2) Determine whether the schoolwide program has been effective in increasing the achievement of students in meeting the State’s academic standards, particularly for those students who had been furthest from achieving the standards; and

(3) Revise the plan, as necessary, based on the results of the evaluation, to ensure continuous improvement of students in the schoolwide program.

Title 34, Code of Federal Regulations, Section 200.19 - Other academic indicators, states in part:

(b) High schools—(1) Graduation rate. Consistent with paragraphs (b)(4) and (b)(5) of this section regarding reporting and determining AYP, respectively, each State must calculate a graduation rate, defined as follows, for all public high schools in the State:

(i)(A) A State must calculate a “four year adjusted cohort graduation rate,” defined as the number of students who graduate in four years with a regular high school diploma divided by the number of students who form the adjusted cohort for that graduating class.

(B) For those high schools that start after grade nine, the cohort must be calculated based on the earliest high school grade.

(ii) The term “adjusted cohort” means the students who enter grade 9 (or the earliest high school grade) and any students who transfer into the cohort in grades 9 through 12 minus any students removed from the cohort . . .

(B) To remove a student from the cohort, a school or LEA must confirm in writing that the student transferred out, emigrated to another country, or is deceased.

(1) To confirm that a student transferred out, the school or LEA must have official written documentation that the student enrolled in another school or in an educational program

that culminates in the award of a regular high school diploma.

(2) A student who is retained in grade, enrolls in a General Educational Development (GED) program, or leaves school for any other reason may not be counted as having transferred out for the purpose of calculating graduation rate and must remain in the adjusted cohort.

(iii) The term “students who graduate in four years” means students who earn a regular high school diploma at the conclusion of their fourth year, before the conclusion of their fourth year, or during a summer session immediately following their fourth year . . .

(2)(ii)(C) A dropout may not be counted as a transfer.

**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**

**Peninsula School District No. 401  
Pierce County  
September 1, 2013 through August 31, 2014**

Board of Directors  
Peninsula School District No. 401  
Gig Harbor, 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 Peninsula School District No. 401, Pierce County, Washington, as of and for the year ended August 31, 2014, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated May 19, 2015. As discussed in Note 1 to the financial statements, during the year ended August 31, 2014, the District implemented Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

**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

ACTING STATE AUDITOR

OLYMPIA, WA

May 19, 2015



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

**Peninsula School District No. 401  
Pierce County  
September 1, 2013 through August 31, 2014**

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

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

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, 2014. 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, 2014.

### **Other Matters**

The results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Findings 2014-001, 2014-002 and 2014-003. Our opinion on each major federal program is not modified with respect to these matters.

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

The District's response to the noncompliance 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.

## **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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph 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. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

*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. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Findings 2014-001, 2014-002 and 2014-003 to be material weaknesses.

### **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.

A handwritten signature in black ink, reading "Jan M. Jutte". The signature is fluid and cursive, with a long horizontal flourish extending to the right.

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

May 19, 2015

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## **Peninsula School District No. 401 Pierce County September 1, 2013 through August 31, 2014**

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

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

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, 2014, and the related notes to the financial statements, which collectively comprise the District's financial statements, as listed on page 32.

#### **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 Peninsula School District No. 401, as of August 31, 2014, 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 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 Project and Transportation Vehicle funds as of August 31, 2014, 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, the District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. 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 May 19, 2015 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  
ACTING STATE AUDITOR  
OLYMPIA, WA

May 19, 2015

## FINANCIAL SECTION

**Peninsula School District No. 401  
Pierce County  
September 1, 2013 through August 31, 2014**

### **FINANCIAL STATEMENTS**

Balance Sheet – Governmental Funds – 2014  
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental  
Funds – 2014  
Notes to Financial Statements – 2014

### **SUPPLEMENTARY AND OTHER INFORMATION**

Schedules of Long-Term Liabilities – 2014  
Schedule of Expenditures of Federal Awards – 2014  
Notes to the Schedule of Expenditures of Federal Awards – 2014



