



Washington State Auditor's Office

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Financial Statements and Federal Single Audit Report

South Kitsap School District No. 402

Kitsap County

For the period September 1, 2014 through August 31, 2015

Published May 26, 2016

Report No. 1016763





Washington State Auditor's Office

May 26, 2016

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

Report on Financial Statements and Federal Single Audit

Please find attached our report on South Kitsap School District No. 402's financial statements and compliance with federal laws and regulations.

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

Sincerely,

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

TABLE OF CONTENTS

Federal Summary	4
Schedule Of Federal Audit Findings And Questioned Costs.....	6
Status Of Prior Federal Audit Findings	10
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	11
Independent Auditor’s Report On Compliance For Each Major Federal Program And On Internal Control Over Compliance In Accordance With OMB Circular A-133.....	13
Independent Auditor’s Report On Financial Statements	17
Financial Section.....	20
Corrective Action Plan For Findings Reported Under OMB Circular A-133	50
About The State Auditor’s Office.....	51

FEDERAL SUMMARY

South Kitsap School District No. 402
Kitsap County
September 1, 2014 through August 31, 2015

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

Financial Statements

An unmodified opinion was issued on the financial statements.

Internal Control Over Financial Reporting:

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

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

Federal Awards

Internal Control Over Major Programs:

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

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

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

Identification of Major Programs:

The following were major programs during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
10.553	Child Nutrition Cluster – School Breakfast Program
10.555	Child Nutrition Cluster – National School Lunch Program
10.559	Child Nutrition Cluster – Summer Food Service Program for Children
84.027	Special Education Cluster – Special Education – Grants to States
84.041	Impact Aid (Title VIII of ESEA)
84.173	Special Education Cluster – Special Education – Preschool Grants

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

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

SCHEDULE OF FEDERAL AUDIT FINDINGS AND QUESTIONED COSTS

South Kitsap School District No. 402 Kitsap County September 1, 2014 through August 31, 2015

2015-001 The District did not have adequate internal controls to ensure compliance with reporting requirements for the Impact Aid grant.

CFDA Number and Title:	84.041 – Impact Aid
Federal Grantor Name:	U.S. Department of Education
Federal Award/Contract Number:	57-WA-2013-0052
Pass-through Entity Name:	NA
Pass-through Award/Contract Number:	NA
Questioned Cost Amount:	\$30,797.60

Description of Condition

Impact Aid is to assist local school districts that have lost property tax revenue due to the presence of tax-exempt Federal property, or that have experienced increased expenditures due to the enrollment of federally connected children. Grant funding is based on the number of students reported on the District's application. The District received \$365,431 in Impact Aid funding during fiscal year 2015 from the Department of Education.

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

We consider this control weakness to be a significant deficiency.

Cause of Condition

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

Effect of Condition and Questioned Costs

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

- The District reported 108 special education children twice (in both Table 2 and Table 5 of the Impact Aid Application). This would result in a funding overpayment of \$30,797.
- Expenditures of \$53,997 for all children with disabilities were not included on Table 7, which does not affect present funding.
- Total students enrolled in state-approved education programs for all children with disabilities were underreported by 6 children.

Recommendation

We recommend the District:

- Implement internal controls over the Impact Aid application compilation and review process to ensure all data is properly supported and staff have adequate training.
- Address the errors noted with the Department of Education and make any changes necessary as they also impact future funding.

District's Response

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

The District has taken steps to improve and strengthen internal controls. Two District employees attended a National Association of Federally Impacted Schools workshop on May 13, 2016. This workshop covered the Parent-Pupil Survey, source checking, cross referencing and all aspects of the application process.

The District will address the errors noted with the Department of Education and make necessary changes. Future filings will have two sets of review to ensure all data is properly supported and accurate.

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

Auditor's Remarks

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

Applicable Laws and Regulations

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

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

Section 300 Auditee responsibilities.

The auditee shall:

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

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

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

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

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

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

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

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

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

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

SCHEDULE OF PRIOR FEDERAL AUDIT FINDINGS

South Kitsap School District No. 402 Kitsap County September 1, 2014 through August 31, 2015

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

Audit Period: Fiscal Year 2014	Report Ref. No.: 1014331	Finding Ref. No.: 2014-001	CFDA Number(s): 84.041
Federal Program Name and Granting Agency: Impact Aid, U.S. Department of Education		Pass-Through Agency Name: NA	
Finding Caption: South Kitsap School District did not have adequate internal controls to ensure compliance with reporting requirements for the Impact Aid grant.			
Background: <p>Our audit found that the District made multiple errors throughout the Impact Aid Application. The District's internal controls were insufficient to ensure the application data was accurate and supported.</p> <p>Our audit found that the District made the following errors on its Impact Aid application:</p> <ul style="list-style-type: none"> • The District reported that it received 130 more surveys than were actually available for review. This resulted in a funding overpayment of \$35,991. • Total students within the District were over-reported by 280 students. • Total students for which tuition was paid out was under-reported by 11 students. • The District over reported 15 special education students. 			
Status of Corrective Action: (check one) <input type="checkbox"/> Fully Corrected <input checked="" type="checkbox"/> Partially Corrected <input type="checkbox"/> No Corrective Action Taken <input type="checkbox"/> Finding is considered no longer valid			
Corrective Action Taken: <ul style="list-style-type: none"> • <i>The district has implemented internal controls to ensure the survey counts are accurate, both by manual re-counts, and with the use of scanner technology.</i> • <i>The reported student counts are verified to the most current P223 enrollment documentation for the appropriate period prior to submission of the application.</i> • <i>The tuition paid student counts are supported with documentation prior to submission of the application.</i> • <i>The Special Education student counts are supported with documentation from the Director of Special Services prior to submission of the application.</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**

**South Kitsap School District No. 402
Kitsap County
September 1, 2014 through August 31, 2015**

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of South Kitsap School District No. 402, Kitsap County, Washington, as of and for the year ended August 31, 2015, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated May 17, 2016. As discussed in Note 1 to the financial statements, during the year ended August 31, 2015, the District implemented Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

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

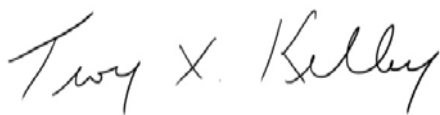
COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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



TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

May 17, 2016

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

**South Kitsap School District No. 402
Kitsap County
September 1, 2014 through August 31, 2015**

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

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

We have audited the compliance of South Kitsap School District No. 402, Kitsap County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2015. The District's major federal programs are identified in the accompanying Federal Summary.

