



Washington State Auditor's Office

Independence • Respect • Integrity

Financial Statements and Federal Single Audit Report

North Mason School District No. 403

Mason County

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

Published May 28, 2015

Report No. 1014377





Washington State Auditor

May 28, 2015

Board of Directors
North Mason School District No. 403
Belfair, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on North Mason School District No. 403'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,

A handwritten signature in black ink, reading "Jan M. Jutte".

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

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FEDERAL SUMMARY

North Mason School District No. 403
Mason County
September 1, 2013 through August 31, 2014

The results of our audit of North Mason School District No. 403 are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

Financial Statements

An unmodified opinion was issued on the financial statements.

Internal Control Over Financial Reporting:

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

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

Federal Awards

Internal Control Over Major Programs:

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

We issued an unmodified opinion on the District's compliance with requirements applicable to each of its major federal programs, with the exception of the Nutrition Cluster - School Breakfast Program and Nutrition Cluster - School Lunch Program on which we issued a qualified opinion on compliance with applicable requirements.

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

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 qualify as a low-risk auditee under OMB Circular A-133.

SCHEDULE OF FEDERAL AUDIT FINDINGS AND QUESTIONED COSTS

North Mason School District No. 403 Mason County September 1, 2013 through August 31, 2014

2014-001 The District does not have adequate internal controls over the federal child nutrition verification process, eligibility, and paid lunch equity requirements for the National School Lunch and School Breakfast programs.

CFDA Number and Title:	10.553 School Breakfast Program 10.555 National School Lunch Program
Federal Grantor Name:	U.S. Department of Agriculture
Federal Award/Contract Number:	NA
Pass-through Entity Name:	Office of Superintendent of Public Instruction
Pass-through Award/Contract Number:	NA
Questioned Cost Amount:	\$0

Background

The District participates in the School Breakfast and the National School Lunch programs. It received a total of a total of \$578,092 for these programs in the 2013-2014 school year. This program provides funding for free and reduced-priced meals for low-income students. Families must meet income guidelines to be eligible for these programs.

Description of Condition

Verification

Each year, districts must select a sample of applications and verify that family income reported is correct and that the family is eligible for benefits. The U.S. Department of Agriculture directs local school districts to comply with verification instructions provided by the administering agency. The Office of Superintendent of Public Instruction (OSPI) is the administering state agency responsible for providing local districts with verification instructions.

While the District did have a process in place to perform the verification process, internal controls were not effective to ensure that the District performed the verification steps accurately.

Our audit of the verification requirement found the District did not use the sampling method prescribed by OSPI. OSPI required the District to use a three percent focused sampling method, as the District had a nonresponse rate that exceeded 20 percent during the 2012-2013 school years' verification process. This method requires the District to select error prone applications for verification. Error prone applications are defined as any application where the reported family income is within \$100 on the monthly income limits to qualify for free or reduced-priced meals. However, the District used a random sampling method.

We found the following additional concerns:

- The District did not complete the verification process by the November 15 deadline.
- The District did not retain copies of all the documents used for the verification process, including adverse action letters of students that no longer qualified or failed to respond.
- The District failed to reduce or terminate benefits of applicants as a result of the verification process promptly after the required 10 day notice period.
- Of the nine income-based applicants verified by the District, three did not have sufficient income information to support the District's eligibility determination.
- The District did not perform the required secondary independent review of applications selected for the verification process prior to sending notification to selected participants.

Eligibility

The District lacked internal controls to ensure only eligible students were given free or reduced-priced meals. We found a secondary review and approval of applications was not in place. Our audit identified errors in determining eligibility for free and reduced-priced meals, including the following:

- Applications did not contain all required information needed to make an eligibility determination, such as the frequency of income or a listing of all household members.

- Income reported on applications placed families above the free/reduced-priced threshold; however, the District did not change the student's eligibility to paid.
- Categorically free students, such as foster children, were not given the appropriate eligibility status.

Paid Lunch Equity Tool (PLE)

The interim rule entitled “National School Lunch Program: School Food Service Account Revenue Amendments Related to the Healthy, Hunger-Free Kids Act of 2010” requires districts to ensure sufficient funds are provided to the nonprofit school food service accounts for meals served to students not eligible for free or reduced-price meals (paid lunches). A district currently charging less for a paid lunch than the difference between the Federal reimbursement rate for such a lunch and that for a free lunch is required to comply. The difference is known as “equity”.

The U.S. Department of Agriculture (USDA) released the Paid Lunch Equity (PLE) Tool for the school year 2013-2014 and additional guidance in USDA Memorandum SP 25-2013. The Office of Superintendent of Public Instruction provided the PLE tool to all school districts to ensure compliance with the grant requirement.

The District did not have the necessary controls in place to ensure the paid lunch equity grant requirements were met. The District did not calculate its weighted average paid lunch price using the PLE tool.

We consider these control deficiencies to be material weaknesses.

Cause of Condition

The food service department did not adequately follow the detailed guidance provided by OSPI regarding verification, eligibility and paid lunch equity requirements. Furthermore, the District did not dedicate the necessary resources to ensure federal grant requirements were met.

Effect of Condition

A lack of proper internal controls increases the risk that:

- Free or reduced-price meals could be provided to children who are not eligible to receive them. This could affect the District's eligibility for future federal funding.

- The District could receive funding for households that do not qualify for free and reduced-priced meals.
- Students could be denied free or reduced-price meals inappropriately.
- An increased likelihood of material noncompliance with regard to charging allowable lunch rates.

Recommendation

We recommend the District establish internal controls to:

- Provide food service staff training related to eligibility, verification, and paid lunch equity requirements.
- Improve record retention to ensure compliance with federal grant requirements.

