



# Washington State Auditor's Office

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## Financial Statements and Federal Single Audit Report

### **North Kitsap School District No. 400**

**Kitsap County**

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

**Published May 28, 2015**

**Report No. 1014363**





## Washington State Auditor

May 28, 2015

Board of Directors  
North Kitsap School District No. 400  
Poulsbo, Washington

### **Report on Financial Statements and Federal Single Audit**

Please find attached our report on North Kitsap School District No. 400'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

### **North Kitsap School District No. 400 Kitsap County September 1, 2013 through August 31, 2014**

The results of our audit of North Kitsap School District No. 400 are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

#### **Financial Statements**

An unmodified opinion was issued on the financial statements.

##### **Internal Control Over Financial Reporting:**

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

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

#### **Federal Awards**

##### **Internal Control Over Major Programs:**

- *Significant Deficiencies:* We reported deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified deficiencies that we consider to be material weaknesses.

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

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

## Identification of Major Programs:

The following were major programs during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
10.553	Child Nutrition Cluster - School Breakfast Program
10.555	Child Nutrition Cluster - National School Lunch Program
12.556	Competitive Grants: Promoting K-12 Student Achievement at Military – Connected Schools
12.557	Invitational Grants for Military Connected Schools
84.010	Title I, Part A Cluster - Title I Grants to Local Educational Agencies
84.027	Special Education Cluster (IDEA) - Special Education - Grants to States (IDEA, Part B)
84.173	Special Education Cluster (IDEA) - Special Education - Preschool Grants (IDEA Preschool)

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

The District did not qualify as a low-risk auditee under OMB Circular A-133.

## SCHEDULE OF AUDIT FINDINGS AND RESPONSES

### North Kitsap School District No. 400 Kitsap County September 1, 2013 through August 31, 2014

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

**CFDA Number and Title:** 12.556, Competitive Grants: Promoting K-12 Student Achievement at Military-Connected Schools  
12.557, Invitational Grants for Military-Connected Schools  
**Federal Grantor Name:** Department of Defense  
**Federal Award/Contract Number:** HE1254-11-1-0015  
HE1254-12-1-0022-P00002  
**Pass-through Entity Name:** NA  
**Pass-through Award/Contract Number:** NA  
**Questioned Cost Amount:** \$2,747

#### ***Background***

##### *Competitive Grants: Promoting K-12 Student Achievement at Military-Connected Schools*

The District spent \$316,978 in federal grant funds from the Department of Defense during school year 2014. These grant funds are used to enhance student learning opportunities, student achievement and educator professional development at military-connected schools significantly impacted by military force structure changes. The District used this grant to address student achievement and educator professional development in science and language, which are allowable uses for this federal grant.

##### *Invitational Grants for Military-Connected Schools*

The District spent \$142,358 in federal grant funds from the Department of Defense during school year 2014. These grant funds are used to enhance student learning opportunities, student achievement, educator professional development, and to ease the challenges students who are military dependents face due to their parents' military station transfers or deployments. These grants may be used to address student achievement in science, technology, mathematics, English

language arts, or reading. In addition, grant funds may be used for students' transitional needs, such as additional guidance counselor support.

### ***Description of Condition***

The District did not have adequate internal controls in place to ensure compliance with the following federal grant requirements:

#### ***Competitive Grants: Promoting K-12 Student Achievement at Military-Connected Schools***

**Procurement**– Federal grant recipients must follow the more restrictive of state, local or federal procurement requirements. There is no State law regarding bid requirements for personal services, therefore, the District is required to follow the federal Circular A-102 Common Rule for small purchases under \$100,000 which requires price or rate quotations of more than one source. However, grant recipients may solicit services from one vendor if they determine the service is available from a sole source.

The District entered into a three year contract for third party evaluators of the science portion of this grant in the amount of \$75,600, or \$25,200 annually. The District claimed there was only one vendor that could provide these services, and was therefore a sole source. However, the District did not prepare and maintain proper support to demonstrate the purchase was clearly and legitimately limited to a single source.

We consider this control weakness to be a significant deficiency.

**Suspension and debarment**– Federal requirements prohibit recipients from contracting with or making sub-awards to parties suspended or debarred from doing business with the federal government. For vendor contracts of \$25,000 or more and all sub-awards, the District must ensure the vendor or sub-recipient is not suspended or debarred. The District can obtain a written certification from the vendor or insert a clause into the contract where the vendor states it is not suspended or debarred. Alternatively, the District may review the federal Excluded Parties List issued by the U.S. General Service Administration. The District must meet these requirements prior to entering into contracts with vendors or sub-recipients.

The District did not have internal controls in place to ensure vendors were not suspended or debarred from participating in federal programs before entering into the contracts.

We consider this control weakness to be a significant deficiency.

### ***Invitational Grants for Military-Connected Schools***

**Cost Principles** – We audited the District’s internal controls over payroll to determine whether salaries and benefits charged to the grant were supported by 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 on a semi-annual certification or monthly personnel activity report, such as a timesheet.

The District did not design an effective process to monitor and review employees’ time whose positions are funded, in whole or in part, with federal grant funds. This includes ensuring semi-annual certification or monthly personnel activity reports were completed.

We consider this deficiency in internal controls to be a material weakness.

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

#### ***Competitive Grants: Promoting K-12 Student Achievement at Military-Connected Schools***

**Procurement** - The District’s policy related to the procurement of sole source items are not descriptive enough to ensure the District meets the necessary requirements to demonstrate a sole source and thereby waive bid law requirements.

The District also did not dedicate necessary resources to ensure federal requirements were met.

**Suspension and debarment** - The District had federal compliance requirements regarding suspension and debarment outlined in its procurement policy; however, they did not dedicate the necessary resources to ensure the federal requirements were met.

### ***Invitational Grants for Military-Connected Schools***

**Cost Principles** - The District did not dedicate sufficient time and resources to ensure an adequate process was in place to identify all employees being charged to its federal grant and ensure time and effort documentation was obtained.

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

#### ***Competitive Grants: Promoting K-12 Student Achievement at Military-Connected Schools***

**Procurement** - The District did not prepare and maintain support for a sole source determination; therefore, they could not ensure they received the best



possible price for the purchased services. Without that support, the District could not demonstrate whether it should have obtained quotes for the purchase, or if it was a legitimate sole source situation.

Since the services purchased were allowable under the federal program, we are not questioning costs.

**Suspension and debarment** - Without proper controls, the District increases the risk of awarding grant funds to vendors and sub-recipients that are suspended and debarred from participating in federal programs. Any payments made to an ineligible party are unallowable and would be subject to recovery by the funding agency.

We confirmed this vendor was not suspended or debarred; therefore we are not questioning costs.

