



Washington State Auditor's Office

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Financial Statements and Federal Single Audit Report

South Kitsap School District No. 402

Kitsap County

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

Published May 28, 2015

Report No. 1014331





Washington State Auditor

May 28, 2015

Superintendent and Board of Directors
South Kitsap School District No. 402
Port Orchard, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on South Kitsap School District No. 402'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

South Kitsap School District No. 402 Kitsap County September 1, 2013 through August 31, 2014

The results of our audit of South Kitsap School District No. 402 are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

Financial Statements

An unmodified opinion was issued on the financial statements.

Internal Control Over Financial Reporting:

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

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

Federal Awards

Internal Control Over Major Programs:

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

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

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

Identification of Major Programs:

The following were major programs during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
84.010	Title I, Part A Cluster - Title I Grants to Local Educational Agencies
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

South Kitsap School District No. 402 Kitsap County September 1, 2013 through August 31, 2014

2014-001 South Kitsap School District did not have adequate internal controls to ensure compliance with reporting requirements for the Impact Aid grant.

CFDA Number and Title:	84.041- Impact Aid
Federal Grantor Name:	U.S. Department of Education
Federal Award/Contract Number:	57-WA-2013-0052
Pass-through Entity Name:	NA
Pass-through Award/Contract Number:	NA
Questioned Cost Amount:	\$35,991

Description of Condition

Impact Aid is 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 students reported on the District's application. The District received \$488,392 in Impact Aid funding during fiscal year 2014 from the Department of Education.

Our audit found that the District made multiple errors throughout the Impact Aid application, including over reporting the number of eligible students. The District's internal controls were insufficient to ensure the application data was accurate and supported.

We consider this control weakness to be a significant deficiency.

Cause of Condition

District personnel responsible for compiling the grant application did not have adequate training to ensure information was reported accurately. In addition, there was a lack of oversight or review over the completed application to ensure compliance with reporting requirements for the Impact Aid program.

Effect of Condition and Questioned Costs

Our audit found that the District made the following errors on its Impact Aid application:

- The District reported that it received 130 more surveys than were actually available for review. This resulted in a funding overpayment of \$35,991.
- Total students within the District were over-reported by 280 students.
- Total students for which tuition was paid out was under-reported by 11 students.
- The District over reported 15 special education students.

Recommendation

Based on the issues found, we recommend that the District:

- Implement internal controls over the Impact Aid application compilation and review process to ensure all data is properly supported and accurate.
- Ensure that all students listed as eligible on the Impact Aid application are properly supported with surveys.
- Address the errors noted with the Department of Education and make any changes necessary as they also impact future funding.

District's Response

The District concurs with the information as outlined in the finding document. The cause as recognized by the State Auditor determined district personnel responsible for compiling the grant application did not have adequate training to ensure information was reported accurately. In addition, there was a lack of oversight or review over the complete application to ensure compliance with reporting requirements for the Impact Aid program.

The District has taken steps to improve and strengthen internal controls through increased review and monitoring practices to ensure all data is properly supported and accurate. Additionally, steps will be taken to ensure that all students listed as eligible on the Impact Aid application are properly supported with surveys. Finally, the District will address the errors noted with the Department of Education and make any necessary changes.

The District appreciates the Auditor's recommendations and will take action to strengthen internal controls sufficient to ensure compliance with reporting requirements for the Impact Aid program.

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

Application for Impact Aid – Section 8003 (OMB No. 1810-0687) – Each year an LEA must submit this application, which provides the following information: counts of federally connected children in various categories, membership and average daily attendance data, and information on expenditures for children with disabilities

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**

**South Kitsap School District No. 402
Kitsap County
September 1, 2013 through August 31, 2014**

Superintendent and Board of Directors
South Kitsap School District No. 402
Port Orchard, 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 South Kitsap School District No. 402, Kitsap County, Washington, as of and for the year ended August 31, 2014, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated May 19, 2015. As discussed in Note 1 to the financial statements, during the year ended August 31, 2014, the District implemented Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

May 19, 2015

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

**South Kitsap School District No. 402
Kitsap County
September 1, 2013 through August 31, 2014**

Superintendent and Board of Directors
South Kitsap School District No. 402
Port Orchard, Washington

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

We have audited the compliance of South Kitsap School District No. 402, 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, 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 19, 2015

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

South Kitsap School District No. 402 Kitsap County September 1, 2013 through August 31, 2014