Peninsula School District No. 401

Balance Sheet

Governmental Funds

August 31, 2014

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
<b>ASSETS:</b>							
Cash and Cash Equivalents	3,191,304.83	260,929.51	19,880.45	79,213.92	210.34	0.00	3,551,539.05
Minus Warrants Outstanding	-2,415,634.76	-14,612.38	0.00	-16,075.00	0.00	0.00	-2,446,322.14
Taxes Receivable	10,350,034.31		1,970,150.30	0.00	0.00	0.00	12,320,184.61
Due From Other Funds	16,172.74	349.74	0.00	0.00	0.00	0.00	16,522.48
Due From Other Governmental Units	519,584.84	0.00	0.00	94,520.00	10,767.00	0.00	624,871.84
Accounts Receivable	72,325.23	76.25	0.00	0.00	0.00	0.00	72,401.48
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	550,366.12	0.00					550,366.12
Prepaid Items	60,274.78	0.00		0.00	0.00	0.00	60,274.78
Investments	8,200,000.00	600,000.00	2,542,000.00	3,400,000.00	893,500.00	0.00	15,635,500.00
Investments/Cash With Trustee	0.00		0.00		0.00	0.00	0.00
Investments-Deferred Compensation	0.00			0.00			0.00
Self-Insurance Security Deposit	92,118.00						92,118.00
<b>TOTAL ASSETS</b>	<b>20,636,546.09</b>	<b>846,743.12</b>	<b>4,532,030.75</b>	<b>3,557,658.92</b>	<b>904,477.34</b>	<b>0.00</b>	<b>30,477,456.22</b>
<b>LIABILITIES:</b>							
Accounts Payable	685,592.72	24,328.53	0.00	2,500.00	0.00	0.00	712,421.25
Contracts Payable Current	0.00	0.00		0.00	0.00	0.00	0.00
Accrued Interest Payable			0.00				0.00
Accrued Salaries	107,652.91	0.00		0.00			107,652.91
Anticipation Notes Payable	0.00		0.00	0.00	0.00		0.00
Payroll Deductions and Taxes Payable	53,317.41	0.00		0.00			53,317.41
Due To Other Governmental Units	50,000.00	0.00		0.00	0.00	0.00	50,000.00
Deferred Compensation Payable	0.00			0.00			0.00
Estimated Employee Benefits Payable	1,275,981.60						1,275,981.60
Due To Other Funds	349.74	16,172.74	0.00	0.00	0.00	0.00	16,522.48

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

Peninsula School District No. 401  
Balance Sheet

Governmental Funds  
August 31, 2014

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
<b>LIABILITIES:</b>							
Interfund Loans Payable	0.00		0.00	0.00	0.00		0.00
Deposits	0.00	0.00		0.00			0.00
Unearned Revenue	0.00	0.00	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		0.00
<b>TOTAL LIABILITIES</b>	<b>2,172,894.38</b>	<b>40,501.27</b>	<b>0.00</b>	<b>2,500.00</b>	<b>0.00</b>	<b>0.00</b>	<b>2,215,895.65</b>
<b>DEFERRED INFLOWS OF RESOURCES:</b>							
Unavailable Revenue	118,336.74	174,246.57	0.00	0.00	0.00	0.00	292,583.31
Unavailable Revenue - Taxes Receivable	10,350,034.31		1,970,150.30	0.00	0.00		12,320,184.61
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>10,468,371.05</b>	<b>174,246.57</b>	<b>1,970,150.30</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>12,612,767.92</b>
<b>FUND BALANCE:</b>							
Nonspendable Fund Balance	550,366.12	0.00	0.00	0.00	0.00	0.00	550,366.12
Restricted Fund Balance	237,397.22	631,995.28	2,561,880.45	1,367,295.45	904,477.34	0.00	5,703,045.74
Committed Fund Balance	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Assigned Fund Balance	2,996,837.94	0.00	0.00	2,187,863.47	0.00	0.00	5,184,701.41
Unassigned Fund Balance	4,210,679.38	0.00	0.00	0.00	0.00	0.00	4,210,679.38
<b>TOTAL FUND BALANCE</b>	<b>7,995,280.66</b>	<b>631,995.28</b>	<b>2,561,880.45</b>	<b>3,555,158.92</b>	<b>904,477.34</b>	<b>0.00</b>	<b>15,648,792.65</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND FUND BALANCE</b>	<b>20,636,546.09</b>	<b>846,743.12</b>	<b>4,532,030.75</b>	<b>3,557,658.92</b>	<b>904,477.34</b>	<b>0.00</b>	<b>30,477,456.22</b>