Management's Responsibility

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

Auditor's Responsibility

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

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

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

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2015.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Finding 2015-001. Our opinion on each major federal program is not modified with respect to these matters.

District's Response to Findings

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

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Finding 2015-001 that we consider to be significant deficiencies.

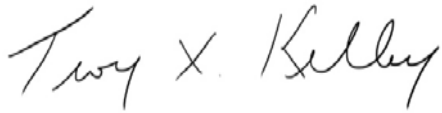
District's Response to Findings

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

PURPOSE OF THIS REPORT

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited.

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

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive, flowing style.

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

May 17, 2016

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

South Kitsap School District No. 402 Kitsap County September 1, 2014 through August 31, 2015

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

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of South Kitsap School District No. 402, Kitsap County, Washington, as of and for the year ended August 31, 2015, and the related notes to the financial statements, which collectively comprise the District's financial statements, as listed on page 20.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Unmodified Opinion on Regulatory Basis of Accounting (Accounting Manual)

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of South Kitsap School District No. 402, as of August 31, 2015, 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 Projects, Transportation Vehicle and Fiduciary funds as of August 31, 2015, 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. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. Our opinion is not modified with respect to this matter.

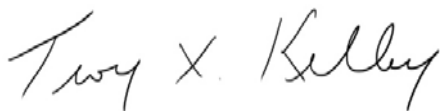
Other Matters

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 17, 2016 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.



TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

May 17, 2016

FINANCIAL SECTION

South Kitsap School District No. 402
Kitsap County
September 1, 2014 through August 31, 2015

FINANCIAL STATEMENTS

Balance Sheet – Governmental Funds – 2015
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental
Funds – 2015
Statement of Net Position – Fiduciary Funds – 2015
Statement of Changes in Fiduciary Net Position – Fiduciary Funds – 2015
Notes to Financial Statements – 2015

SUPPLEMENTARY AND OTHER INFORMATION

Schedules of Long-Term Liabilities – 2015
Schedule of Expenditures of Federal Awards – 2015
Notes to the Schedule of Expenditures of Federal Awards – 2015

Balance Sheet

Governmental Funds

August 31, 2015

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
ASSETS:							
Cash and Cash Equivalents	3,156,000.98	131,031.14	0.27	2,418,264.99	471,959.45	0.00	6,177,256.83
Minus Warrants Outstanding	-1,252,652.48	-31,234.60	0.00	0.00	0.00	0.00	-1,283,887.08
Taxes Receivable	10,825,253.46		0.00	0.00	0.00		10,825,253.46
Due From Other Funds	17,270.98	904.05	0.00	0.00	0.00	0.00	18,175.03
Due From Other Governmental Units	665,936.65	0.00	0.00	0.00	0.00	0.00	665,936.65
Accounts Receivable	175,215.85	2,663.94	0.00	934.00	0.00	0.00	178,813.79
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	625,592.95	10,670.96		0.00			636,263.91
Prepaid Items	182,088.97	7,369.01			0.00	0.00	189,457.98
Investments	11,851,054.57	598,968.57	1,974.32	2,672,499.82	11,916.82	0.00	15,136,414.10
Investments/Cash With Trustee	0.00		0.00	0.00	0.00	0.00	0.00
Investments-Deferred Compensation	0.00			0.00			0.00
Self-Insurance Security Deposit	0.00						0.00
TOTAL ASSETS	26,245,761.93	720,373.07	1,974.59	5,091,698.81	483,876.27	0.00	32,543,684.67
DEFERRED OUTFLOWS OF RESOURCES:							
Deferred Outflows of Resources - Other	0.00		0.00	0.00	0.00		0.00
TOTAL DEFERRED OUTFLOWS OF RESOURCES	0.00	0.00	0.00	0.00	0.00	0.00	0.00
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	26,245,761.93	720,373.07	1,974.59	5,091,698.81	483,876.27	0.00	32,543,684.67
LIABILITIES:							
Accounts Payable	3,230,225.47	14,307.69	0.00	2,988,358.93	0.00	0.00	6,232,892.09
Contracts Payable Current	0.00	0.00		0.00	0.00		0.00
Accrued Interest Payable			0.00				0.00
Accrued Salaries	344,329.52	0.00		0.00			344,329.52
Anticipation Notes Payable	0.00		0.00	0.00	0.00		0.00

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

Balance Sheet

Governmental Funds

August 31, 2015

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
LIABILITIES:							
Payroll Deductions and Taxes Payable	146,698.16	0.00		0.00			146,698.16
Due To Other Governmental Units	146,570.25	0.00		0.00	0.00	0.00	146,570.25
Deferred Compensation Payable	0.00			0.00			
Estimated Employee Benefits Payable	0.00						
Due To Other Funds	904.05	17,270.98	0.00	0.00	0.00	0.00	18,175.03
Interfund Loans Payable	0.00		0.00	0.00	0.00		0.00
Deposits	0.00	0.00	0.00	0.00			0.00
Unearned Revenue	0.00	0.00	0.00	0.00	0.00		0.00
Matured Bonds Payable			0.00				0.00
Matured Bond Interest Payable			0.00				0.00
Arbitrage Rebate Payable	0.00		0.00	0.00	0.00		0.00
TOTAL LIABILITIES	3,868,727.45	31,578.67	0.00	2,988,358.93	0.00	0.00	6,888,665.05
DEFERRED INFLOWS OF RESOURCES:							
Unavailable Revenue	150,124.06	89,773.40	0.00	0.00	0.00	0.00	239,897.46
Unavailable Revenue - Taxes Receivable	10,825,253.46		0.00	0.00	0.00		10,825,253.46
TOTAL DEFERRED INFLOWS OF RESOURCES	10,975,377.52	89,773.40	0.00	0.00	0.00	0.00	11,065,150.92
FUND BALANCE:							
Nonspendable Fund Balance	807,682.00	0.00	0.00	0.00	0.00	0.00	807,682.00
Restricted Fund Balance	638,601.00	599,021.00	1,974.59	1,064,822.87	483,876.27	0.00	2,788,295.73
Committed Fund Balance	0.00	0.00	0.00	727,418.56	0.00	0.00	727,418.56
Assigned Fund Balance	4,358,553.00	0.00	0.00	311,098.45	0.00	0.00	4,669,651.45
Unassigned Fund Balance	5,596,820.96	0.00	0.00	0.00	0.00	0.00	5,596,820.96
TOTAL FUND BALANCE	11,401,656.96	599,021.00	1,974.59	2,103,339.88	483,876.27	0.00	14,589,868.70
TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND FUND BALANCE	26,245,761.93	720,373.07	1,974.59	5,091,698.81	483,876.27	0.00	32,543,684.67