District's Response

The North Mason School District has implemented the following processes to ensure accuracy and compliance with federal requirements and guidelines within the Food Services Department:

- *The district will train other internal staff to review applications. As an additional review and approval of applications, applications will be reviewed twice before they are entered in Skyward.*
- *For selection of applications, the District will use the 3% Focus Method for verification purposes.*
- *Once the Food Service Department has a list of the applications selected for income verification, the verification report and backup received will be reviewed by an additional member of the Food service Department for accuracy and completeness. Also, the Business Office will review verification documentation before it is submitted to the Office of the Superintendent of Public Instruction (OSPI) and ensure proper and adequate documentation is obtained and retained.*
- *The verification process will occur in a timely manner.*
- *Applications will not be processed if they do not contain all required information needed to make an eligibility determination. The district will*

ensure building and food service staff coordinate to obtain necessary information from applicants to facilitate the eligibility determination process.

- *When income is reported on applications above the free/reduced-priced threshold the District will properly place families/applicants.*
- *Categorically free students, such as foster children, will be given the appropriate eligibility status.*
- *The District will adjust or terminate benefits of applicants as needed after the required 10 day notice period.*

Auditor's Remarks

We appreciate the School District's commitment to resolve this finding and thank the School District for its cooperation and assistance during the audit. We will review the corrective action taken during our next audit.

Applicable Laws and Regulations

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

The auditee shall:

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

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

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

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

grant agreements that has a material effect on the audit; and (4) abuse that has a material effect on the audit.

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

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

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

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

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

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

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

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

Washington Office of Superintendent of Public Instruction, Bulletin 043-13 – Verification Requirements for Local Education Agencies: Income Verification of Free and Reduced-Price Meal Applications states in part:

Verification of free and reduced-price meal application is an annual requirement for all public school districts, private schools, and Residential Child Care Institutions (RCCIs) that collect meal applications for students. Verification is not required for local education agencies (LEAs) that operate only the Special Milk Program or for RCCIs that do not have day students or claim all students in the paid category.

For the 2013–14 school year, LEAs must complete the verification of free and reduced-price meal applications in accordance with United States Department of Agriculture (USDA) regulation 7 CFR 245.6(a).

Non-response Rate of 20% or Greater

LEAs with a nonresponse rate of 20% or greater in school year 2012–13 must use the 3% focused sampling method.

Washington State Office of the Superintendent of Public Instruction CNR Update, *Paid Lunch Equity School Year 2013-14*, states in part:

The United States Department of Agriculture (USDA) has released the Paid Lunch Equity (PLE) Tool for school year 2013-14 and additional guidance in USDA Memorandum SP 25-2013.

All local education agencies (LEA) are required to calculate their weighted average paid lunch price using the PLE Tool. If the weighted average paid lunch price is greater than \$2.59, no further action is required. All LEAs must keep a copy of the tool, showing the calculations, either electronic or paper, on file. Ensuring that all LEAs have made this calculation will be part of future administrative reviews.

Washington Office of Superintendent of Public Instruction,
Bulletin 056-11 - Annual Requirements for Local Education
Agencies:

Federal regulations require a second party review of all free and reduced-price applications selected for verification. This review must be completed prior to sending letters to households notifying them that they have been selected for verification and requesting that they provide documentation that shows their income and family size, as indicated on their application, is correct. This must be done by someone other than the application approving official.

Title 7 Code of Federal Regulations, Section 245.6(a) - Verification requirements, states in part:

(a)(7) Sources of information. Sources of information for verification may include written evidence, collateral contacts, and systems of records as follows:

(i) Written evidence shall be used as the primary source of information for verification. Written evidence includes written confirmation of a household's circumstances, such as wage stubs, award letters, and letters from employers. Whenever written evidence is insufficient to confirm income information on the application or current eligibility, the local educational agency may require collateral contacts.

(ii) Collateral contacts are verbal confirmations of a household's circumstances by a person outside of the household. The collateral contact may be made in person or by phone. The verifying official may select a collateral contact if the household fails to designate one or designates one which is unacceptable to the verifying official. If the verifying official designates a collateral contact, the contact shall not be made without providing written or oral notice to the household. At the time of this notice, the household shall be informed that it may consent to the contact or provide acceptable documentation in another form. If the household refuses to choose one of these options, its eligibility shall be terminated in accordance with the normal procedures for failure to cooperate with verification

efforts. Collateral contacts could include employers, social service agencies, and migrant agencies.

(iii) Agency records to which the State agency or local educational agency may have access are not considered collateral contacts. Information concerning income, household size, or SNAP, FDPIR, or TANF eligibility, maintained by other government agencies to which the State agency, the local educational agency, or school can legally gain access, may be used to confirm a household's income, size, or receipt of benefits. Information may also be obtained from individuals or agencies serving foster, homeless, migrant, or runaway children, as defined in § 245.2. Agency records may be used for verification conducted after the household has been notified of its selection for verification or for the direct verification procedures in paragraph (g) of this section.

(iv) Households which dispute the validity of income information acquired through collateral contacts or a system of records shall be given the opportunity to provide other documentation.

If verification activities fail to confirm eligibility for free or reduced price benefits or should the household fail to cooperate with verification efforts, the school or local educational agency shall reduce or terminate benefits, as applicable, as follows: Ten days advance notification shall be provided to households that are to receive a reduction or termination of benefits, prior to the actual reduction or termination. The first day of the 10 day advance notice period shall be the day the notice is sent. The notice shall advise the household of:

- (1) The change
- (2) The reasons for the change
- (3) Notification of the right to appeal and when the appeal must be filed to ensure continued benefits while awaiting a hearing and decision
- (4) Instructions on how to appeal; and

(5) The right to reapply at any time during the school year. The reasons for ineligibility shall be properly documented and retained on file at the local educational agency.

For the 2013–14 school year (SY), local education agencies (LEAs) must complete the annual verification of free and reduced-price meal applications by **November 15, 2013**.