### ***Invitational Grants for Military-Connected Schools***

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

The District charged \$77,924 in salaries of those employees who worked on the language portion of the grant. Our audit found the following:

- Three of the four employees that worked on multiple cost objectives had time charged to the language portion of the grant totaling \$60,114 without time and effort documentation. The District was able to provide adequate alternative forms of documentation that demonstrated all but \$2,747 of these costs were allowable. We are questioning these costs.
- One of the four employees that worked solely on the grant did not prepare a semi-annual time and effort certification. This employee charged \$17,811 to the grant. However the District provided adequate alternative forms of documentation that demonstrated the costs were allowable and we will not question these costs.

### ***Recommendation***

#### ***Competitive Grants: Promoting K-12 Student Achievement at Military-Connected Schools***

**Procurement** - We recommend the District strengthen internal controls to ensure all purchases made with federal funds meet federal procurement requirements and retain documentation to demonstrate compliance. We also recommend the District revise its policies related to sole source purchases to ensure they are in

compliance with federal procurement requirements and communicate these changes to staff.

**Suspension and debarment** - We recommend the District establish internal controls that provide guidance to staff to ensure compliance with federal suspension and debarment requirements.

### ***Invitational Grants for Military-Connected Schools***

**Allowable Cost Principles** - We recommend the District establish internal controls over time and effort to ensure it meets federal requirements for documentation of all payroll costs charged to grants.

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

*North Kitsap School District concurs with the audit finding presented for the 2013-2014 school year: Competitive Grants: Promoting K-12 Student Achievement at Military-connected Schools – Procurement, Suspension and debarment. Invitational Grants for Military-Connected Schools – Time and Effort.*

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

We thank the District for its assistance during the audit and will review these areas again during our next audit.

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

*Government Auditing Standards*, December 2011 Revision, paragraph 4.23 states:

**4.23** When performing GAGAS financial audits, auditors should communicate in the report on internal control over financial reporting and compliance, based upon the work performed, (1) significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts or grant agreements that has a material effect on the audit; and (4) abuse that has a material effect on the audit.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 935, as follows:

.11 For purposes of adapting GAAS to a compliance audit, the following terms have the meanings attributed as follows:

**Deficiency in internal control over compliance.** A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance on a timely basis. A deficiency in *design* exists when (a) a control necessary to meet the control objective is missing, or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in *operation* exists when a properly designed control does not operate as designed or the person performing the control does not possess the necessary authority or competence to perform the control effectively.

**Material weakness in internal control over compliance.** A deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis. In this section, a reasonable possibility exists when the likelihood of the event is either reasonably possible or probable as defined as follows:

**Reasonably possible.** The chance of the future event or events occurring is more than remote but less than likely.

**Remote.** The chance of the future event or events occurring is slight.

**Probable.** The future event or events are likely to occur.

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

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

The auditee shall:

- (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.
- (c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.

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

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

(4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:

- (a) More than one Federal award,
- (b) A Federal award and a non Federal award,
- (c) An indirect cost activity and a direct cost activity,
- (d) Two or more indirect activities which are allocated using different allocation bases, or
- (e) An unallowable activity and a direct or indirect cost activity.

(5) Personnel activity reports or equivalent documentation must meet the following standards:

- (a) They must reflect an after the fact distribution of the actual activity of each employee,

- (b) They must account for the total activity for which each employee is compensated,
- (c) They must be prepared at least monthly and must coincide with one or more pay periods, and
- (d) They must be signed by the employee.
- (e) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes.

Revised Code of Washington 28A.335.190, Advertising for bids — Competitive bid procedures, states in part:

- (2) Every purchase of furniture, equipment or supplies, except books, the cost of which is estimated to be in excess of forty thousand dollars, shall be on a competitive basis. The board of directors shall establish a procedure for securing telephone and/or written quotations for such purchases. Whenever the estimated cost is from forty thousand dollars up to seventy-five thousand dollars, the procedure shall require quotations from at least three different sources to be obtained in writing or by telephone, and recorded for public perusal. Whenever the estimated cost is in excess of seventy-five thousand dollars, the public bidding process provided in subsection (1) of this section shall be followed.

Title 32, Code of Federal Regulations, Section 33.36 – Procurement, states in part:

- (b) Procurement standards.

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

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

(d) Methods of procurement to be followed.

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

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

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

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

(i) Procurement by noncompetitive proposals may be used only when the award of a contract is infeasible under small purchase procedures, sealed bids or competitive proposals and one of the following circumstances applies:

(A) The item is available only from a single source;

Title 32, Code of Federal Regulations, Section 33.35 – Subawards to debarred and suspended parties, states in part:

Grantees and subgrantees must comply with the requirements of OMB guidance in Subpart C, 2 CFR part 180, as implemented by the Department of Defense in 2 CFR part 1125. Those requirements include restrictions on entering into a covered transaction with any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in Federal assistance programs under Executive Order 12549, “Debarment and Suspension.”

Title 2, Code of Federal Regulations, Section 180.300 – What must I do before I enter into a covered transaction with another person at the next lower tier?

When you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified. You do this by:

- (a) Checking the EPLS;
- (b) Collecting a certification from that person; or
- (c) Adding a clause or condition to the covered transaction with that person.

## SCHEDULE OF AUDIT FINDINGS AND RESPONSES

**North Kitsap School District No. 400**  
**Kitsap County**  
**September 1, 2013 through August 31, 2014**

**2014-002 The District did not have adequate internal controls to ensure compliance with federal Title I requirements.**

<b>CFDA Number and Title:</b>	84.010 Title I, Part A, Grants to Local Educational Agencies
<b>Federal Grantor Name:</b>	U.S. Department of Education
<b>Federal Award/Contract Number:</b>	NA
<b>Pass-through Entity Name:</b>	Office of Superintendent of Public Instruction
<b>Pass-through Award/Contract Number:</b>	NA
<b>Questioned Cost Amount:</b>	\$5,660

### ***Background***

During fiscal year 2014 the District spent \$606,192 in Title I program funds. The objective of the Title I program is to improve the teaching and learning of children who are at risk of not meeting state academic standards and who reside in areas with high concentrations of low-income families.

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.

### ***Description of Condition***

The District did not have adequate internal controls to ensure compliance with the following federal grant requirements:

#### **Allowable Cost Principles – Time and Effort**

We audited the District's internal controls over payroll 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.



Our audit found the District did not design an effective process to ensure time and effort documentation was completed by all employees whose positions are funded, in whole or in part, by Title I grant funds. In addition, the District did not perform a quarterly comparison of actual costs to budgeted costs based on time and effort documentation collected. The District spent \$514,254 of the grant on employee salary and benefits.

We consider these control weaknesses to be a significant deficiency.

### **Schoolwide Programs**

The Elementary and Secondary Education Act authorizes schoolwide programs as an alternative to targeted assistance as a means to better serve all children in a school building. Unlike targeted assistance programs, in which a school ranks and serves individual students, a schoolwide program combines federal and state resources to enhance a school's entire educational program. When a District uses this alternative, it must evaluate and revise the program annually to ensure students continue to improve.

