

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

Bainbridge Island School District
No. 303
Kitsap County

Audit Period
September 1, 2011 through August 31, 2012

Report No. 1009814

Issue Date
May 28, 2013



WASHINGTON
TROY KELLEY
STATE AUDITOR



**Washington State Auditor
Troy Kelley**

May 28, 2013

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

Report on Financial Statements and Federal Single Audit

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

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

Sincerely,

**TROY KELLEY
STATE AUDITOR**

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

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Federal Summary

**Bainbridge Island School District No. 303
Kitsap County
September 1, 2011 through August 31, 2012**

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

FINANCIAL STATEMENTS

An unmodified opinion was issued on the financial statements.

Internal Control Over Financial Reporting:

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

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

FEDERAL AWARDS

Internal Control Over Major Programs:

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

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

We reported no findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

Identification of Major Programs:

The following were major programs during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
84.027	Special Education Cluster (IDEA) - Special Education - Grants to States (IDEA, Part B)
84.173	Special Education Cluster (IDEA) - Special Education - Preschool Grants (IDEA Preschool)

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

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

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

**Bainbridge Island School District No. 303
Kitsap County
September 1, 2011 through August 31, 2012**

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

We have audited the financial statements of Bainbridge Island School District No. 303, Kitsap County, Washington, as of and for the year ended August 31, 2012, and have issued our report thereon dated May 7, 2013.

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis.

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

COMPLIANCE AND OTHER MATTERS

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

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

This report is intended for the information and use of management, the Board of Directors, federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



TROY KELLEY
STATE AUDITOR

May 7, 2013

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

Bainbridge Island School District No. 303
Kitsap County
September 1, 2011 through August 31, 2012

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

COMPLIANCE

We have audited the compliance of Bainbridge Island School District No. 303, Kitsap County, Washington, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2012. The District's major federal programs are identified in the Federal Summary. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2012.

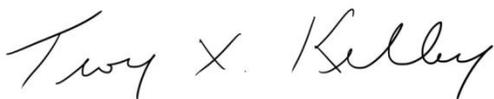
INTERNAL CONTROL OVER COMPLIANCE

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

This report is intended for the information of management, the Board of Directors, federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



TROY KELLEY
STATE AUDITOR

May 7, 2013

Independent Auditor's Report on Financial Statements

**Bainbridge Island School District No. 303
Kitsap County
September 1, 2011 through August 31, 2012**

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

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Bainbridge Island School District No. 303, Kitsap County, Washington, as of and for the year ended August 31, 2012, as listed on page 10.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting that demonstrates compliance with the Washington State statutes and the *Accounting Manual for Public Schools in the State of Washington* 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bainbridge Island School District No. 303, as of August 31, 2012, and the changes in financial position thereof for the year then ended on the basis of accounting that demonstrates compliance with Washington State statutes and the *Accounting Manual for Public Schools in the State of Washington* described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. As described in Note 1 to the financial statements, the financial statements are prepared in accordance with the basis of accounting that demonstrates compliance with Washington State statutes and the *Accounting Manual for Public Schools in the State of Washington*, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

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

Purpose of this Report

This report is intended for the information and use of management, the Board of Directors, federal awarding agencies and pass-through entities of the District. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

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

integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive style with a large "X" between the first and last names.

TROY KELLEY
STATE AUDITOR

May 7, 2013

Financial Section

**Bainbridge Island School District No. 303
Kitsap County
September 1, 2011 through August 31, 2012**

FINANCIAL STATEMENTS

Balance Sheet – Governmental Funds – 2012
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental
Funds – 2012
Statement of Fiduciary Net Assets – Fiduciary Funds – 2012
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds – 2012
Notes to Financial Statements – 2012

SUPPLEMENTARY INFORMATION

Schedule of Long-Term Liabilities – 2012
Schedule of Expenditures of Federal Awards and Notes – 2012