Federal regulation requires a second party confirmation review of all free and reduced-price meal applications selected for verification. This confirmation review ensures that the original approval for free or reduced-price meals was done correctly. This must be done by someone other than the approving official. This review must be completed prior to sending the letter to the household notifying them that they were selected for verification.

Households selected for verification **must be notified of their selection** and provided with information on documents that must be returned. Documentation of income must be collected from all household members for whom income was listed on the free and reduced-price meal application.

There must be documentation of changes made in eligibility, the reason for the change, and the effective date of the change due to the verification process. LEAs are reminded that when verification results in changes to eligibility or benefits, the changes will become effective according to the criteria below:

- **Reduction or termination of benefits:** Actual reduction or termination of benefits must take place on the date immediately following the 10-day (calendar days) advance notice period.
- **Higher benefits for the child:** Change is effective immediately and parents should be notified accordingly.
- **Changes to eligibility status:** Eligibility status must be changed for all children in the household enrolled in the LEA.

Title 7 Code of Federal Regulations, Section 245.6a–(j) Adverse Action, states in part:

If verification activities fail to confirm eligibility for free or reduced price benefits or should the household fail to cooperate

with verification efforts, the school or local educational agency shall reduce or terminate benefits, as applicable, as follows: Ten days advance notification shall be provided to households that are to receive a reduction or termination of benefits, prior to the actual reduction or termination. The first day of the 10 day advance notice period shall be the day the notice is sent. The notice shall advise the household of:

- (1) The change
- (2) The reasons for the change
- (3) Notification of the right to appeal and when the appeal must be filed to ensure continued benefits while awaiting a hearing and decision
- (4) Instructions on how to appeal; and
- (5) The right to reapply at any time during the school year. The reasons for ineligibility shall be properly documented and retained on file at the local educational agency.

STATUS OF PRIOR FEDERAL AUDIT FINDINGS

This schedule presents the status of federal findings reported in prior audit periods. The status listed below is the representation of North Mason School District No. 403. The State Auditor's Office has reviewed the status as presented by the District.

Audit Period: September 1, 2012 – August 31, 2013	Report Ref. No: 1011780	Finding Ref. No: 1	CFDA Number(s): 10.553 and 10.555
Federal Program Name and Granting Agency: Child Nutrition Cluster, U.S. Department of Agriculture		Pass-Through Agency Name: Office of Superintendent of Public Instruction	
Finding Caption: North Mason School District does not have adequate internal controls over its federal child nutrition verification process, resulting in inaccurate reporting of verification results.			
Background: <p>During the audit of the verification requirement we found the following internal control weaknesses and instances of noncompliance:</p> <ul style="list-style-type: none"> The District did not have the required secondary review of applications selected for verification before the notice of verification was sent to families. The District did not complete its verification process by the November 15th deadline. The verification letters sent to families had inconsistent deadlines and one letter was addressed to the wrong person and sent to the wrong address. The actual reduction or termination of benefits resulting from income verification did not take place immediately after the 10-day advance notice period. In three of the five verifications which resulted in a termination of benefits, the actual termination took place several days before the 10-day advance notice period was complete. 			
Status of Corrective Action: (check one) <div style="display: flex; justify-content: space-between; padding: 5px;"> <div><input type="checkbox"/> Fully Corrected</div> <div><input checked="" type="checkbox"/> Partially Corrected</div> <div><input type="checkbox"/> No Corrective Action Taken</div> <div><input type="checkbox"/> Finding is considered no longer valid</div> </div>			
Corrective Action Taken: <ol style="list-style-type: none"> 1. <i>In 2013-14 an additional member of the Food Service Department proofread all Notification of Selection of Verification letters before they were sent to families.</i> 2. <i>The district ensured all verification of eligibility testing was performed in 2013 -14.</i> 3. <i>The district ensured verification letters were sent to families with consistent deadlines and were reviewed by additional staff before mailing.</i> 4. <i>In 2013-14 the district ensured that reduction of benefits occurred.</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 Mason School District No. 403
Mason County
September 1, 2013 through August 31, 2014**

Board of Directors
North Mason School District No. 403
Belfair, 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 Mason School District No. 403, Mason County, Washington, as of and for the year ended August 31, 2014, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated May 18, 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.

We also noted certain matters that we have reported to the management of the District in a separate letter dated May 18, 2015.

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink, reading "Jan M. Jutte". The signature is fluid and cursive, with the first name "Jan" and last name "Jutte" clearly legible.

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

May 18, 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 Mason School District No. 403
Mason County
September 1, 2013 through August 31, 2014**

Board of Directors
North Mason School District No. 403
Belfair, Washington

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

We have audited the compliance of North Mason School District No. 403, Mason County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2014. The District's major federal programs are identified in the accompanying Federal Summary.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program

occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the District's compliance.

Basis for Qualified Opinion on Nutrition Cluster - School Breakfast Program and Nutrition Cluster - School Lunch Program

As described in Finding 2014-001 in the accompanying Schedule of Federal Audit Findings and Questioned Costs, the District did not comply with requirements regarding its Nutrition Cluster - School Breakfast Program and Nutrition Cluster - School Lunch Program for eligibility, special tests and provisions, verification and paid lunch equity. Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to the program.

Qualified Opinion on Nutrition Cluster - School Breakfast Program and Nutrition Cluster - School Lunch Program

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, 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 its Nutrition Cluster - School Breakfast Program and Nutrition Cluster - School Lunch Program for the year ended August 31, 2014.

Unmodified Opinion on Each of the Other Major Federal Programs

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 other major federal programs identified in the accompanying Federal Summary for the year ended August 31, 2014.

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. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Finding 2014-001 to be a material weakness.

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 the first letters of the first and last names being capitalized and prominent.