The District operates a schoolwide program at Suquamish Elementary, Wolfle Elementary and Kingston Middle schools. They spent \$432,225 of its Title I funds in the schoolwide programs. The District did not have internal controls in place to ensure a complete schoolwide program was in place at the schools.

We consider these control deficiencies to be material weaknesses.

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

#### **Allowable Cost Principles – Time and Effort**

The District did not dedicate sufficient time and resources to ensure adequate processes were in place to prepare and monitor the time and effort documentation process to ensure they were accurate and complete. In addition, the District did not have adequate oversight of costs to ensure a reconciliation was performed, at least quarterly, between actual costs and budgeted costs.

#### **Schoolwide Program**

The District did not have adequate oversight and did not dedicate sufficient time and resources to ensure the schoolwide programs had all required components. In addition, the District did not provide training to communicate the schoolwide programs should contain all key components.

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

### **Allowable Cost Principles – Time and Effort**

Time and effort documentation for 14 of 21 employees tested was not complete. Two of these employees had no time and effort documentation. However, the District provided adequate alternative forms of documentation that allowed us not to question all costs associated with missing time and effort documentation.

However, time worked in the Title I program per time and effort or alternative documentation did not correspond to budgeted payroll costs for fourteen employees. Five employees had unallowable payroll expenditures totaling \$5,660 charged to the program; we are questioning these costs. Nine employees had allowable payroll expenditures totaling \$6,580 that were not charged to the program.

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

### **Schoolwide Programs**

Our audit found:

Three schools with a schoolwide program were missing a complete list of funding sources to be included in the schoolwide program. As a result, the District could not readily identify funding sources and how each program implemented the objectives of those funding sources. Certain funding sources are not allowable for use in a schoolwide program and without a complete list, the District cannot confirm only allowable funding sources were part of the program.

Two of the three schools did not include all core components required in a schoolwide program. Kingston Middle School did not include a comprehensive needs assessment and Wolfle Elementary did not include an annual evaluation of the results achieved by the program. An incomplete schoolwide program does not allow the District to ensure the objectives of each funding source have been met, or will be met.

## ***Recommendation***

### **Allowable Cost Principles – Time and Effort**

We recommend the District establish internal controls over time and effort records to ensure they are complete and maintained in accordance with Federal requirements to support payroll costs charged to Federal programs. We also recommend the District establish internal controls over Federal expenditures to ensure a quarterly reconciliation of actual costs and budgeted costs is performed.

Finally, we recommend the District contact OSPI to determine the amount of funds that should be recovered.

### **Schoolwide Program**

We recommend the District establish internal controls to establish oversight of schoolwide programs that will ensure all schoolwide programs contain the core components and a list of all State and Federal funding sources implemented in the schoolwide program in order to comply with Federal requirements.

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

*North Kitsap School District concurs with the audit finding presented for the 2013-2014 school year: Title I Time and Effort and Schoolwide Program.*

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

We thank the District for its assistance during the audit and will review this area again during the next audit.

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

U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section 300, states in part:

The auditee shall:

(b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

(c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.

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.

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

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

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

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

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

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.

## SCHEDULE OF PRIOR FEDERAL AUDIT FINDINGS

### North Kitsap School District No. 400 Kitsap County September 1, 2013 through August 31, 2014

This schedule presents the status of federal findings reported in prior audit periods. The status listed below is the representation of the District. The State Auditor's Office has reviewed the status as presented by the District

<b>Audit Period:</b> 9/1/2012 – 8/31/2013	<b>Report Ref. No.:</b> 1011985	<b>Finding Ref. No.:</b> 1	<b>CFDA Number(s):</b> 84.027 and 84.173
<b>Federal Program Name and Granting Agency:</b> Special Education Cluster U.S. Department of Education		<b>Pass-Through Agency Name:</b> Office of the Superintendent of Public Instruction	
<b>Finding Caption:</b> The North Kitsap School District did not have adequate internal controls to ensure compliance with time and effort requirements to support payroll costs charged to the Special Education program.			
<b>Background:</b> The District's internal controls were insufficient to ensure that employees working on federal grants submit required certifications or other appropriate documentation to support time worked. The District was unable to provide required time and effort documentation for 11 employees that were fully funded through the federal Special Education program in fiscal year 2013.			
<b>Status of Corrective Action: (check one)</b> <div style="display: flex; justify-content: space-between; align-items: flex-start;"> <div style="text-align: center;"><input type="checkbox"/> Fully Corrected</div> <div style="text-align: center;"><input checked="" type="checkbox"/> Partially Corrected</div> <div style="text-align: center;"><input type="checkbox"/> No Corrective Action Taken</div> <div style="text-align: center;"><input type="checkbox"/> Finding is considered no longer valid</div> </div>			
<b>Corrective Action Taken:</b> <i>Time and effort is being completed on a semi-annual basis (single cost objective). The department received a report showing all staff charged to federal programs and is requiring time and effort reporting. Special Education staff review and confirm correct coding for employees performing work within the cost objective. Timely time and effort reports are obtained from all staff.</i>			

**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**

**North Kitsap School District No. 400  
Kitsap County  
September 1, 2013 through August 31, 2014**

Board of Directors  
North Kitsap School District No. 400  
Poulsbo, 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 North Kitsap School District No. 400, 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 14, 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.

A handwritten signature in cursive script, reading "Jan M. Jutte". The signature is written in dark ink and is positioned above the printed name.

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

May 14, 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**

**North Kitsap School District No. 400  
Kitsap County  
September 1, 2013 through August 31, 2014**

Board of Directors  
North Kitsap School District No. 400  
Poulsbo, Washington

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

We have audited the compliance of North Kitsap School District No. 400, 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.

### **Other Matters**

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

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

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

## **REPORT ON INTERNAL CONTROL OVER COMPLIANCE**

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

control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

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

*A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Findings 2014-001 and 2014-002 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.

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

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

May 14, 2015

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## **North Kitsap School District No. 400 Kitsap County September 1, 2013 through August 31, 2014**

Board of Directors  
North Kitsap School District No. 400  
Poulsbo, Washington

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

We have audited the accompanying financial statements of North Kitsap School District No. 400, 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 34.

