



Washington State Auditor's Office

Independence • Respect • Integrity

Financial Statements and Federal Single Audit Report

Hood Canal School District No. 404

Mason County

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

Published May 28, 2015

Report No. 1014321





Washington State Auditor

May 28, 2015

Board of Directors
Hood Canal School District No. 404
Shelton, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on Hood Canal School District No. 404'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

Hood Canal School District No. 404 Mason County September 1, 2013 through August 31, 2014

The results of our audit of Hood Canal School District No. 404 are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

Financial Statements

An unmodified opinion was issued on the financial statements.

Internal Control Over Financial Reporting:

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

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

Federal Awards

Internal Control Over Major Programs:

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

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

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

Identification of Major Programs:

The following was a major program during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
84.041	Impact Aid Cluster - Impact Aid (Title VIII of ESEA)

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

Hood Canal School District No. 404 Mason County September 1, 2013 through August 31, 2014

2014-001 The District did not have adequate internal controls to ensure compliance with Federal Impact Aid cost principles.

CFDA Number and Title:	84.041 Impact Aid
Federal Grantor Name:	U.S. Department of Education
Federal Award/Contract Number:	57-WA-2014-1008
Pass-through Entity Name:	NA
Pass-through Award/Contract Number:	NA
Questioned Cost Amount:	\$0

Background

Impact Aid is used to assist local school districts that have lost property tax revenue due to the presence of tax-exempt Federal property, or that have experienced increased expenditures due to the enrollment of federally connected children. Grant funding is based on the number of federally-connected students reported on the District's application. The District received \$320,725 in Impact Aid funding during fiscal year 2014 from the Department of Education. Of this, \$32,731 was restricted for the support of federally-connected special education students.

Federal regulations require recipients of federal money to establish and follow internal controls to ensure compliance with program requirements. These controls include knowledge of grant requirements and monitoring of program controls. We found the District's internal controls were not adequate to ensure compliance with the allowable costs principles applicable to funding received to support federally-connected special education students.

Description of Condition

The District spent \$26,307 of the special education portion of its Impact Aid program funds on an employee's salary and benefits.

We reviewed the payroll transactions to determine whether salaries and benefits charged to the grant were supported by adequate time and effort documentation as required by federal regulations. 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 time sheet.

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

We consider this to be a significant deficiency in internal controls.

Cause of Condition

District management was not aware of the requirement to obtain and maintain time and effort documents for the employee charged to this federal program.

Effect of Condition and Questioned Costs

Without proper time and effort records, the District is not in compliance with federal time and effort requirements.

The District did not obtain and maintain the semi-annual time and effort certifications for the one employee whose payroll costs were charged to the special education portion of the Impact Aid funds. However, the District provided adequate alternative forms of documentation which indicate the costs charged to the program were allowable. As a result, we did not question these costs.

Recommendation

We recommend the District establish internal controls to ensure time and effort records are obtained and maintained to support all payroll costs charged to Federal programs.

District's Response

The District concurs with the audit finding in our time and effort documentation for the Special Education portion of the Impact Aid program. We appreciate the auditor's review of the alternative forms of documentation provided by the District, and the auditor's recognition that no costs were questioned or required to be repaid by the District.

The District has taken steps to improve its internal controls over federal grant funding, to include monthly and quarterly time and effort documentation and

reconciliation, as required. The Business Office will continue to be diligent in processing monthly grant claims to ensure only allowable expenditures are charged to grants.

Auditor's Remarks

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

Applicable Laws and Regulations

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

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

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

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

(4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) . . .

(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, provided that:

(i) The governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed;

(ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and

(iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances.

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.

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.

**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**

**Hood Canal School District No. 404
Mason County
September 1, 2013 through August 31, 2014**

Board of Directors
Hood Canal School District No. 404
Shelton, 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 Hood Canal School District No. 404, Mason 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 20, 2015.