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

May 18, 2015

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

North Mason School District No. 403 Mason County September 1, 2013 through August 31, 2014

Board of Directors
North Mason School District No. 403
Belfair, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of North Mason School District No. 403, Mason County, Washington, as of and for the year ended August 31, 2014, and the related notes to the financial statements, which collectively comprise the District's financial statements, as listed on page 28.

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 Mason School District No. 403, 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 18, 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 18, 2015

FINANCIAL SECTION

North Mason School District No. 403
Mason County
September 1, 2013 through August 31, 2014

FINANCIAL STATEMENTS

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North Mason School District No. 403

Balance Sheet

Governmental Funds

August 31, 2014

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
ASSETS:							
Cash and Cash Equivalents	2,822,098.98	244,347.81	676,308.71	7,066.85	263,389.12	0.00	4,013,211.47
Minus Warrants Outstanding	-1,661,518.54	-2,871.55	0.00	-74,867.44	0.00	0.00	-1,739,257.53
Taxes Receivable	5,436,495.60		1,081,374.70	29,097.69	0.00	0.00	6,546,967.99
Due From Other Funds	25,807.92	0.00	0.00	0.00	0.00	0.00	25,807.92
Due From Other Governmental Units	65,346.64	0.00	0.00	0.00	0.00	0.00	65,346.64
Accounts Receivable	59,870.38	0.00	0.00	0.00	0.00	0.00	59,870.38
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	118,651.68	0.00					118,651.68
Prepaid Items	157,192.61	3,149.01		0.00	0.00	0.00	160,341.62
Investments	0.00	0.00	0.00	46,631,485.90	0.00	0.00	46,631,485.90
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			0.00
Self-Insurance Security Deposit	0.00						0.00
TOTAL ASSETS	7,023,945.27	244,625.27	1,757,683.41	46,592,783.00	263,389.12	0.00	55,882,426.07
LIABILITIES:							
Accounts Payable	105,673.66	4,023.44	0.00	106,879.55	0.00	0.00	216,576.65
Contracts Payable Current	0.00	0.00		0.00	0.00	0.00	0.00
Accrued Interest Payable			0.00				0.00
Accrued Salaries	27,404.57	0.00		0.00			27,404.57
Anticipation Notes Payable	0.00		0.00	0.00	0.00		0.00
Payroll Deductions and Taxes Payable	6,192.76	0.00		0.00			6,192.76
Due To Other Governmental Units	30,625.75	0.00		0.00	0.00	0.00	30,625.75
Deferred Compensation Payable	0.00			0.00			0.00
Estimated Employee Benefits Payable	0.00						0.00
Due To Other Funds	0.00	848.18	0.00	24,959.74	0.00	0.00	25,807.92

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

North Mason School District No. 403

Balance Sheet

Governmental Funds

August 31, 2014

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
LIABILITIES:							
Interfund Loans Payable	0.00		0.00	0.00	0.00		0.00
Deposits	307.27	0.00		0.00			307.27
Unearned Revenue	0.00	0.00	0.00	0.00	0.00		0.00
Matured Bonds Payable			0.00				0.00
Matured Bond Interest Payable			0.00				0.00
Arbitrage Rebate Payable	0.00		0.00		0.00		0.00
TOTAL LIABILITIES	170,204.01	4,871.62	0.00	131,839.29	0.00	0.00	306,914.92
DEFERRED INFLOWS OF RESOURCES:							
Unavailable Revenue	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Unavailable Revenue - Taxes Receivable	5,436,495.60		1,081,374.70	29,097.69	0.00		6,546,967.99
TOTAL DEFERRED INFLOWS OF RESOURCES	5,436,495.60	0.00	1,081,374.70	29,097.69	0.00	0.00	6,546,967.99
FUND BALANCE:							
Nonspendable Fund Balance	118,651.68	11,040.09	0.00	0.00	0.00	0.00	129,691.77
Restricted Fund Balance	17,273.47	228,713.56	676,308.71	45,109,632.77	263,389.12	0.00	46,295,317.63
Committed Fund Balance	866,965.07	0.00	0.00	503,113.24	0.00	0.00	1,370,078.31
Assigned Fund Balance	20,000.00	0.00	0.00	819,100.01	0.00	0.00	839,100.01
Unassigned Fund Balance	394,355.44	0.00	0.00	0.00	0.00	0.00	394,355.44
TOTAL FUND BALANCE	1,417,245.66	239,753.65	676,308.71	46,431,846.02	263,389.12	0.00	49,028,543.16
TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND FUND BALANCE	7,023,945.27	244,625.27	1,757,683.41	46,592,783.00	263,389.12	0.00	55,882,426.07

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

North Mason School District No. 403
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds

For the Year Ended August 31, 2014

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
REVENUES:							
Local	4,429,601.04	339,867.12	1,390,516.54	496,821.50	2,778.57		6,659,584.77
State	14,736,355.16		207,422.86	79,393.13	220,219.99		15,243,391.14
Federal	1,600,657.30		0.00	0.00	0.00		1,600,657.30
Federal Stimulus	0.00						0.00
Other	187,823.86			0.00	0.00	0.00	187,823.86
TOTAL REVENUES	20,954,437.36	339,867.12	1,597,939.40	576,214.63	222,998.56	0.00	23,691,457.07
EXPENDITURES:							
CURRENT:							
Regular Instruction	10,686,331.45						10,686,331.45
Federal Stimulus	0.00						0.00
Special Education	2,768,513.40						2,768,513.40
Vocational Education	930,487.48						930,487.48
Skill Center	0.00						0.00
Compensatory Programs	1,000,022.60						1,000,022.60
Other Instructional Programs	65,381.71						65,381.71
Community Services	76,086.98						76,086.98
Support Services	5,231,091.86						5,231,091.86
Student Activities/Other		351,241.34				0.00	351,241.34
CAPITAL OUTLAY:							
Sites				638,966.69			638,966.69
Building				2,818,339.95			2,818,339.95
Equipment				9,038.14			9,038.14
Instructional Technology				0.00			0.00
Energy				0.00			0.00
Transportation Equipment					131,744.40		131,744.40
Sales and Lease				0.00			0.00
Other	54,592.99						54,592.99
DEBT SERVICE:							
Principal	0.00		982,805.54	0.00	0.00		982,805.54
Interest and Other Charges	0.00		2,085,623.30	0.00	0.00		2,085,623.30
Bond/Levy Issuance				0.00	0.00		0.00
TOTAL EXPENDITURES	20,812,508.47	351,241.34	3,068,428.84	3,466,344.78	131,744.40	0.00	27,830,267.83