### **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 North Kitsap School District No. 400, 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 14, 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 14, 2015

## **FINANCIAL SECTION**

**North Kitsap School District No. 400**  
**Kitsap County**  
**September 1, 2013 through August 31, 2014**

### **FINANCIAL STATEMENTS**

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

### **SUPPLEMENTARY AND OTHER INFORMATION**

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

## Balance Sheet

## Governmental Funds

August 31, 2014

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
<b>ASSETS:</b>							
Cash and Cash Equivalents	1,970,922.61	60,037.75	13,614.66	128,399.45	0.00	0.00	2,172,974.47
Minus Warrants Outstanding	-1,892,236.19	-17,293.93	0.00	-101,002.44	0.00	0.00	-2,010,532.56
Taxes Receivable	7,253,105.27		4,249,239.38	0.00	0.00		11,502,344.65
Due From Other Funds	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Due From Other Governmental Units	425,797.98	0.00	0.00	0.00	0.00	0.00	425,797.98
Accounts Receivable	111,376.50	0.00	0.00	0.00	0.00	0.00	111,376.50
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	146,803.41	0.00					146,803.41
Prepaid Items	154,644.88	2,450.00		0.00	0.00	0.00	157,094.88
Investments	6,784,826.17	553,895.87	1,845,469.62	848,814.44	1,692,672.03	0.00	11,725,678.13
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
<b>TOTAL ASSETS</b>	<b>14,955,240.63</b>	<b>599,089.69</b>	<b>6,108,323.66</b>	<b>876,211.45</b>	<b>1,692,672.03</b>	<b>0.00</b>	<b>24,231,537.46</b>
<b>LIABILITIES:</b>							
Accounts Payable	932,006.97	33,492.04	0.00	52,119.23	0.00	0.00	1,017,618.24
Contracts Payable Current	30,157.52	0.00		14,372.36	0.00	0.00	44,529.88
Accrued Interest Payable			0.00				0.00
Accrued Salaries	120,853.48	0.00		0.00			120,853.48
Anticipation Notes Payable	0.00		0.00	0.00	0.00		0.00
Payroll Deductions and Taxes Payable	35,265.83	0.00		0.00			35,265.83
Due To Other Governmental Units	0.00	0.00		0.00	0.00	0.00	0.00
Deferred Compensation Payable	0.00			0.00			0.00
Estimated Employee Benefits Payable	0.00						0.00
Due To Other Funds	0.00	0.00	0.00	0.00	0.00	0.00	0.00

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

## Balance Sheet

## Governmental Funds

August 31, 2014

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
<b>LIABILITIES:</b>							
Interfund Loans Payable	0.00		0.00	0.00	0.00		0.00
Deposits	4,020.28	2,190.42		0.00			6,210.70
Unearned Revenue	67,679.63	0.00	0.00	0.00	0.00		67,679.63
Matured Bonds Payable			0.00				0.00
Matured Bond Interest Payable			0.00				0.00
Arbitrage Rebate Payable	0.00		0.00	0.00	0.00		0.00
<b>TOTAL LIABILITIES</b>	<b>1,189,983.71</b>	<b>35,682.46</b>	<b>0.00</b>	<b>66,491.59</b>	<b>0.00</b>	<b>0.00</b>	<b>1,292,157.76</b>
<b>DEFERRED INFLOWS OF RESOURCES:</b>							
Unavailable Revenue	812.66	86,729.88	0.00	663,575.66	0.00	0.00	751,118.20
Unavailable Revenue - Taxes Receivable	7,253,105.27		4,249,239.38	0.00	0.00		11,502,344.65
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>7,253,917.93</b>	<b>86,729.88</b>	<b>4,249,239.38</b>	<b>663,575.66</b>	<b>0.00</b>	<b>0.00</b>	<b>12,253,462.85</b>
<b>FUND BALANCE:</b>							
Nonspendable Fund Balance	476,995.58	0.00	0.00	0.00	0.00	0.00	476,995.58
Restricted Fund Balance	405,930.72	476,677.35	1,859,084.28	0.00	0.00	0.00	2,741,692.35
Committed Fund Balance	3,657,351.00	0.00	0.00	0.00	0.00	0.00	3,657,351.00
Assigned Fund Balance	1,093,402.00	0.00	0.00	146,144.20	1,692,672.03	0.00	2,932,218.23
Unassigned Fund Balance	877,659.69	0.00	0.00	0.00	0.00	0.00	877,659.69
<b>TOTAL FUND BALANCE</b>	<b>6,511,338.99</b>	<b>476,677.35</b>	<b>1,859,084.28</b>	<b>146,144.20</b>	<b>1,692,672.03</b>	<b>0.00</b>	<b>10,685,916.85</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND FUND BALANCE</b>	<b>14,955,240.63</b>	<b>599,089.69</b>	<b>6,108,323.66</b>	<b>876,211.45</b>	<b>1,692,672.03</b>	<b>0.00</b>	<b>24,231,537.46</b>

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

## Statement of Revenues, Expenditures, and Changes in Fund Balance

## Governmental Funds

For the Year Ended August 31, 2014

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
<b>REVENUES:</b>							
Local	16,965,127.91	801,697.63	8,677,381.15	171,374.93	7,852.94		26,623,434.56
State	40,961,027.46		0.00	0.00	535,008.35		41,496,035.81
Federal	5,083,060.77		0.00	0.00	0.00		5,083,060.77
Federal Stimulus	0.00						0.00
Other	61,611.94			0.00	0.00	0.00	61,611.94
<b>TOTAL REVENUES</b>	<b>63,070,828.08</b>	<b>801,697.63</b>	<b>8,677,381.15</b>	<b>171,374.93</b>	<b>542,861.29</b>	<b>0.00</b>	<b>73,264,143.08</b>
<b>EXPENDITURES:</b>							
<b>CURRENT:</b>							
Regular Instruction	31,807,655.86						31,807,655.86
Federal Stimulus	0.00						0.00
Special Education	8,525,450.90						8,525,450.90
Vocational Education	2,355,401.21						2,355,401.21
Skill Center	0.00						0.00
Compensatory Programs	2,676,661.23						2,676,661.23
Other Instructional Programs	431,590.07						431,590.07
Community Services	519,311.74						519,311.74
Support Services	14,056,946.94						14,056,946.94
Student Activities/Other		820,508.00				0.00	820,508.00
<b>CAPITAL OUTLAY:</b>							
Sites				0.00			0.00
Building				170,523.90			170,523.90
Equipment				0.00			0.00
Instructional Technology				0.00			0.00
Energy				0.00			0.00
Transportation Equipment					666,311.37		666,311.37
Sales and Lease				0.00			0.00
Other	966,976.80						966,976.80
<b>DEBT SERVICE:</b>							
Principal	0.00		6,339,544.35	0.00	0.00		6,339,544.35
Interest and Other Charges	0.00		1,633,903.45	0.00	0.00		1,633,903.45
Bond/Levy Issuance				0.00	0.00		0.00
<b>TOTAL EXPENDITURES</b>	<b>61,339,994.75</b>	<b>820,508.00</b>	<b>7,973,447.80</b>	<b>170,523.90</b>	<b>666,311.37</b>	<b>0.00</b>	<b>70,970,785.82</b>