We issued an unmodified opinion on the fair presentation of the District's financial statements in accordance with its regulatory basis of accounting. We issued an adverse opinion on the fair presentation with regard to accounting principles generally accepted in the United States of America (GAAP) because the financial statements are prepared by the District using accounting practices prescribed by Washington State statutes and the *Accounting Manual for Public School Districts in the State of Washington* (Accounting Manual) described in Note 1, which is a basis of accounting other than GAAP. The effects on the financial statements of the variances between the basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

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.

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 20, 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**

**Hood Canal School District No. 404
Mason County
September 1, 2013 through August 31, 2014**

Board of Directors
Hood Canal School District No. 404
Shelton, Washington

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

We have audited the compliance of Hood Canal School District No. 404, Mason 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.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal

control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Finding 2014-001 that we consider to be significant deficiencies.

District's Response to Findings

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

PURPOSE OF THIS REPORT

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



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

May 20, 2015

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Hood Canal School District No. 404 Mason County September 1, 2013 through August 31, 2014

Board of Directors
Hood Canal School District No. 404
Shelton, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Hood Canal School District No. 404, Mason County, Washington, 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 20.

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 accounting 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, Hood Canal School District No. 404 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 differences in these accounting practices are also described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of Hood Canal School District No. 404, for the year ended August 31, 2014, on the basis of accounting described in Note 1.

Basis for Adverse Opinion on U.S. GAAP

Auditing standards issued by the American Institute of Certified Public Accountants (AICPA) require auditors to formally acknowledge when governments do not prepare their financial statements, intended for general use, in accordance with GAAP. The effects on the financial statements of the variances between GAAP and the accounting practices the District used, as described in Note 1, although not reasonably determinable, are presumed to be material. As a result, we are required to issue an adverse opinion on whether the financial statements are presented fairly, in all material respects, in accordance with GAAP.

Adverse Opinion on U.S. GAAP

The financial statements referred to above were not intended to, and in our opinion they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of Hood Canal School District No. 404, as of August 31, 2014, or the changes in financial position or cash flows for the year then ended, due to the significance of the matter discussed in the above "Basis for Adverse Opinion on U.S. GAAP" paragraph.

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 20, 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 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 20, 2015

FINANCIAL SECTION

Hood Canal School District No. 404
Mason County
September 1, 2013 through August 31, 2014

FINANCIAL STATEMENTS

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental
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Hood Canal School District No. 404

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
REVENUES:							
Local	1,401,270.84	7,986.51	825,943.21	3,996.48	73.73		2,239,270.77
State	2,374,870.51		101,512.87	0.00	60,236.82		2,536,620.20
Federal	741,370.71	0.00	0.00	0.00	0.00		741,370.71
Federal Stimulus	0.00						0.00
Other	535.84			0.00	0.00	0.00	535.84
TOTAL REVENUES	4,518,047.90	7,986.51	927,456.08	3,996.48	60,310.55	0.00	5,517,797.52
EXPENDITURES:							
CURRENT:							
Regular Instruction	2,314,880.14						2,314,880.14
Federal Stimulus	0.00						0.00
Special Education	687,164.43						687,164.43
Vocational Education	0.00						0.00
Skill Center	0.00						0.00
Compensatory Programs	294,079.40						294,079.40
Other Instructional Programs	5,038.84						5,038.84
Community Services	0.00						0.00
Support Services	1,144,895.34						1,144,895.34
Student Activities/Other		10,770.61				0.00	10,770.61
CAPITAL OUTLAY:							
Sites				0.00			0.00
Building				0.00			0.00
Equipment				69,591.09			69,591.09
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	6,822.40						6,822.40
DEBT SERVICE:							
Principal	0.00		630,000.00	0.00			630,000.00
Interest and Other Charges	0.00		164,022.25	0.00			164,022.25
Bond/Levy Issuance				0.00			0.00
TOTAL EXPENDITURES	4,452,880.55	10,770.61	794,022.25	69,591.09	0.00	0.00	5,327,264.50