Superintendent and Board of Directors
South Kitsap School District No. 402
Port Orchard, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of South Kitsap School District No. 402, Kitsap County, Washington, as of and for the year ended August 31, 2014, and the related notes to the financial statements, which collectively comprise the District's financial statements, as listed on page 19.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of Washington State statutes and the *Accounting Manual for Public School Districts in the State of Washington* (Accounting Manual) described in Note 1. This includes determining that the basis of accounting is acceptable for the presentation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant account estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Unmodified Opinion on Regulatory Basis of Accounting (Accounting Manual)

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of South Kitsap School District No. 402, as of August 31, 2014, and the changes in financial position thereof for the year then ended in accordance with the basis of accounting described in Note 1.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the General, ASB, Debt Service, Capital Project, Transportation Vehicle and Fiduciary funds as of August 31, 2014, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 1 to the financial statements, the District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary and Other Information

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated May 19, 2015 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



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

May 19, 2015

FINANCIAL SECTION

South Kitsap School District No. 402
Kitsap County
September 1, 2013 through August 31, 2014

FINANCIAL STATEMENTS

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Schedule of Expenditures of Federal Awards – 2014
Notes to the Schedule of Expenditures of Federal Awards – 2014

South Kitsap School District No. 402

Balance Sheet

Governmental Funds

August 31, 2014

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
ASSETS:							
Cash and Cash Equivalents	3,062,964.69	74,200.50	0.00	614,759.74	0.50	0.00	3,751,925.43
Minus Warrants Outstanding	-2,426,720.50	-4,278.95	0.00	-613,531.52	0.00	0.00	-3,044,530.97
Taxes Receivable	10,447,619.40		0.00	0.00	0.00		10,447,619.40
Due From Other Funds	5,695.48	1,628.40	0.00	285,467.93	0.00	0.00	292,791.81
Due From Other Governmental Units	449,643.46	0.00	0.00	0.00	0.00	0.00	449,643.46
Accounts Receivable	199,203.53	1,635.63	0.00	0.00	11,832.50	0.00	212,671.66
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	717,798.43	10,948.29					728,746.72
Prepaid Items	124,308.80	29,612.12		0.00	28,464.25	0.00	182,385.17
Investments	9,701,469.90	680,257.64	1,963.08	1,611,452.09	559,463.09	0.00	12,554,605.80
Investments/Cash With Trustee	0.00		0.00	0.00	0.00	0.00	0.00
Investments-Deferred Compensation	0.00			0.00			0.00
Self-Insurance Security Deposit	0.00						0.00
TOTAL ASSETS	22,281,983.19	794,003.63	1,963.08	1,898,148.24	599,760.34	0.00	25,575,858.48
LIABILITIES:							
Accounts Payable	2,209,476.90	43,121.93	0.00	418,808.02	0.00	0.00	2,671,406.85
Contracts Payable Current	0.00	0.00		0.00	0.00	0.00	0.00
Accrued Interest Payable			0.00				0.00
Accrued Salaries	72,525.60	0.00		0.00			72,525.60
Anticipation Notes Payable	0.00		0.00	0.00	0.00		0.00
Payroll Deductions and Taxes Payable	33,026.07	0.00		0.00			33,026.07
Due To Other Governmental Units	35,000.00	0.00		0.00	0.00	0.00	35,000.00
Deferred Compensation Payable	0.00			0.00			0.00
Estimated Employee Benefits Payable	0.00						0.00
Due To Other Funds	287,096.33	5,695.48	0.00	0.00	0.00	0.00	292,791.81

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

South Kitsap School District No. 402

Balance Sheet

Governmental Funds

August 31, 2014

	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
Unearned Revenue	0.00	0.00	0.00	0.00	0.00		0.00
Matured Bonds Payable			0.00				0.00
Matured Bond Interest Payable			0.00				0.00
Arbitrage Rebate Payable	0.00		0.00	0.00	0.00		0.00
TOTAL LIABILITIES	2,637,124.90	48,817.41	0.00	418,808.02	0.00	0.00	3,104,750.33
DEFERRED INFLOWS OF RESOURCES:							
Unavailable Revenue	228,301.84	101,175.94	0.00	0.00	0.00	0.00	329,477.78
Unavailable Revenue - Taxes Receivable	10,447,619.40		0.00	0.00	0.00		10,447,619.40
TOTAL DEFERRED INFLOWS OF RESOURCES	10,675,921.24	101,175.94	0.00	0.00	0.00	0.00	10,777,097.18
FUND BALANCE:							
Nonspendable Fund Balance	842,107.23	0.00	0.00	0.00	0.00	0.00	842,107.23
Restricted Fund Balance	1,855,883.00	644,010.28	1,963.08	1,000,164.52	599,760.34	0.00	4,101,781.22
Committed Fund Balance	4,667,225.00	0.00	0.00	361,749.75	0.00	0.00	5,028,974.75
Assigned Fund Balance	1,155,873.00	0.00	0.00	117,425.95	0.00	0.00	1,273,298.95
Unassigned Fund Balance	447,848.82	0.00	0.00	0.00	0.00	0.00	447,848.82
TOTAL FUND BALANCE	8,968,937.05	644,010.28	1,963.08	1,479,340.22	599,760.34	0.00	11,694,010.97
TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND FUND BALANCE	22,281,983.19	794,003.63	1,963.08	1,898,148.24	599,760.34	0.00	25,575,858.48