Bainbridge Island School District No. 303

Balance Sheet

Governmental Funds

August 31, 2012

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
ASSETS:							
Cash and Cash Equivalents	1,535,880.30	137,500.36	391,332.70	3,153,254.41	161.17	30.00	5,218,158.94
Minus Warrants Outstanding	-1,272,878.30	-39,794.67	0.00	-3,057,434.28	0.00	0.00	-4,370,107.25
Taxes Receivable	4,231,126.31		3,424,682.14	644,859.22	0.00	0.00	8,300,667.67
Due From Other Funds	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Due From Other Governmental Units	339,048.58	0.00	0.00	0.00	0.00	0.00	339,048.58
Accounts Receivable	56,261.78	0.00	0.00	0.00	0.00	0.00	56,261.78
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	191,456.28	0.00					191,456.28
Prepaid Items	0.00	0.00		0.00	0.00	0.00	0.00
Investments	2,982,226.61	315,552.33	1,762,811.65	13,016,162.49	173,872.72	11,403.81	18,262,029.61
Investments/Cash With Trustee	0.00		736,842.00	0.00	0.00	0.00	736,842.00
Investments-Deferred Compensation	0.00			0.00			0.00
Self-Insurance Security Deposit	0.00						0.00
TOTAL ASSETS	8,063,121.56	413,258.02	6,315,668.49	13,756,841.84	174,033.89	11,433.81	28,734,357.61
LIABILITIES:							
Accounts Payable	332,615.77	0.00	0.00	2,179,119.96	0.00	0.00	2,511,735.73
Contracts Payable Current	0.00	0.00		0.00	0.00	0.00	0.00
Accrued Interest Payable			0.00				0.00
Accrued Salaries	241,096.38	0.00		0.00			241,096.38
Revenue Anticipation Notes Payable	0.00		0.00	0.00	0.00		0.00
Payroll Deductions and Taxes Payable	12,108.03	0.00		0.00			12,108.03
Due To Other Governmental Units	58.14	30.00		0.00	0.00	0.00	88.14
Deferred Compensation Payable	0.00			0.00			0.00
Estimated Employee Benefits Payable	0.00						0.00
Due To Other Funds	0.00	0.00	0.00	0.00	0.00	0.00	0.00

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

Balance Sheet

Governmental Funds

August 31, 2012

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
LIABILITIES:							
Interfund Loans Payable	0.00		0.00	0.00	0.00		0.00
Deposits	0.00	0.00		0.00			0.00
Matured Bonds Payable			0.00				0.00
Matured Bond Interest Payable			0.00				0.00
Arbitrage Rebate Payable	0.00		0.00	0.00	0.00		0.00
Deferred Revenue	4,442,021.13	124,556.45	3,424,682.14	644,859.22	0.00	0.00	8,636,118.94
TOTAL LIABILITIES	5,027,899.45	124,586.45	3,424,682.14	2,823,979.18	0.00	0.00	11,401,147.22
FUND BALANCE:							
Nonspendable Fund Balance	191,500.00	0.00	0.00	0.00	0.00	0.00	191,500.00
Restricted Fund Balance	18,400.00	288,671.57	2,890,986.35	10,055,665.16	0.00	0.00	13,253,723.08
Committed Fund Balance	1,100,000.00	0.00	0.00	0.00	0.00	0.00	1,100,000.00
Assigned Fund Balance	1,257,000.00	0.00	0.00	877,197.50	174,033.89	11,433.81	2,319,665.20
Unassigned Fund Balance	468,322.11	0.00	0.00	0.00	0.00	0.00	468,322.11
TOTAL FUND BALANCE	3,035,222.11	288,671.57	2,890,986.35	10,932,862.66	174,033.89	11,433.81	17,333,210.39
TOTAL LIABILITIES AND FUND BALANCE	8,063,121.56	413,258.02	6,315,668.49	13,756,841.84	174,033.89	11,433.81	28,734,357.61

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

Statement of Revenues, Expenditures, and Changes in Fund Balance

Governmental Funds

For the Year Ended August 31, 2012

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
REVENUES:							
Local	12,184,462.75	409,398.58	6,717,903.12	1,353,326.63	1,638.87		20,666,729.95
State	22,773,854.62		52.28	0.00	180,692.21		22,954,599.11
Federal	1,405,980.63		999,751.37	0.00	0.00		2,405,732.00
Federal Stimulus	12,440.00						12,440.00
Other	0.00			0.00	0.00	86.58	86.58
TOTAL REVENUES	36,376,738.00	409,398.58	7,717,706.77	1,353,326.63	182,331.08	86.58	46,039,587.64
EXPENDITURES:							
CURRENT:							
Regular Instruction	21,634,246.65						21,634,246.65
Federal Stimulus	13,154.95						13,154.95
Special Education	5,262,542.12						5,262,542.12
Vocational Education	894,079.76						894,079.76
Skills Center	0.00						0.00
Compensatory Programs	492,370.22						492,370.22
Other Instructional Programs	60,818.60						60,818.60
Community Services	36,259.90						36,259.90
Support Services	7,948,203.60						7,948,203.60
Student Activities/Other		428,698.55				0.00	428,698.55
CAPITAL OUTLAY:							
Sites				1,015,675.02			1,015,675.02
Building				22,285,416.12			22,285,416.12
Equipment				946,985.83			946,985.83
Instructional Technology				0.00			0.00
Energy				0.00			0.00
Transportation Equipment					0.00		0.00
Sales and Lease				0.00			0.00
Other	71,109.90						71,109.90
DEBT SERVICE:							
Principal	7,884.36		2,390,000.00	0.00	0.00		2,397,884.36
Interest and Other Charges	462.95		4,183,812.51	0.00	0.00		4,184,275.46
Bond/Levy Issuance				0.00	0.00		0.00
TOTAL EXPENDITURES	36,421,133.01	428,698.55	6,573,812.51	24,248,076.97	0.00	0.00	67,671,721.04