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

Peninsula School District No. 401

Statement of Revenues, Expenditures, and Changes in Fund Balance

Governmental Funds

For the Year Ended August 31, 2014

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
<b>REVENUES:</b>							
Local	24,053,882.89	1,177,722.41	4,017,191.99	761,111.92	419.17		30,010,328.38
State	58,868,910.28		0.00	0.00	704,074.71		59,572,984.99
Federal	4,209,529.92		0.00	0.00	0.00		4,209,529.92
Federal Stimulus	0.00						0.00
Other	169,111.78			0.00	0.00	0.00	169,111.78
<b>TOTAL REVENUES</b>	<b>87,301,434.87</b>	<b>1,177,722.41</b>	<b>4,017,191.99</b>	<b>761,111.92</b>	<b>704,493.88</b>	<b>0.00</b>	<b>93,961,955.07</b>
<b>EXPENDITURES:</b>							
<b>CURRENT:</b>							
Regular Instruction	49,107,569.01						49,107,569.01
Federal Stimulus	0.00						0.00
Special Education	11,387,433.43						11,387,433.43
Vocational Education	3,630,330.86						3,630,330.86
Skill Center	0.00						0.00
Compensatory Programs	3,031,772.81						3,031,772.81
Other Instructional Programs	262,004.62						262,004.62
Community Services	550,239.88						550,239.88
Support Services	18,297,099.96						18,297,099.96
Student Activities/Other		1,040,340.24				0.00	1,040,340.24
<b>CAPITAL OUTLAY:</b>							
Sites				4,464,809.97			4,464,809.97
Building				0.00			0.00
Equipment				0.00			0.00
Instructional Technology				0.00			0.00
Energy				0.00			0.00
Transportation Equipment					589,887.33		589,887.33
Sales and Lease				0.00			0.00
Other	213,377.68						213,377.68
<b>DEBT SERVICE:</b>							
Principal	95,695.23		2,935,000.00	0.00	0.00		3,030,695.23
Interest and Other Charges	6,977.85		945,278.50	0.00	0.00		952,256.35
Bond/Levy Issuance				5,500.00	0.00		5,500.00
<b>TOTAL EXPENDITURES</b>	<b>86,582,501.33</b>	<b>1,040,340.24</b>	<b>3,880,278.50</b>	<b>4,470,309.97</b>	<b>589,887.33</b>	<b>0.00</b>	<b>96,563,317.37</b>

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

Peninsula School District No. 401

Statement of Revenues, Expenditures, and Changes in Fund Balance

Governmental Funds

For the Year Ended August 31, 2014

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
<b>DEBT SERVICE:</b>							
REVENUES OVER (UNDER) EXPENDITURES	718,933.54	137,382.17	136,913.49	-3,709,198.05	114,606.55	0.00	-2,601,362.30
<b>OTHER FINANCING SOURCES (USES):</b>							
Bond Sales & Refunding Bond Sales	0.00		0.00	0.00	0.00		0.00
Long-Term Financing	0.00			0.00	0.00		0.00
Transfers In	0.00		0.00	0.00	0.00		0.00
Transfers Out (GL 536)	0.00		0.00	0.00	0.00	0.00	0.00
Other Financing Uses (GL 535)	0.00		0.00	0.00	0.00		0.00
Other	0.00		0.00	0.00	34,430.64		34,430.64
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>0.00</b>		<b>0.00</b>	<b>0.00</b>	<b>34,430.64</b>	<b>0.00</b>	<b>34,430.64</b>
<b>EXCESS OF REVENUES/OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>	<b>718,933.54</b>	<b>137,382.17</b>	<b>136,913.49</b>	<b>-3,709,198.05</b>	<b>149,037.19</b>	<b>0.00</b>	<b>-2,566,931.66</b>
<b>BEGINNING TOTAL FUND BALANCE</b>	<b>7,276,347.12</b>	<b>494,613.11</b>	<b>2,424,966.96</b>	<b>7,264,356.97</b>	<b>755,440.15</b>	<b>0.00</b>	<b>18,215,724.31</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>7,995,280.66</b>	<b>631,995.28</b>	<b>2,561,880.45</b>	<b>3,555,158.92</b>	<b>904,477.34</b>	<b>0.00</b>	<b>15,648,792.65</b>