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

Statement of Revenues, Expenditures, and Changes in Fund Balance

Governmental Funds

For the Year Ended August 31, 2015

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
REVENUES:							
Local	25,046,801.35	1,025,702.72	11.51	408,763.79	1,145.44		26,482,424.81
State	68,048,343.80		0.00	12,971.00	471,959.45		68,533,274.25
Federal	6,515,060.53		0.00	0.00	0.00		6,515,060.53
Federal Stimulus	0.00						0.00
Other	281.05			0.00	0.00	0.00	281.05
TOTAL REVENUES	99,610,486.73	1,025,702.72	11.51	421,734.79	473,104.89	0.00	101,531,040.64
EXPENDITURES:							
CURRENT:							
Regular Instruction	49,380,623.99						49,380,623.99
Federal Stimulus	0.00						0.00
Special Education	12,876,061.24						12,876,061.24
Vocational Education	3,922,837.04						3,922,837.04
Skill Center	0.00						0.00
Compensatory Programs	3,964,499.73						3,964,499.73
Other Instructional Programs	721,771.07						721,771.07
Community Services	782,904.76						782,904.76
Support Services	21,798,630.15						21,798,630.15
Student Activities/Other	1,070,692.00					0.00	1,070,692.00
CAPITAL OUTLAY:							
Sites				1,396,913.19			1,396,913.19
Building				2,318,137.55			2,318,137.55
Equipment				0.00			0.00
Instructional Technology				0.00			0.00
Energy				0.00			0.00
Transportation Equipment					569,526.32		569,526.32
Sales and Lease							0.00
Other	439,006.75			0.00			439,006.75
DEBT SERVICE:							
Principal	0.00		323,557.08	0.00	0.00		323,557.08
Interest and Other Charges	0.00		77,279.39	0.00	28,464.25		105,743.64
Bond/Levy Issuance				0.00	0.00		0.00
TOTAL EXPENDITURES	93,886,334.73	1,070,692.00	400,836.47	3,715,050.74	597,990.57	0.00	99,670,904.51

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

Statement of Revenues, Expenditures, and Changes in Fund Balance

Governmental Funds

For the Year Ended August 31, 2015

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
DEBT SERVICE:							
REVENUES OVER (UNDER) EXPENDITURES	5,724,152.00	-44,989.28	-400,824.96	-3,293,315.95	-124,885.68	0.00	1,860,136.13
OTHER FINANCING SOURCES (USES) :							
Bond Sales & Refunding Bond Sales	0.00		0.00	1,000,000.00	0.00		1,000,000.00
Long-Term Financing	0.00			0.00	0.00		0.00
Transfers In	0.00		400,836.47	3,189,194.00	0.00		3,590,030.47
Transfers Out (GL 536)	-3,318,152.08		0.00	-271,878.39	0.00	0.00	-3,590,030.47
Other Financing Uses (GL 535)	0.00		0.00	0.00	0.00		0.00
Other	26,719.99		0.00	0.00	9,001.61		35,721.60
TOTAL OTHER FINANCING SOURCES (USES)	-3,291,432.09		400,836.47	3,917,315.61	9,001.61	0.00	1,035,721.60
EXCESS OF REVENUES/OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	2,432,719.91	-44,989.28	11.51	623,999.66	-115,884.07	0.00	2,895,857.73
BEGINNING TOTAL FUND BALANCE	8,968,937.05	644,010.28	1,963.08	1,479,340.22	599,760.34	0.00	11,694,010.97
Prior Year(s) Corrections or Restatements	0.00	0.00	0.00	0.00	0.00	0.00	0.00
ENDING TOTAL FUND BALANCE	11,401,656.96	599,021.00	1,974.59	2,103,339.88	483,876.27	0.00	14,589,868.70

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

Statement Of Fiduciary Net Position

Fiduciary Funds

August 31, 2015

	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	576.66	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	576.66	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:		
Held In Trust For Intact Trust Principal	0.00	0.00
Held In Trust For Private Purposes	576.66	
Held In Trust For Pension Or Other Post-Employment Benefits		0.00
Held In Trust For Other Purposes	0.00	0.00
TOTAL NET POSITION	576.66	0.00

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

Statement of Changes in Fiduciary Net Position

Fiduciary Funds

For the Year Ended August 31, 2015

ADDITIONS:			
Contributions:			
Private Donations	0.00	Other Trust	0.00
Employer			0.00
Members			0.00
Other	0.00		0.00
TOTAL CONTRIBUTIONS	0.00		0.00
Investment Income:			
Net Appreciation (Depreciation) in Fair Value	0.00		0.00
Interest and Dividends	3.28		0.00
Less Investment Expenses	0.00		0.00
Net Investment Income	3.28		0.00
Other Additions:			
Rent or Lease Revenue	0.00		0.00
Total Other Additions	0.00		0.00
TOTAL ADDITIONS	3.28		0.00
DEDUCTIONS:			
Benefits			0.00
Refund of Contributions	0.00		0.00
Administrative Expenses	0.00		0.00
Scholarships	0.00		
Other	0.00		0.00
TOTAL DEDUCTIONS	0.00		0.00
Net Increase (Decrease)	3.28		0.00
Net Position--Beginning	573.38		0.00
Prior Year(s) Corrections or Restatements	0.00		0.00
NET POSITION--ENDING	576.66		0.00

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

South Kitsap School District No. 402
Notes to the Financial Statements
September 1, 2014 through August 31, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The South Kitsap School 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*, usually jointly by the State Auditor's Office and the Superintendent of Public Instruction by the Authority of RCW 43.09.200, RCW 28A.505.140, RCW 28A.505.010(1), and RCW 28A.505.020. This manual prescribes a financial reporting framework that differs from generally accepted accounting principles (GAAP) in the following manner:

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

Fund Accounting

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

Governmental funds

General Fund

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

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

Debt Service Fund

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

Special Revenue Fund

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

Permanent Funds

These funds are used to report resources that are legally restricted such that only earnings, and not principal, may be expended. Amounts in the Permanent Fund may only be spent in support of the District's programs and may not be used to 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 legally held in trust by the District. The trust agreement details whether principal and interest may both be spent, or whether only interest may be spent, or whether only interest may be spent. Money from Private-Purpose Trust Fund may not be used to support the District's programs, and may be used to benefit individuals, private organizations, or other governments.

