



Washington State Auditor's Office

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Financial Statements and Federal Single Audit Report

North Mason School District No. 403

Mason County

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

Published May 26, 2016

Report No. 1016789





Washington State Auditor's Office

May 26, 2016

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

Report on Financial Statements and Federal Single Audit

Please find attached our report on North Mason School District No. 403's financial statements and compliance with federal laws and regulations.

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

Sincerely,

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

North Mason School District No. 403
Mason County
September 1, 2014 through August 31, 2015

SECTION I – SUMMARY OF AUDITOR’S RESULTS

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

Financial Statements

We issued an unmodified opinion on the fair presentation of the District’s financial statements in accordance with its regulatory basis of accounting. Separately, we issued an unmodified opinion on the fair presentation of with regard to accounting principles generally accepted in the United States of America (GAAP).

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 deficiencies that we consider to be material weaknesses.

We issued a qualified 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 Federal Programs:

The following programs were selected as major programs in our audit of compliance in accordance with OMB Circular A-133.

<u>CFDA No.</u>	<u>Program or Cluster 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
84.173	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.

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

See finding 2015-001.

SCHEDULE OF FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

North Mason School District No. 403 Mason County September 1, 2014 through August 31, 2015

2015-001 The District does not have adequate internal controls over federal requirements for the Nutrition program.

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

Background

The District participates in the School Breakfast and National School Lunch programs. It received \$671,835 during fiscal year 2015. This program provides funding for free and reduced-price meals for low-income students. Families must meet income guidelines to be eligible for these programs. The District had a finding in the prior year audit for similar audit issues.

Description of Condition

Verification

Each year, districts must select a sample of applications and verify that family income reported is correct and that the family is eligible for benefits. The Office of Superintendent of Public Instruction (OSPI) provides instructions to school districts on how to verify program eligibility.

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

The District was required to verify eight applications for program eligibility. Our audit of the verification requirement found:

- The District did not retain copies of all documents used for verification process, including adverse action letter of students that no longer qualified or failed to respond.
- The District did not fully verify income for some applicants causing the wrong determinations.
- The District failed to give applicants 10 day advance notice period to reduce or terminate benefits.
- The District did not perform the required secondary independent review of application selected for the verification prior to sending notification to selected participants.

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

Eligibility

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

- The District processed and made eligibility determinations on five applications that did not contain all the require information needed to make an eligibility determination, such as the frequency of income or listing of all household members.
- Income reported on five applications placed families above the free/reduced-price threshold; however, the District did not change the students' eligibility.

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

Procurement

Districts must follow the more restrictive of federal, state or local requirements when purchasing goods or services with federal funds. The District is required to follow state law and obtain price quotations from at least three qualified sources for purchases up to \$75,000. During the fiscal year, the District made purchases of milk and dairy products from one vendor for \$46,322. We found the District did not follow the procurement requirement and obtain price quotations for these purchases.

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

Paid Lunch Equity Tool

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

The Office of Superintendent of Public Instruction provided the PLE tool that was released by the U.S. Department of Agriculture (USDA) to all school districts to ensure compliance with the grant requirement.

The District did not have the necessary controls in place to ensure the paid lunch equity (PLE) grant requirements were met. The District did not calculate its weighted average paid lunch price using the PLE tool during the 2014-2015 school year.

We consider these control deficiencies to be a significant deficiency.

We reported similar issues in a finding to the District during the prior audit.

Cause of Condition

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

Effect of Condition and Questioned Costs

A lack of proper internal controls increases the risk that:

- Free or reduced-price meals could be provided to children who are not eligible to receive them. This could affect the District’s eligibility for future federal funding.
- The District could receive funding for households that do not qualify for free and reduced-priced meals.
- The District might not be getting the best price for milk and dairy products.

- An increased likelihood of under or overcharging with regard to allowable lunch rates.

Recommendation

We recommend the District establish internal controls to:

- Provide food service staff training related to eligibility, verification, procurement and paid lunch equity requirements.
- Implement and document the required secondary review of applications selected for verification before notification of verification is sent to families.
- Implement and retain documentation when adverse action letters are sent to families and ensure actual reduction or termination of benefits resulting from income verification takes place immediately after the 10 day advance notice period.
- Complete the PLE tool provided by USDA annually.

District's Response

North Mason School District concurs with the weaknesses identifies by SAO in Child Nutrition Program. In the 14-15 school year, we had 3 different Food Service Directors. Due to staff turnover, many of our processes lacked the attention they needed in our Food Service department. In 15-16 we have addressed most of these weaknesses and continue to gather the information needed to ensure compliance. OSPI performed a successful Consolidated Review on our Food Service program recently and was able to help identify and educate us on how to strengthen our processes and internal controls.

Auditor's Remarks

We appreciate the District's commitment to resolving the issues noted and will follow up during the next audit.

Applicable Laws and Regulations

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

The auditee shall:

- (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and provisions of contracts

or grant agreements that could have a material effect on each of its Federal programs.