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

**PENINSULA SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
September 1, 2013 through August 31, 2014**

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

The Peninsula School District (District) is a municipal corporation organized pursuant to Title 28A of the Revised Code of Washington (RCW) for the purposes 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 that are 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 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.

## **Measurement focus, basis of accounting and fund financial statement presentation**

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 measurable and available. Revenues are considered "measurable" if the amount of the transaction can be readily determined. Revenues are considered "available" when they are collectible 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 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. Purchases of capital assets are expensed during the year of acquisition. 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.)

## **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 the 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 amount 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 had a legal restriction placed on 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 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.

The Superintendent and Chief Financial Officer are the only persons who have the authority to create Assignments of fund balance.

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.



## 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.

## Accounting and Reporting Changes for 2013–2014

Effective for the 2013-2014 school year, the district implemented provisions of *GASB Statement No. 65 Items Previously Reported as Assets and Liabilities*. As a result, deferred property taxes were reclassified from liabilities to deferred inflows of resources.

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

The Pierce 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.

The District's investments as of August 31, 2014 are as follows:

	August 31, 2014
County Treasurer's Investment Pool	\$ 15,635,500
Total Investments	\$ 15,635,500

## **NOTE 3: SIGNIFICANT CONTINGENT LIABILITIES**

### Litigation

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

## **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 fiscal years.

## **NOTE 5: ANNUAL PENSION COST AND NET PENSION OBLIGATIONS**

### A. General Information

Substantially all 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 the Washington State Department of Retirement Systems (DRS): Teachers' Retirement System (TRS), Public Employees' Retirement System (PERS) and School Employees' Retirement System (SERS). Participation in the programs was as follows:

Membership by retirement system program as of June 30, 2012:

<u>Program</u>	<u>Active Members</u>	<u>Inactive Vested Members</u>	<u>Retired Members</u>
TRS	65,357	9,545	42,918
PERS	150,590	30,515	82,242
SERS	51,558	10,920	7,651

Membership by retirement system program as of June 30, 2013:

<u>Program</u>	<u>Active Members</u>	<u>Inactive Vested Members</u>	<u>Retired Members</u>
TRS	65,935	9,823	44,220
PERS	150,706	31,047	85,328
SERS	52,295	11,588	9,079

*Data is as of last actuarial valuation date of June 30, 2013.*

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 programs, respectively. Members of TRS and SERS are eligible to retire with full benefits after five years of credited service and attainment of age 65, 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 ten service years with a reduced benefit amount, 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 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 the rates set by the Legislature. 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 employer rate is the same for all plans in a system. 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.

The district contribution represents its full liability under both systems, except that future rates may be adjusted to meet the system needs.

**B. Contributions**

Employee contribution rates effective September 1, 2013 through August 31, 2014:

Plan 1 TRS	6.00%	Plan 1 PERS	6.00%
Plan 2 TRS	4.96%	Plan 2 SERS	4.64%
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, 2013 through August 31, 2014:

Plan 1 TRS	10.39%	Plan 1 PERS	9.21%
Plan 2 TRS	10.39%	Plan 2 SERS	9.82%
Plan 3 TRS	10.39%	Plan 3 SERS	9.82%

Under current law, the employer must contribute 100 percent of the employer-required contribution. Employer required contributions in dollars (participant information for all plans is as of August 31):

<b>Plan</b>	<b>2013-14</b>	<b>2012-13</b>	<b>2011-12</b>
Plan 1 TRS	\$ 115,971	\$ 116,134	\$ 175,851
Plan 2 TRS	\$ 689,200	\$ 496,255	\$ 418,031
Plan 3 TRS	\$ 2,970,073	\$ 2,282,205	\$ 2,318,493
Plan 1 PERS	\$ 39,423	\$ 30,353	\$ 28,980
Plan 2 SERS	\$ 491,218	\$ 333,924	\$ 323,542
Plan 3 SERS	\$ 621,991	\$ 492,288	\$ 495,563

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, 2014, 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  
 PO 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. Programs include medical, dental, life insurance and long-term disability insurance.