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

Statement of Revenues, Expenditures, and Changes in Fund Balance

Governmental Funds

For the Year Ended August 31, 2012

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
DEBT SERVICE:							
REVENUES OVER (UNDER) EXPENDITURES	-44,395.01	-19,299.97	1,143,894.26	-22,894,750.34	182,331.08	86.58	-21,632,133.40
OTHER FINANCING SOURCES (USES):							
Bond Sales & Refunding Bond Sales	0.00		10,537,264.80	0.00	0.00		10,537,264.80
Long-Term Financing	0.00			0.00	0.00		0.00
Transfers In	162,679.35		98,800.00	0.00	0.00		261,479.35
Transfers Out (GL 536)	0.00		0.00	-162,679.35	-98,800.00	0.00	-261,479.35
Other Financing Uses (GL 535)	0.00		-10,447,954.89	0.00	0.00		-10,447,954.89
Other	0.00		0.00	0.00	0.00		0.00
TOTAL OTHER FINANCING SOURCES (USES)	162,679.35		188,109.91	-162,679.35	-98,800.00	0.00	89,309.91
EXCESS OF REVENUES/OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	118,284.34	-19,299.97	1,332,004.17	-23,057,429.69	83,531.08	86.58	-21,542,823.49
BEGINNING TOTAL FUND BALANCE	2,916,937.77	307,971.54	1,558,982.18	33,990,292.35	90,502.81	11,347.23	38,876,033.88
Prior Year(s) Corrections or Restatements	0.00	0.00	0.00	0.00	0.00	0.00	0.00
ENDING TOTAL FUND BALANCE	3,035,222.11	288,671.57	2,890,986.35	10,932,862.66	174,033.89	11,433.81	17,333,210.39

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

Bainbridge Island School District No. 303
 Statement Of Fiduciary Net Assets
 Fiduciary Funds
 August 31, 2012

	Private Purpose Trust	Other Trust
ASSETS:		
Imprest Cash	0.00	0.00
Cash On Hand	0.00	0.00
Cash On Deposit with Cty Treas	598.11	0.00
Minus Warrants Outstanding	0.00	0.00
Due From Other Funds	0.00	0.00
Accounts Receivable	0.00	0.00
Accrued Interest Receivable	0.00	0.00
Investments	43,813.24	0.00
Investments/Cash With Trustee	0.00	0.00
Other Assets	0.00	
Capital Assets, Land	0.00	
Capital Assets, Buildings	0.00	
Capital Assets, Equipment	0.00	0.00
Accum Depreciation, Buildings	0.00	
Accum Depreciation, Equipment	0.00	0.00
TOTAL ASSETS	44,411.35	0.00
LIABILITIES:		
Accounts Payable	0.00	0.00
Due To Other Funds	0.00	0.00
TOTAL LIABILITIES	0.00	0.00
NET ASSETS:		
Net assets held in trust for:		
Restricted for Other Items	0.00	0.00
Restricted for Self Insurance		0.00
Restricted for Uninsured Risks		0.00
Nonspendable -- Trust Principal	0.00	0.00
Committed to Other Purposes	0.00	0.00
Assigned to Fund Purposes	44,411.35	0.00
Unassigned Fund Balance	0.00	0.00
TOTAL NET ASSETS	44,411.35	0.00