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

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

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

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

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

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

Material weakness in internal control over compliance. A deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be

prevented, or detected and corrected, on a timely basis. In this section, a reasonable possibility exists when the likelihood of the event is either reasonably possible or probable as defined as follows:

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

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

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

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

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

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

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

(ii) Collateral contacts are verbal confirmations of a household's circumstances by a person outside of the household. The collateral contact may be made in person or by phone. The verifying official may select a collateral contact if the household fails to designate one or designates one which is unacceptable to the verifying official. If the verifying official designates a collateral contact, the contact shall not be made without providing written or oral notice to the household. At the time of this notice, the household

shall be informed that it may consent to the contact or provide acceptable documentation in another form. If the household refuses to choose one of these options, its eligibility shall be terminated in accordance with the normal procedures for failure to cooperate with verification efforts. Collateral contacts could include employers, social service agencies, and migrant agencies.

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

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

(e) Activities prior to household notification—(1) Confirmation of a household's initial eligibility. (i) Prior to conducting any other verification activity, an individual, other than the individual who made the initial eligibility determination, shall review for accuracy each approved application selected for verification to ensure that the initial determination was correct. If the initial determination was correct, the local educational agency shall verify the approved application. If the initial determination was incorrect, the local educational agency must:

(A) If the eligibility status changes from reduced price to free, make the increased benefits immediately available and notify the household of the change in benefits; the local educational agency will then verify the application;

(B) If the eligibility status changes from free to reduced price, first verify the application and then notify the household of the correct eligibility status after verification is completed and, if required, send the household a notice of adverse action in accordance with paragraph (j) of this section; or

(C) If the eligibility status changes from free or reduced price to paid, send the household a notice of adverse action in accordance with paragraph (j) of this section and do not conduct verification on this application and select a similar application (for example, another error-prone application) to replace it.

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

(1) The change;

(2) The reasons for the change;

(3) Notification of the right to appeal and when the appeal must be filed to ensure continued benefits while awaiting a hearing and decision;

(4) Instructions on how to appeal; and

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

Title 7 Code of Federal Regulations, Section 245.6 - Application, eligibility and certification of children for free and reduced price meals and free milk, states in part:

(a) General requirements—content of application and descriptive materials. Each local educational agency, as defined in § 245.2, for schools participating in the National School Lunch Program, School Breakfast Program or Special Milk Program or a commodity only school, shall provide meal benefit forms for use

by families in making application for free or reduced price meals or free milk for their children.

(1) *Household applications.* The State agency or local educational agency must provide a form that permits a household to apply for all children in that household who attend schools in the same local educational agency. The local educational agency must provide newly enrolled students with an application and determine eligibility promptly. The local educational agency cannot require the household to submit an application for each child attending its schools. The application shall be clear and simple in design and the information requested therein shall be limited to that required to demonstrate that the household does, or does not, meet the eligibility criteria for free or reduced price meals, respectively, or for free milk, provided by the local educational agency.

(5) *Required income information.* The information requested on the application with respect to the current income of the household must be limited to:

(i) The income received by each member identified by the household member who received the income or an indication which household members had no income; and

(ii) The source of the income (such as earnings, wages, welfare, pensions, support payments, unemployment compensation, social security and other cash income). Other cash income includes cash amounts received or withdrawn from any source, including savings, investments, trust accounts, and other resources which are available to pay for a child's meals or milk.

(c) *Determination of eligibility—* (1) *Duration of eligibility.* Except as otherwise specified in paragraph (c)(3) of this section, eligibility for free or reduced price meals, as determined through an approved application or by direct certification, must remain in effect for the entire school year and for up to 30 operating days into the subsequent school year. The local educational agency must determine household eligibility for free or reduced price meals either through direct certification or the application process at or about the beginning of the school year. The local educational agency must determine eligibility for free or reduced price meals

when a household submits an application or, if feasible, through direct certification, at any time during the school year.

(4) *Calculating income.* The local educational agency must use the income information provided by the household on the application to calculate the household's total current income. When a household submits an application containing complete documentation, as defined in § 245.2, and the household's total current income is at or below the eligibility limits specified in the Income Eligibility Guidelines as defined in § 245.2, the children in that household must be approved for free or reduced price benefits, as applicable.

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

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

Title 7, Code of Federal Regulations, Section 3016.36 – Procurement, states in part:

(b) Procurement standards.

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

(9) Grantees and subgrantees will maintain records sufficient to detail the significant history of procurement. These records will include but are not necessarily limited to the following: rationale for the method of procurement

selection of contract type contractor selection or rejection and the basis for the contract price . . .

(d) Methods of procurement to be followed.

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

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

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

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

Washington State Office of the Superintendent of Public Instruction Child Nutrition Services Update, *Paid Lunch Equity School Year 2014-15* states, in part:

The United States Department of Agriculture (USDA) has released memorandum SP 15-2014 titled *Paid Lunch Equity: School Year 2014-15 Calculations*. Included with this memorandum is the Paid Lunch Equity Tool (PLE Tool) for SY 14-15.