Employers participating in the plan include the State of Washington (which includes general government agencies and higher education institutions), 57 of the state's K-12 school districts 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 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 2013-2014, the District was required to pay the HCA \$64.40 per month per full-time employee to support the program, for a total payment of \$663,241. 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. This is a departure from GAAP.

**NOTE 7: COMMITMENTS UNDER NONCAPITALIZED (OPERATING) LEASES**

For the fiscal year ended August 31, 2014, the Peninsula School District had additional long-term debt as follows:

<b>Lessor</b>	<b>Amount</b>	<b>Annual Payments</b>	<b>Final Payment Date</b>	<b>Interest Rate</b>	<b>Balance Due</b>
US Bancorp Government Leasing & Finance	\$389,846.20	\$102,673.08	7/20/2016	2.58%	\$191,810.61
<b>Total Lease-Purchase Commitments</b>					<b>\$191,810.61</b>

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 District did not have any major construction projects in progress as of August 31, 2014.

**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 amounts were re-encumbered by fund on September 1, 2014:

Fund	Amount
General	\$ 469,580.21
ASB Fund	\$ 6,800.85
Capital Projects Fund	\$ 0.00
Transportation Vehicle Fund	\$ 0.00

**NOTE 9: REQUIRED DISCLOSURES ABOUT CAPITAL ASSETS**

The District's capital assets are insured in the amount of \$156,426,884 for fiscal year 2013-2014. 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, 2014, are comprised of the following individual issues:

Issue Name	Amount Authorized	Annual Installments	Final Maturity	Interest Rate(s)	Amount Outstanding
<b>General Obligation Bonds as of 8/31/2014</b>					
2003 & 2004 UTGO Refunding	\$21,525,000	\$2.5M - 4.1M	12/01/19	1.89%	\$21,100,000
2004 UTGO (Refunding 2011)	\$15,000,000	\$600K	12/01/14	5.25%	\$ 600,000
<b>Sub-total GO Bonds</b>	<b>\$36,525,000</b>				<b>\$21,700,000</b>
<b>Non-Voted Debt as of 8/31/14</b>	<b>\$ 0</b>				<b>\$ 0</b>
<b>Total All Bonds as of 8/31/14</b>	<b>\$36,525,000</b>				<b>\$21,700,000</b>

The following is a summary of general obligation long-term debt transactions for the year ending August 31, 2014.

<b>Long-term debt payable at 9/1/13</b>	<b>\$ 24,635,000</b>
New Issues	\$ 0
Less Debt retired	\$ 2,935,000
<b>Long-term debt payable at 8/31/14</b>	<b>\$ 21,700,000</b>

The following is a schedule of annual requirements to amortize long-term debt as of August 31, 2014.

<b>Calendar Years Ending December 31,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2014	\$ 3,135,000	\$ 444,675	\$ 3,579,675
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
<b>Totals</b>	<b>\$ 21,700,000</b>	<b>\$ 2,892,825</b>	<b>\$ 24,592,825</b>

At August 31, 2014, the District had \$2,561,880 available in the Debt Service Fund to service the general obligation bonds.

#### **Prior-Year Defeasance of Debt**

In prior years, the district defeased certain general obligation and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the district's financial statements. At August 31, 2013, \$11,200,000 of bonds outstanding are considered defeased.

#### **NOTE 11: ENTITY BALANCES AND TRANSFERS**

The district did not have any interfund loans as of August 31, 2014.

#### **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 80 school and educational service district 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 \$622,436 for the 2013-2014 fiscal year to the Washington Schools Risk Management Pool, which is administered by Educational Service District No. 121. For the period 9/1/13 to 8/31/14, the Pool provided liability limits of \$20 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.

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, 2014, which can be obtained from Puget Sound Risk Management Pool, P. O. Box 88700, Tukwila, WA 98138-2700.