Pension (and Other Employee Benefit) Trust Fund

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

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 inter-district billings are measurable and available and are, therefore accrued.

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

Budgets

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

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

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

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

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

The government's fund balance classifications policies and procedures.

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

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

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

Committed Fund Balance. Amounts that are reported as committed are those resources of the District that have a limitation placed upon their usage by formal action of the District's board of directors. Commitments are made either through a formal adopted board resolution or are related to a school board

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

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

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

The Superintendent and/or designee are the only persons who have the authority to create Assignments of fund balance.

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

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

A negative Un-assigned fund balance means that the legal restrictions and formal commitments of the district exceed its currently available resources.

Cash and Cash Equivalents

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

Receivable and Payables

There were not any receivables or payables not expected to be collected within one year.

Inventory

Inventory is valued at cost using the first-in, first-out (FIFO) method. The consumption method of inventory is used, which charges inventory as an expenditure when it is consumed. A portion of 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 2014-2018

Effective for the 2014-2015 school-year, the district implemented provision of GASB Statement No. 68 Accounting and Financial Reporting for Pensions. As a result, the Schedule of Long-Term Liabilities now includes the district's proportionate share of the net pension liability for the cost-sharing, multiple-employer plans in which the district participates.

NOTE 2: DEPOSITS AND INVESTMENTS

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

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

Investments are presented at cost.

The District's investments as of August 31, 2015 are as follows:

	Carrying Amount	Market Value
County Treasurer's Investment Pool	\$15,136,991	\$15,146,207

NOTE 3: SIGNIFICANT CONTINGENT LIABILITIES

The District has no known significant contingent liabilities as of August 31, 2015.

Litigation

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

Arbitrage Rebate

Arbitrage rebates are non-applicable to the District.

NOTE 4: SIGNIFICANT EFFECTS OF SUBSEQUENT EVENTS

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

NOTE 5: PENSION PLANS

General Information

The Washington State Department of Retirement Systems (DRS), a department within the primary government of the state of Washington, prepares a stand-alone comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each pension plan. The pension plan's basic financial statement is accounted for using the accrual basis of accounting. The measurement date of the pension plans is June 30. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

The school district is reporting the net pension liability in the notes and on the Schedule of Long-term Liabilities calculated as the district's proportionate allocation percentage multiplied by the total plan collective net pension liability.

Detailed information about the pension plans' fiduciary net position is available in the separately issued DRS CAFR. Copies of the report may be obtained by contacting the Washington State Department of Retirement Systems, P.O. Box 48380, Olympia, WA 98504-8380; or online at <http://www.drs.wa.gov/administrations/annual-report>.

Membership Participation

Substantially all school district full-time and qualifying part-time employees participate in one of the following three contributory, multi-employer, cost-sharing statewide retirement systems managed by DRS: Teachers' Retirement System (TRS), Public Employees' Retirement System (PERS) and School Employees' Retirement System (SERS).

Membership participation by retirement plan as of June 30, 2015, was as follows:

Plan	Active Members	Inactive Vested Members	Retired Members
PERS 1	4,782	1,178	51,070
SERS 2	22,950	5,357	5,796
SERS 3	30,832	6,963	4,825
TRS 1	1,824	323	35,639
TRS 2	13,632	2,357	3,894
TRS 3	51,837	7,655	6,094

The latest actuarial valuation date for all plans was June 30, 2014.

Source: Washington State Office of the State Actuary

Membership & Plan Benefits

Certificated employees are members of TRS. Classified 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. TRS 1 and PERS 1 are closed to new entrants.

TRS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component. TRS eligibility for membership requires service as a certificated public school employee working in an instructional, administrative or supervisory capacity.

TRS is comprised of three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits

of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

TRS Plan 1 provides retirement, disability and death benefits. TRS 1 members were vested after the completion of five years of eligible service. Retirement benefits are determined as two percent of the average final compensation (AFC), for each year of service credit, up to a maximum of 60 percent, divided by twelve. The AFC is the total earnable compensation for the two consecutive highest-paid fiscal years, divided by two. Members are eligible for retirement at any age after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. Other benefits include temporary and permanent disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries.

TRS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the average final compensation (AFC) per year of service for Plan 2 members and one percent of AFC for Plan 3 members. The AFC is the monthly average of the 60 consecutive highest-paid service credit months. There is no cap on years of service credit. Members are eligible for normal retirement at the age of 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. TRS Plan 2/3 members, who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a reduced benefit.

The benefit is reduced by a factor that varies according to age, for each year before age 65. TRS Plan 2/3 members who have 30 or more years of service credit, were hired prior to May 1, 2013, and are at least 55 years old, can retire under one of two provisions: With a benefit that is reduced by three percent for each year before age 65; or with a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

TRS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service.

TRS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit.

Other benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the Consumer Price Index), capped at three percent annually and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries.

PERS Plan 1 provides retirement, disability and death benefits. PERS 1 members were vested after the completion of five years of eligible service. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service.

Members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits. PERS Plan 1 retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries.

SERS is a cost-sharing multiple-employer retirement system comprised of two separate plans for membership purposes. SERS Plan 2 is a defined benefit plan and SERS Plan 3 is a defined benefit plan with a defined contribution component. SERS members include classified employees of school districts and educational service districts.

SERS is reported as two separate plans for accounting purposes: Plan 2/3 and Plan 3. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members.

Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

SERS provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and one percent of AFC for Plan 3. The AFC is the monthly average of the member's 60 highest-paid consecutive service months before retirement, termination or death. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. SERS members, who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a reduced benefit.

The benefit is reduced by a factor that varies according to age, for each year before age 65. SERS members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions, if hired prior to May 2, 2013: With a benefit that is reduced by three percent for each year before age 65; or with a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

SERS members hired on or after May 1, 2013, have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service. SERS retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the Consumer Price Index), capped at three percent annually and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries.

Plan Contributions

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 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. Employers do not contribute to the defined contribution portions of TRS Plan 3 or SERS Plan 3. Under current law the employer must contribute 100 percent of the employer-required contribution. The employee contribution rate for Plan 1 in PERS and TRS is set by statute at six percent and does not vary from year to year.