All local education agencies (LEA), regardless of current lunch prices, must annually review their paid lunch prices to ensure compliance with the paid lunch equity requirement using the USDA PLE Tool. The completed tool must be kept on file as it is required for Administrative Reviews. In addition, each year's PLE Tool calculates information that will be used in the next school year's tool. For example, to complete the SY 14-15 PLE Tool, you will need information from the SY 13-14 PLE Tool that you completed last year.

The LEA is considered noncompliant when the average paid lunch price is less than the difference between the free and paid Federal reimbursement rates, currently \$2.65. If the weighted average paid lunch price is less than \$2.65, LEAs must take action. There are three options:

1. Increase paid lunch prices, or
2. Contribute non-Federal funds to the food service account, or
3. Increase the paid lunch price by a smaller amount and contribute the remaining amount using non-Federal funds.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

North Mason School District No. 403 Mason 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 North Mason School District No. 403. The State Auditor's Office has reviewed the status as presented by the District.

Audit Period: September 1, 2013- August 31, 2014	Report Ref. No: 1014377	Finding Ref. No: 2014-001	CFDA Number(s): 10.553 and 10.555
Federal Program Name and Granting Agency: Child Nutrition Cluster, U.S. Department of Agriculture		Pass-Through Agency Name: Office of Superintendent of Public Instruction	
Finding Caption: The District does not have adequate internal controls over the federal child nutrition verification process, eligibility, and paid lunch equity requirements for the National School Lunch and School Breakfast programs.			
Background: During the audit of the verification, eligibility, and paid lunch equity tool (PLE) requirement, we found the following internal control deficiencies and material weaknesses instances of noncompliance: <ul style="list-style-type: none">• The District did not use the sampling method prescribed by OSPI.• The District did not complete the verification process by November 15 deadline.• The District did not retain copies of all the documents used for the verification process, including adverse action letters of students that no longer qualified or failed to respond.• The District failed to reduce or terminate benefits of applicants as a result of the verification process promptly after the required 10 day notice period.• Of the nine income-based applicants verified by the District, three did not have sufficient income information to support the District’s eligibility determination.• The District did not perform the required secondary independent review of applications elected for the verification process prior to sending notification to selected participants.• Applications did not contain all required information needed to make an eligibility determination, such as the frequency of income or a listing of all household members.• Income reported on applications placed families above the free/reduced-priced threshold; however, the District did not change the student’s eligibility to paid.• Categorically free students, such as foster children, were not given the appropriate eligibility status.			

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

Status of Corrective Action: (check one)

☐ Fully Corrected
 ☒ Partially Corrected
 ☐ Not Corrected
 ☐ Finding is considered no longer valid

Corrective Action Taken:

Both of our elementary schools are participating in the Community Eligibility Program in 15-16 school year. This program offers free breakfast and lunch to ALL students regardless of their income, alleviating the need for F&R forms. In the middle and high schools our Food Service Director (FS) is updating records monthly by verifying if the student is a direct certification and applying that certification to all siblings in the household. When not direct certified, double checking F&R forms are up to date. We are looking into increasing our FS Directors calendar to allow the position to dedicate more time to the requirement/paperwork job duties. A new position was hired as a Parent/Family Liaison and a process was implemented to have that position inform the FS Director when homeless students are recognized to insure they are directly certified. OSPI performed a Consolidated Review that allowed the new FS Director to fully understand the free and reduced verification process and the termination of benefits after the required 10 day notice period. The Paid Lunch Equity Tool has been completed for 15-16 school year and placed in the FS file.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

**North Mason School District No. 403
Mason County
September 1, 2014 through August 31, 2015**

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of North Mason School District No. 403, Mason County, Washington, as of and for the year ended August 31, 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.

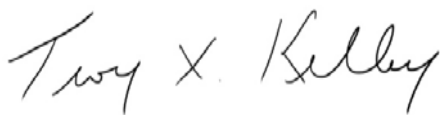
COMPLIANCE AND OTHER MATTERS

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 REPORT ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

**North Mason School District No. 403
Mason County
September 1, 2014 through August 31, 2015**

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

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

We have audited the compliance of North Mason School District No. 403, Mason County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended August 31, 2015. The District's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of 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 Award 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 Award Findings and Questioned Costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

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

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Federal Award Findings and Questioned Costs as Finding 2015-001 to be material weaknesses.

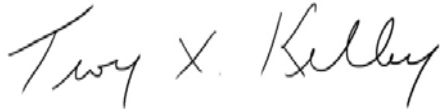
A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Federal Award Findings and Questioned Costs as Finding 2015-001 to be a significant deficiency.

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 Award 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

North Mason School District No. 403 Mason County September 1, 2014 through August 31, 2015

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

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of North Mason School District No. 403, Mason County, Washington, as of and for the year ended August 31, 2015, and the related notes to the financial statements, which collectively comprise the District's financial statements, as listed on page 29.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Unmodified Opinion on Regulatory Basis of Accounting (Accounting Manual)

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of North Mason School District No. 403, as of August 31, 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 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, and Transportation Vehicle 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.