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

Statement of Revenues, Expenditures, and Changes in Fund Balance

Governmental Funds

For the Year Ended August 31, 2014

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
<b>DEBT SERVICE:</b>							
REVENUES OVER (UNDER) EXPENDITURES	1,730,833.33	-18,810.37	703,933.35	851.03	-123,450.08	0.00	2,293,357.26
<b>OTHER FINANCING SOURCES (USES):</b>							
Bond Sales & Refunding Bond Sales	0.00		0.00	0.00	0.00		0.00
Long-Term Financing	0.00			0.00	0.00		0.00
Transfers In	0.00		189,197.78	0.00	0.00		189,197.78
Transfers Out (GL 536)	-189,197.78		0.00	0.00	0.00	0.00	-189,197.78
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
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>-189,197.78</b>		<b>189,197.78</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
<b>EXCESS OF REVENUES/OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>	<b>1,541,635.55</b>	<b>-18,810.37</b>	<b>893,131.13</b>	<b>851.03</b>	<b>-123,450.08</b>	<b>0.00</b>	<b>2,293,357.26</b>
<b>BEGINNING TOTAL FUND BALANCE</b>	<b>4,969,703.44</b>	<b>495,487.72</b>	<b>965,953.15</b>	<b>145,293.17</b>	<b>1,816,122.11</b>	<b>0.00</b>	<b>8,392,559.59</b>
Prior Year(s) Corrections or Restatements	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>ENDING TOTAL FUND BALANCE</b>	<b>6,511,338.99</b>	<b>476,677.35</b>	<b>1,859,084.28</b>	<b>146,144.20</b>	<b>1,692,672.03</b>	<b>0.00</b>	<b>10,685,916.85</b>

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

## Statement of Fiduciary Net Position

## Fiduciary Funds

August 31, 2014

	Private Purpose Trust	Other Trust
<b>ASSETS:</b>		
Imprest Cash	-304.25	0.00
Cash On Hand	0.00	0.00
Cash On Deposit with Cty Treas	4,538.13	0.00
Minus Warrants Outstanding	-4,538.13	0.00
Due From Other Funds	0.00	0.00
Accounts Receivable	0.00	0.00
Accrued Interest Receivable	0.00	0.00
Investments	452,844.19	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
<b>TOTAL ASSETS</b>	<b>452,539.94</b>	<b>0.00</b>
<b>LIABILITIES:</b>		
Accounts Payable	3,761.31	0.00
Due To Other Funds	0.00	0.00
<b>TOTAL LIABILITIES</b>	<b>3,761.31</b>	<b>0.00</b>
<b>NET POSITION:</b>		
<b>Held in trust for:</b>		
Restricted for Other Items	0.00	0.00
Restricted for Self Insurance		0.00
Restricted for Uninsured Risks		0.00
Nonspendable -- Trust Principal	373,637.50	0.00
Committed to Other Purposes	41,868.60	0.00
Held In Trust For Private Purposes	0.00	
Assigned to Fund Purposes	33,272.53	0.00
Held In Trust For Pension And Other Employee Benefits		0.00
Unassigned Fund Balance	0.00	0.00
<b>TOTAL NET POSITION</b>	<b>448,778.63</b>	<b>0.00</b>

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

## Statement of Changes in Fiduciary Net Position

## Fiduciary Funds

For the Year Ended August 31, 2014

ADDITIONS:			
Contributions:		Private Purpose Trust	Other Trust
	Private Donations	33,999.49	0.00
	Employer		0.00
	Members		0.00
	Other	0.00	0.00
<b>TOTAL CONTRIBUTIONS</b>		<b>33,999.49</b>	<b>0.00</b>
<b>Investment Income:</b>			
	Net Appreciation (Depreciation) in Fair Value	0.00	0.00
	Interest and Dividends	2,231.08	0.00
	Less Investment Expenses	0.00	0.00
	Net Investment Income	2,231.08	0.00
<b>Other Additions:</b>			
	Rent or Lease Revenue	0.00	0.00
	Total Other Additions	0.00	0.00
<b>TOTAL ADDITIONS</b>		<b>36,230.57</b>	<b>0.00</b>
<b>DEDUCTIONS:</b>			
	Benefits		0.00
	Refund of Contributions	0.00	0.00
	Administrative Expenses	21,462.59	0.00
	Scholarships	30,509.06	
	Other	0.00	0.00
<b>TOTAL DEDUCTIONS</b>		<b>51,971.65</b>	<b>0.00</b>
	Net Increase (Decrease)	-15,741.08	0.00
	Net Position--Beginning	464,519.71	0.00
	Prior Year(s) Corrections or Restatements	0.00	0.00
<b>NET POSITION--ENDING</b>		<b>448,778.63</b>	<b>0.00</b>

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



**North Kitsap School District No. 400**  
**Notes to the Financial Statements**  
**September 1, 2013 Through August 31, 2014**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (SSAP)**

**Description of the government-wide financial statements.**

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

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

- (1) Districtwide statements, as defined in GAAP, are not presented.
- (2) The financial statements do not report capital assets.
- (3) Debt is not reported on the face of the financial statements. It is reported on the notes to the financial statements and on the Schedule of Long-Term Liabilities. The Schedule of Long-Term Liabilities is required supplemental information.
- (4) The budgetary comparison schedule compares the district's actual results with the final budgeted amounts. The original budget document is available through the Office of Superintendent of Public Instruction.
- (5) The Management Discussion and Analysis is optional.
- (6) The financial statements do not report a liability for Other Post-Employment Benefits (GASB Statement 45).
- (7) Other departures from GAAP that are material in nature are indicated throughout the Notes.

**Description of the activities accounted for in each of the following funds presented in the basic financial statements.**

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

## **Governmental Funds**

### General Fund

This fund is used to account for all expendable financial resources, except 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.

### Permanent Funds

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

## **Fiduciary Funds**

Fiduciary funds include pension and other employee benefit trust funds, private-purpose trust funds, and agency funds, and are used to account for assets that are held 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.

## Agency Funds

These funds are used to account for assets that the District holds for other agencies in a purely custodial capacity.

## ***Proprietary Funds***

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

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

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

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

Revenues are recognized as soon as they are measurable and available. "Measurable" means the amount of the transaction can be readily determined. Revenues are considered "available" if they are collected within 60 days after year-end to pay liabilities of the current period. Property taxes receivable are measurable but not available and are, therefore, not accrued. Categorical program claims and interdistrict billings are measurable and available and are, therefore, accrued.

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

## ***Budgetary Data***

### General Budgetary Policies

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

### Budgetary Basis of Accounting

For budget and accounting purposes, revenues and expenditures are accounted for on the modified accrual basis as prescribed in law for all governmental funds. Fund balance is budgeted as available resources and, under statute, may not be negative, unless the District enters into binding conditions with state oversight pursuant to RCW 28A.505.110.

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

The 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 a school board policy. Commitments may only be changed when the resources are used for the intended purpose or the limitation is removed by a subsequent formal action of the board of directors.

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

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

The Superintendent, or designee is/are the only person (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.

## **Assets, Liabilities, and Fund Equity**

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

## **Inventory**

Inventory is valued at cost using the first-in, first-out (FIFO) method. The consumption method of inventory is used, which charges inventory as an expenditure when it is consumed. A portion of fund balance, representing inventory, is considered Nonspendable. *(Such reserves for inventory indicate that a portion of net current assets is set aside to replace or increase the inventory.)* 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.