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

Hood Canal School District No. 404

Statement of Revenues, Expenditures, and Changes in Fund Balance

COUNTY: 23 Mason

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
DEBT SERVICE:							
REVENUES OVER (UNDER) EXPENDITURES	65,167.35	-2,784.10	133,433.83	-65,594.61	60,310.55	0.00	190,533.02
OTHER FINANCING SOURCES (USES):							
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	0.00		0.00
TOTAL OTHER FINANCING SOURCES (USES)	0.00		0.00	0.00	0.00	0.00	0.00
EXCESS OF REVENUES/OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	65,167.35	-2,784.10	133,433.83	-65,594.61	60,310.55	0.00	190,533.02
BEGINNING TOTAL FUND BALANCE	514,554.20	22,132.33	813,526.31	68,399.39	73,476.65	0.00	1,492,088.88
Prior Year(s) Corrections or Restatements	0.00	0.00	0.00	0.00	0.00	0.00	0.00
ENDING TOTAL FUND BALANCE	579,721.55	19,348.23	946,960.14	2,804.78	133,787.20	0.00	1,682,621.90

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

Hood Canal School District No. 404

Statement of Changes in Fiduciary Net Position

Fiduciary Funds

For the Year Ended August 31, 2014

	Private Purpose Trust	Other Trust
ADDITIONS:		
Contributions:		
Private Donations	0.00	0.00
Employer		0.00
Members		0.00
Other	1,450.27	0.00
TOTAL CONTRIBUTIONS	1,450.27	0.00
Investment Income:		
Net Appreciation (Depreciation) in Fair Value	0.00	0.00
Interest and Dividends	63.70	0.00
Less Investment Expenses	0.00	0.00
Net Investment Income	63.70	0.00
Other Additions:		
Rent or Lease Revenue	0.00	0.00
Total Other Additions	0.00	0.00
TOTAL ADDITIONS	1,513.97	0.00
DEDUCTIONS:		
Benefits		0.00
Refund of Contributions	0.00	0.00
Administrative Expenses	0.00	0.00
Scholarships		0.00
Other	815.20	0.00
TOTAL DEDUCTIONS	815.20	0.00
Net Increase (Decrease)	698.77	0.00
Net Position--Beginning	60,792.86	0.00
Prior Year(s) Corrections or Restatements	0.00	0.00
NET POSITION--ENDING	61,491.63	0.00

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

Hood Canal School District No. 404
Notes to the Financial Statements
September 1, 2013 through August 31, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (SSAP)

The Hood Canal 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–8. 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 cash 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 principle 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.

Fiduciary Funds

Fiduciary funds are private-purpose trust funds which are used to account for assets held in trust by the District in a trustee and agency capacity.

Private-Purpose Trust Fund

This fund is used to account for resources that are 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, basis of accounting, and fund financial statement presentation.

The measurement focus for the District's funds is the cash basis, except for the Debt Service Fund, which is measured on the modified accrual basis of accounting, 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 when they are received in cash, rather than when measurable and available. Expenditures are recognized when warrants are issued to pay for good or services received, rather than when the expenditures are incurred.

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 expenditure at that level. Appropriations lapse at the end of the fiscal period.

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

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

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

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

The government's fund balance classifications policies and procedures.

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

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

Restricted Fund Balance. Amounts that are reported as Restricted are those resources of the District that have 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 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.

The Superintendent and Business Manager 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 commitments are considered.

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

Cash and Cash Equivalents

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

Receivables and Payables

The District has no receivables and payables not expected to be collected within one year.

Inventory

Inventory is valued at cost using the first-in, first-out (FIFO) method. USDA commodity inventory consists of food donated by the United States Department of Agriculture. It is valued at the prices paid by the USDA for the commodities.

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*.

NOTE 2: CASH DEPOSITS WITH FINANCIAL INSTITUTIONS

The Mason 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:

	Number of Securities	Carrying Amount	Market Value
County Treasurer's Investment Pool	N/A	\$ 1,772,431	\$ 1,772,431

NOTE 3: SIGNIFICANT CONTINGENT LIABILITIES

Litigation

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

ESD 113 Insurance Cooperative

In July, 1983, the District joined together with other school districts to form ESD 113 Insurance Cooperative, a public entity risk pool for property and casualty insurance.