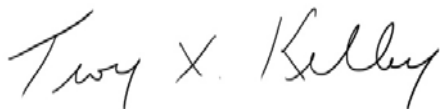
Other Matters

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

North Mason School District No. 403
Mason 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
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	1,499,496.82	12,524.09	17,032.85	520,096.47	244,224.04	0.00	2,293,374.27
Minus Warrants Outstanding	-1,474,924.85	-8,497.47	0.00	-520,735.02	0.00	0.00	-2,004,157.34
Taxes Receivable	2,061,292.42		1,169,276.52	10,600.08	0.00	0.00	3,241,169.02
Due From Other Funds	0.00	0.00	0.00	90,817.72	0.00	0.00	90,817.72
Due From Other Governmental Units	156,162.38	0.00	0.00	0.00	0.00	0.00	156,162.38
Accounts Receivable	20,753.49	361.00	0.00	0.00	0.00	0.00	21,114.49
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	89,259.01	0.00		0.00			89,259.01
Prepaid Items	10,815.93	6,780.25			0.00	0.00	17,596.18
Investments	1,470,570.70	253,992.49	1,346,691.76	17,037,743.54	97,433.10	0.00	20,206,431.59
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	3,833,425.90	265,160.36	2,533,001.13	17,138,522.79	341,657.14	0.00	24,111,767.32
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	3,833,425.90	265,160.36	2,533,001.13	17,138,522.79	341,657.14	0.00	24,111,767.32
LIABILITIES:							
Accounts Payable	280,140.59	5,678.68	0.00	3,854,589.45	0.00	0.00	4,140,408.72
Contracts Payable Current	0.00	0.00		0.00	0.00		0.00
Accrued Interest Payable			0.00				0.00
Accrued Salaries	54,036.47	0.00		0.00			54,036.47
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	8,348.26	0.00		0.00			8,348.26
Due To Other Governmental Units	4,823.46	0.00		0.00	0.00	0.00	4,823.46
Deferred Compensation Payable	0.00			0.00			0.00
Estimated Employee Benefits Payable	0.00						0.00
Due To Other Funds	90,817.72	0.00	0.00	0.00	0.00	0.00	90,817.72
Interfund Loans Payable	0.00		0.00	0.00	0.00		0.00
Deposits	0.00	0.00		0.00			0.00
Unearned Revenue	0.00	0.00	0.00	0.00	0.00		0.00
Matured Bonds Payable			0.00				0.00
Matured Bond Interest Payable			0.00				0.00
Arbitrage Rebate Payable	0.00		0.00	0.00	0.00		0.00
TOTAL LIABILITIES	438,166.50	5,678.68	0.00	3,854,589.45	0.00	0.00	4,298,434.63
DEFERRED INFLOWS OF RESOURCES:							
Unavailable Revenue	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Unavailable Revenue - Taxes Receivable	2,061,292.42		1,169,276.52	10,600.08	0.00		3,241,169.02
TOTAL DEFERRED INFLOWS OF RESOURCES	2,061,292.42	0.00	1,169,276.52	10,600.08	0.00	0.00	3,241,169.02
FUND BALANCE:							
Nonspendable Fund Balance	100,074.94	11,040.09	0.00	0.00	0.00	0.00	111,115.03
Restricted Fund Balance	29,947.29	248,441.59	1,363,724.61	11,543,683.16	341,657.14	0.00	13,527,453.79
Committed Fund Balance	0.00	0.00	0.00	503,113.24	0.00	0.00	503,113.24
Assigned Fund Balance	0.00	0.00	0.00	1,226,536.86	0.00	0.00	1,226,536.86
Unassigned Fund Balance	1,203,944.75	0.00	0.00	0.00	0.00	0.00	1,203,944.75
TOTAL FUND BALANCE	1,333,966.98	259,481.68	1,363,724.61	13,273,333.26	341,657.14	0.00	16,572,163.67
TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND FUND BALANCE	3,833,425.90	265,160.36	2,533,001.13	17,138,522.79	341,657.14	0.00	24,111,767.32

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	4,688,701.71	369,983.22	2,484,386.66	57,476.33	5,238.38		7,605,786.30
State	15,426,781.84		482,170.53	0.78	244,213.44		16,153,166.59
Federal	1,755,887.11		0.00	0.00	0.00		1,755,887.11
Federal Stimulus	0.00						0.00
Other	149,734.65			325,000.00	0.00	0.00	474,734.65
TOTAL REVENUES	22,021,105.31	369,983.22	2,966,557.19	382,477.11	249,451.82	0.00	25,989,574.65
EXPENDITURES:							
CURRENT:							
Regular Instruction	11,282,620.89						11,282,620.89
Federal Stimulus	0.00						0.00
Special Education	2,826,502.84						2,826,502.84
Vocational Education	924,270.59						924,270.59
Skill Center	0.00						0.00
Compensatory Programs	1,269,813.40						1,269,813.40
Other Instructional Programs	71,808.32						71,808.32
Community Services	119,560.87						119,560.87
Support Services	5,484,277.41						5,484,277.41
Student Activities/Other		350,668.12				0.00	350,668.12
CAPITAL OUTLAY:							
Sites				1,129,943.84			1,129,943.84
Building				31,291,604.33			31,291,604.33
Equipment				1,142,401.44			1,142,401.44
Instructional Technology				0.00			0.00
Energy				2,000.00			2,000.00
Transportation Equipment					64,774.61		64,774.61
Sales and Lease				0.00			0.00
Other	0.00						0.00
DEBT SERVICE:							
Principal	0.00		159,456.48	0.00	0.00		159,456.48
Interest and Other Charges	0.00		2,315,783.90	0.00	0.00		2,315,783.90
Bond/Levy Issuance				0.00	0.00		0.00
TOTAL EXPENDITURES	21,978,854.32	350,668.12	2,475,240.38	33,565,949.61	64,774.61	0.00	58,435,487.04