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

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

Fiduciary Funds

For the Year Ended August 31, 2012

	Private Purpose Trust	Other Trust
ADDITIONS:		
Contributions:		
Private Donations	0.00	0.00
Employer		0.00
Members		0.00
Other	0.00	0.00
TOTAL CONTRIBUTIONS	0.00	0.00
Investment Income:		
Net Appreciation (Depreciation) in Fair Value	0.00	0.00
Interest and Dividends	927.07	0.00
Less Investment Expenses	0.00	0.00
Net Investment Income	927.07	0.00
Other Additions:		
Rent or Lease Revenue	0.00	0.00
Total Other Additions	0.00	0.00
TOTAL ADDITIONS	927.07	0.00
DEDUCTIONS:		
Benefits		0.00
Refund of Contributions	0.00	0.00
Administrative Expenses	0.00	0.00
Scholarships	2,000.00	
Other	0.00	0.00
TOTAL DEDUCTIONS	2,000.00	0.00
Net Increase (Decrease)	-1,072.93	0.00
Net Assets--Beginning	45,484.28	0.00
Prior Year(s) Corrections or Restatements	0.00	0.00
NET ASSETS--ENDING	44,411.35	0.00

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

BAINBRIDGE ISLAND SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
September 1, 2011 - August 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

For financial reporting purposes, the Bainbridge Island School District includes all funds, and organizations controlled by or dependent on the district's board of directors. Control by or dependence on the district was determined on the basis of budget adoption, taxing authority, outstanding debt secured by the general credit of the district, obligation of the district to finance any deficits that may occur, or receipt of significant subsidies from the district.

The Bainbridge Island School District presents governmental fund financial statements and related notes on the modified accrual basis of accounting as prescribed by generally accepted accounting principles (GAAP), and required by its regulatory agencies, the Office of Superintendent of Public Instruction and the State Auditor's Office. The District's accounting policies, as reflected in the accompanying financial statements, conform to the *Accounting Manual for Public School Districts in the State of Washington*, issued jointly by the State Auditor's Office and the Superintendent of Public Instruction by the authority of RCW 43.09.200, RCW 28A.505.140, RCW 28A.505.010(1), and RCW 28A.505.020. This manual allows for a practice that differs from generally accepted accounting principles in the following manner:

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

Description of the activities accounted for in each of the following columns-major funds, internal service funds, and fiduciary fund types-presented in the basic financial statements.

The District presents financial information on the basis of funds, each of which is considered a separate accounting entity. The regulatory agencies require all funds be presented as major funds. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures (or expenses), as appropriate. The various funds in the report are grouped into governmental (and fiduciary) funds as follows:

Governmental Funds

General Fund

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

Capital Projects Funds

These funds account for financial resources to be used for the construction or acquisition of major capital assets. The capital projects fund type consists of the Capital Projects Fund and the Transportation Vehicle Fund.

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

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

Debt Service Fund

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

Special Revenue Fund

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

Permanent Funds

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

FIDUCIARY FUNDS

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

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

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

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

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

Revenues are recognized as soon as they are both measurable and available. "Measurable" means the amount of the transaction can be determined and the district considers all revenues available if they are collected within 60 days after year-end to pay liabilities of the current period. Property taxes receivables are measurable but not available and are, therefore, not accrued. However, categorical program claims and inter-district billings are measurable and available and are, therefore, accrued.

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

Budgetary Data

General Budgetary Policies

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

Budgetary Basis of Accounting

For budget and accounting purposes, revenues and expenditures are accounted for on a modified accrual basis as prescribed in law for all governmental funds. Fund balance is budgeted as available resources and, under statute, may not be negative, unless the district enters into binding contracts 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 in the subsequent fiscal year, where they may be used only for the same purpose as they were originally received. When the District has such carryover, those funds are expended before any amounts received in the current year are expended.

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

The government's fund balance classifications policies and procedures.

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

Nonspendable Fund Balance. The amounts reported as Nonspendable are resources of the District that are not in spendable format. These can be in the form of inventory or prepaid items, or resources that are legally or contractually required to be maintained intact.

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

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

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

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

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

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

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

Assets, Liabilities, and Fund Equity

All of the district's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term 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. Management may reserve a portion of fund balance in any amount as a budgetary technique to ensure the availability of resources at the appropriate time. (Such reserves for inventory indicate that a portion of net current assets is set aside to replace or increase the inventory.) USDA commodity inventory consists of food donated by the U.S. Department of Agriculture. It is valued at the prices paid by the USDA for the commodities.