### **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 2013-2014, the district made payments of \$659,297 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 2013-2014 fiscal year, the District made contributions of \$97,444 to the pool. The District's portion of the pool's reserve as of August 31, 2014 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 \$102,074. 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 2013-2014 fiscal year, the District made contributions to the reserve account totaling \$211,889. Actual claims paid and reimbursed to Northwest Administrators amounted to \$204,914. 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, 2014, the ending balance in the district's Estimated Other Employee Insurance Claims Payable account was \$1.174 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 property taxes due on October 31 are recorded as deferred revenue.

## **NOTE 14: JOINT VENTURES AND JOINTLY GOVERNED ORGANIZATIONS**

The District is a member of the King County Director's Association (KCDA). KCDA is a purchasing cooperative designed to pool the member districts' purchasing power. The District's equity of \$108,077.26 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 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
<b>Nonspendable Fund Balance</b>					
Inventory & Prepaid Items	\$ 550,366				
<b>Restricted Fund Balance</b>					
Carryover of Restricted Revenues	\$ 145,279				
Debt Service				\$2,561,880	
Arbitrage Rebate					
Uninsured Risks	\$ 92,118				
Other Items		\$631,995	\$1,367,295		
<b>Committed Fund Balance</b>					
Minimum Fund Balance Policy					
Other Commitments					
<b>Assigned Fund Balance</b>					
Contingencies	\$ 675,000				
Other Capital Projects					
Other Purposes	\$2,321,838				
Fund Purposes			\$2,187,863		\$904,477
<b>Unassigned Fund Balance</b>	\$4,210,679				

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

Restricted from Bond Proceeds	\$ 0
Committed from Levy Proceeds	\$ 0
Restricted from State Proceeds	\$ 0
Restricted from Federal Proceeds	\$ 0
Restricted from Other Proceeds – Pierce County Impact Fees	\$ 716,125
Restricted from Impact Fee Proceeds – City of Gig Harbor	\$ 651,171
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 a deferred compensation plan as defined in Section 457 of the Internal Revenue Code that is administered by the state deferred compensation plan.

The District also administered an IRC, Section 457, Deferred Compensation plan for which there are neither current employees nor contributions being made. The District retained 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. All contributions were paid off in 2013-14 and the ending investment balance as of August 31, 2014 was \$0.00.

**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 are 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 2013-2014.

## **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.

Peninsula School District No. 401  
 Schedule of Long-Term Liabilities: GENERAL FUND  
 For the Year Ended August 31, 2014

Description	Beginning Outstanding Debt September 1, 2013	Amount Issued / Increased	Amount Redeemed / Decreased	Ending Outstanding Debt August 31, 2014	Amount Due Within One Year
<b>Non-Voted Debt and Liabilities</b>					
Capital Leases	288,192.95	0.00	90,628.04	197,564.91	101,861.36
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	2,480,219.81	378,669.74	265,762.84	2,593,126.71	307,821.00
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
<b>Total Long-Term Liabilities</b>	<b>2,768,412.76</b>	<b>378,669.74</b>	<b>356,390.88</b>	<b>2,790,691.62</b>	<b>409,682.36</b>

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

Peninsula School District No. 401  
 Schedule of Long-Term Liabilities: DEBT SERVICE FUND  
 For the Year Ended August 31, 2014

Description	Beginning Outstanding Debt September 1, 2013	Amount Issued / Increased	Amount Redeemed / Decreased	Ending Outstanding Debt August 31, 2014	Amount Due Within One Year
<b>Voted Debt</b>					
Voted Bonds	24,635,000.00	0.00	2,935,000.00	21,700,000.00	3,135,000.00
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
<b>Total Long-Term Liabilities</b>	<b>24,635,000.00</b>	<b>0.00</b>	<b>2,935,000.00</b>	<b>21,700,000.00</b>	<b>3,135,000.00</b>

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

Peninsula School District No. 401  
 Schedule of Long-Term Liabilities: CAPITAL PROJECTS FUND  
 For the Year Ended August 31, 2014