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	42,250.99	19,315.10	491,316.81	-33,183,472.50	184,677.21	0.00	-32,445,912.39
OTHER FINANCING SOURCES (USES) :							
Bond Sales & Refunding Bond Sales	0.00		0.00	0.00	0.00		0.00
Long-Term Financing	0.00			0.00	0.00		0.00
Transfers In	0.00		196,099.09	0.00	0.00		196,099.09
Transfers Out (GL 536)	-89,689.90		0.00	0.00	-106,409.19	0.00	-196,099.09
Other Financing Uses (GL 535)	0.00		0.00	0.00	0.00		0.00
Other	0.00		0.00	0.00	0.00		0.00
TOTAL OTHER FINANCING SOURCES (USES)	-89,689.90		196,099.09	0.00	-106,409.19	0.00	0.00
EXCESS OF REVENUES/OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	-47,438.91	19,315.10	687,415.90	-33,183,472.50	78,268.02	0.00	-32,445,912.39
BEGINNING TOTAL FUND BALANCE	1,417,245.66	239,753.65	676,308.71	46,431,846.02	263,389.12	0.00	49,028,543.16
Prior Year(s) Corrections or Restatements	-35,839.77	412.93	0.00	24,959.74	0.00	0.00	-10,467.10
ENDING TOTAL FUND BALANCE	1,333,966.98	259,481.68	1,363,724.61	13,273,333.26	341,657.14	0.00	16,572,163.67

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

North Mason School District No. 403
Notes to Financial Statements
September 1, 2014 through August 31, 2015

Note 1: Summary of Significant Accounting Policies

Description of the government-wide financial statements, noting that neither fiduciary funds nor component units that are fiduciary in nature are included.

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

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

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

Fund Accounting

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

GOVERNMENTAL FUNDS

General Fund

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

Capital Projects Funds

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

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

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

Debt Service Fund

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

Private-Purpose Trust Fund

This fund is used to account for resources that are legally held in trust by the District. The trust agreement details whether principal and interest may both be spent, or whether only interest may be spent. Money from a Private-Purpose Trust Fund may not be used to support the District's programs, and may be used to benefit individuals, private organizations, or other governments.

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 interdistrict billings are measurable and available and are, therefore, accrued.

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

➤ **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 or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

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

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

The government's fund balance classifications policies and procedures.

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

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

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

Committed Fund Balance. Amounts that are reported as Committed are those resources of the District that have had a limitation placed upon their usage by formal action of the District's board of directors. Commitments are made either through a formal adopted board resolution or are related to a school board policy. Commitments may only be changed when the resources are used for the intended purpose or the limitation is removed by a subsequent formal action of the board of directors.

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

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

The Superintendent is the only person who has the authority to create Assignments of fund balance.

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

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

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

Cash and Cash Equivalents

All of the District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. There are no receivables and payables that are 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 Nonspendable. 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 2014–15

Effective for the 2014–15 school year, the district implemented provisions 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 Mason County Treasurer is the *ex officio* treasurer for the District and holds all accounts of the District. The District directs the County Treasurer to invest those financial resources of the District that the District has determined are not needed to meet the current financial obligations of the District.

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

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

Type of Investment	(District's) own investments	Investments held by (district) as an agent for other organizations	Total
County Treasurer's Investment Pool	20,206,432		20,206,432
TOTAL	20,206,432		20,206,432

NOTE 3: SIGNIFICANT CONTINGENT LIABILITIES

Litigation

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

NOTE 4: SIGNIFICANT EFFECTS OF SUBSEQUENT EVENTS

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

NOTE 5: 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 School District's Proportionate Share of the Net Pension Liability (NPL)

At June 30, 2015, the school district reported a total liability of \$8,485,593 for its proportionate shares of the individual plans' collective net pension liability. Proportion of net pension liability is based on annual contributions for each of the employers participating in the DRS administered plans. At June 30, 2015, the district's proportionate share of each plan's net pension liability is reported below:

June 30, 2015	PERS 1	SERS 2/3	TRS 1	TRS 2/3
District's Annual Contributions	\$125,102	177,033	351,376	424,393
Proportionate Share of the Net Pension Liability	\$1,423,855	739,569	4,974,635	1,347,535

At June 30, 2015, the school district's percentage of the proportionate share of the collective net pension liability was as follows and the changed 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	0.027220%	0.182092%	0.157021%	0.159698%
Prior year proportionate share of the Net Pension Liability	0.028222%	0.197935%	0.171807%	0.180741%
Net difference percentage	-0.001002%	-0.015843%	-0.014786%	-0.021043%

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.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following table presents the North Mason School District's proportionate share of the collective net pension liability (NPL) calculated using the discount rate of 7.50 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 (6.50 percent) or one percentage-point higher (8.50 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.