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

South Kitsap School District No. 402
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	22,585,591.05	978,159.50	9.44	347,001.85	831.41		23,911,593.25
State	64,577,248.45		0.00	204,588.00	488,565.21		65,270,401.66
Federal	6,199,373.66		0.00	0.00	0.00		6,199,373.66
Federal Stimulus	0.00						0.00
Other	300.00			0.00	0.00	0.00	300.00
TOTAL REVENUES	93,362,513.16	978,159.50	9.44	551,589.85	489,396.62	0.00	95,381,668.57
EXPENDITURES:							
CURRENT:							
Regular Instruction	45,755,459.90						45,755,459.90
Federal Stimulus	0.00						0.00
Special Education	12,615,305.69						12,615,305.69
Vocational Education	3,954,176.27						3,954,176.27
Skill Center	0.00						0.00
Compensatory Programs	3,544,028.66						3,544,028.66
Other Instructional Programs	469,908.57						469,908.57
Community Services	756,559.63						756,559.63
Support Services	20,409,113.76						20,409,113.76
Student Activities/Other		958,943.73				0.00	958,943.73
CAPITAL OUTLAY:							
Sites				-135.31			-135.31
Building				869,969.35			869,969.35
Equipment				0.00			0.00
Instructional Technology				0.00			0.00
Energy				463,608.12			463,608.12
Transportation Equipment					52,953.00		52,953.00
Sales and Lease				0.00			0.00
Other	408,680.60						408,680.60
DEBT SERVICE:							
Principal	0.00		312,831.79	0.00	211,388.84		524,220.63
Interest and Other Charges	0.00		86,638.33	0.00	8,147.95		94,786.28
Bond/Levy Issuance				0.00	0.00		0.00
TOTAL EXPENDITURES	87,913,233.08	958,943.73	399,470.12	1,333,442.16	272,489.79	0.00	90,877,578.88

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

South Kitsap School District No. 402

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
DEBT SERVICE:							
REVENUES OVER (UNDER) EXPENDITURES	5,449,280.08	19,215.77	-399,460.68	-781,852.31	216,906.83	0.00	4,504,089.69
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		399,470.12	1,221,373.00	0.00		1,620,843.12
Transfers Out (GL 536)	-1,350,330.40		0.00	-270,512.72	0.00	0.00	-1,620,843.12
Other Financing Uses (GL 535)	0.00		0.00	0.00	0.00		0.00
Other	8,401.03		0.00	0.00	25,496.97		33,898.00
TOTAL OTHER FINANCING SOURCES (USES)	-1,341,929.37		399,470.12	950,860.28	25,496.97	0.00	33,898.00
EXCESS OF REVENUES/OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	4,107,350.71	19,215.77	9.44	169,007.97	242,403.80	0.00	4,537,987.69
BEGINNING TOTAL FUND BALANCE	4,861,586.34	624,794.51	1,953.64	1,310,332.25	357,356.54	0.00	7,156,023.28
Prior Year(s) Corrections or Restatements	0.00	0.00	0.00	0.00	0.00	0.00	0.00
ENDING TOTAL FUND BALANCE	8,968,937.05	644,010.28	1,963.08	1,479,340.22	599,760.34	0.00	11,694,010.97

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

South Kitsap School District No. 402
Statement Of Fiduciary Net Position
Fiduciary Funds
August 31, 2014

	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	0.00	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	573.38	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	573.38	0.00
LIABILITIES:		
Accounts Payable	0.00	0.00
Due To Other Funds	0.00	0.00
TOTAL LIABILITIES	0.00	0.00
NET POSITION:		
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
Held In Trust For Private Purposes	573.38	
Assigned to Fund Purposes	0.00	0.00
Held In Trust For Pension And Other Employee Benefits		0.00
Unassigned Fund Balance	0.00	0.00
TOTAL NET POSITION	573.38	0.00