This cooperative was created to allow its members to combine their purchasing power to obtain favorable and consistent insurance rates. Under terms of the cooperative, the individual districts were liable for the first \$1,000 of the deductible; the cooperative paid the remaining \$24,000 of the deductible. Losses above \$25,000 were covered by traditional insurance policies in which the individual districts were the names insured. Effective September 1, 2003, the cooperative ceased operations and member districts established other insurance services for future liabilities. By agreement, the cooperative assets remained available for the deductible on any claims as of August 31, 2003, and arising during the time of the cooperative.

Cooperative Dissolution

On October 22, 2014, the member districts elected to close the cooperative operations and distribute remaining cooperative assets to member districts in accordance with the agreement. Liability for any future claims arising after this termination date is the responsibility of each member district.

Unpaid Claim Liabilities

On August 31, 2014, the cooperative was aware of three covered claims asserted against a member district. The cooperatives deductible obligation under these claims would be \$72,000. The cooperatives obligation for these claims will be resolved before final distribution of remaining assets to member districts.

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

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), or School Employees' Retirement System (SERS). Participation in the program was as follows:

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

Program	Active Members	Inactive	
		Vested Members	Retired Members
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.

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):

<u>Plan</u>	<u>FY 2013-2014</u>
Plan 1 TRS	\$ 27,078
Plan 2 TRS	\$ 18,492
Plan 3 TRS	\$112,940
Plan 1 PERS	\$ 0
Plan 2 SERS	\$ 33,336
Plan 3 SERS	\$ 32,353

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: 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 equivalent employee to support the program, for a total payment of \$37,178.96. 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: REQUIRED DISCLOSURES ABOUT CAPITAL ASSETS

The District’s capital assets are insured in the amount of \$11,735,625 for fiscal year 2014. In the opinion of the District’s insurance consultant, the amount is sufficient to adequately fund replacement of the District’s assets.

NOTE 8: REQUIRED DISCLOSURES ABOUT LONG-TERM LIABILITIES

Long-Term Debt

Bonds payable at August 31, 2014, are comprised of the following individual issues:

Issue Name	Amount Authorized	Annual Installments	Final Maturity	Interest Rate(s)	Amount Outstanding
UTGO Bonds, 2004	\$9,755,000	\$600,000	12/1/2014	4.15%	\$600,000
UTGO Bonds, 2012	\$5,305,000	\$55,000- \$780,000	12/1/2021	2.00% - 3.00%	\$5,170,000
Total General Obligation Bonds	\$15,060,000				\$5,770,000

The following is a summary of general obligation long-term debt transactions of the District for the fiscal year(s) ended August 31, 2014:

Long-Term Debt Payable at 9/1/2013	\$6,400,000
New Issues	\$0
Debt Retired	\$630,000
Long-Term Debt Payable at 8/31/2014	\$5,770,000

The following is a schedule of annual requirements to amortize debt at August 31, 2014:

Years Ending August 31,	Principal	Interest	Total
2015	\$655,000	\$137,650	\$792,650
2016	\$685,000	\$117,800	\$802,800
2017	\$695,000	\$100,525	\$795,525
2018	\$720,000	\$82,900	\$802,900
2019	\$730,000	\$68,400	\$798,400
2020 - 2022	\$2,285,000	\$100,150	\$2,385,150

At August 31, 2014, the District had \$946,960 available in the Debt Service Fund to service the general obligation bonds.

NOTE 9: ENTITY RISK MANAGEMENT ACTIVITIES

United Schools Insurance Program

The District is a member of United Schools Insurance Program. 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 program was formed on September 1, 1985, when 29 school districts in the state of Washington joined together by signing a Joint Purchasing Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. Current membership includes 155 school districts.