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
PERS1 NPL	\$6,368,671,000	\$5,230,930,000	\$4,252,577,000
Allocation Percentage	0.027220%	0.027220%	0.027220%
Proportionate Share of Collective NPL	\$1,733,547	\$1,423,855	\$1,157,548
SERS2/3 NPL	\$1,282,039,000	\$406,151,000	(\$273,474,000)
Allocation Percentage	0.182092%	0.182092%	0.182092%
Proportionate Share of Collective NPL	\$2,334,492	\$739,569	(\$497,975)
TRS1 NPL	\$3,982,571,000	\$3,168,142,000	\$2,467,801,000
Allocation Percentage	0.157021%	0.157021%	0.157021%
Proportionate Share of Collective NPL	\$6,253,456	\$4,974,635	\$3,874,955
TRS2/3 NPL	\$3,570,229,000	\$843,802,000	(\$1,183,066,000)
Allocation Percentage	0.159698%	0.159698%	0.159698%
Proportionate Share of Collective NPL	\$5,701,584	\$1,347,535	(\$1,889,333)

Note 6: Annual other post-employment benefit cost and net OPEB obligations

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

Employers participating in the plan include the state of Washington (which includes general government agencies and higher education institutions), 60 of the state's K–12 school districts and educational service districts (ESDs), and 221 political subdivisions and tribal governments. Additionally, the PEBB plan is available to the retirees of the remaining 237 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 \$65.25 per month per full-time equivalent employee to support the program, for a total payment of \$196,396. This assessment to the District is set forth in the state's operating budget and is subject to change on an annual basis. This amount is not actuarially determined and is not placed in a trust to pay the obligations for post-employment health care benefits.

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

Note 7: Commitments under leases

The North Mason School District did not incur any capital leases or non-cancelable non-capital leases extending over one year in 2014-15.

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

Construction in progress is composed of:

Project	Project Authorization Amount	Expended as of 8/31/2015	Additional Local Funds Committed	Additional State Funds Committed
New North Mason High School	\$34,875,760	\$33,261,880	\$25,440,064	\$9,435,696
HMS Remodel - Track	\$19,969,806	\$1,952,322	\$12,925,752	\$7,044,054
New PACE Bldg	\$1,718,825	\$150,789		
SH Playshed	\$530,269	\$446,439		
BE Playshed	\$1,213,285	\$1,433,640		
Annex Renovation	\$1,949,267	\$10,880		
New Stadium	\$5,000,000	4,034		
Total	\$65,257,212	\$37,259,984	\$38,365,816	\$16,479,750

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:

FUND	AMOUNT
General	\$ 0
ASB Fund	\$ 0
Capital Projects Fund	\$ 1787.
Transportation Vehicle Fund	\$ 0

NOTE 9: REQUIRED DISCLOSURES ABOUT CAPITAL ASSETS

The District's capital assets are insured in the amount of \$67,285,704. for fiscal year 2015. Of that total, \$65,530,984 is property, \$1,726,306 is automobiles and \$28,414 is equipment. 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

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

Issue Name	Amount Authorized	Annual Installments	Final Maturity	Interest Rate(s)	Amount Outstanding
2005 Non-Voted Debt	\$1,027,990	\$106,409	2017	4.25%	\$ 201,478
2010 Non-Voted Debt	\$307,000	\$37,696	2020	3.75%, 4.85%*	\$ 181,053
2011 Non-Voted Debt	\$467,119	Various	2021	2.499%	\$ 372,435
2013 Voted Debt	\$46,550,000	Various	2037	1.75% – 5.0%**	\$46,390,544
Total General Obligation Bonds	\$48,352,109				\$47,145,510

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

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

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

Years Ending August 31,	Principal	Interest	Total
2016	\$444,479	\$2,307,310	\$2,751,789
2017	\$525,079	\$2,295,090	\$2,820,169
2018	\$524,268	\$2,280,069	\$2,804,337
2019	\$734,932	\$2,263,524	\$2,998,456
2020-2038	\$45,186,206	\$27,929,883	\$73,116,029
Total	\$47,414,964	\$37,075,876	\$84,490,780

At August 31, 2015 the district had \$1,363,725. available in the Debt Service Fund to service the general obligation bonds.

NOTE 11: INTERFUND BALANCES AND TRANSFERS

\$89,690 was transferred from General Fund to Debt Service Fund to make a payment on Non Voted Debt. \$106,409 was transferred from Transportation Vehicle Fund to Debt Service Fund to make a payment on Non Voted Debt. This transfer will occur annually until the non-voted debt is retired.

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 North Mason School District is a member of United Schools Insurance Program. Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The program was formed on September 1, 1985, when 29 school districts in the state of Washington joined together by signing a Joint Purchasing Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. Current membership includes 156 school districts.