## **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:

	Number of Securities	Carrying Amount	Market Value
Certificates of Deposit or Other Time Deposits			
Repurchase Agreements			
Bankers' Acceptance			
Obligations of the U.S. Government or Its Subsidiary Corporations			
Investments Held by Broker-Dealers Under Reverse Repurchase Agreements: U.S. Government Securities U.S. Instrumentality Securities			
State Treasurer's Investment Pool			
County Treasurer's Investment Pool			12,178,522.32
Total Investments			12,178,522.32

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

## **Litigation**

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

## **NOTE 4: SIGNIFICANT EFFECTS OF SUBSEQUENT EVENTS**

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

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

### **A. General Information**

Substantially all District full-time and qualifying part-time employees participate in one of the following three contributory, multi-employer, cost-sharing statewide retirement systems managed by the Washington State Department of Retirement Systems (DRS): Teachers' Retirement System (TRS), Public Employees' Retirement System (PERS) and School Employees' Retirement System (SERS). Participation in the programs was as follows:

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

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

Certificated public employees are members of TRS. Noncertificated public employees are members of PERS (if Plan 1) or SERS.

Plan 1 under the TRS and PERS programs are defined benefit pension plans whose members joined the system on or before September 30, 1977. Plan 1 members are eligible to retire with full benefits after five years of credited service and attainment of age 60, after 25 years of credited service and attainment of age 55, or after 30 years of credited service.

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

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

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

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

The employer contribution rates for PERS, TRS, and SERS (Plans 1, 2, and 3) and the TRS and SERS Plan 2 employee contribution rates are established by the Pension Funding Council based upon the rates set by the Legislature. The employee contribution rate for Plan 1 in PERS and TRS is set by statute at 6 percent and does not vary from year to year. The employer rate is the same for all plans in a system. The methods used to determine the contribution requirements are established under chapters 41.40, 41.32, and 41.35 RCW for PERS, TRS and SERS respectively.

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

## B. Contributions

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

Plan 1 TRS	6.00%	Plan 1 PERS	6.00%
Plan 2 TRS	4.96%	Plan 2 SERS	4.64%
Plan 3 TRS and SERS	5.00% (minimum),	15.00% (maximum)	

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

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

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

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

<u>Plan</u>	<u>FY2013-14</u>	<u>FY2012-13</u>	<u>FY2011-12</u>
Plan 1 TRS	\$ 113,732.58	\$ 97,069.03	\$ 120,968.69
Plan 2 TRS	\$ 489,144.18	\$ 382,666.49	\$ 398,342.74
Plan 3 TRS	\$ 1,995,338.24	\$1,532,928.70	\$1,561,026.84
Plan 1 PERS	\$ 19,503.58	\$ 17,803.34	\$ 19,021.14
Plan 2 SERS	\$ 473,483.57	\$ 345,038.60	\$ 354,415.51
Plan 3 SERS	\$ 509,348.52	\$ 385,046.32	\$ 410,609.19

Historical trend information showing TRS, PERS and SERS progress in accumulating sufficient assets to pay benefits when due is presented in the state of Washington's June 30, 2014, comprehensive annual financial report. Refer to this report for detailed trend information. It is available from:

State of Washington  
Office of Financial Management  
300 Insurance Building  
PO BOX 43113  
Olympia, WA 98504-3113



## **NOTE 6: ANNUAL OTHER POST-EMPLOYMENT BENEFIT COST AND NET OPEB OBLIGATIONS**

The State, through the Health Care Authority (HCA), administers an agent multi-employer Other Post-Employment Benefit plan. The Public Employees Benefits Board (PEBB), created within the HCA, is authorized to design benefits and determine the terms and conditions of employee and retired employee participation and coverage, including establishment of eligibility criteria for both active and retired employees. Programs include (medical, dental, life insurance and long-term disability insurance)<sup>(5)</sup>.

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 2013-14, 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 \$515,421.70. This assessment to the District is set forth in the State's operating budget and is subject to change on an annual basis. This amount is not actuarially determined and is not placed in a trust to pay the obligations for post-employment health care benefits.

The District has no control over the benefits offered to retirees, the rates charged to retirees, nor the fee paid to the Health Care Authority. The District does not determine its Annual Required Contribution nor the Net Other Post-Employment Benefit obligation associated with this plan. Accordingly, these amounts are not shown on the financial statements. This is a departure from GAAP.

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

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

*a. rental, and sublease rental revenue.)*

Lessor	Amount	Annual Installment	Final Installment Date	Interest Rate	Balance
<b>Lease-Purchase Commitments</b>					
Cisco Systems Capital – WAN Equipment	\$226,643.67	\$75,547.89	2017	0.00%	\$226,643.67
<i>Total Lease-Purchase Commitments</i>					\$226,643.67
<b>Conditional Sales Contracts</b>					
<i>Total Conditional Sales Contracts</i>					
<b>Other Long-Term Commitments</b>					
<i>Total Other Long-Term Commitments</i>					



## **NOTE 8: REQUIRED DISCLOSURES ABOUT CAPITAL ASSETS**

The District's capital assets are insured in the amount of \$500,000,000 for fiscal year 2013-14. In the opinion of the District's insurance consultant, the amount is sufficient to adequately fund replacement of the District's assets.

## **NOTE 9: 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
2011 GO	\$17,550,000	\$ 762,000 – 3,102,000	06/01/2017	3.00%	\$10,760,000.00
2005 GO	\$29,135,000	\$ 80,000 – 5,055,000	12/01/2018	3.50%-5.125%	\$21,730,000.00
2008 Energy	\$ 595,500	\$26,461 – 35,720	12/01/2018	4.04%	\$ 266,721.90
2010 Energy	\$ 213,800	\$ 9,385 – 12,238	06/01/2020	2.97%	\$ 135,593.15
2011 Energy	\$762,777.88	\$ 66,906 – 88.949	12/01/2020	3.02%	\$ 555,918.50
Total General Obligation Bonds					\$33,448,233.55

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

Long-Term Debt Payable at 9/1/2013	\$39,787,777.90
New Issues	0.00
Debt Retired	6,339,544.35
Long-Term Debt Payable at 8/31/2014	\$33,448,233.55

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

*(Include as many lines as necessary to report the future minimum payments for each of the five subsequent fiscal years and in five-year increments thereafter. For variable-rate debt, the terms by which the interest rates changed must be disclosed.)*

Years Ending August 31	Principal	Interest	Total
2015	\$ 7,719,681.04	\$ 1,375,760.73	\$ 9,095,441.77
2016	\$ 8,229,998.41	\$ 1,055,517.74	\$ 9,285,516.15
2017	\$ 7,936,234.04	\$ 700,239.25	\$ 8,636,473.29
2018	\$ 5,277,714.75	\$ 352,007.08	\$ 5,579,721.83
2019	\$ 4,135,830.01	\$ 113,141.43	\$ 4,248,971.44
2020	\$ 109,825.63	\$ 5,811.26	\$ 115,636.89
2021	\$ 88,949.67	\$ 1,778.99	\$ 90,728.66
Total	\$33,448,233.55	\$ 3,604,256.48	\$37,052,490.03

At August 31, 2014, the District had \$1,859,084.28 available in the Debt Service Fund to service the general obligation bonds. Funds sufficient to make the annual payments for the energy loans are transferred from the General Fund

## **NOTE 10: INTERFUND BALANCES AND TRANSFERS**

The District had no interfund loans or transfers as of August 31, 2014.