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

South Kitsap School District No. 402
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	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	3.28	0.00
Less Investment Expenses	0.00	0.00
Net Investment Income	3.28	0.00
Other Additions:		
Rent or Lease Revenue	0.00	0.00
Total Other Additions	0.00	0.00
TOTAL ADDITIONS	3.28	0.00
DEDUCTIONS:		
Benefits		0.00
Refund of Contributions	0.00	0.00
Administrative Expenses	0.00	0.00
Scholarships	1,000.00	
Other	0.00	0.00
TOTAL DEDUCTIONS	1,000.00	0.00
Net Increase (Decrease)	-996.72	0.00
Net Position--Beginning	1,570.10	0.00
Prior Year(s) Corrections or Restatements	0.00	0.00
NET POSITION--ENDING	573.38	0.00

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

Notes to the Financial Statements for: South Kitsap School District

September 1, 2013 through August 31, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

The District presents governmental fund financial statements and related notes on the modified accrual basis of accounting in accordance with the *Accounting Manual for Public School Districts in the State of Washington*, usually 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 those required to be accounted for in another fund. In keeping with the principle of as few funds as necessary, activities such as food services, maintenance, data processing, printing, and 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 such as land and buildings. There are two funds that are considered to be of the capital projects fund type: the Capital Projects fund and the Transportation Vehicle Fund.

Notes to the Financial Statements for: South Kitsap School District

September 1, 2013 through August 31, 2014

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 related to pupil transportation equipment.

Debt Service Fund

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

Special Revenue Fund

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

Permanent Funds

These funds are used to report resources that are legally restricted such that only earnings, and not principal, may be expended. Amounts in the Permanent Fund may only be spent in support of the district's programs and may not be used to 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 in trust 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, or whether only interest may be spent. Money from 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.

Pension (and Other Employee Benefit) Trust Fund

This fund is used to account for resources to be held for the members and beneficiaries of a pension plan or other employee benefit plans.

Measurement focus, basis of accounting and fund financial statement presentation

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are measurable and available. Revenues are considered "measurable" if the amount of the transaction can be

Notes to the Financial Statements for: South Kitsap School District

September 1, 2013 through August 31, 2014

readily determined. Revenues are considered “available” when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days after year-end. Property taxes receivable are measurable but not available and are, therefore, not accrued. Categorical program claims and inter-district billings are measurable and available and are, therefore accrued.

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

Budgets

Chapter 28A.505 RCW and Chapter 392-123 Washington Administrative Code (WAC) mandate school district budget policies and procedures. The board adopts annual appropriated budgets for all governmental funds. These budgets are appropriated at the fund level. The budget constitutes the legal authority for expenditures at that level. Appropriations lapse at the end of the fiscal period.

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

The government’s policy regarding whether to first apply restricted of 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.

Non-spendable Fund Balance The amounts reported as Non-spendable 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.

Notes to the Financial Statements for: South Kitsap School District

September 1, 2013 through August 31, 2014

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 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 a limitation placed upon their usage by formal action of the District's board of directors. Commitments are made either through a formal adopted board resolution or are related to a school board policy. Commitments may only be changed when the resources are used for the intended purpose of the limitation is removed by the 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 plan 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/or designee 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 un-assigned 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 for the date of acquisition.

Receivable and Payables

There were no receivables or payables not expected to be collected within one year.

Inventory

Inventory is valued at cost using the first-in, first-out (FIFO) method. The consumption method of inventory is used, which charges inventory as an expenditure when it is consumed. A portion of the fund balance, representing inventory, is considered Non-spendable. *(Such reserves for inventory indicate that*

Notes to the Financial Statements for: South Kitsap School District

September 1, 2013 through August 31, 2014

a portion of net current assets is set aside to replace or increase the inventory.) 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 provision of *GASB Statement No. 65 Items Previously Reported as Assets and Liabilities*. As a result, deferred property taxes were reclassified from liabilities to deferred inflows of resources.

NOTE 2: CASH DEPOSITS WITH FINANCIAL INSTITUTIONS

The 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, 2014 are as follows:

	Carrying Amount	Market Value
County Treasurer's Investment Pool	\$12,554,606	\$12,560,587

NOTE 3: SIGNIFICANT CONTINGENT LIABILITIES

The District has no known significant contingent liabilities as of August 31, 2014.