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

North Mason School District No. 403
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds

For the Year Ended August 31, 2014

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
DEBT SERVICE:							
REVENUES OVER (UNDER) EXPENDITURES	141,928.89	-11,374.22	-1,470,489.44	-2,890,130.15	91,254.16	0.00	-4,138,810.76
OTHER FINANCING SOURCES (USES):							
Bond Sales & Refunding Bond Sales	0.00		0.00	0.00	0.00		0.00
Long-Term Financing	0.00			0.00	0.00		0.00
Transfers In	0.00		1,042,271.53	0.00	0.00		1,042,271.53
Transfers Out (GL 536)	-89,262.34		0.00	-846,600.00	-106,409.19	0.00	-1,042,271.53
Other Financing Uses (GL 535)	0.00		0.00	0.00	0.00		0.00
Other	0.00		0.00	0.00	0.00		0.00
TOTAL OTHER FINANCING SOURCES (USES)	-89,262.34		1,042,271.53	-846,600.00	-106,409.19	0.00	0.00
EXCESS OF REVENUES/OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	52,666.55	-11,374.22	-428,217.91	-3,736,730.15	-15,155.03	0.00	-4,138,810.76
BEGINNING TOTAL FUND BALANCE	1,364,579.11	251,127.87	1,104,526.62	50,168,576.17	278,544.15	0.00	53,167,353.92
Prior Year(s) Corrections or Restatements	0.00	0.00	0.00	0.00	0.00	0.00	0.00
ENDING TOTAL FUND BALANCE	1,417,245.66	239,753.65	676,308.71	46,431,846.02	263,389.12	0.00	49,028,543.16

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

North Mason School District No. 403
Statement Of Fiduciary Net Position
Fiduciary Funds
August 31, 2014

	Private Purpose Trust	Other Trust
ASSETS:		
Imprest Cash	0.00	0.00
Cash On Hand	0.00	0.00
Cash On Deposit with Cty Treas	0.00	0.00
Minus Warrants Outstanding	0.00	0.00
Due From Other Funds	0.00	0.00
Accounts Receivable	0.00	0.00
Accrued Interest Receivable	0.00	0.00
Investments	0.00	0.00
Investments/Cash With Trustee	0.00	0.00
Other Assets	0.00	
Capital Assets, Land	0.00	
Capital Assets, Buildings	0.00	
Capital Assets, Equipment	0.00	0.00
Accum Depreciation, Buildings	0.00	
Accum Depreciation, Equipment	0.00	0.00
TOTAL ASSETS	0.00	0.00
LIABILITIES:		
Accounts Payable	0.00	0.00
Due To Other Funds	0.00	0.00
TOTAL LIABILITIES	0.00	0.00
NET POSITION:		
Held in trust for:		
Restricted for Other Items	0.00	0.00
Restricted for Self Insurance		0.00
Restricted for Uninsured Risks		0.00
Nonspendable -- Trust Principal	0.00	0.00
Committed to Other Purposes	0.00	0.00
Held In Trust For Private Purposes	0.00	
Assigned to Fund Purposes	0.00	0.00
Held In Trust For Pension And Other Employee Benefits		0.00
Unassigned Fund Balance	0.00	0.00
TOTAL NET POSITION	0.00	0.00

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

North Mason School District No. 403

Statement of Changes in Fiduciary Net Position

Fiduciary Funds

For the Year Ended August 31, 2014

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

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

NORTH MASON SCHOOL DISTRICT
Notes to the Financial Statements
September 1, 2013 through August 31, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (SSAP)

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

The District presents governmental fund financial statements and related notes on the modified accrual basis of accounting in accordance with the *Accounting Manual for Public School Districts in the State of Washington*, issued jointly by the State Auditor's Office and the Superintendent of Public Instruction by the authority of RCW 43.09.200, RCW 28A.505.140, RCW 28A.505.010(1) and RCW 28A.505.020. The manual's financial reporting framework differs from generally accepted accounting principles (GAAP) in the following manner:

- (1) Districtwide statements, as defined in GAAP, are not presented.
- (2) A Schedule of Long-Term Liabilities is presented as supplementary information.
- (3) Supplementary information required by GAAP is not presented.

Fund Accounting

Financial transactions of the District are reported in individual funds. Each fund uses a separate set of self-balancing accounts that is comprised of assets, liabilities, fund equity, revenues, and expenditures. All funds are considered major funds. The various funds in the report are grouped into governmental (and fiduciary) funds as follows:

Governmental Funds

General Fund

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

Capital Projects Funds

These funds account for financial resources that are to be used for the construction or acquisition of major capital assets. There are two funds that are considered to be of the capital projects fund type: the Capital Projects Fund and the Transportation Vehicle Fund.

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

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

Debt Service Fund

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

Special Revenue Fund

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

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 on behalf of others in a purely custodial capacity.