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

Liability insurance is subject to a self-insured retention of \$100,000. Members are responsible for a \$1,000 deductible for each claim (member deductibles may vary), while the program is responsible for the \$100,000 self-insured retention (SIR). Insurance carriers cover insured losses over \$101,000 to the limits of each policy. Since the program is a cooperative program, there is a joint liability among the participating members towards the sharing of the \$100,000 SIR. The program also purchases a stop loss policy with an attachment point of \$974,286, as an additional layer of protection for its members.

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

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

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

The program is fully funded by its member participants. Claims are filed by members with Clear Risk Solutions, which has been contracted to perform program administration, claims adjustment, and loss

prevention for the program. Fees paid to the third party administrator under this arrangement for the year ending August 31, 2015, were \$1,678,247.63.

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

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 one-half then and one-half on October 31. Typically, slightly more than half of the collections are made on the April 30 date. The October 31 collection is not available in time to cover liabilities for the fiscal period ended August 31. Therefore, the fall portion of property taxes is not accrued as revenue. Instead, the property taxes due on October 31 are recorded as unavailable revenue.

NOTE 14: JOINT VENTURES AND JOINTLY GOVERNED ORGANIZATIONS

The District is a member of the King County Director's Association (KCDA). KCDA is a purchasing cooperative designed to pool the member districts' purchasing power. The District's current equity of \$23,516.03 is the accumulation of the annual assignment of KCDA's operating surplus based upon the percentage derived from KCDA's total sales to the District compared to all other districts applied against paid administrative fees. The District may withdraw from the joint venture and will receive its equity in ten annual allocations of merchandise or 15 annual payments.

NOTE 15: FUND BALANCE CLASSIFICATION DETAILS

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

	General Fund	ASB Fund	Capital Projects Fund	Debt Service Fund	Transportation Vehicle Fund
Nonspendable Fund Balance					
Inventory and Prepaid Items	\$100,075	\$11,040			
Restricted Fund Balance					
Carryover of Restricted Revenues					
Debt Service					
Arbitrage Rebate					
Uninsured Risks					
Other Items	\$29,947	\$248,442	\$11,543,683	\$1,363,724	\$341,657
Committed Fund Balance			\$503,113		
Economic Stabilization	\$866,965				
Other Commitments					
Assigned Fund Balance					
Contingencies					
Other Capital Projects					
Other Purposes					
Fund Purposes			\$1,226,537		

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

Restricted From Bond Proceeds	\$11,489,483
Committed from Levy Proceeds	\$ 503,113
Restricted from State Proceeds	
Restricted from Federal Proceeds	
Restricted from Other Proceeds	\$ 54,200
Restricted from Impact Fee Proceeds	
Restricted from Mitigation Fee Proceeds	
Restricted from Undistributed Proceeds	

The board of directors has established a minimum fund balance policy for the general fund to provide for financial stability and contingencies within the District. The policy is that the District shall maintain an unreserved fund balance within a range of 4% to 6% of General Fund expenditures. Portions of fund balance that are set aside for the purpose of meeting this policy are recorded on the financial statements as a part of Unassigned 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 §457 of the Internal Revenue Code that is administered by the state deferred compensation plan, or the District.

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

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

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

NOTE 17: TERMINATION BENEFITS

Compensated Absences

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

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

These expenditures are recorded when paid, except termination sick leave that is accrued upon death, retirement, or upon termination provided the employee is at least 55 years of age and has sufficient years of service. Vested sick leave was computed using the termination payment method. In 14-15 computation the taxes due were not added. In future years, all additional taxes and retirement will be added to the final computation recorded on the F196 Financial Statement

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

There are no conditions or events that would give rise to substantial doubt about the North Mason School District's ability to continue as a going concern.

NOTE 19: OTHER DISCLOSURES

Theler Community Center

The North Mason School district was bequeathed property from Samuel Theler for the Mary E. Theler Community Center in 1968. The district constructed a building on the site in 1984. The facility has been leased and operated by the Mary E. Theler Community Center organization. During the 2013-14 school year, district resumed management of the facility. In 14-15 the facility was used as a rental community center and a classroom for the high school science class.

North Mason School District No. 403
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	0.00	0.00	0.00	0.00	0.00
Non-Cancellable Operating Leases	0.00	0.00	0.00	0.00	0.00
Claims & Judgements	0.00	0.00	0.00	0.00	0.00
Compensated Absences	513,820.10	23,383.85	0.00	537,203.95	25,000.00
Long-Term Notes	0.00	0.00	0.00	0.00	0.00
Anticipation Notes Payable	0.00	0.00	0.00	0.00	0.00
Lines of Credit	0.00	0.00	0.00	0.00	0.00
Other Non-Voted Debt	0.00	0.00	0.00	0.00	0.00
Other Liabilities					
Non-Voted Notes Not Recorded as Debt	0.00	0.00	0.00	0.00	0.00
Net Pension Liabilities:					
Net Pension Liabilities TRS 1	0.00	4,974,635.00	0.00	4,974,635.00	
Net Pension Liabilities TRS 2/3	0.00	1,347,535.00	0.00	1,347,535.00	
Net Pension Liabilities SERS 2/3	0.00	739,569.00	0.00	739,569.00	
Net Pension Liabilities PERS 1	0.00	1,423,855.00	0.00	1,423,855.00	
Total Long-Term Liabilities	513,820.10	8,508,977.85	0.00	9,022,797.95	25,000.00