Litigation

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

Arbitrage Rebate

Arbitrage rebates are non-applicable to the District.

NOTE 4: SIGNIFICANT EFFECTS OF SUBSEQUENT EVENTS

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

Notes to the Financial Statements for: South Kitsap School District

September 1, 2013 through August 31, 2014

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) and School Employees' Retirement System (SERS). Participation in the programs 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 the last actuarial valuation date of June 30, 2013.

Certificated public employees are members of TRS. Non-certificated 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, after 20 years of credited service and attainment of age 55 with 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

Notes to the Financial Statements for: South Kitsap School District

September 1, 2013 through August 31, 2014

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 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 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 & SERS	5.00% (Minimum), 15% (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, 2014):

PLAN #		2013-14		2012-13		2011-12	
Plan 1 TRS	\$	104,104	\$	90,554	\$	118,283	
Plan 2 TRS	\$	530,635	\$	415,713	\$	390,247	
Plan 3 TRS	\$	3,218,250	\$	2,634,548	\$	2,682,096	
Plan 1 PERS	\$	34,020	\$	31,101	\$	32,600	
Plan 2 SERS	\$	537,081	\$	407,414	\$	383,458	
Plan 3 SERS	\$	744,234	\$	603,122	\$	636,284	

Notes to the Financial Statements for: South Kitsap School District

September 1, 2013 through August 31, 2014

The 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
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).

Employers participating in the plan include the State of Washington (which includes general government agencies and higher education institution), 57 of the state's K-12 school districts and educational services 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 2013-14, 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 \$746,083. 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, or the fee paid to the Health Care authority. The District does not determine its annual required contribution nor the Net Other Post-Employment Benefit obligation associated with this plan. Accordingly, these amounts are not shown on the financial statements. This is a departure from GAAP.

NOTE 7: COMMITMENTS UNDER NONCAPITALIZED (OPERATING) LEASES

The District entered into conditional sales contractual agreement with Key Municipal Finance/Ford in 2004 in order to purchase 13 mini-school buses. The note is for a ten year period ending September 2014.

Notes to the Financial Statements for: South Kitsap School District

September 1, 2013 through August 31, 2014

Similarly, the District completed a conditional sale contractual agreement with Key Municipal Finance in 2003 in order to purchase 12 Type D Buses. The note was for a ten year period and expired as of September 2013.

For the fiscal years ended August 31, 2014, the district had incurred additional long-term debt as follows:

Vendor	Amount	Annual Installment	Final Installment Date	Interest Rate	Balance Due 8/31/14
Conditional Sales Contracts					
Key Municipal Finance/Ford Bus Purchase	\$906,820	\$28,464	09/2014	4.64%	\$28,138
Key Municipal Finance/Ford Bus Purchase	\$1,075,364	\$105,680	08/2013	3.47%	\$0
TOTAL: CONDITIONAL SALES & LONG-TERM COMMITMENTS					\$ 28,138

NOTE 8: CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

The District did not have construction in progress, or any other significant commitments as of August 31, 2014.

Encumbrances

Encumbrance accounting is employed in governmental funds. Purchase orders, contracts, and other commitments for the expenditure of moneys are recorded in order to reserve a portion of the applicable appropriation. Encumbrances lapse at the end of the fiscal year and may be re-encumbered the following year. The following encumbrance amounts were re-encumbered by fund on September 1, 2014.

Fund	Amount
General	\$231,666
ASB Fund	\$ 1,992
Capital Projects fund	\$ 72,776

NOTE 9: CAPITAL ASSETS

The District's capital assets are insured in the amount of \$390,285,349 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.

Notes to the Financial Statements for: South Kitsap School District

September 1, 2013 through August 31, 2014

NOTE 10: REQUIRED DISCLOSURES ABOUT LONG-TERM LIABILITIES

Long Term Debt

There were no bonds issued as of August 31, 2014.