## **NOTE 11: 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 district is a member of the Washington Schools Risk Management Pool (Pool). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The Pool was formed in 1986 when educational service districts and school districts in the state of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. Over 80 school and educational service districts have joined the Pool.

The Pool allows members to jointly purchase insurance coverage, establish a plan of self-insurance, and provide related services, such as risk management. The Pool provides the following coverages for its members: property, liability, vehicle, public official liability, crime, employment practices, machinery breakdown, and network security.

Members make an annual contribution to fund the Pool. The Pool acquires reinsurance from unrelated underwriters that are subject to a per-occurrence self-insured retention of \$1 million. Members are responsible for varied deductibles for both liability and property claims. Insurance carriers cover losses over \$1 million to the maximum limits of each policy. Since the Pool is a cooperative program, there is a joint liability among the participating members.

Members contract to remain in the Pool for a minimum of three years and must give notice two and one half years before terminating participation. The Interlocal Governmental Agreement is renewed automatically each year after the initial three-year period. Even after termination, a member is still responsible for contributions to the Pool for any unresolved, unreported, and in-process claims for the period they were a signatory to the Interlocal Governmental Agreement if the assets of the Pool were exhausted.

The Pool is fully funded by its member participants.

The Pool is governed by a board of directors which is comprised of one designated representative from each participating member. An executive board is elected at the annual meeting, and is responsible for overseeing the business affairs of the Pool.

## **NOTE 12: 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 is not available in time to cover liabilities for the fiscal period ended August 31. Therefore, the fall portion of property taxes is not accrued as revenue. Instead, the property taxes due on October 31 are recorded as deferred revenue.

## **NOTE 13: 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 joined the cooperative on August 12, 1974, and has remained in the joint venture ever since. The District's current equity of \$71,403.82 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 14: FUND BALANCE CLASSIFICATION DETAILS**

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

	General Fund	ASB Fund	Capital Projects Fund	Debt Service Fund	Transportation Vehicle Fund
Nonspendable Fund Balance					
Inventory and Prepaid Items	\$ 476,995.58				
Restricted Fund Balance					
Carryover of Restricted Revenues	\$ 216,762.72				
Debt Service	\$ 189,168.00			\$1,859,084.28	
Arbitrage Rebate					
Uninsured Risks					
Other Items					
Committed Fund Balance					
Minimum Fund Balance Policy	\$3,297,351.00				
Other Commitments	\$ 360,000.00				
Assigned Fund Balance					
Contingencies					
Other Capital Projects					
Other Purposes	\$1,093,402.00				
Fund Purposes		\$476,677.35	\$146,144.20		\$1,692,672.03
Unassigned Fund Balance	\$ 877,659.69				

The board of directors has established a minimum fund balance policy for the general fund to provide for financial stability and contingencies within the District. The policy is that the District shall maintain a goal of 5% of the annual general fund expenditures. Portions of fund balance that are set aside for the purpose of meeting this policy are recorded on the financial statements as a part of Committed fund balance.

## **NOTE 15: POST-EMPLOYMENT BENEFIT PLANS OTHER THAN PENSION PLANS—BOTH IN SEPARATELY ISSUED PLAN FINANCIAL STATEMENTS AND EMPLOYER STATEMENTS**

### **457 Plan – Deferred Compensation Plan**

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

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

The District offers a tax deferred annuity plan for its employees. The plan permits participants to defer a portion of their salary until future years under two types of deferrals: elective deferrals (employee contribution) and non-elective contribution (employer matching).

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

## **NOTE 16: TERMINATION BENEFITS**

### **Compensated Absences**

Employees earn sick leave at a rate of 10-12 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/vesting method}.

Vacation pay, including benefits, that is 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.

No unrecorded liability exists for other employee benefits.

North Kitsap School District No. 400  
Schedule of Long-Term Liabilities: GENERAL FUND  
For the Year Ended August 31, 2014

Description	Beginning Outstanding Debt September 1, 2013	Amount Issued / Increased	Amount Redeemed / Decreased	Ending Outstanding Debt August 31, 2014	Amount Due Within One Year
<b>Non-Voted Debt and Liabilities</b>					
Capital Leases	0.00	226,643.67	0.00	226,643.67	75,547.89
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	1,801,537.33	102,133.85	0.00	1,903,671.18	246,934.15
Long-Term Notes	0.00	0.00	0.00	0.00	0.00
Anticipation Notes Payable	0.00	0.00	0.00	0.00	0.00
Lines of Credit	0.00	0.00	0.00	0.00	0.00
Other Non-Voted Debt	0.00	0.00	0.00	0.00	0.00
<b>Other Liabilities</b>					
Non-Voted Notes Not Recorded as Debt	0.00	0.00	0.00	0.00	0.00
Total Long-Term Liabilities	1,801,537.33	328,777.52	0.00	2,130,314.85	322,482.04

## Schedule of Long-Term Liabilities: DEBT SERVICE FUND

For the Year Ended August 31, 2014

Description	Beginning Outstanding Debt September 1, 2013	Amount Issued / Increased	Amount Redeemed / Decreased	Ending Outstanding Debt August 31, 2014	Amount Due Within One Year
<b>Voted Debt</b>					
Voted Bonds	38,680,000.00	0.00	6,190,000.00	32,490,000.00	7,565,000.00
LOCAL Program Proceeds Issued in Lieu of Bonds	0.00	0.00	0.00	0.00	0.00
<b>Non-Voted Debt</b>					
Non-Voted Bonds	1,107,777.90	0.00	149,544.35	958,233.55	154,681.04
LOCAL Program Proceeds	0.00	0.00	0.00	0.00	0.00
Total Long-Term Liabilities	39,787,777.90	0.00	6,339,544.35	33,448,233.55	7,719,681.04