Description	Beginning Outstanding Debt September 1, 2013	Amount Issued / Increased	Amount Redeemed / Decreased	Ending Outstanding Debt August 31, 2014	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
Claims & Judgements	0.00	0.00	0.00	0.00	0.00
Compensated Absences	0.00	0.00	0.00	0.00	0.00
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
<b>Total Long-Term Liabilities</b>	0.00	0.00	0.00	0.00	0.00

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

Peninsula School District No. 401

Schedule of Long-Term Liabilities: TRANSPORTATION VEHICLE FUND

For the Year Ended August 31, 2014

Description	Beginning Outstanding Debt September 1, 2013	Amount Issued / Increased	Amount Redeemed / Decreased	Ending Outstanding Debt August 31, 2014	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
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
Total Long-Term Liabilities	0.00	0.00	0.00	0.00	0.00

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



**PENINSULA SCHOOL DISTRICT #401**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the year ending August 31, 2014

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		\$ -	\$ 241,492.77	\$ 241,492.77	
	WA OSPI	National School Lunch Program Cash Assistance	10.555		\$ -	\$ 844,626.79	\$ 844,626.79	
	WA OSPI	National School Lunch Program Non-Cash Assistance (commodities)	10.555		\$ -	\$ 107,377.59	\$ 107,377.59	2
	Office of State Treasurer	Schools and Roads - Grants to States	10.665		\$ -	\$ 10,284.35	\$ 10,284.35	
<b>Subtotal U.S. Department of Agriculture</b>					<b>\$ -</b>	<b>\$ 1,203,781.50</b>	<b>\$ 1,203,781.50</b>	
U.S. Dept of Ed	WA OSPI	Title I Grants to Local Educational Agencies	84.010		\$ -	\$ 660,671.70	\$ 660,671.70	3A
	WA OSPI	Special Education - Grants to States	84.027A		\$ -	\$ 1,749,466.00	\$ 1,749,466.00	3A
	WA OSPI	Career and Technical Education - Basic Grants to States	84.048		\$ -	\$ 47,513.00	\$ 47,513.00	3A
		Indian Education - Grants to Local Educational Agencies	84.060A		\$ 243,418.00	\$ -	\$ 243,418.00	3A, 4
	WA OSPI	Special Education - Preschool Grants	84.173		\$ -	\$ 69,609.00	\$ 69,609.00	3A
	WA OSPI	English Language Acquisition State Grants	84.365		\$ -	\$ 7,814.63	\$ 7,814.63	3B
	WA OSPI	Improving Teacher Quality State Grants	84.367		\$ -	\$ 211,666.52	\$ 211,666.52	3A
<b>Subtotal U.S. Department of Education</b>					<b>\$ 243,418.00</b>	<b>\$ 2,746,740.85</b>	<b>\$ 2,990,158.85</b>	
U.S. Department of Health and Human Services	WA OSPI	Pregnancy Assistance Fund Program	93.500		\$ -	\$ 11,427.00	\$ 11,427.00	3A
	<b>Subtotal U.S. Department of Health and Human Services</b>					<b>\$ -</b>	<b>\$ 11,427.00</b>	<b>\$ 11,427.00</b>
<b>TOTAL FEDERAL AWARDS EXPENDED</b>					<b>\$ 243,418.00</b>	<b>\$ 3,961,949.35</b>	<b>\$ 4,205,367.35</b>	

*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 3.360 percent for this program.
- (B) The district used the federal restricted rate of 2.000 percent for this program.

### **NOTE 4—AMOUNTS PASSED THROUGH TO SUBRECIPIENTS**

Of the amount shown for this program, \$240,418 was passed-through to subrecipients.

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

**Peninsula School District No. 401  
Pierce County  
September 1, 2013 through August 31, 2014**

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 Peninsula School District No. 401.