Non-Voted Debt

The School District applied for Capital Asset Lending with the State of Washington Treasurer for acquisition of HVAC equipment and energy projects. On October 10, 2012 the District issued \$2,385,043 non-voted Limited General Obligation Refunding Bonds (LGOB) Series 2012. Proceeds from the LGOB refinance was placed in trust to pay all future debt service of the LGOB Series 2007. The refinance resulted in a present value net savings of \$232,375. The following is a schedule of payments:

Date of Issue	Amount Authorized	Annual Principal Payment (for 13-14)		Final Maturity	Interest Rate(s)	Amount Outstanding as of 8/31/2014
08/25/2010	\$ 1,066,500	\$ 102,997	ENERGY	June 1, 2020	3.950%	\$ 682,992
10/10/2012	\$ 2,385,043	\$220,560	LAND	Dec. 1, 2022	2.490%	\$ 2,171,256

Total Non-Voted Bonds	\$ 2,854,248
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The following is a summary of all long-term debt transactions of the district for the fiscal year ending August 31, 2014:

Long-Term Debt Payable at 9/1/2013	\$6,105,038.60
New Issues/Increase	\$597,079.99
Debt Retired/Decreased	\$1,056,638.45
Long-Term Debt Payable at 8/31/2014	\$5,645,481.14

Notes to the Financial Statements for: South Kitsap School District

September 1, 2013 through August 31, 2014

Annual Debt Requirements

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

Year Ending August 31:	Principal	Interest	Total
2015	\$351,694	\$77,606	\$429,300
2016	329,158	67,660	396,818
2017	339,734	57,779	397,514
2018	350,189	47,575	397,764
2019	360,520	37,048	397,568
2020	370,728	26,198	396,926
2021	255,568	16,249	271,817
2022	260,232	9,827	270,059
2023	264,563	3,294	267,856
Total	\$2,882,386	\$343,236	\$3,225,622

NOTE 11: INTERFUND BALANCES AND TRANSFERS

The following table depicts inter-fund transfer activity as of August 31, 2014:

Purpose	Transfer To/From	Amount
LGO Bond 2010 (Energy)	From GF to DSF	\$128,957
LGO Bond 2012 (Land)	From CPF to DSF	\$270,513
CPF Projects	From GF to CPF	\$1,221,373

NOTE 12: ENTITY RISK MANAGEMENT ACTIVITIES

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

The South Kitsap School District was a member of the Schools Insurance Association of Washington (SIAW) through August 31, 2014. 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 Inter-local Cooperation Act. The program was formed on September 1, 1995, when seven mid-sized school districts in the State of Washington joined together by signing an Inter-local Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. Presently, the SIAW pool has 42 member 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 coverage is on an occurrence basis. The

Notes to the Financial Statements for: South Kitsap School District

September 1, 2013 through August 31, 2014

program provides the following forms of group purchased insurance coverage for its members: property, earthquake, liability, automobile liability, equipment breakdown, crime, employee benefits, and wrongful act liability.

The program acquires liability insurance from unrelated underwriters that are subject to a per-occurrence deductible of \$102,500. Members are responsible for the first \$2,500 of the deductible amount of each claim, while the pool is responsible for the remaining \$100,000. Insurance carriers cover insured losses over \$102,500 to the limits of each policy. Since the pool is a cooperative program, there is a joint liability among the participating members towards the sharing of the \$100,000 portion of the deductible. The pool, however, purchases a Stop Loss Policy in the amount of \$3,400,000, which it fully funds in its annual budget.

Property insurance is subject to a per-occurrence deductible of \$250,000. Members are responsible for the first \$10,000 of the deductible amount of each claim, while the pool is responsible for the remaining \$260,000.

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

Members contract to remain in the program for one year and must give notice before December 31 before terminating participation the following September 1. Renewal of the Inter-local Agreement occurs automatically each year. 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 Inter-local Agreement.

The pool is fully funded by its member participants. Claims are filed by members with Canfield & Associates, which has been contracted to perform pool administration, claims adjustment and administration, and loss prevention for the pool. Fees paid to the third party administrator under this arrangement for the year ended August 31, 2014 were \$2,956,786

A governing board is selected by the membership and is responsible for conducting the business affairs of the pool. The Board of Directors has contracted with Canfield & Associates to perform the day-to-day administration of the pool. This pool has no employees.

In fiscal year ending August 2014 the district made payments totaling \$647,876 to the industrial insurance pool, which is administered by Olympic Educational Service District No. 114 on behalf of several local school districts. This fund is operated for the district's benefit in-lieu-of the district having to make monthly premium payments to the State of Washington for industrial insurance, thus minimizing the district's cost.

The district is self-insured for unemployment benefits and reimburses the State of Washington Employment Security for benefits paid on behalf of the district. During 2013-14, the district paid \$58,382 in unemployment benefits.

In addition, the district is self-insured with Northwest Administrators, Inc. for employee vision benefits. At the end of the benefit period the reserve balance held by Northwest Administrators equaled \$30,557 for decline in usage of \$3,447 from prior year balance of \$27,110. This balance is adequate to provide for three to four months of claims.