**NORTH 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	Expenditures Total	Foot Note
DEPT OF AGRICULTURE	WA OSPI	NATIONAL SCHOOL LUNCH PROGRAM- CASH ASSISTANCE	10.555	N/A		775,961.44	775,961.44	
DEPT OF AGRICULTURE	WA OSPI	NATIONAL SCHOOL LUNCH PROGRAM - NON CASH ASSISTANCE	10.555	COMMODITIES		134,627.54	134,627.54	3
DEPT OF AGRICULTURE	WA OSPI	SCHOOL BREAKFAST PROGRAM	10.553	N/A		189,199.34	189,199.34	
		<b>Total US Department of Agriculture</b>			<b>0.00</b>	<b>1,099,788.32</b>	<b>1,099,788.32</b>	
DEPT OF DEFENSE		DEPARTMENT OF DEFENSE IMPACT AID (SUPPLEMENT, CWSO, BRAC)	12.558	GEN FUND	118,512.42		118,512.42	
DEPT OF DEFENSE		COMPETITIVE GRANTS: PROMOTING K-12 STUDENT ACHIEVEMENT AT MILITARY-CONNECTED SCHOOLS	12.556	N/A	316,977.71		316,977.71	
DEPT OF DEFENSE		INVITATIONAL GRANTS FOR MILITARY-CONNECTED SCHOOLS	12.557	N/A	142,358.36		142,358.36	
		<b>Total Dept of Defense</b>			<b>577,848.49</b>	<b>0.00</b>	<b>577,848.49</b>	
DEPT OF EDUCATION	WA OSPI	CAREER AND TECHNICAL EDUCATION-BASIC GRANTS TO STATES	84.048	0173156/0189082		39,398.00	39,398.00	7
DEPT OF EDUCATION	WA OSPI	ENGLISH LANGUAGE ACQUISITION STATE GRANTS	84.365	0401882		33,256.00	33,256.00	7
DEPT OF EDUCATION	WA OSPI	IMPACT AID	84.041	GEN FUND	1,086,027.41		1,086,027.41	
DEPT OF EDUCATION	WA OSPI	IMPROVING TEACHER QUALITY STATE	84.367	0523322		114,690.66	114,690.66	7
DEPT OF EDUCATION	WA OSPI	INDIAN EDUCATION GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.060	S060A130701	101,442.00		101,442.00	7
DEPT OF EDUCATION	WA OSPI	SPECIAL EDUCATION GRANTS TO STATES	84.027	0304767/0337649		1,257,195.00	1,257,195.00	7
DEPT OF EDUCATION	WA OSPI	SPECIAL EDUCATION PRESCHOOL GRANTS TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.173	0364776		31,499.36	31,499.36	7
DEPT OF EDUCATION	WA OSPI		84.010	0201575		606,294.79	606,294.79	4,7
		<b>Total US Dept of Education</b>			<b>1,187,469.41</b>	<b>2,082,333.81</b>	<b>3,269,803.22</b>	
DEPT OF HEALTH AND HUMAN SERVICES	DSHS	MEDICAL ASSISTANCE PROGRAM	93.778	N/A		186,013.45	186,013.45	2
		<b>Total US Dept of Health and Human Services</b>			<b>0.00</b>	<b>186,013.45</b>	<b>186,013.45</b>	
<b>TOTAL FEDERAL AWARDS EXPENDED</b>					<b>1,765,317.90</b>	<b>3,368,135.58</b>	<b>5,133,453.48</b>	

**NORTH KITSAP SCHOOL DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For the Year Ending August 31, 2014**  
**Notes to Schedule**

**Note 1 - Basis of Accounting**

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

**Note 2 - Program Costs/Matching Contributions**

The amount shown as current year expenses represent only the federal grant portion of the program costs. Entire program costs, including North Kitsap School District's portion or State portion, may be more than shown.

**Note 3 - Non Cash Awards**

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

**Note 4 - School Wide Programs**

North Kitsap School District operates a "schoolwide program" in 3 buildings: Kingston Middle, Suquamish, Wolfe. 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 North Kitsap School District in this schoolwide program: Title 1 (84.010) \$ 606,294.79.

**Note 7 - Federal Indirect Rate**

The North Kitsap School District used the federal restricted rate of 3.47 except for CFDA 84.365 is at a hard cap of 2%



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

### North Kitsap School District No. 400 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 North Kitsap School District No. 400.

<b>Finding ref number:</b> 2014-001	<b>Finding caption:</b> The District did not have adequate controls to ensure compliance with federal requirements – Procurement, Suspension and Debarment, Cost Principals.
<b>Name, address, and telephone of auditee contact person:</b> Paula Bailey, Director of Finance, Business and Operations 18360 Caldart Avenue N.E. Poulsbo, WA 98370 (360) 396-3010	
<b>Corrective action the auditee plans to take in response to the finding:</b> <i>The District concurs with the finding of non-compliance of sole source documentation, suspension and debarment and time and effort requirements. The District will take the following steps to ensure proper procedures are in place which adhere to federal grant reporting guidelines:</i> <ul style="list-style-type: none"> <li>• All federal purchases for services will have the required number of quotes. This will be audited by our Purchasing department. All services are required to be processed and verified by the district office.</li> <li>• Federal purchasing guidelines, as well as time and effort reporting guidelines are available to all staff on the NKSD website. Suspension and Debarment language has been added to the standard NSKD contract for services form and staff notified of the update.</li> <li>• All federal grants, including the DODEA grant, will have time and effort reporting as required by law.</li> <li>• Semi-annual certifications or monthly time and effort sheets will be collected from ALL staff paid from the federal DODEA grant. Proper dates will be established and Time and Effort reporting will be timely.</li> <li>• The grant administrator will match up the Time and Effort reports to the HR coding of employee costs as well as monthly expenditure reports.</li> <li>• Business office will reconcile time and effort reporting to payroll reports.</li> </ul>	
<b>Anticipated date to complete the corrective action:</b> August 2015	

<b>Finding ref number:</b> 2014-002	<b>Finding caption:</b> The District did not have adequate controls to ensure compliance with federal Title I requirements; Allowable Cost Principals – Time and Effort, Schoolwide Programs.
<b>Name, address, and telephone of auditee contact person:</b> Paula Bailey, Director of Finance, Business and Operations 18360 Caldart Avenue N.E. Poulsbo, WA 98370 (360) 396-3010	
<b>Corrective action the auditee plans to take in response to the finding:</b> <i>The District concurs with the finding of non-compliance of time and effort requirements. The District will take the following steps to ensure proper procedures are in place which adhere to federal grant reporting guidelines:</i> <ul style="list-style-type: none"> <li><i>Semi-annual certifications or monthly time and effort sheets will be collected from ALL staff paid from the federal Title I grant. Proper dates will be established and Time and Effort reporting will be timely.</i></li> <li><i>The grant administrator will match up the Time and Effort reports to the HR coding of employee costs as well as monthly expenditure reports.</i></li> <li><i>Business office will reconcile time and effort reporting to payroll reports.</i></li> <li><i>The District concurs with the finding of inadequate internal controls to ensure a complete schoolwide Program was in place at schools. The District will take the following steps to ensure proper procedures and controls are in place to ensure all required components of the schoolwide Program are in place.</i></li> <li><i>All schools operating a Schoolwide program will have a complete list of funding sources identified to be included in the schoolwide program.</i></li> <li><i>All required core components of the schoolwide program will be included in the building's schoolwide plan.</i></li> </ul>	
<b>Anticipated date to complete the corrective action:</b> August 2015	

## ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

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

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

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

Contact information for the State Auditor's Office	
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<b>Public Records requests</b>	(360) 725-5617
<b>Main telephone</b>	(360) 902-0370
<b>Toll-free Citizen Hotline</b>	(866) 902-3900
<b>Website</b>	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>