The Employer and employee contribution rates for the PERS plan are effective as of July 1. SERS and TRS contribution rates are effective as of September 1. The pension plan contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

Pension Rates			
	7/1/15 Rate	7/1/14 Rate	
PERS 1			
Member Contribution Rate	6.00%	6.00%	
Employer Contribution Rate	11.18%	9.21%	
Pension Rates			
	9/1/15 Rate	9/1/14 Rate	
TRS 1			
Member Contribution Rate	6.00%	6.00%	
Employer Contribution Rate	13.13%	10.39%	
TRS 2			
Member Contribution Rate	5.95%	4.96%	
Employer Contribution Rate	13.13%	10.39%	
TRS 3			
Member Contribution Rate	varies*	varies*	
Employer Contribution Rate	13.13%	10.39%	**
SERS 2			
Member Contribution Rate	5.63%	4.64%	
Employer Contribution Rate	11.58%	9.82%	
SERS 3			
Member Contribution Rate	varies*	varies*	
Employer Contribution Rate	11.58%	9.82%	**
<i>Note: The DRS administrative rate of .0018 is included in the employer rate.</i>			
* = Variable from 5% to 15% based on rate selected by the member.			
** = Defined benefit portion only.			

The Collective Net Pension Liability

The collective net pension liabilities for the pension plans districts participated in are reported in the following tables.

The Net Pension Liability as of June 30, 2015:				
Dollars in Thousands	PERS 1	SERS 2/3	TRS 1	TRS 2/3
Total Pension Liability	\$12,789,242	\$4,473,428	\$9,237,730	\$11,220,833
Plan fiduciary net position	(\$7,558,312)	(\$4,067,277)	(\$6,069,588)	(\$10,377,031)
Participating employers' net pension liability	\$5,230,930	\$406,151	\$3,168,142	\$843,802
Plan fiduciary net position as a percentage of the total pension liability	59.10%	90.92%	65.70%	92.48%

The District's Proportionate Share of the Net Pension Liability (NPL)

At June 30, 2015, the District reported a total liability of

\$ 41,539,102

for its proportionate shares of the individual plans' collective net pension liability. The district's proportionate share of the collective net pension liability is based on annual contributions for each of the employers participating in the DRS administered plans. The District's proportionate share of each plan's collective net pension liability is reported below:

June 30, 2015	PERS 1	SERS 2/3	TRS 1	TRS 2/3
District's Annual Contributions	556,420	756,092	1,785,916	2,130,030
Proportionate Share of the Net Pension Liability	6,332,912	3,158,631	25,284,279	6,763,280

At June 30, 2015, the district's percentage of the proportionate share of the collective net pension liability was as follows and the change in the allocation percentage from the prior period is illustrated below:

Allocation percentages	PERS 1	SERS 2/3	TRS 1	TRS 2/3
Current year proportionate share of the Net Pension Liability	0.121067%	0.777699%	0.798079%	0.801525%
Prior year proportionate share of the Net Pension Liability	0.117472%	0.804700%	0.815075%	0.824693%
Net difference percentage	0.003595%	0.027001%	0.016996%	0.023168%

Actuarial Assumptions

Capital Market Assumptions (CMAs) and expected rates of return by asset class provided by the Washington State Investment Board. The Office of the State Actuary relied on the CMAs in the selection of the long-term expected rate of return for reporting purposes.

The total pension liabilities for TRS 1, TRS 2/3, PERS 1 and SERS 2/3 were determined by actuarial valuation as of June 30, 2014, with the results rolled forward to June 30, 2015, using the following actuarial assumptions, applied to all prior periods included in the measurement:

Inflation	3.0% total economic inflation, 3.75% salary inflation
Salary increases	In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
Investment rate of return	7.50%

Mortality Rates

Mortality rates used in the plans were based on the RP-2000 Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries. The Office of the State Actuary applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year, throughout their lifetime. The actuarial

assumptions used in the June 30, 2014, valuation were based on the results of the 2007–2012 Experience Study. Additional assumptions for subsequent events and law changes are current as of the 2014 actuarial valuation report.

Long-term Expected Rate of Return

The long-term expected rate of return on pension plan investments was determined using a building-block method in which a best-estimate of expected future rates of return (expected returns, net of pension plan investment expense, but including inflation) are developed for each major asset class by the Washington State Investment Board (WSIB). Those expected returns make up one component of WSIB's CMAs. The CMAs contain three pieces of information for each class of assets the WSIB currently invest in:

- Expected annual return
- Standard deviation of the annual return;
- Correlations between the annual returns of each asset class with every other asset class

WSIB uses the CMAs and their target asset allocation to simulate future investment returns over various time horizons.

The long-term expected rate of return of 7.50% percent approximately equals the median of the simulated investment returns over a fifty-year time horizon, increased slightly to remove WSIB's implicit and small short-term downward adjustment due to assumed mean reversion. WSIB's implicit short-term adjustment, while small and appropriate over a ten to fifteen-year period, becomes amplified over a fifty-year measurement period.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plans' target asset allocation as of June 30, 2015, are summarized in the following table:

TRS1, TRS 2/3, PERS 1, and SERS 2/3		
Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Fixed Income	20.00%	1.70%
Tangible Assets	5.00%	4.40%
Real Estate	15.00%	5.80%
Global Equity	37.00%	6.60%
Private Equity	23.00%	9.60%

The inflation component used to create the above table is 2.20 percent, and represents WSIB's most recent long-term estimate of broad economic inflation.

Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent. To determine the discount rate, an asset sufficiency test was completed to test whether the pension plan's fiduciary net position was sufficient to make all projected future benefit payments of current plan members. Consistent with current law, the completed asset sufficiency test included an assumed 7.70 percent long-term discount rate to determine funding liabilities for calculating future contributions rate requirements. Consistent with the long-term expected rate of return, a 7.50 percent future investment rate of return on invested assets was

assumed for the test. Contributions from plan members and employers are assumed to continue to be made at contractually required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

Therefore, the long-term expected rate of return of 7.50 percent on pension plan investments was applied to determine the total pension liability.

The District's Sensitivity of the Net Pension Liability to changes in the Discount Rate

The following table presents the South Kitsap School District's proportionate share of the collective net pension liability (NPL) calculated using the discount rate of 7.5 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage-point lower (6.5 percent) or one percentage-point higher (8.5 percent) than the current rate. Amounts are calculated using the school district's specific allocation percentage, by plan, to determine the proportionate share of the collective net pension liability.