Measurement focus, basis of accounting and fund financial statement presentation

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are measurable and available. Revenues are considered "measurable" if the amount of the transaction can be readily determined. Revenues are considered "available" when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days after year-end. Property taxes receivable are measurable but not available and are, therefore, not accrued. Categorical program claims and interdistrict billings are measurable and available and are, therefore, accrued.

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

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

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

The government's policy regarding whether to first apply restricted 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 Executive Director of Finance and Operations is the only person who has the authority to create Assignments of fund balance.

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

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

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

Cash and Cash Equivalents

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

Inventory

Inventory is valued at cost using 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 Non-spendable. 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.

Accounting and Reporting Changes for 2013-2014

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

NOTE 2: CASH DEPOSITS WITH FINANCIAL INSTITUTIONS

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

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

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

	Carrying Amount	Market Value
County Treasurer's Investment Pool	\$46,631,486	\$46,631,486
<i>Total Investments</i>	\$46,631,486	\$46,631,486

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 statewide retirement systems managed by the Washington State Department of Retirement Systems (DRS), under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov. The following disclosures are made pursuant to GASB Statements No. 27, *Accounting for Pensions by State and Local Government Employers* and No. 50, *Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27*.

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

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

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

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

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

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

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

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

Plan	13/14	12/13	11/12
Plan 1 TRS	\$ 41,747	\$ 43,528	\$ 60,236
Plan 2 TRS	\$ 490,714	\$ 351,543	\$ 318,281
Plan 3 TRS	\$ 1,600,194	\$ 1,288,808	\$ 1,228,303
Plan 1 PERS	\$ 12,572	\$ 13,042	\$ 13,565
Plan 2 SERS	\$ 290,230	\$ 218,470	\$ 197,608
Plan 3 SERS	\$ 482,001	\$ 395,920	\$ 396,829

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

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

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

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

Employers participating in the plan include the State of Washington (which includes general government agencies and higher education institutions), 57 of the state's K–12 school districts and educational service districts (ESDs), and 206 political subdivisions and tribal governments. Additionally, the PEBB plan is available to the retirees of the remaining 247 K–12 school districts and ESDs. The District's retirees are eligible to participate in the PEBB plan under this arrangement.

According to state law, the Washington State Treasurer collects a fee from all school district entities which have employees that are not current active members of the state Health Care Authority but participate in the state retirement system. The purpose of this fee is to cover the impact of the subsidized rate of health care benefits for school retirees that elect to purchase their health care benefits through the state Health Care Authority. For the fiscal year 2013-14, 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 \$165,006. 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 no additional long-term debt under a non-capitalized operating lease.

NOTE 8: CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS, INCLUDING ENCUMBRANCES, IF APPROPRIATE

Construction in progress is composed of:

Project	Project Authorization Amount	Expended as of 8/31/14	Additional Local Funds Committed	Additional State Funds Committed
New North Mason High School	\$43,703,915	\$3,593,986	\$29,109,929	\$11,000,000
Hawkins Middle School Remodel	\$13,939,300	\$238,847	\$7,700,453	\$6,000,000
Belfair El. Play structure	\$2,285,705		\$2,285,705	
Sand Hill El. Play structure	\$1,289,100		\$1,289,100	
Supplemental Projects	\$4,004,000		\$4,004,000	
Total	\$65,222,020	\$3,832,833	\$44,389,187	\$17,000,000

Encumbrances

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

Fund	Amount
General	\$175
ASB Fund	\$0
Capital Projects Fund	\$873,292
Transportation Vehicle Fund	\$0

NOTE 9: REQUIRED DISCLOSURES ABOUT CAPITAL ASSETS

The district's capital assets are insured in the amount of \$63,238,482 for fiscal year 2014. In the opinion of the District's insurance consultant, the amount is sufficient to adequately fund replacement of the District's assets.

NOTE 10: REQUIRED DISCLOSURES ABOUT LONG-TERM LIABILITIES

Long-Term Debt

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

Issue Name	Amount Authorized	Annual Installments	Final Maturity	Interest Rate(s)	Amount Outstanding
2005 Non-Voted Debt	\$1,027,990	\$106,409	2017	4.25%	\$294,452
2010 Non-Voted Debt	\$307,000	\$37,696	2020	3.75%-4.85%	\$211,111
2011 Non-Voted Debt	\$467,119	Various	2021	2.499%	\$408,858
2013 G.O. Bonds	\$46,550,000	Various	2037	1.75%-5.0%	\$46,550,000
Total Bonds Payable	\$48,352,109				\$47,464,421

*The interest rate for the 2010 Non-Voted Bond will consist of a fixed rate of 3.75% per annum from the closing date to and including November 30, 2015. Beginning December 1, 2015 to and including December 1, 2020, the interest rate for the bond will consist of a fixed rate of 4.85% per annum. Interest is calculated on a 30/360 basis.

**The coupon rate for the 2013 Voted Bond issued varies from 1.75% to 5.00% for bonds maturing 2015 through 2020. Bonds maturing 12/1/2021 and later bear a coupon rate of 5.00%

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

Long-Term Debt Payable at 9/1/2013	\$48,447,227
New Issues	\$0
Debt Retired	\$982,806
Long-Term Debt Payable at 8/31/2014	\$47,464,421

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

Years Ending August 31	Principal	Interest	Total
2015	\$159,456	\$2,315,730	\$2,475,186
2016	\$444,479	\$2,307,310	\$2,751,789
2017	\$525,079	\$2,295,090	\$2,820,169
2018	\$524,268	\$2,280,069	\$2,804,337
2019	\$624,932	\$2,263,524	\$2,888,456
2024	\$1,195,000	\$2,050,625	\$3,245,625
2029	\$2,145,000	\$1,639,875	\$3,784,875
2034	\$3,460,000	\$948,000	\$4,408,000
Total	\$9,078,214	\$16,100,223	\$ 25,178,437

On August 31, 2014, the District had \$676,309 available in the Debt Service Fund to service the general obligation bonds.

NOTE 11: ENTITY RISK MANAGEMENT ACTIVITIES

The North Mason School District is a member of United Schools Insurance Program. Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The program was formed on September 1, 1985, when 29 school districts in the state of Washington joined together by signing a Joint Purchasing Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. Current membership includes 155 school districts.

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

Liability insurance is subject to a self-insured retention of \$100,000. Members are responsible for a \$1,000 deductible for each claim (member deductibles may vary), while the program is responsible for the \$100,000 self-insured retention (SIR). Insurance carriers cover insured losses over \$101,000 to the limits of each policy. Since the program is a cooperative program,

there is a joint liability among the participating members towards the sharing of the \$100,000 SIR. The program also purchases a stop loss policy with an attachment point of \$995,000, as an additional layer of protection for its members.

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

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

Each new member now pays the program an admittance fee. This amount covers the member's share of unrestricted reserves. Members contract to remain in the program for a minimum of one year, and must give notice before August 31 to terminate participation the following September 1. The inter-local agreement is renewed automatically each year. Even after termination, a member is still responsible for contributions to the program for any unresolved, unreported, and in-process claims for the period they were a signatory to the Joint Purchasing Agreement.

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

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

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: 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	\$118,652	\$11,040			
Restricted Fund Balance					
Carryover of Restricted Revenues	\$17,273				
Debt Service				\$676,309	
Arbitrage Rebate For Fund Purposes					
		\$228,714			\$263,389
From other Proceeds			\$54,200		
From Bond Proceeds			\$45,055,433		
Committed Fund Balance					
Minimum Fund Balance Policy	\$866,965				
Committed From Levy Proceeds			\$503,113		
Assigned Fund Balance					
Contingencies					
Other Capital Projects					
Other Purposes	\$20,000				
Fund Purposes			\$819,100		
Unassigned Fund Balance	\$394,355				

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

Restricted from Bond Proceeds	\$45,055,433
Committed from Levy Proceeds	
Restricted from State Proceeds	
Restricted from Federal Proceeds	
Restricted from Other Proceeds	\$54,200
Restricted from Impact Fee Proceeds	
Restricted from Mitigation Fee Proceeds	
Restricted from Undistributed Proceeds	

To provide for financial stability, the Board of Directors has established a fund balance policy of maintaining at least 4.0% - 6.0% of budgeted General Fund expenditures as a minimum fund balance requirement for the General Fund. 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 14: 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 assets are assets of the District employees, not the school district, and are therefore not reflected on these financial statements.

NOTE 15: TERMINATION BENEFITS

Compensated Absences

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

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

These expenditures are recorded when paid, except termination sick leave that is accrued upon death, retirement, or upon termination provided the employee is at least 55 years of age and has sufficient years of service. Vested sick leave was computed using the vesting method.

Vacation leave and vested sick leave are entered as outstanding debt in the general fund Schedule of Long Term Liabilities.

NOTE 16: JOINT VENTURES AND JOINTLY GOVERNED ORGANIZATIONS

King County Directors' Association

The district is a member of the King County Directors' Association, a purchasing cooperative consisting of over 290 school districts throughout the state. The district's equity in this cooperative totaled \$22,267.74 as of December 31, 2013. The district has the right to withdraw its equity, subject to certain restrictions, over a period of up to 15 years. During 13-14 school year, the district's purchases from this cooperative totaled \$413,485.71 as compared with \$146,945.95 in the preceding year.

NOTE 17: OTHER DISCLOSURES

Theler Community Center

The North Mason School district was bequeathed property from Samuel Theler for the Mary E. Theler Community Center in 1968. The district constructed a building on the site in 1984. The facility has been leased and operated by the Mary E. Theler Community Center organization. During the 2013-14 school year, district resumed management of the facility.

North Mason School District No. 403
Schedule of Long-Term Liabilities: GENERAL FUND
For the Year Ended August 31, 2014

Description	Beginning Outstanding Debt September 1, 2013	Amount Issued / Increased	Amount Redeemed / Decreased	Ending Outstanding Debt August 31, 2014	Amount Due Within One Year
Non-Voted Debt and Liabilities					
Capital Leases	0.00	0.00	0.00	0.00	0.00
Contracts Payable	0.00	0.00	0.00	0.00	0.00
Non-Cancellable Operating Leases	0.00	0.00	0.00	0.00	0.00
Claims & Judgements	0.00	0.00	0.00	0.00	0.00
Compensated Absences	518,606.73	0.00	4,786.63	513,820.10	39,237.64
Long-Term Notes	0.00	0.00	0.00	0.00	0.00
Anticipation Notes Payable	0.00	0.00	0.00	0.00	0.00
Lines of Credit	0.00	0.00	0.00	0.00	0.00
Other Non-Voted Debt	0.00	0.00	0.00	0.00	0.00
Other Liabilities					
Non-Voted Notes Not Recorded as Debt	0.00	0.00	0.00	0.00	0.00
Total Long-Term Liabilities	518,606.73	0.00	4,786.63	513,820.10	39,237.64

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

North Mason School District No. 403
Schedule of Long-Term Liabilities: DEBT SERVICE FUND
For the Year Ended August 31, 2014

Description	Beginning Outstanding Debt September 1, 2013	Amount Issued / Increased	Amount Redeemed / Decreased	Ending Outstanding Debt August 31, 2014	Amount Due Within One Year
Voted Debt					
Voted Bonds	46,550,000.00	0.00	0.00	46,550,000.00	0.00
LOCAL Program Proceeds Issued in Lieu of Bonds	0.00	0.00	0.00	0.00	0.00
Non-Voted Debt					
Non-Voted Bonds	1,897,226.96	0.00	982,805.54	914,421.42	159,456.48
LOCAL Program Proceeds	0.00	0.00	0.00	0.00	0.00
Total Long-Term Liabilities	48,447,226.96	0.00	982,805.54	47,464,421.42	159,456.48