The program allows members to jointly purchase insurance coverage and provide related services, such as administration, risk management, claims administration, etc. Coverage for Wrongful Act Liability and Employee Benefit Liability is on a claims-made basis. All other coverages are on an occurrence basis. The program provides the following forms of group purchased insurance coverage for its members: Property, General Liability, Automotive Liability, Wrongful Acts Liability, and Crime.

Liability insurance is subject to a self-insured retention of \$100,000. Members are responsible for a \$1,000 deductible for each claim (member deductibles may vary), while the program is responsible for the \$100,000 self-insured retention (SIR). Insurance carriers cover insured losses over \$101,000 to the limits of each policy. Since the program is a cooperative program, there is a joint liability among the participating members towards the sharing of the \$100,000 SIR. The program also purchases a stop loss policy with an attachment point of \$995,000, as an additional layer of protection for its members.

Property insurance is subject to a per-occurrence deductible of \$100,000. Members are responsible for \$1,000 deductible for each claim (member deductibles may vary), while the program is responsible for the \$100,000 SIR.

Equipment Breakdown insurance is subject to a per-occurrence deductible of \$10,000. Members are responsible for the deductible amount of each claim.

Each new member now pays the program an admittance fee. This amount covers the member's share of unrestricted reserves. Members contract to remain in the program for a minimum of one year, and must give notice before August 31 to terminate participation the following September 1. The Interlocal

Agreement is renewed automatically each year. Even after termination, a member is still responsible for contributions to the program for any unresolved, unreported, and in-process claims for the period they were a signatory to the Joint Purchasing Agreement.

The program is fully funded by its member participants. Claims are filed by members with Canfield, which has been contracted to perform program administration, claims adjustment, and loss prevention for the program. Fees paid to the third party administrator under this arrangement for the year ending August 31, 2014, were \$1,514,980.35.

A board of directors of nine members is selected by the membership from six areas of the state on a staggered term basis and is responsible for conducting the business affairs of the program. The Board of Directors has contracted with Canfield to perform day-to-day administration of the program. This program has no employees.

Workers Compensation

In July 1983, the District joined the Educational Service District 113 Workers' Compensation Trust (Trust), a public entity risk pool.

The Trust is organized pursuant to Title 51.14 RCW for the purpose of managing workers' compensation payroll taxes, employee claims, and safety programs. Membership is established by execution of an agreement between the Capital Region Educational Service District 113 and each local school district.

The Trust provides industrial injury accident insurance coverage for its 45 member districts. The Trust is fully funded by its member participants. Member contributions are calculated based on the members' hours worked and the members' experience rated contribution factor. The Trust retains responsibility for the payment of claims within specified self-insured retention limits prior to the application of coverage provided by its excess insurance contracts that the Trust acquires insurance from unrelated underwriters. The Trust's per-occurrence retention limit is \$400,000 and the annual aggregate retention is \$11,145,540 minimum for a two year period FY 2013-15. Since the Trust is a cooperative program, there is joint liability among participating members.

For fiscal year 2014, there are 45 members in the pool including 44 participating school districts. A Board comprised of one designated representative from each participating member and a six member Executive Board governs the Trust. The Executive Board has five members elected by the Board and the ESD Superintendent.

The Capital Region Educational Service District 113 is responsible for conducting the business affairs of the Trust. As of August 31, 2014, the amount of claim liabilities totaled \$7,240,000. This liability is the Capital Region Educational Service District 113's best estimate based on available information including actuarial reports. Changes in the reported liability since August 31, 2014, resulted in the following:

	Beginning Balance 9/1/2013	Current Year Claims and Changes in Estimates	Ending Balance 8/31/2014
Incurred but not Reported	\$6,011,000	\$(262,000)	\$5,749,000
Future L&I Assessments	\$1,294,000	\$(188,000)	\$1,106,000
Estimated Unallocated Loss Adjustment	\$403,000	\$(18,000)	\$385,000

Unemployment Insurance

In January 1978, the District joined the Capital Region Educational Service District 113 Unemployment Compensation Pool (Pool). The Pool is organized pursuant to Title 50.44 RCW for the purpose of managing unemployment compensation payroll taxes and employee claims. Membership is established by execution of an agreement between the Capital Region Educational Service District 113 and each local school district.