Notes to the Financial Statements for: South Kitsap School District

September 1, 2013 through August 31, 2014

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 obligation of paying all taxes on April 30 or on-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 the property taxes is not accrued as revenue. Instead the property taxes due on October 31 are recorded as deferred revenue.

NOTE 14: JOINT VENTURES AND JOINTLY GOVERNED ORGANIZATIONS

The district is a member of the King County Directors' Association (KCDA). KCDA is a purchasing cooperative designed to pool the member districts' purchasing power. The board authorized joining the association as of September 9, 1974, and has remained in the joint venture ever since. The District's current equity of \$146,732 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.

The District participates in the WSIPC data processing cooperative under the authority of the Inter-local Cooperation Act (chapter 39.34 RCW). The relationship with WSIPC is as a "jointly governed organization." Payments are made on a fee-for-service basis with no ongoing financial obligation on the part of participating districts. Unless there is a related party transaction, no note disclosure is necessary.

Notes to the Financial Statements for: **South Kitsap School District**

September 1, 2013 through August 31, 2014

NOTE 15: FUND BALANCE CLASSIFICATION DETAILS

	General Fund	ASB	Capital Projects Fund	Debt Service Fund	Transportation Vehicle Fund
Non-spendable Fund Balance					
Inventory and Prepaid	842,107				
Restricted Fund Balance					
Carryover of Restricted Revenues	1,855,883				
Debt Service				1,963	599,760
Associated Student Body		644,010			
Impact Fees Restricted for CPF			985,619		
Mitigation Fees Restricted for CPF			14,546		
Restricted for Purchase of Busses for TVF					
Committed Fund Balance					
Minimum Fund Balance Policy	4,667,225				
Committee for Levy Projects			361,750		
Committed for Energy Grant for CPF					
Assigned Fund Balance					
Contingencies	100,000				
Other Capital Projects			117,426		
Other Transportation Vehicle Funds					
Other Purposes	1,055,873				
Unassigned Fund Balance	447,849				
<i>Totals</i>	<i>8,968,937</i>	<i>644,010</i>	<i>1,479,340</i>	<i>1,963</i>	<i>599,760</i>

Notes to the Financial Statements for: South Kitsap School District

September 1, 2013 through August 31, 2014

NOTE 16: POST-EMPLOYMENT BENEFIT PLANS OTHER THAN PENSION PLANS—BOTH IN SEPARATELY ISSUES PLAN FINANCIAL STATEMENTS AND EMPLOYER STATEMENTS

457 Plan – Deferred compensation Plan

District employees have the option of participating in an IRC, Section 457, and deferred compensation plan as defined in Section 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. 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 Omni Group, Water Tower Office Park, and 1099 Jay Street, Rochester, NT 14611. The Omni Group website is 222.omni403b.com. The plan assets are assets of the employees, not the assets of the school district, and are not reflected on these financial statements.

NOTE 17: TERMINATION BENEFITS

Compensated Absences

Employees can earn sick leave at a rate of up to 12 days per year with a maximum of 1 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. The District 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, retirements, 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. Vacation pay, including benefits that are expected to be liquidated with expendable available financial resources is reported as expenditures and a fund liability of the governmental fund that will pay it.

NOTE 18: CONDITIONS AND EVENTS GIVING RISE TO SUBSTANTIAL DOUBT ABOUT THE GOVERNMENT'S ABILITY TO CONTINUE AS A GOING CONCERN

Note 18: Is not applicable to the South Kitsap School District for the 2013-2014 fiscal year.

South Kitsap School District No. 402
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	2,698,431.94	597,079.99	532,417.85	2,763,094.08	613,307.00
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	2,698,431.94	597,079.99	532,417.85	2,763,094.08	613,307.00

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

South Kitsap School District No. 402
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	0.00	0.00	0.00	0.00	0.00
LOCAL Program Proceeds Issued in Lieu of Bonds	0.00	0.00	0.00	0.00	0.00
Non-Voted Debt					
Non-Voted Bonds	3,167,080.00	0.00	312,831.79	2,854,248.21	323,557.08
LOCAL Program Proceeds	0.00	0.00	0.00	0.00	0.00
Total Long-Term Liabilities	3,167,080.00	0.00	312,831.79	2,854,248.21	323,557.08

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

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	239,526.66	0.00	211,388.81	28,137.85	28,137.85
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	239,526.66	0.00	211,388.81	28,137.85	28,137.85

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

SOUTH KITSAP SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ending August 31, 2014

1	2	3	4	5	6	7	8	9
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							
		National School Lunch - noncash assistance	10.555	SKSD 18-402		144,564.98	144,564.98	1,4
		National School Lunch(A) - Cash Lunches	10.555	SKSD 18-402		1,434,884.34	1,434,884.34	1
		National School Lunch - Cash Snacks	10.555	SKSD 18-402		9,012.58	9,012.58	1
		National School Breakfast Program	10.553	SKSD 18-402		403,585.80	403,585.80	1
		Summer Food Service Program	10.559	SKSD 18-402		43,167.43	43,167.43	1
		US Department of Agriculture Total:				2,035,215.13	2,035,215.13	
Department of Defense								
		Naval Junior Reserve Officers Training Corp	12.999	N3125214MJRTC/4VQ67	51,308.51		51,308.51	1,3
		Department of Defense Total:			51,308.51		51,308.51	
US Dept of Education	WA OSPI							
		Title I Grants to Local Educational Agencies	84.010	0201455, 0224420		1,124,051.42	1,124,051.42	1,5,9
		Title I Grants to State Agency Program for Neglected and Delinquent children	84.013	0222463, 0222464		137,154.52	137,154.52	1,9
		Special Education_ Grants to States	84.027A	0304739, 0337671		1,952,832.00	1,952,832.00	1,5
		Special Ed - Preschool Grants	84.173	0364738		53,290.25	53,290.25	1
		Career and Technical Education - Basic Grants to States	84.048	0173075		57,440.00	57,440.00	1,9
		English Language Acquisition Grants	84.365	0401896		11,812.62	11,812.62	1,9
		Improving Teacher Quality State Grants	84.367	0523382		82,169.27	82,169.27	1,9
US Dept of Education								
		Impact Aid	84.041	57-WA-2013-0052	488,392.22		488,392.22	1
		Indian Education Grants to LEA's	84.060A	S060A130182	38,434.00		38,434.00	1
		Department of Education Total:			526,826.22	3,418,750.08	3,945,576.30	
US Dept of Health and Human Services								
	OESD #1114	Early Head Start	93.600	n/a		20,816.00	20,816.00	1,3
	WA DSHS	Medical Assist Program - Medicaid	93.778	Contract #0765-19254		87,846.93	87,846.93	1,3
		Human/Health Services Dept Total			0.00	108,662.93	108,662.93	
		Grand Total			578,134.73	5,562,628.14	6,140,762.87	

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Preparers: Note 1—Basis of Accounting and Note 2—ARRA are required. The remaining notes are optional - use them if they apply to your district.

NOTE 1—BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal Awards is prepared on the same basis of accounting as the South Kitsap School District's financial statements. South Kitsap 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—AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA) of 2009

Of the amount shown for this program, \$0.00 was paid from ARRA funds.

NOTE 3—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 South Kitsap School District #402's portion, may be more than shown.

NOTE 4—NONCASH AWARDS

The amount of *commodities* reported on the schedule is the value of commodities distributed by South Kitsap School District during the current year.

NOTE 5—SCHOOLWIDE PROGRAMS

The South Kitsap School Dist. #402 operates a "schoolwide program" in four elementary buildings. 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. The following federal program amounts were expended by the South Kitsap School District #402 in its schoolwide program. Title I (84.010) \$820,984.77; IDEA (84.027A) \$291,911.27.

NOTE 9—FEDERAL INDIRECT RATE

South Kitsap School District used the federal *restricted* rate of .0332 percent for this program.

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

South Kitsap School District No. 402 Kitsap 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 South Kitsap School District No. 402.

Finding ref number: 2014-001	Finding caption: Impact Aid- Internal controls and reporting
Name, address, and telephone of auditee contact person: Tracy Patterson, Assistant Superintendent of Business Services 1962 Hoover Ave Port Orchard, WA 98366	
Corrective action the auditee plans to take in response to the finding: <i>The District will implement internal controls over the Impact Aid application compilation and review process to ensure all data is properly supported and accurate. There will be additional review and oversight prior to the final submission of current and future Impact Aid grant applications to verify accuracy of the data for compliance purposes.</i> <i>The District will ensure that all students listed as eligible on the Impact Aid application are properly supported with surveys. There will be additional review and oversight prior to the final submission of current and future Impact Aid grant applications to ensure compliance.</i> <i>The District will address the errors noted with the Department of Education and make any changes necessary as they also impact future funding.</i>	
Anticipated date to complete the corrective action: August 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