NOTE 2 – CASH DEPOSITS WITH FINANCIAL INSTITUTIONS

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

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

The district's investments as of August 31, 2012, are as follows:

	<u>Carrying Amt.</u>	<u>Market Value</u>
County Treasurer's Investment Pool	<u>18,305,843</u>	<u>18,305,843</u>
Total Investments	<u>18,305,843</u>	<u>18,305,843</u>

NOTE 3 - SIGNIFICANT CONTINGENT LIABILITIES

Litigation

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

Arbitrage Rebate

The Tax Reform Act of 1986 requires the district to rebate the earnings on the investment of bond and revenue anticipation notes proceeds, in excess of their yield, to the Federal Government. This requirement is effective for the district's current bond issues. Of the rebate, 90 percent is due and payable 5 years from the date bonds were issued and at 5-year intervals thereafter. The remaining 10 percent is payable 60 days after they are retired. Because positive arbitrage can be offset against negative arbitrage, the rebatable amount fluctuates each year and may or may not be owing at the payment intervals. The district is not contingently liable for arbitrage rebate at August 31, 2012.

NOTE 4 – SIGNIFICANT EFFECTS OF SUBSEQUENT EVENTS

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

NOTE 5 – ANNUAL PENSION COST AND NET PENSION OBLIGATIONS

General Information

Substantially all Bainbridge Island School District full-time and qualifying part-time employees participate in one of the following statewide retirement systems managed by the State of Washington Department of Retirement Systems (DRS), under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98505-8380; or it may be downloaded from the DRS website at www.drs.wa.gov. The following disclosures

are made pursuant to GASB Statements No. 27, *Accounting for Pensions by State and Local Government Employers* and No. 50, *Pension Disclosures, an Amendment to GASB Statements No. 25 and No. 27*.

Membership by retirement system program as of June 30, 2011:

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

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 or after 20 years of credited service and attainment of age 55 with the benefit actuarially reduced from age 65.

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 SERS and TRS, 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 TRS, PERS, 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 provision for a cost-of-living adjustment. For Plan 2 TRS, PERS 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 members, it is the AFC multiplied by 1 percent per year of service with provision for a cost of living adjustment.

The employer contribution rates for PERS, TRS, and SERS (Plan 1, 2, and 3) and the TRS and SERS Plan 2 employee contribution rates are established by the Pension Funding Council based upon advice from the Office of the State Actuary. The employee contribution rate for Plan 1 in PERS and TRS is set by statute at 6 percent and does not vary from year to year. The 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.

Contributions

Employee contribution rates as of August 31, 2012

Plan 1 TRS	6.00%	Plan 1 PERS	6.00%
Plan 2 TRS	4.69%	Plan 2 SERS	4.09%
Plan 3 TRS & SERS	5.00%(minimum)		15.0%(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 as of August 31, 2012:

Plan 1 TRS	8.04%	Plan 1 PERS	7.21%
Plan 2 TRS	8.04%	Plan 2 SERS	7.58%
Plan 3 TRS	8.04%	Plan 3 SERS	7.58%

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

<u>Plan</u>	<u>FY 09-10</u>	<u>FY 10-11</u>	<u>FY 11-12</u>
Plan 1 TRS	\$ 81,104	\$ 59,145	\$ 59,189
Plan 2 TRS	\$ 177,539	\$ 185,114	\$ 262,907
Plan 3 TRS	\$ 813,400	\$ 818,626	\$1,058,010
Plan 1 PERS	\$ 5,897	\$ 4,821	\$ 5,580
Plan 2 SERS	\$ 116,347	\$ 118,407	\$ 158,853
Plan 3 SERS	\$ 194,162	\$ 201,303	\$ 282,115

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

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

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

The State, through the Health Care Authority (HCA), administers an agent multi-employer Other Post-Employment Benefit plan. The Public Employees Benefits Board (PEBB), created within the HCA, is authorized to design benefits and determine the terms and conditions of employee and retired employee participation and coverage, including establishment of eligibility criteria for both active and retired employees. Programs include (medical, dental, life insurance and long-term disability insurance)⁽⁶⁾.

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 2011-12, the District was required to pay the HCA \$ 66.01 per month per full-time equivalent employee to support the program, for a total payment of \$ 316,525. 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 - LEASE OBLIGATIONS AND CONDITIONAL SALES CONTRACT OBLIGATIONS

For the fiscal year ended August 31, 2012, the district had long-term debt as follows:

Long-Term Commitments

<u>Lender</u>	<u>Initial Amount</u>	<u>Annual Payment</u>	<u>Final Payment</u>	<u>Interest Rate</u>	<u>Balance Due</u>
John Deere (Lease)	37,257	7,882	11/2/12	7.0%	0

NOTE 8 - CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

Construction in progress is composed of:

<u>Project</u>	<u>Project Authorization Amount</u>	<u>Expended As of 8/31/12</u>	<u>Additional Local Funds Committed</u>
BHS Modernization (09)	2,538,987	127,177	2,411,810
Blakely Improvements (06)	1,065,770	588,345	477,425
Blakely Improvements (09)	873,250	16,836	856,414
Ordway Improvements (06)	769,255	747,181	22,074
Ordway Improvements (09)	1,170,571	48,776	1,121,795
Wilkes Improvements (06)	1,154,075	166,433	987,642
Sakai/Woodward Schools (06)	115,403	75,667	39,736
Sakai Improvements (09)	242,250	68,205	174,045
Woodward Improvements (09)	1,587,766	33,281	1,554,485
Commodore Improvements (06)	1,286,120	1,246,942	39,178
Commodore Improvements (09)	1,050,263	275,037	775,226
District-wide Paving	171,325	185,754	-0-
Field Renovations	2,419,870	2,360,144	59,726
Tech Levy Improvements	1,081,534	530,436	551,098
Wilkes Replacement	30,563,167	22,591,282	7,971,885
District Office Renovations	118,378	115,163	3,215
Transportation Facility	749,504	46,552	702,952
District-wide Security	473,533	3,061	470,472
Energy Conservation	947,026	31,405	915,621
CPAdmin/Constr. Mgmt 09 Bond	2,098,150	611,555	1,486,595
TOTAL	50,476,197	29,869,232	20,621,394

NOTE 9– CAPITAL ASSETS

The district’s fixed assets were insured in the amount of \$122,510,969 for fiscal 2011-12. In the opinion of the district’s insurance consultant, this amount is sufficient to adequately fund replacement of the district’s assets.

NOTE 10 – REQUIRED DISCLOSURES ABOUT LONG-TERM LIABILITIES

Long-Term Debt

Bonds payable at August 31, 2012, are comprised of the following individual issue:

Issue Name	Amount Authrzd	Annual Instllmts	Final Maturity	Interest Rates	Amount Outstand.
2004 UTGO (Rfdg)	20,285,000	2,655,000	12/01/16	2.00-5.00%	13,120,000
2006 UTGO	24,935,000	- 0 -	12/01/25	4.00-5.00%	15,275,000
2007 UTGO	19,815,000	- 0 -	12/01/26	4.00-5.00%	13,930,000
2009 UTGO	4,925,000	730,000	12/01/19	2.00-4.00%	4,925,000
2009 BABS	16,075,000	- 0 -	12/01/29	.650-5.848%	14,865,000
2010 QSCB	14,000,000	- 0 -	06/01/29		14,000,000
2012 UTGO	9,995,000	215,000	12/01/25	2.00-3.00%	9,995,000
Total General Obligation Bonds					<u>\$86,110,000</u>

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

Long-Term Debt Payable at 9/1/11	\$87,215,000
Debt Retired	(11,100,000)
Debt Addition	<u>9,995,000</u>
Long-Term Debt Payable at 8/31/12	\$86,110,000

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

<u>Years Ending August 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	3,600,000	4,074,241	7,674,241
2014	4,000,000	3,913,364	7,913,364
2015	1,245,000	3,750,976	4,995,976
2016	3,645,000	3,646,561	7,291,561
2017	3,820,000	3,469,683	7,289,683
2018-2022	20,775,000	14,575,990	35,350,990
2023-2028	25,760,000	9,034,059	34,794,059
2028-2030	<u>23,265,000</u>	<u>2,388,889</u>	<u>25,653,889</u>
Total	86,110,000	44,853,763	130,963,763

At August 31, 2012 the district had \$2,890,986 available in the Debt Service Fund to service the general obligation bonds.

Bonds Authorized But Unissued

The qualified electors of the District authorized the issuance of \$42 million of unlimited tax general obligation bonds at a special election held on November 3, 2009. The District has issued a total of \$35 million in three separate bond sales and has \$7 million of bonds remaining unissued under the authorization. The District currently anticipates selling those unissued bonds sometime in 2014.

Refunded Debt

On May 14, 2012, the District issued \$9,995,000 in general obligation bonds with an average interest rate of 2.97% to advance refund \$8,710,000 of outstanding 2006 series bonds with an average interest rate of 5%. The net proceeds of \$ 10,537,265 after payment of \$ 86,075 in underwriting fees, insurance, and other issuance costs were used to purchase U.S. Government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 2006 series bonds. As a result, the 2006 series bonds are considered defeased.