The Pool provides unemployment compensation coverage for members of the Pool arising from former employees. The Pool is fully funded by its member participants and member districts pay a percentage of their employee's wages. These contributions plus investment earnings pays for unemployment claims and for the administration of the Pool. There is provision that members can be additionally assessed if the Pool needs additional funding.

Effective September 1, 2012, the Pool began "pooling" the unemployment risks among members. This was a change from the historical "banking model" program whereby each member was essentially responsible for its own claims. This change to a pooling system required that the Pool had to develop an overall base rate, make individual adjustments to the base rate based upon member experience, and transition the prior bank balances to the capital position in the pooled system.

For fiscal year 2014, there are 38 school district members in the Pool in addition to the Capital Region Educational Service District 113. The Pool is governed by a Cooperative Board, which is comprised of one designated representative from each participating member and a six member Executive Board. Five members elected by the Cooperative Board and the Capital Region Educational Service District 113 Superintendent comprise the Executive Board.

As of August 31, 2014, the amount of claim reserves totaled \$566,626. This liability is the Capital Region Educational Service District 113's best estimate based on available information. Changes in the reported liability since August 31, 2013, resulted in the following:

	Beginning Balance 9/1/2013	Current Year Claims and Changes in Estimates	Ending Balance 8/31/2014
Claims Reserves	\$972,706	(\$406,080)	\$566,626

NOTE 10: 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 obligation 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 of property taxes will be recorded as revenue in the 2013-2014 school year, consistent with the cash basis of accounting.

NOTE 11: 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 current equity of \$5,913.85 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 12: 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
Restricted Fund Balance					
Carryover of Restricted Revenues	\$1,050				
Debt Service				\$946,960	
Other Items	\$16,220	\$19,348	\$2,534		\$133,787
Unassigned Fund Balance	\$189,151				

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

Restricted from Technology Levy	\$230
Restricted from Donation for Technology	\$2,304

NOTE 13: POST-EMPLOYMENT BENEFIT PLANS OTHER THAN PENSION PLANS

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.

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 one type of deferral: 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 in the financial statement.

NOTE 14: TERMINATION 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 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. Vested sick leave was computed using the termination payment method.

No unrecorded liability exists for other employee benefits.

Hood Canal School District No. 404
 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
Non-Voted Debt and Liabilities					
Capital Leases	0.00	0.00	0.00	0.00	0.00
Contracts Payable	0.00	0.00	0.00	0.00	0.00
Non-Cancellable Operating Leases	0.00	0.00	0.00	0.00	0.00
Claims & Judgements	0.00	0.00	0.00	0.00	0.00
Compensated Absences	172,700.66	0.00	25,014.50	147,686.16	5,087.00
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
Other Liabilities					
Non-Voted Notes Not Recorded as Debt	0.00	0.00	0.00	0.00	0.00
Total Long-Term Liabilities	172,700.66	0.00	25,014.50	147,686.16	5,087.00

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

Hood Canal School District No. 404
 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
Voted Debt					
Voted Bonds	6,400,000.00	0.00	630,000.00	5,770,000.00	655,000.00
LOCAL Program Proceeds Issued in Lieu of Bonds	0.00	0.00	0.00	0.00	0.00
Non-Voted Debt					
Non-Voted Bonds	0.00	0.00	0.00	0.00	0.00
LOCAL Program Proceeds	0.00	0.00	0.00	0.00	0.00
Total Long-Term Liabilities	6,400,000.00	0.00	630,000.00	5,770,000.00	655,000.00

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

Hood Canal School District No. 404
 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
Non-Voted Debt and Liabilities					
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
Other Liabilities					
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.

Hood Canal School District No. 404

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
Non-Voted Debt and Liabilities					
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
Other Liabilities					
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.