Source: DRS CAFR 6/30/2015

Sensitivity of the net pension liability to changes in the discount rate:			
Participating Plans for TRS, PERS, and SERS			
	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
PERS1	\$6,368,671,000	\$5,230,930,000	\$4,252,577,000
%NPL	0.121067%	0.121067%	0.121067%
District's PERS1	\$7,710,337	\$6,332,912	\$5,148,453
SERS2/3	\$1,282,039,000	\$406,151,000	(\$273,474,000)
%NPL	0.777699%	0.777699%	0.777699%
District's SERS2/3	\$9,970,402	\$3,158,631	(\$2,126,804)
TRS1	\$3,982,571,000	\$3,168,142,000	\$2,467,801,000
%NPL	0.798079%	0.798079%	0.798079%
District's TRS1	\$31,784,066	\$25,284,279	\$19,695,004
TRS2/3	\$3,570,229,000	\$843,802,000	(\$1,183,066,000)
%NPL	0.801525%	0.801525%	0.801525%
District's TRS2/3	\$28,616,261	\$6,763,280	(\$9,482,564)

General Information

The Washington State Department of Retirement Systems (DRS), a department within the primary government of the state of Washington, prepares a stand-alone comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each pension plan. The pension plan's basic financial statement is accounted for using the accrual basis of accounting. The

measurement date of the pension plans is June 30. Benefits payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

The school district is reporting the net pension liability in the notes and on the Schedule of Long-term Liabilities calculated as the district's proportionate allocation percentage multiplied by the total plan collective net pension liability.

Detailed information about the pension plans' fiduciary net position is available in the separately issued DRS CAFR. Copies of the report may be obtained by contacting the Washington State Department of Retirement Systems, P.O. Box 48380, Olympia, WA 98504-8380; or online at <http://www.drs.wa.gov/administrations/annual-report>.

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

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

Employers participating in the plan include the State of Washington (which includes general government agencies and higher education institution), 60 of the state's K-12 school districts and educational services districts (ESDs), and 221 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 2014-15, the District was required to pay the HCA \$ 66.64 per month per full-time equivalent employee to support the program, for a total payment of \$787,084. This assessment to the District is set forth in the State's operating budget and is subject to change on an annual basis. This amount is not actuarially determined and is not placed in a trust to pay the obligations for post-employment health care benefits.

The District has no control over the benefits offered to retirees, the rates charged to retirees, or the fee paid to the Health Care authority. The District does not determine its annual required contribution nor the net other post-employment benefit obligation associated with this plan. Accordingly, these amounts are not shown on the financial statements.

NOTE 7: COMMITMENTS UNDER NONCAPITALIZED (OPERATING) LEASES

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

For the fiscal years ended August 31, 2015, the district incurred long-term debt as follows:

Vendor	Amount	Annual Installment	Final Installment Date	Interest Rate	Balance Due 8/31/15
Conditional Sales Contracts					
Key Municipal Finance/Ford Bus Purchase	\$28,138	\$28,138	09/2014	4.64%	\$0
TOTAL: CONDITIONAL SALES & LONG-TERM COMMITMENTS					\$ 0

NOTE 8: CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

Construction in progress is composed of:					
Project	Project authorization Amount	Expended as of 8-31-2015	Additional Local Funds Committed	Additional State Funds Committed	
Turf Field	\$ 1,733,952	\$ 1,289,131	\$ 650,000	\$ -	
Total	\$ 1,733,952	\$ 1,289,131	\$ 650,000	\$ -	

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, 2015.

<u>Fund</u>	<u>Amount</u>
General	\$175,127
Capital Projects fund	\$729,919

NOTE 9: CAPITAL ASSETS

The District's capital assets are insured in the amount of \$373,589,800 for fiscal year 2015. 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

Limited General Obligation Bonds (LGO)
bonds were issued as of July 2, 2015.

Non-Voted Debt The School District applied for Capital Asset Lending with the State of Washington Treasurer for acquisition of HVAC equipment and energy projects.

Subsequently, on August 25, 2010 the District issued \$1,066,500 non-voted Limited General Obligation Bonds (LGO) with proceeds being utilized on various energy efficiency projects throughout the District.

On October 10, 2012 the District issued \$2,385,043 non-voted Limited General Obligation Refunding Bonds (LGOB) Series 2012. Proceeds from the LGOB refinance was placed in trust to pay all future debt service of the LGOB Series 2007. The refinance resulted in a present value net savings of \$232,375.

On July 2, 2015 the District issued \$1,000,000 non-voted Limited General Obligation Bonds (LGO) to pay for a new turf field located at South Kitsap Senior High School.

The following is a schedule of non-voted debt principal payments as of 8/31/2015:

Date of Issue	Amount Authorized	Annual Principal Payment	Final Maturity	Interest Rate(s)	Amount Outstanding as of 8/31/2015
08/25/2010	\$ 1,066,500	\$ 102,997 ENERGY	June 1, 2020	3.950%	\$ 579,995
10/10/2012	\$ 2,385,043	\$220,560 LAND	Dec. 1, 2022	2.490%	\$ 1,950,696
07/02/2015	\$1,000,000	\$0 TURF FIELD	June 1, 2025	2.300%	\$ 1,000,000
Total Non-Voted Bonds					\$ 3,530,691

Annual Debt Requirements

The following is a schedule of annual requirements to amortize long-term debt at August 31, 2015:

Year Ending August 31:	Principal	Interest	Total
2015	\$351,695	\$77,606	\$429,300
2016	429,158	88,360	517,518
2017	439,734	79,144	518,878
2018	450,189	67,333	517,522
2019	460,520	54,938	515,458
2020	470,728	41,990	512,718
2021	355,568	29,722	385,290
2022	360,232	20,779	381,011
2023	364,562	11,529	376,091
2024	100,000	5,357	105,357
2025	100,000	2,335	102,336
Total	\$3,882,386	\$479,093	\$4,361,479

NOTE 11: INTERFUND BALANCES AND TRANSFERS

The following table depicts inter-fund transfer activity as of August 31, 2015:

Purpose	Transfer To/From	Amount
LGO Bond 2010 (Energy)	From GF to DSF	\$128,958
LGO Bond 2012 (Land)	From CPF to DSF	\$271,878
CPF Projects	From GF to CPF	\$3,189,194

NOTE 12: ENTITY RISK MANAGEMENT ACTIVITIES

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

The South Kitsap School District is a member of the Washington School Risk Management Pool (Pool).

In September 2014, the district joined together with other school districts in the state to form the Washington School Risk Management Pool, a public entity risk pool currently operating as a common risk management and insurance program for liability insurance.

Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the inter-local Cooperation Act. The Pool was formed in 1986 when educational service districts and school districts in the state of Washington jointed together by signing the Cooperative Risk management Pool Account Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. Over 90 school and educational service districts have joined the Pool.

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

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

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

The Pool is fully funded by its member participants.

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

Industrial Insurance

In fiscal year ending August 2015 the district made payments totaling \$602,554 to the industrial insurance pool, which is administered by Olympic Educational Service District No. 114 on behalf of several local school districts. This fund is operated for the district's benefit in-lieu-of the district having to make monthly premium payments to the State of Washington for industrial insurance, thus minimizing the district's cost.

Unemployment Insurance

The district is self-insured for unemployment benefits and reimburses the State of Washington Employment Security for benefits paid on behalf of the district. During the 2014-15 school year, the district paid \$6,413 in unemployment benefits.

Vision Insurance

In addition, the district is self-insured with Northwest Administrators Incorporated for employee vision benefits. At the end of the benefit period the reserve balance equaled \$53,689 is adequate to provide for two months of claims.

NOTE 13: PROPERTY TAXES

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

NOTE 14: JOINT VENTURES AND JOINTLY GOVERNED ORGANIZATIONS

The district is a member of the King County Directors' Association (KCDA). KCDA is a purchasing cooperative designed to pool the member districts' purchasing power. The board authorized joining the association as of September 9, 1974, and has remained in the joint venture ever since. The District's current equity of \$151,749.70 is the accumulation of the annual assignment of KCDA's operating surplus based upon the percentage derived from KCDA's total sales to the District compared to all other districts applied against paid administrative fees. The District may withdraw from the joint venture and will receive its equity in ten annual allocations of merchandise or 15 annual payments.

The District participates in the WSIPC data processing cooperative under the authority of the Inter-local Cooperation Act (chapter 39.34 RCW). The relationship with WSIPC is as a "jointly governed

organization.” Payments are made on a fee-for-service basis with no ongoing financial obligation on the part of participating districts.

NOTE 15: FUND BALANCE CLASSIFICATION DETAILS

2014-2015 Fund Balance Classifications							
Fund Balance Classifications		General Fund	Associated Student Body Fund	Capital Projects Fund	Debt Service Fund	Transportation Vehicle Fund	TOTALS
Nonspendable Fund Balance							
	Inventory and Prepaid Items	\$ 807,682					\$ 807,682
Restricted Fund Balance							
	For Other Items			\$ 1,064,823		\$ 483,876	\$ 1,548,699
	For Fund Purpose		\$ 599,021				\$ 599,021
	For Carryover of Restricted	\$ 168,424					\$ 168,424
	For Carryover of Food Service	\$ 416,488					\$ 416,488
	For Debt Service				\$ 1,975		\$ 1,975
	For Self-Insurance	\$ 53,689					\$ 53,689
Committed Fund Balance							
	Other Commitments			\$ 727,419			\$ 727,419
Assigned Fund Balance							\$ -
	Contingencies	\$ 1,305,429					\$ 1,305,429
	Other Capital Projects			\$ 311,098			\$ 311,098
	Other Purposes	\$ 3,053,124					\$ 3,053,124
Unassigned Fund Balance							
	Minimum Fund Balance	\$ 4,981,860					\$ 4,981,860
	Miscellaneous Fund Balance	\$ 614,961					\$ 614,961
TOTALS		\$ 11,401,657	\$ 599,021	\$ 2,103,340	\$ 1,975	\$ 483,876	\$ 14,589,869

In addition, the Capital Projects Fund has the following amounts in Restricted and Committed fund Balance,

Based on the source of the revenues:

Committed from Levy Proceeds	\$ 727,419
Restricted from Other Proceeds	\$ 2,500
Restricted Impact Fees	\$ 962,532
Restricted Mitigation Fees	\$ 99,791
Assigned to Fund Purposes	\$ 311,098
Totals Capital Projection Fund Balance	\$ 2,103,340

The board of directors has established a minimum fund balance policy for the general fund to provide financial stability and contingencies within the District. The District is to maintain and protect the minimum maintenance of fund balance in an amount equal to or greater than 3.0% of total revenues, unless authorized by the board. Portions of fund balance that are set aside for the purpose of meeting this policy are recorded on the financial statements as part of Un-assigned Committed Fund Balance.

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

457 Plan – Deferred compensation Plan

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

403 (b) Plan-tax Sheltered Annuity (TSA)

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

The district complies with IRS regulations that require school districts to have a written plan to include participating investment companies, types of investments, loans, transfers, and various requirements. The plan is administered by a third party administrator, The Omni Group, Water Tower Office Park, and 1099 Jay Street, Rochester, NY 14611. The Omni Group website is 222.omni403b.com. The plan assets are assets of the employees, not the assets of the school district, and therefore not reflected on these financial statements.

NOTE 17: TERMINATION BENEFITS

Compensated Absences

Employees earn sick leave at a rate of up to 12 days per year with a maximum of 1 contract year.

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

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

South Kitsap School District No. 402
Schedule of Long-Term Liabilities: GENERAL FUND
For the Year Ended August 31, 2015

Description	Beginning Outstanding Debt September 1, 2014	Amount Issued / Increased	Amount Redeemed / Decreased	Ending Outstanding Debt August 31, 2015	Amount Due Within One Year
Non-Voted Debt and Liabilities					
Capital Leases	0.00	0.00	0.00	0.00	0.00
Contracts Payable	28,137.85	0.00	28,137.85	0.00	0.00
Non-Cancellable Operating Leases	0.00	0.00	0.00	0.00	0.00
Claims & Judgements	0.00	0.00	0.00	0.00	0.00
Compensated Absences	2,763,094.08	321,116.12	324,150.73	2,760,059.47	414,883.67
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
Net Pension Liabilities:					
Net Pension Liabilities TRS 1	0.00	25,284,279.00	0.00	25,284,279.00	
Net Pension Liabilities TRS 2/3	0.00	6,763,280.00	0.00	6,763,280.00	
Net Pension Liabilities SERS 2/3	0.00	3,158,631.00	0.00	3,158,631.00	
Net Pension Liabilities PERS 1	0.00	6,332,912.00	0.00	6,332,912.00	
Total Long-Term Liabilities	2,791,231.93	41,860,218.12	352,288.58	44,299,161.47	414,883.67

Schedule of Long-Term Liabilities: DEBT SERVICE FUND

For the Year Ended August 31, 2015

Description	Beginning Outstanding Debt September 1, 2014	Amount Issued / Increased	Amount Redeemed / Decreased	Ending Outstanding Debt August 31, 2015	Amount Due Within One Year
Voted Debt					
Voted Bonds	0.00	0.00	0.00	0.00	0.00
LOCAL Program Proceeds Issued in Lieu of Bonds	0.00	0.00	0.00	0.00	0.00
Non-Voted Debt					
Non-Voted Bonds	2,854,248.21	1,000,000.00	323,557.08	3,530,691.13	429,158.03
LOCAL Program Proceeds	0.00	0.00	0.00	0.00	0.00
Total Long-Term Liabilities	2,854,248.21	1,000,000.00	323,557.08	3,530,691.13	429,158.03

SOUTH KITSAP SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ending August 31, 2015

Revised 3/16/2016

1	2	3	4	5	6	7	8	9
Federal Agency Name	Pass Through Agency	Federal Program Title	CFDA Number	Other Identification Number	From Direct Awards	From Pass Through Awards	Total	Footnote
USDA	WA OSPI							
		National School Lunch - noncash assistance	10.555	SKSD 18-402		252,064.80	252,064.80	1,3
		National School Lunch(A) - Cash Lunches	10.555	SKSD 18-402		1,582,569.04	1,582,569.04	1
		National School Lunch - Cash Snacks	10.555	SKSD 18-402		9,833.00	9,833.00	1
		National School Breakfast Program	10.553	SKSD 18-402		437,645.60	437,645.60	1
		Summer Food Service Program	10.559	SKSD 18-402		46,772.64	46,772.64	1
		US Department of Agriculture Total:				2,328,885.08	2,328,885.08	
Department of Defense								
		Naval Junior Reserve Officers Training Corp	12.999	JROTC144S	70,095.29		70,095.29	1
		Naval Junior Reserve Officers Training Corp	12.999	N3125215MJRTC/4VO67	15,829.94		15,829.94	1,2
		Department of Defense Total:			85,925.23		85,925.23	
National Endowment for the Arts								
		Promotion of the Arts Partnership Agreements	45.025	2015194		5,000.00	5,000.00	2
US Dept of Education								
	WA OSPI							
		Title I Grants to Local Educational Agencies	84.010	0201760		1,307,617.29	1,307,617.29	1,4,7
		Title I Grants to State Agency Program for Neglected and Delinquent children	84.010	0222486, 0222487		117,134.99	117,134.99	1,7
		Special Education Grants to States	84.027A	0305124		1,849,724.42	1,849,724.42	1,4
		Special Ed - Preschool Grants	84.173A	0337773, 0363124		84,087.04	84,087.04	1
		Career and Technical Education - Basic Grants to States	84.048	0173244		63,701.00	63,701.00	1,7
		English Language Acquisition Grants	84.365	0402113		5,838.10	5,838.10	1,7
		Improving Teacher Quality State Grants	84.367	0523678		180,182.29	180,182.29	1,7
US Dept of Education								
		Impact Aid	84.041	57-WA-2013-0052	365,431.15		365,431.15	1
		Indian Education Grants to LEA's	84.060A	S060A140182	37,120.00		37,120.00	1
		Department of Education Total:			402,551.15	3,608,285.13	4,010,836.28	
US Dept of Defense								
		Impact Aid - Department of Defense		DFAS-CL CAPS-W Armp	90,635.70		90,635.70	1
US Dept of Health and Human Services								
	OESD #114	Early Head Start	93.600	n/a		25,512.37	25,512.37	1,2
		Human/Health Services Dept Total			0.00	25,512.37	25,512.37	
		Grand Total			579,112.08	5,967,682.58	6,546,794.66	

The Accompanying Notes to the Schedule of Expenditures of Federal Awards are an Integral Part of this Schedule.

2014-15
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
SOUTH KITSAP SCHOOL DISTRICT

NOTE 1 – BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal Awards is prepared on the same basis of accounting as the South Kitsap School District's financial statements. The South Kitsap School Dist #402 uses the modified accrual basis of accounting. Expenditures represent only the federally funded portions of the program. District records should be consulted to determine amounts expended or matched from non-federal sources.

NOTE 2 – PROGRAM COSTS/MATCHING CONTRIBUTIONS

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

NOTE 3 – NONCASH AWARDS

The amount of commodities reported on the schedule is the value of commodities distributed by the South Kitsap School Dist #402 during the current year.

NOTE 4 – SCHOOLWIDE PROGRAMS

The South Kitsap School District operates a "school-wide program" in four elementary buildings. Using federal funding, school-wide programs are designed to upgrade an entire educational program within a school for all students, rather than limit services to certain targeted students. The following federal program amounts were expended by the South Kitsap School District in its school-wide program: Title 1 (84.010) \$760,360.65; IDEA (84.027) \$228,878.31.

NOTE 7 – FEDERAL INDIRECT RATE

The South Kitsap School District used the federal restricted rate of .0288%

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

South Kitsap School District No. 402 Kitsap County September 1, 2014 through August 31, 2015

This schedule presents the corrective action planned by the auditee for findings reported in this report in accordance with OMB Circular A-133. The information in this schedule is the representation of the South Kitsap School District No. 402.

Finding ref number: 2015-001	Finding caption: The District did not have adequate internal controls to ensure compliance with reporting requirements for the Impact Aid grant.
Name, address, and telephone of auditee contact person: Annette Baker 1962 Hoover Avenue Port Orchard, WA 98366 (360) 874-7015	
Corrective action the auditee plans to take in response to the finding: <i>The District has taken steps to improve and strengthen internal controls. Two District employees attended a National Association of Federally Impacted Schools workshop on May 13, 2016. This workshop covered the Parent-Pupil Survey, source checking, cross referencing and all aspects of the application process.</i> <i>The District will address the errors noted with the Department of Education and make necessary changes. Future filings will have two sets of review to ensure all data is properly supported and accurate.</i> <i>The District appreciates the Auditor's recommendations and will take action to strengthen internal controls to ensure compliance with reporting requirements for the Impact Aid Program.</i>	
Anticipated date to complete the corrective action: August 2016	

ABOUT THE STATE AUDITOR'S OFFICE

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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.

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