North Mason School District No. 403
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	46,550,000.00	0.00	0.00	46,550,000.00	265,000.00
LOCAL Program Proceeds Issued in Lieu of Bonds	0.00	0.00	0.00	0.00	0.00
Non-Voted Debt					
Non-Voted Bonds	914,421.42	0.00	159,456.48	754,964.94	179,479.43
LOCAL Program Proceeds	0.00	0.00	0.00	0.00	0.00
Total Long-Term Liabilities	47,464,421.42	0.00	159,456.48	47,304,964.94	444,479.43

North Mason School District #403
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ending August 31, 2015

1	2	3	4	5	6	7	8	9
		Expenditures						
Federal Agency Name	Pass-Through Agency	Federal Program Title	CFDA Number	Other Identification Number	From Direct Awards	From Pass-Through Awards	Total	Footnote
US Dept of Agriculture	WA OSPI	School Breakfast Program	10.553	N/A		\$ 178,167.02	\$178,167.02	2
US Dept of Agriculture	WA OSPI	National School Lunch Program - Cash Assistance	10.555	N/A		\$ 434,989.12	\$434,989.12	2
US Dept of Agriculture	WA OSPI	National School Lunch Program - Non-Cash Assistance (Commodities)	10.555	N/A		\$ 53,191.27	\$53,191.27	3
US Dept of Agriculture	WA OSPI	Summer Food Service Program for Children	10.559	N/A		\$ 5,487.47	\$5,487.47	2
US Dept of Agriculture	WA OSPI	Schools and Roads - Grants to States	10.665	N/A		\$ 43,394.54	\$43,394.54	
	WA OSPI	Subtotal US Department of Agriculture					\$715,229.42	
US Dept of Education	WA OSPI	Title I - Grants to Local Educational Agencies	84.010	201874		\$ 444,767.86	\$444,767.86	2,4
US Dept of Education	WA OSPI	Special Education Grants to States	84.027	0305018, 0337753		\$ 425,899.00	\$425,899.00	2,4
US Dept of Education	N/A	Impact Aid	84.041	N/A	\$ 11,586.22		\$11,586.22	2
US Dept of Education	WA OSPI	Career and Technical Education - Basic Grants to States	84.048	173430		\$ 14,361.00	\$14,361.00	2,4
US Dept of Education	WA OSPI	Special Education - Preschool Grants	84.173	363017		\$ 15,268.00	\$15,268.00	2,4
US Dept of Education	WA OSPI	English Language Acquisition Grants	84.365	402086		\$ 19,827.68	\$19,827.68	2
US Dept of Education	WA OSPI	Improving Teacher Quality State Grants	84.367	523514		\$ 97,767.92	\$97,767.92	2,4
		Subtotal US Department of Education					\$1,029,477.68	
US Dept of Health and Human Services	HCA	Medical Assistance Program	93.778	0765-19215		\$ 9,459.36	\$9,459.36	2
US Dept of Health and Human Services	WA OSPI	Promote Adolescent Health through Prevention	93.079	930074		\$ 4,000.00	\$4,000.00	2
		Subtotal US Department of Health and Human Services					\$13,459.36	
		Total Federal Expenditures					\$1,758,166.46	

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

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Include the following notes to the schedule either as an attachment to the schedule or on the face of the schedule (if space permits). The notes should disclose the basis of accounting, definitions of abbreviations, and any other information that might be needed by the reader. Each district should prepare notes that describe their particular programs and circumstances.

NOTE 1—BASIS OF ACCOUNTING

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

NOTE 2—PROGRAM COSTS/MATCHING CONTRIBUTIONS

The amounts shown as current year expenses represent only the federal grant portion of the program costs. Entire program costs, including the North Mason School District's 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 North Mason School District during the current year and priced as prescribed by USDA.

NOTE 4—FEDERAL INDIRECT RATE

The North Mason School District used the federal restricted rate of 3.85%.

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

North Mason School District No. 403
Mason 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 North Mason School District No. 403.

Finding ref number: 2015-001	Finding caption: The District does not have adequate internal controls over federal requirements for the Nutrition program.
Name, address, and telephone of auditee contact person: North Mason School District No. 403 71 E. Campus Drive Belfair, WA 98528	
Corrective action the auditee plans to take in response to the finding: <i>North Mason School District concurs with the weaknesses identifies by SAO in Child Nutrition Program. In the 14-15 school year, we had 3 different Food Service Directors. Due to staff turnover, many of our processes lacked the attention they needed in our Food Service department. In 15-16 we have addressed most of these weaknesses and continue to gather the information needed to ensure compliance. OSPI performed a successful Consolidated Review on our Food Service program recently and was able to help identify and educate us on how to strengthen our processes and internal controls.</i>	
Anticipated date to complete the corrective action: 6/30/2016	

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Public Records requests	PublicRecords@sao.wa.gov
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Website	www.sao.wa.gov