The District advance refunded the 2006 series bonds to reduce its total debt service payments over the term of the bonds by \$ 976,823 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$ 830,030.

Sinking Fund

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

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

The balance of the sinking fund as of May 31, 2012 was \$ 750,101.

NOTE 11 - RISK MANAGEMENT

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

WASHINGTON SCHOOLS RISK MANAGEMENT POOL

The District is one of over 70 school districts, educational service districts, and inter-local cooperative members of the Washington Schools Risk Management Pool (WSRMP), which was formed on August 30, 1986 pursuant to Chapter 48.62 of the Revised Code of Washington. The purpose of WSRMP 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 plane of self-insurance, and provide related services, including a cooperative program of risk management.

The District pays an annual premium contribution to WSRMP for its property and liability insurance coverage. For the period 09/01/2011 to 08/31/2012, WSRMP self-insures the first \$1 million per occurrence for property and purchases excess property insurance to a limit of \$500 million per occurrence. WSRMP self-insures the first \$1 million per occurrence for liability, including errors & omissions and employment practices liability and purchases liability reinsurance to a limit of \$20 million per occurrence; including coverage for sexual molestation.

The WSRMP Executive Board sets rates annually, after consultation with an independent actuarial firm, based on actual loss experience. An independent actuarial firm also performs an annual solvency report, which WSRMP is in excess of a 95% confidence level. Should the assets of the Pool to be exhausted; members would be responsible for the Pool's liabilities, based on an allocation in proportion to each member's contribution.

The WSRMP is audited independently by the WA State Auditor's Office and has a completed audit on file on their website. Additionally, James Marta & Company, Certified Public Accountants, performed a financial statement audit and Report on Internal Controls. These completed audit documents are on file on the WSRMP website.

ESD 114 REGION WORKERS' COMPENSATION TRUST

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

Members make an annual contribution to fund the pool. The pool acquires reinsurance to reduce its exposure to large losses that is subject to a per-occurrence deductible of \$350,000. Insurance carriers cover all losses over \$175,000 to the maximum limits of each policy. Since the pool is a cooperative program, there is a joint liability among the participating members.

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

The pool is fully funded by its member participants. Members file claims with ESD 114. Fees paid to ESD 114 for the year ended August 31, 2012 were \$ 228,003.

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

UNEMPLOYMENT COMPENSATION INSURANCE POOL COOPERATIVE

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

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

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

The pool is fully funded by its member participants. Claims are managed by Employer's Unity, Inc., which has been contracted to perform claims management services for the pool. Fees paid to the third party administrator under this arrangement for the years ended August 31, 2012 were \$ 65,552.

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

NOTE 13 – PROPERTY TAXES

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

NOTE 14- JOINT VENTURES AND JOINTLY GOVERNED ORGANIZATIONS

The district is a member of the King County Directors' Association (KCDA). KCDA is a purchasing cooperative designed to pool the member districts' purchasing power. The district's current equity of \$51,689 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

	General Fund	ASB Fund	Capital Projects Fund	Debt Service Fund	Transportation Vehicle Fund
Nonspendable Fund Balance					
Inventory	\$ 191,500				
Restricted Fund Balance					
Carryover of Restricted Revenues	\$ 18,400				
From Bond Proceeds			\$ 9,194,154		
From Levy Proceeds			\$ 861,511		
Other Items					
Committed Fund Balance					
Minimum Fund Balance Policy	\$1,100,000				
Assigned Fund Balance					
Other Purposes	\$1,257,000				
Fund Purposes		\$ 288,671	\$ 877,197	\$2,890,986	\$ 174,034
Unassigned Fund Balance	\$ 468,322				

NOTE 16 – POST-EMPLOYMENT BENEFIT PLANS OTHER THAN PENSION PLANS-BOTH IN SEPARATELY ISSUED PLAN FINANCIAL STATEMENTS AND EMPLOYER STATEMENTS
457 Plan – Deferred Compensation Plan

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

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

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

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

NOTE 17 – TERMINATION OF BENEFITS

Compensated Absences

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

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

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

NOTE 18- OTHER DISCLOSURES

Growth Management Act – Impact Fees

The City of Bainbridge Island is authorized under SEPA and GMA legislation to collect fees to mitigate the impact of new development on school facilities. The City began collecting such fees under an ordinance effective in January 1992. An interlocal agreement between the District and the City specified that the City would keep the fees in an interest bearing account until needed by the District to pay for growth related facilities. In January of 2011 the District requested that the City stop collecting impact fees and refund any fees currently in the District Impact Fee account held by the City. The decision to suspend collection of the impact fees was based on the District's Six-Year Capital Facilities Plan, which did not include any projects meeting the qualifications for impact fee collection.

Bainbridge Island School District No. 303

Schedule of Long-Term Liabilities

For the Year Ended August 31, 2012

Description	Beginning		Amount		Ending
	Outstanding Debt	September 1, 2011	Issued/Increased	Redeemed/Decreased	
					August 31, 2012
Total Voted Bonds	73,120,000.00		9,995,000.00	11,005,000.00	
Total Non-Voted Notes/Bonds	72,110,000.00		0.00	95,000.00	
Qualified Zone Academy Bonds (QZAB)	0.00		0.00	0.00	
Qualified School Construction Bonds (QSCB)	14,000,000.00		0.00	0.00	
	14,000,000.00				
Other Long-Term Debt					
Capital Leases	0.00		0.00	0.00	
Contracts Payable (GL 603)	7,882.93		0.00	7,882.93	
	0.00				
NonCancellable Operating Leases	0.00		0.00	0.00	
Claims & Judgments	0.00		0.00	0.00	
Compensated Absences	1,521,932.12		0.00	68,260.99	
	1,453,671.13				
Other Long-Term Liabilities	0.00		0.00	0.00	
	0.00				
Total Other Long-Term Liabilities	1,529,815.05		0.00	76,143.92	
	1,453,671.13				
TOTAL LONG-TERM LIABILITIES	88,744,815.05		9,995,000.00	11,176,143.92	
	87,563,671.13				

**BAINBRIDGE ISLAND SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

For the year ending August 31, 2012

1	2	3	4	5	6	7	8	9
Expenditures								
Federal Agency Name	Pass Through Agency	Federal Program Title	CFDA Number	Other Identification Number	From Direct Awards	From Pass Through Awards	Total	Footnote
USDA	WA OSPI	School Breakfast Program	10.553			\$7,951.57	\$7,951.57	1
		National School Lunch-Cash Assistance	10.555			\$117,805.67	\$117,805.67	1
		National School Lunch-Non Cash	10.555			\$44,712.32	\$44,712.32	3
		Subtotal US Department of Agriculture			\$0.00	\$170,469.56	\$170,469.56	
US Dept. of Ed.	WA OSPI	Title 1 Grants to LEAs	84.010	200885		\$107,548.00	\$107,548.00	1,2,4
		Special Education Grants to State	84.027	304205		\$685,039.00	\$685,039.00	1,2,4
		Special Education Grants to State	84.027	337404		\$281,144.00	\$281,144.00	1
		Safety Net						
		Career & Technical Education - Basic Grants to State	84.048	172343		\$12,854.00	\$12,854.00	1,4
		Indian Education Grants to LEAs	84.060	S060A111224	\$11,300.00		\$11,300.00	1,2
		Special Education Preschool Grants	84.173	364201		\$32,685.00	\$32,685.00	1,2,4
		Improving Teacher Quality State Grants	84.367	522068		\$100,988.00	\$100,988.00	1,2
		Education Jobs Fund	84.410	960152		\$12,440.00	\$12,440.00	1,2
	ESD 114	Title 1, Grants to LEAs	84.010			\$321.40	\$321.40	1
	ESD 114	Improving Teacher Quality State Grants	84.367			\$549.99	\$549.99	1
		Subtotal US Department of Education			\$11,300.00	\$1,233,569.39	\$1,244,869.39	
TOTAL FEDERAL AWARDS EXPENDED					\$11,300.00	\$1,404,038.95	\$1,415,338.95	

NOTES TO THE SCHEDULE

NOTE 1 – BASIS OF ACCOUNTING

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

NOTE 2 - PROGRAM COSTS/MATCHING CONTRIBUTIONS

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

NOTE 3 - NON CASH AWARDS - FOOD COMMODITIES

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

NOTE 4 - FEDERAL INDIRECT RATE

The Bainbridge Island School District used the federal restricted rate of .0387%.



ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

State Auditor
Chief of Staff
Director of State and Local Audit
Director of Performance Audit
Deputy Director of State and Local Audit
Deputy Director of State and Local Audit
Deputy Director of State and Local Audit
Deputy Director of Quality Assurance
Local Government Liaison
Public Records Officer
Main number
Toll-free Citizen Hotline

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