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

North Mason School District No. 403
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ending August 31, 2014

1	2	3	4	5	6	7	8	9
Federal Agency Name	Pass Through Agency	Federal Program Title	CFDA Number	Other Identification Number	From Direct Awards	From Pass Through Awards	Total	Footnote
US Dept of Agriculture	WA OSPI	School Breakfast Program	10.553	N/A		\$164,356.15	\$164,356.15	8
US Dept of Agriculture	WA OSPI	National School Lunch Program - Cash Assistance	10.555	N/A		\$413,735.36	\$413,735.36	8
US Dept of Agriculture	WA OSPI	National School Lunch Program - Non-Cash Assistance (Commodities)	10.555	N/A		\$47,881.54	\$47,881.54	4, 8
US Dept of Agriculture	WA OSPI	Schools and Roads Grants to States	10.665	N/A		\$47,866.77	\$47,866.77	
		Subtotal US Department of Agriculture			\$0.00	\$673,839.82	\$673,839.82	
US Dept of Education	WA OSPI	Title I, Part A - Improving Basic Programs	84.010A	201566		\$301,016.28	\$301,016.28	9
US Dept of Education	WA OSPI	Special Education Grants to States - IDEA Part B Section 611	84.027A	304605		\$416,094.00	\$416,094.00	9
US Dept of Education	WA OSPI	Career and Technical Education - Basic Grants to States - Perkins	84.048	173183		\$13,160.32	\$13,160.32	9
US Dept of Education	WA OSPI	Special Education - Preschool Grants	84.173A	364606		\$14,608.00	\$14,608.00	9
US Dept of Education	WA OSPI	English Language Acquisition Grants Title III-LEP	84.365A	401635		\$5,339.16	\$5,339.16	
US Dept of Education	WA OSPI	Title II Part A Teacher & Principle Training and Recruiting Fund	84.367	523335		\$69,694.60	\$69,694.60	
US Dept of Education	N/A	Impact Aid	84.041	N/A		\$89,541.96	\$89,541.96	3, 8
		Subtotal US Department of Education				\$819,912.36	\$909,454.32	

North Mason School District No. 403
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ending August 31, 2014

1	2	3	4	5	6	7	8	9
Federal Agency Name	Pass Through Agency	Federal Program Title	CFDA Number	Other Identification Number	From Direct Awards	From Pass Through Awards	Total	Footnote
US Dept of Health and Human Services	WA OSPI	Exemplary Sexual Education	93,079	N/A		\$109.28	\$109.28	3, 8
US Dept of Health and Human Services	HCA	Medical Assistance Program	93.778	N/A		\$17,253.88	\$17,253.88	3, 8
		Subtotal US Department of Health and Human Services			\$0.00	\$17,363.16	\$17,363.16	
TOTAL FEDERAL AWARDS EXPENDED					\$89,541.96	\$1,511,115.34	\$1,600,657.30	

North Mason School District No. 403
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ending August 31, 2014

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE 1—BASIS OF ACCOUNTING

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

NOTE 2—AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA) of 2009
Of the amount shown for this program, \$0.00 was paid from ARRA funds.

NOTE 3—PROGRAM COSTS/MATCHING CONTRIBUTIONS

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

NOTE 4—NONCASH AWARDS

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

NOTE 8—NOT AVAILABLE (N/A)

The North Mason School District was unable to obtain other identification number.

NOTE 9—FEDERAL INDIRECT RATE

The North Mason School District used the federal restricted rate of 2.95 percent for this program.

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

North Mason School District No. 403

Mason County

September 1, 2013 through August 31, 2014

This schedule presents the corrective action planned by the auditee for findings reported in this report in accordance with OMB Circular A-133. The information in this schedule is the representation of the North Mason School District No. 403.

Finding ref number: 2014-001	Finding caption: The District does not have adequate internal controls over the federal child nutrition verification process, eligibility, and paid lunch equity requirements for the National School Lunch and School Breakfast programs.
Name, address, and telephone of auditee contact person: North Mason School District No. 403 71 E. Campus Drive Belfair, WA 98528	
Corrective action the auditee plans to take in response to the finding: <i>The North Mason School District has implemented the following internal controls to ensure the district's processes and practices surrounding the verification process, eligibility determination and use of the paid lunch equity tool (PLE) meet guidelines and requirements of the National School Lunch and School Breakfast programs:</i> <ul style="list-style-type: none">• <i>The district has trained other internal staff to review applications. As an additional review and approval of applications, applications are reviewed twice before they are entered in Skyward.</i>• <i>For selection of applications, the District uses the 3% Focus Method for verification purposes.</i>• <i>The district has trained staff and uses the paid lunch equity tool to calculate its weighted average paid lunch price using the PLE tool. The Business Office reviews PLE calculations for accuracy.</i>• <i>Once the Food Service Department has a list of the applications selected for income verification, the verification report and backup received are reviewed by an additional member of the Food service Department for accuracy and completeness. Also, the Business Office reviews verification documentation before it is submitted to the Office of the Superintendent of Public Instruction (OSPI) and ensures proper and adequate documentation is obtained and retained.</i>	

- *The verification process occurs in a timely manner.*
- *Applications are not processed if they do not contain all required information needed to make an eligibility determination. The district ensures building and food service staff coordinate to obtain necessary information from applicants to facilitate the eligibility determination process.*
- *When income is reported on applications above the free/reduced-priced threshold the District properly places families/applicants.*
- *Categorically free students, such as foster children, are given the appropriate eligibility status and the direct certification process is reviewed by a second Nutrition Service staff member.*
- *The District adjusts or terminates benefits of applicants as needed promptly after the required 10 day notice period.*

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.

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