<b>Finding ref number:</b> 2014-001	<b>Finding caption:</b> The District did not have adequate internal controls to ensure compliance with federal procurement requirements.
<b>Name, address, and telephone of auditee contact person:</b> Karen K Andersen, Chief Financial Officer 14015 62nd Avenue N.W. Gig Harbor, WA 98332 (253) 530-1004	
<b>Corrective action the auditee plans to take in response to the finding:</b> <i>Peninsula School District will revise its "Use of Federal Funds" form to include specific dollar amount parameters of \$3,000 to \$99,999 for purchases requiring quotes and identifying amounts higher than \$100,000 require a request for proposal or bid process. The district is also creating request for proposals and process guidelines for common contracted services obtained annually in lieu of hard to fill positions. The request for proposals and processes will be in place for contracting hard to fill positions for the 2015-2016 school year.</i>  <i>Business department administrators will train support staff and other administrators on the use of the revised "Use of Federal Funds" form and the request for proposals and/or bid process. Business department staff who monitor and approve purchase orders will ensure that this form is attached, as backup documentation that additional steps have been taken in compliance with federal procurement regulations, for any purchase being made using federal funds. This form and written directions will be posted within the district "forms on line" folder.</i>	
<b>Anticipated date to complete the corrective action:</b> May 2015 then on-going process	

<b>Finding ref number:</b> 2014-002	<b>Finding caption:</b> Peninsula School District did not comply with time and effort requirements for its Special Education or Title I federal grant programs.
<b>Name, address, and telephone of auditee contact person:</b> Karen K Andersen, Chief Financial Officer 14015 62nd Avenue N.W. Gig Harbor, WA 98332 (253) 530-1004	
<b>Corrective action the auditee plans to take in response to the finding:</b> <i>The district has taken immediate action to re-implement time and effort processes for all federal grant programs. District office support staff responsible for distribution and collection of time and effort documents have been trained and provided written guidance on time and effort federal requirements. Several meetings have been held to provide additional support and guidance to support staff to reinforce the process and ensure that the documentation being collected is complete and appropriate. Administrators responsible for federal grant programs have also participated in the meetings and received the same guidance on time and effort requirements.</i> <i>Written instructions will be developed to identify steps and processes for time and effort. These instructions will be available to department support staff responsible for time and effort documentation and processes. These instructions will support any new staff members in regards to their job duties and tasks relating to time and effort processes and record keeping. This should also ensure that time and effort functions do not go undone if there is significant turn-over in support staff and administrators within a department in the future.</i>	
<b>Anticipated date to complete the corrective action:</b> March – June 2015 then on-going	

<b>Finding ref number:</b> 2014-003	<b>Finding caption:</b> Peninsula School District lacks adequate internal controls to ensure compliance with federal Title I requirements.
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**Name, address, and telephone of auditee contact person:**  
 Karen K Andersen, Chief Financial Officer  
 14015 62nd Avenue N.W.  
 Gig Harbor, WA 98332  
 (253) 530-1004

**Corrective action the auditee plans to take in response to the finding:**  
*Schoolwide Plans:*

*The District has implemented a new system to ensure that #10 Coordination of Resources, is evident in each schoolwide plan. A new form has been created that allows anyone to easily see the local, state and federal resources that are used in each Title I schoolwide plan. The form also describes how the funds are used. In addition to this form, the buildings have been trained to use this information to make decisions about services to students in a schoolwide model in addition to evaluating their achievement data annually. The District has current processes in place where each school evaluates their schoolwide plan annually using their achievement data. The current schoolwide plans also describe how the state, local, and federal resources are used embedded throughout the plans. The addition of the #10 form will allow easy identification of funding resources and how they are being used to support each schoolwide plan.*

*Performance Reporting:*

*The District has a monthly process for reporting student status to OSPI during the current fiscal year. The District recognizes that changes to students status relating to prior fiscal years do not get captured in the monthly reporting during the current year. Student status changes for prior years need to be reported through a separate process for the year in which it relates. The Director of Assessment and her support staff should be notified by school building staff when student status changes have been made relating to prior years. A communication protocol will be developed and given to staff in school buildings that update student status information to identify the process of reporting changes to the Assessment Department. This will initiate a separate student status reporting for the prior year identified. Building staff will be trained on the use of the communication protocol and the Assessment Department will monitor and work with school building staff to ensure that corrections and updates of student status are correctly reported to OSPI.*

**Anticipated date to complete the corrective action:** May 2015

## 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.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

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.

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 as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

<b>Contact information for the State Auditor's Office</b>	
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<b>Website</b>	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>