Hood Canal School District No. 404
Schedule of Expenditure of Federal Awards
For Fiscal Year Ending August 31, 2014

Federal Agency	Pass Thru Agency	Federal Program Title	CFDA Number	Other ID Number	Direct Fund Amount	Pass Thru Amount	Total Funds Expended	Foot Note
US Department of Agriculture	WA State OSPI	School Breakfast Program	10.553	n/a	-	100,004	100,004	
Food and Nutrition Service	WA State OSPI	National School Lunch Program (A)	10.555	n/a	-	27,824	27,824	
	WA State OSPI	National School Lunch Program (lunch and snack)	10.555	n/a	-	4,881	4,881	
	WA State OSPI	National School Lunch Program (Commodities)	10.555	n/a	-	11,002	11,002	3
	Office of State Treasurer	Schools & Roads Grants to States	10.665	n/a	-	6,629	6,629	
		Dept of Agriculture Subtotal				150,340	150,340	
US Department of Education	US Dept of Education	Impact Aid	84.041	57-WA-2014-1008	287,994	-	287,994	4
Office of Elementary and Secondary Education	US Dept of Education	Impact Aid (SPED)	84.041	57-WA-2014-1008	32,731	-	32,731	4
	US Dept of Education	Indian Education Grants to LEA's	84.060	S060A120342/S060A130342	20,323	-	20,323	2
	US Dept of Education	Rural Education / SRSA	84.358	S358A124057/S358A134057	11,661	-	11,661	4
	WA State OSPI	Title I Grants to LEA's	84.010	201568/224376/228589	-	126,908	126,908	4,5
	WA State OSPI	SPED Grants to States - IDEA B Section 611	84.027	304653	-	65,757	65,757	4,5
	WA State OSPI	SPED Grants to States - Safety Net Section 611	84.027	337633	-	34,999	34,999	
	WA State OSPI	SPED Preschool Grants - Section 619	84.173	364653	-	6,253	6,253	2,4,5
	WA State OSPI	Improving Teacher Quality - Title II, A	84.367	523271	-	12,862	12,862	4,5
		Dept of Education Subtotal			352,710	246,779	599,489	
		Totals			352,710	397,120	749,829	1

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 Hood Canal School District's financial statements. The district uses the cash 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 Hood Canal School District's local matching share, may be more than shown.

NOTE 3—NONCASH AWARDS

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

NOTE 4—SCHOOLWIDE PROGRAMS

The Hood Canal School District operates a "schoolwide program" in its elementary (K-8) building. Using federal funding, schoolwide programs are designed to upgrade an entire educational program within a school for all students, rather than limit services to certain targeted students.

NOTE 5—FEDERAL INDIRECT RATE

The Hood Canal School District used the federal restricted rate of 0.0302% and the unrestricted rate of 0.1515%.

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

**Hood Canal School District No. 404
Mason 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 Hood Canal School District No. 404.

Finding ref number: 2014-001	Finding caption: The District did not have adequate internal controls to ensure compliance with Federal Impact Aid cost principles.
Name, address, and telephone of auditee contact person: Jeanie Beebe, Business Manager 111 N. State Route 106 Shelton WA. 98584 (360) 877-9700	
Corrective action the auditee plans to take in response to the finding: <i>The business office contacted OSPI in April 2015 for time and effort guidance and was directed to the OSPI website. The website contains information for Time and Effort Flexibility Guidance, a PowerPoint training, and several time and effort templates. The business office is in the process of revising monthly time sheets to include time and effort language, as well as creating appropriate time and effort certifications. Current school year semi-annual certifications have been signed by the Director of Student Services.</i>	
Anticipated date to complete the corrective action: Corrective action has been implemented, as of April 2015.	

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Contact information for the State Auditor's Office	
Deputy Director for Communications	Thomas Shapley Thomas.Shapley@sao.wa.gov (360) 902-0367
Public Records requests	(360) 725-5617
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov