

Washington State Auditor's Office
Financial Statements and Federal Single Audit Report

South Kitsap School District No. 402
Kitsap County

Audit Period
September 1, 2012 through August 31, 2013

Report No. 1011840

Issue Date
May 22, 2014



Washington State Auditor
Troy Kelley

Independence • Respect • Integrity



Washington State Auditor Troy Kelley

May 22, 2014

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

Report on Financial Statements and Federal Single Audit

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

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

Sincerely,

A handwritten signature in cursive script that reads "Troy X. Kelley".

TROY KELLEY
STATE AUDITOR

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Kitsap County
September 1, 2012 through August 31, 2013

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Federal Summary

South Kitsap School District No. 402 Kitsap County September 1, 2012 through August 31, 2013

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

FINANCIAL STATEMENTS

An unmodified opinion was issued on the financial statements.

Internal Control Over Financial Reporting:

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

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

FEDERAL AWARDS

Internal Control Over Major Programs:

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

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

We reported no findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

Identification of Major Programs:

The following were major programs during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
84.027	Special Education Cluster (IDEA) - Special Education - Grants to States (IDEA, Part B)
84.173	Special Education Cluster (IDEA) - Special Education - Preschool Grants (IDEA Preschool)

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

The District qualified as a low-risk auditee under OMB Circular A-133.

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

**South Kitsap School District No. 402
Kitsap County
September 1, 2012 through August 31, 2013**

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of South Kitsap School District No. 402, Kitsap County, Washington, as of and for the year ended August 31, 2013, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated May 15, 2014.

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.

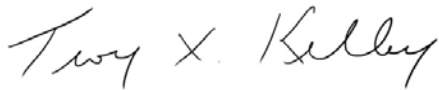
COMPLIANCE AND OTHER MATTERS

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

May 15, 2014

Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

**South Kitsap School District No. 402
Kitsap County
September 1, 2012 through August 31, 2013**

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

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of South Kitsap School District No. 402, Kitsap County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2013. The District's major federal programs are identified in the accompanying Federal Summary.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2013.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

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

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

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

May 15, 2014

Independent Auditor's Report on Financial Statements

South Kitsap School District No. 402 Kitsap County September 1, 2012 through August 31, 2013

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

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of South Kitsap School District No. 402, Kitsap County, Washington, as of and for the year ended August 31, 2013, and the related notes to the financial statements, which collectively comprise the District's financial statements, as listed on page 11.

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 using accounting practices prescribed or permitted by Washington State statutes and the Accounting Manual. Those accounting practices differ from accounting principles generally accepted in the United States of America (GAAP). The difference in these accounting practices is also described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of South Kitsap School District No. 402, as of August 31, 2013, and the changes in financial position thereof for the year then ended in accordance with the basis of accounting described in Note 1.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the General, ASB, Debt Service, Capital Project, Transportation Vehicle and Fiduciary funds as of August 31, 2013, 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.

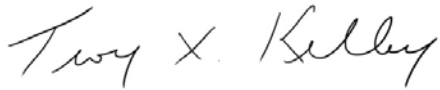
Other Matters

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 Schedule of Long-Term Liabilities is 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 15, 2014 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

May 15, 2014

Financial Section

**South Kitsap School District No. 402
Kitsap County
September 1, 2012 through August 31, 2013**

FINANCIAL STATEMENTS

Balance Sheet – Governmental Funds – 2013
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental
Funds – 2013
Statement of Fiduciary Net Position – Fiduciary Funds – 2013
Statement of Changes in Fiduciary Net Position– Fiduciary Funds – 2013
Notes to Financial Statements – 2013

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Long-Term Liabilities – 2013
Schedule of Expenditures of Federal Awards – 2013
Notes to the Schedule of Expenditures of Federal Awards – 2013

E.S.D. 114

Balance Sheet

COUNTY: 18 Kitsap

Governmental Funds

August 31, 2013

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
ASSETS:							
Cash and Cash Equivalents	2,560,325.44	78,042.47	0.00	48,466.40	134,144.04	0.00	2,820,978.35
Minus Warrants Outstanding	-2,212,214.68	-20,594.90	0.00	0.00	0.00	0.00	-2,232,809.58
Taxes Receivable	9,286,533.67		0.00	0.00	0.00		9,286,533.67
Due From Other Funds	15,502.43	1,085.00	0.00	0.00	0.00	0.00	16,587.43
Due From Other Governmental Units	356,604.00	0.00	0.00	0.00	0.00	0.00	356,604.00
Accounts Receivable	71,809.37	219.46	0.00	0.00	1,164.07	0.00	73,192.90
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	578,193.29	0.00					578,193.29
Prepaid Items	157,849.96	59,763.05		0.00	0.00	0.00	217,613.01
Investments	4,323,239.27	624,565.64	1,953.64	1,612,105.91	222,048.43	0.00	6,783,912.89
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	15,137,842.75	743,080.72	1,953.64	1,660,572.31	357,356.54	0.00	17,900,805.96
LIABILITIES:							
Accounts Payable	696,593.89	7,406.76	0.00	350,240.06	0.00	0.00	1,054,240.71
Contracts Payable Current	0.00	0.00		0.00	0.00	0.00	0.00
Accrued Interest Payable			0.00				0.00
Accrued Salaries	97,090.92	0.00		0.00			97,090.92
Revenue Anticipation Notes Payable	0.00		0.00	0.00	0.00		0.00
Payroll Deductions and Taxes Payable	15,346.58	0.00		0.00			15,346.58
Due To Other Governmental Units	96,374.00	0.00		0.00	0.00	0.00	96,374.00
Deferred Compensation Payable	0.00			0.00			0.00
Estimated Employee Benefits Payable	0.00						0.00
Due To Other Funds	1,085.00	15,502.43	0.00	0.00	0.00	0.00	16,587.43

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

E.S.D. 114

Balance Sheet

COUNTY: 18 Kitsap

Governmental Funds

August 31, 2013

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
LIABILITIES:							
Interfund Loans Payable	0.00		0.00	0.00	0.00		0.00
Deposits	0.00	0.00		0.00			0.00
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
Deferred Revenue	9,369,766.02	95,377.02	0.00	0.00	0.00	0.00	9,465,143.04
TOTAL LIABILITIES	10,276,256.41	118,286.21	0.00	350,240.06	0.00	0.00	10,744,782.68
FUND BALANCE:							
Nonspendable Fund Balance	448,630.65	0.00	0.00	0.00	0.00	0.00	448,630.65
Restricted Fund Balance	420,999.01	624,794.51	1,953.64	1,028,601.00	219,537.00	0.00	2,295,885.16
Committed Fund Balance	2,197,831.00	0.00	0.00	164,025.00	0.00	0.00	2,361,856.00
Assigned Fund Balance	1,764,936.00	0.00	0.00	117,706.25	137,819.54	0.00	2,020,461.79
Unassigned Fund Balance	29,189.68	0.00	0.00	0.00	0.00	0.00	29,189.68
TOTAL FUND BALANCE	4,861,586.34	624,794.51	1,953.64	1,310,332.25	357,356.54	0.00	7,156,023.28
TOTAL LIABILITIES AND FUND BALANCE	15,137,842.75	743,080.72	1,953.64	1,660,572.31	357,356.54	0.00	17,900,805.96

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

E.S.D. 114

Statement of Revenues, Expenditures, and Changes in Fund Balance

COUNTY: 18 Kitsap

Governmental Funds

For the Year Ended August 31, 2013

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
REVENUES:							
Local	21,093,266.49	899,365.45	62.23	221,442.20	729.41		22,214,865.78
State	59,980,391.89		0.00	25,942.00	575,234.90		60,581,568.79
Federal	6,838,714.91		0.00	0.00	0.00		6,838,714.91
Federal Stimulus	0.00						0.00
Other	874.42			0.00	0.00	0.00	874.42
TOTAL REVENUES	87,913,247.71	899,365.45	62.23	247,384.20	575,964.31	0.00	89,636,023.90
EXPENDITURES:							
CURRENT:							
Regular Instruction	46,995,548.60						46,995,548.60
Federal Stimulus	0.00						0.00
Special Education	12,811,329.97						12,811,329.97
Vocational Education	4,346,577.52						4,346,577.52
Skills Center	0.00						0.00
Compensatory Programs	3,262,338.83						3,262,338.83
Other Instructional Programs	496,080.11						496,080.11
Community Services	471,326.04						471,326.04
Support Services	20,182,006.57						20,182,006.57
Student Activities/Other		881,079.03				0.00	881,079.03
CAPITAL OUTLAY:							
Sites				753.44			753.44
Building				9,425.50			9,425.50
Equipment				0.00			0.00
Instructional Technology				0.00			0.00
Energy				350,081.36			350,081.36
Transportation Equipment					454,385.79		454,385.79
Sales and Lease					0.00		0.00
Other	48,496.10						48,496.10
DEBT SERVICE:							
Principal	0.00		275,246.00	0.00	202,931.94		478,177.94
Interest and Other Charges	0.00		75,869.16	0.00	16,604.85		92,474.01
Bond/Levy Issuance				0.00	0.00		0.00
TOTAL EXPENDITURES	88,613,703.74	881,079.03	351,115.16	360,260.30	673,922.58	0.00	90,880,080.81

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

E.S.D. 114

Statement of Revenues, Expenditures, and Changes in Fund Balance

COUNTY: 18 Kitsap

Governmental Funds

For the Year Ended August 31, 2013

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
DEBT SERVICE:							
REVENUES OVER (UNDER) EXPENDITURES	-700,456.03	18,286.42	-351,052.93	-112,876.10	-97,958.27	0.00	-1,244,056.91
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		351,115.16	30,603.00	0.00		381,718.16
Transfers Out (GL 536)	-159,561.13		0.00	-222,157.03	0.00	0.00	-381,718.16
Other Financing Uses (GL 535)	0.00		0.00	0.00	0.00		0.00
Other	5,628.82		0.00	0.00	6,564.92		12,193.74
TOTAL OTHER FINANCING SOURCES (USES)	-153,932.31		351,115.16	-191,554.03	6,564.92	0.00	12,193.74
EXCESS OF REVENUES/OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	-854,388.34	18,286.42	62.23	-304,430.13	-91,393.35	0.00	-1,231,863.17
BEGINNING TOTAL FUND BALANCE	5,715,974.68	606,508.09	1,891.41	1,614,762.38	448,749.89	0.00	8,387,886.45
Prior Year(s) Corrections or Restatements	0.00	0.00	0.00	0.00	0.00	0.00	0.00
ENDING TOTAL FUND BALANCE	4,861,586.34	624,794.51	1,953.64	1,310,332.25	357,356.54	0.00	7,156,023.28

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

South Kitsap School District No. 402
Statement Of Fiduciary Net Position
Fiduciary Funds
August 31, 2013

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COUNTY: 18 Kitsap

ASSETS:	Private Purpose Trust	Other Trust
Imprest Cash	0.00	0.00
Cash On Hand	0.00	0.00
Cash On Deposit with Cty Treas	0.00	0.00
Minus Warrants Outstanding	0.00	0.00
Due From Other Funds	0.00	0.00
Accounts Receivable	0.00	0.00
Accrued Interest Receivable	0.00	0.00
Investments	1,570.10	0.00
Investments/Cash With Trustee	0.00	0.00
Other Assets	0.00	
Capital Assets, Land	0.00	
Capital Assets, Buildings	0.00	
Capital Assets, Equipment	0.00	0.00
Accum Depreciation, Buildings	0.00	
Accum Depreciation, Equipment	0.00	0.00
TOTAL ASSETS	1,570.10	0.00
LIABILITIES:		
Accounts Payable	0.00	0.00
Due To Other Funds	0.00	0.00
TOTAL LIABILITIES	0.00	0.00
NET POSITION:		
Net Position held in trust for:		
Scholarships	1,570.10	
TOTAL NET POSITION	1,570.10	0.00

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

E.S.D. 114

Statement of Changes in Fiduciary Net Position

COUNTY: 18 Kitsap

Fiduciary Funds

For the Year Ended August 31, 2013

ADDITIONS:		Private Purpose	Other Trust
Contributions:		Trust	
Private Donations		0.00	0.00
Employer			0.00
Members			0.00
Other		0.00	0.00
TOTAL CONTRIBUTIONS		0.00	0.00
Investment Income:			
Net Appreciation (Depreciation) in Fair Value		0.00	0.00
Interest and Dividends		8.54	0.00
Less Investment Expenses		0.00	0.00
Net Investment Income		8.54	0.00
Other Additions:			
Rent or Lease Revenue		0.00	0.00
Total Other Additions		0.00	0.00
TOTAL ADDITIONS		8.54	0.00
DEDUCTIONS:			
Benefits			0.00
Refund of Contributions		0.00	0.00
Administrative Expenses		0.00	0.00
Scholarships		0.00	
Other		0.00	0.00
TOTAL DEDUCTIONS		0.00	0.00
Net Increase (Decrease)		8.54	0.00
Net Position--Beginning		1,561.56	0.00
Prior Year(s) Corrections or Restatements		0.00	0.00
NET POSITION--ENDING		1,570.10	0.00

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

NOTES TO FINANCIAL STATEMENTS

September 1, 2012 through August 31, 2013

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

For financial reporting purposes, the South Kitsap School District includes all funds, account groups, and organizations that are controlled by or dependent on the district's board of directors. Control by or dependence on the district was determined on the basis of budget adoption, taxing authority, outstanding debt secured by the general credit of the district, obligation of the district to finance any deficits that may occur, or receipt of significant subsidies from the district.

B. Basis of Presentation - Fund Accounting

The South Kitsap School District presents governmental fund financial statements and related notes on the modified accrual basis of accounting as prescribed by generally accepted accounting principles (GAAP), and required by its regulatory agencies, the Office of Superintendent of Public Instruction and the State Auditor's Office. However, the district elects to not present district-wide financial statements, and management discussion and analysis, which are departures from GAAP. Long-term debt is reported on a required supplementary schedule. The accounts of the district are organized on the basis of funds, each of which is considered a separate accounting entity. The regulatory agencies require all funds be presented as major funds. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures, as appropriate. The various funds in the report are grouped into governmental and fiduciary funds as follows:

GOVERNMENTAL FUNDS

General Fund

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

Capital Projects Funds

These funds account for financial resources to be used for the construction or acquisition of major capital assets. The capital projects fund type consists of the Capital Project 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 capital assets.

NOTES TO FINANCIAL STATEMENTS

September 1, 2012 through August 31, 2013

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

Debt Service Fund - This fund is used to account for the accumulation of resources for the payment of general long-term debt principal, interest, and related expenditures.

Special Revenue Funds - These funds account for the proceeds of specific revenue sources that are legally restricted for specific purposes. The Associated Student Body Program Fund (ASB Fund) is the only fund of this type. This fund is accounted for as a special revenue fund since the financial resources legally belong to the district.

FIDUCIARY FUND

Private-Purpose Trust Funds – This fund is used to account for resources legally held in trust where principal and income benefit individuals, private organizations, or other governments.

C. Basis of Accounting

The district's accounting policies, as reflected in the accompanying financial statements, conform to the *Accounting Manual for Public School Districts in the State of Washington*, issued jointly by the State Auditor and the Superintendent of Public Instruction, by the authority of RCW 43.09.200, RCW 28A.505.140, RCW 28A.505.010(1), and RCW 28A.505.020. This manual allows for a practice, which differs from GAAP in the following manner:

1. District wide statements are not presented.
2. The financial statements do not report capital assets.
3. Debt is not reported on the face of the financial statements. It is reported in the notes to the financial statements and on the Schedules of Long-Term Debt. The Schedule of Long-Term Debt is required supplemental information.
4. The original budget is not presented. This information is available through the Office of Superintendent of Public Instruction.
5. The Management Discussion and Analysis is not required.

A modified accrual basis of accounting is used for all governmental funds. Revenues are recognized as soon as they are both measurable and available. "Measurable" means the amount of the transaction can be determined and the district considers all revenues available if they are collected within 60 days after year-end to pay liabilities of the current period. Property taxes receivable are measurable but not available and are, therefore, not accrued. However, categorical program claims and inter-district billings are measurable and available and are, therefore, accrued.

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

NOTES TO FINANCIAL STATEMENTS

September 1, 2012 through August 31, 2013

All governmental funds reporting focus primarily on the sources, uses, and balances of current financial resources, and often have a budgetary orientation. This means that only current assets and current liabilities are included on their balance sheets.

D. Budgetary Data

General Budgetary Policies

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

Budgetary Basis of Accounting

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

E. Assets, Liabilities, and Fund Equity

Deposits and Investments

The county treasurer is the ex-officio treasurer for the district. In this capacity, the county treasurer receives deposits and transacts investments on the district's behalf.

The district's deposits are covered entirely by federal depository insurance or by collateral held by the district's custodial banks in the district's name.

Statutes authorize the district to invest in (1) securities, certificates, notes, bonds, short-term securities, or other obligations of the United States, and (2) deposit in any state bank or trust company, national banking association, stock savings bank, mutual savings bank, savings and loan association, and any branch bank engaged in banking in the state in accordance with RCW 30.04.300 if the institution has been approved by the Public Deposit Protection Commission to hold public deposits and has segregated eligible collateral having a value of not less than its maximum liability.

All temporary investments are stated at cost plus accrued interest which approximates market. Investments are shown on the combined balance sheet at cost, net of amortized premium or discount.

Reductions in market value are not reflected on the financial statements. Gains or losses on investments sold or exchanged are recognized at the time the transactions are completed.

All of the district's investments during the year and at year-end were insured or registered and held by the district or its agent in the district's name.

NOTES TO FINANCIAL STATEMENTS

September 1, 2012 through August 31, 2013

The district's year-end investments are as follows:

County Treasurer's Investment Pool **\$6,783,913**

Receivables and Payables

There are currently no receivables expected to be collected in any fund beyond one year.

Inventory

Inventory is valued at cost using the weighted-average method. The "consumption method" of inventory is used, which charges inventory as an expenditure when it is consumed. Management may reserve a portion of fund balance in any amount as a budgetary technique to ensure the availability of resources at the appropriate time. Such reserves for inventory indicate that a portion of net current assets is set aside to replace or increase the inventory. USDA commodity inventory consists of food donated by the United States Department of Agriculture. It is valued at the prices paid by the USDA for the commodities.

F. Revenue and Expenditure Recognition

Debt Service

Principal and interest on general long-term debt is recognized only when due.

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 option 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 taxes due on October 31 are recorded as deferred revenue.

Compensated Absences

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

Under the provisions of Chapter 28A.400.210 RCW, sick leave accumulated by district employees is reimbursed at death or retirement at the rate of 1 day for each 4 days of accrued leave, limited to 180 accrued days. This chapter also provides for an annual buy-back of an amount up to the maximum annual accumulation of 12 days. For buy-back purposes, employees may accumulate such leave to a maximum of 192 days, including the annual accumulation, as of December 31 of each year.

NOTES TO FINANCIAL STATEMENTS

September 1, 2012 through August 31, 2013

These expenditures are recorded when paid, except termination sick leave that is accrued upon death, retirement, or upon termination provided the employee is at least 55 years of age and has sufficient years of service. Vested sick leave was computed using the vesting method. Vacation pay, including benefits, that is expected to be liquidated with expendable available financial resources is reported as expenditures and a fund liability of the governmental fund that will pay it.

G. Fund Balance

Nonspendable fund balance amounts are those assets of the school district that are not in spendable format. These can be in the form of inventory items, or amounts that have been received that are legally or contractually required to be maintained intact.

Restrictions are legal restrictions placed on spending of the fund balance of District based upon statute, WAC or other legal requirements beyond the discretion of the Board of Directors of the District. Examples include anticipated carryover or recovery of revenues previously received and restricted as to usage.

Commitments represent formal actions taken by the Board of Directors to commit funds for specific purposes. Funds that have been committed cannot be used for another purpose unless the Board of Directors takes a specific action to end the commitment.

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 and protect the minimum maintenance of funds balance in an amount equal to or greater than 3.0% of total revenues, unless authorized by the Board of Directors. The Board of Directors has authorized a temporary reduction of this minimum maintenance level to 2.0% for fiscal year 2012-2013. For the 2012-2013 fiscal year, the amount Committed to this minimum fund balance policy is \$2,197,831, which is included in the amount reported as Committed Fund Balance on the financial statements.

Assignments are used to set aside financial resources 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.

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

NOTES TO FINANCIAL STATEMENTS

September 1, 2012 through August 31, 2013

	General Fund	ASB Fund	Capital Projects Fund	Debt Service Fund	Transportation Vehicle Fund
Nonspendable Fund Balance					
Inventory and Prepaid Items	448,630.65				
Restricted Fund Balance					
Carryover of Restricted Revenues	420,999.01				
Debt Service				1,953.64	
Associated Student Body		624,794.51			
Impact Fees Restricted for CPF			1,028,601.00		
Restricted for Purchase of Busses for TVF					219,537.00
Committed Fund Balance					
Minimum Fund Balance Policy	2,197,831.00				
Committed for Energy Grant for CPF			164,025.00		
Assigned Fund Balance					
Contingencies	100,000.00				
Other Capital Projects			117,706.25		
Other Transportation Vehicle Funds					137,819.54
Other Purposes	1,664,936.00				
Unassigned Fund Balance	29,189.68				

NOTE 2: CAPITAL ASSETS

The district's capital assets are insured in the amount of \$315,539,396 plus the actual cash value on district-owned buses and other vehicles for fiscal year end August, 2012. In the opinion of the district's insurance consultant, this amount is sufficient to adequately fund replacement of the district's assets.

NOTE 3: PENSIONS

A. General Information

Substantially all South Kitsap 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 the Washington State Department of Retirement Systems (DRS): Teachers' Retirement System (TRS), Public Employees' Retirement System (PERS) and School Employees' Retirement System (SERS). Participation in the programs was as follows:

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

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

NOTES TO FINANCIAL STATEMENTS

September 1, 2012 through August 31, 2013

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

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

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

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

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

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

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

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

B. Contributions

Employee contribution rates effective September 1, 2012 through August 31, 2013:

Plan 1 TRS	6.00%	Plan 1 PERS	6.00%
Plan 2 TRS	4.69%	Plan 2 SERS	4.09%
Plan 3 TRS & SERS	5.00% (Minimum), 15% (Maximum)		

NOTES TO FINANCIAL STATEMENTS

September 1, 2012 through August 31, 2013

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

Employee contribution rates effective September 1, 2012 through August 31, 2013:

Plan 1 TRS	6.00%	Plan 1 PERS	6.00%
Plan 2 TRS	4.69%	Plan 2 SERS	4.09%
Plan 3 TRS and SERS	5.00% (minimum),	15.00% (maximum)	

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

Employer contribution rates effective September 1, 2012 through August 31, 2013:

9/1/12-8/31/13		9/1/12-6/30/13	7/1/13-8/31/12
Plan 1 TRS	8.05%	Plan 1 PERS	7.21%
Plan 2 TRS	8.05%	Plan 2 SERS	7.59%
Plan 3 TRS	8.05%	Plan 3 SERS	7.59%

Under current law the employer must contribute 100 percent of the employer-required contribution. Employer required contributions in dollars (Participant information for all plans is as of August 31, 2013):

PLAN #	2012-13	2011-12	2010-11
Plan 1 TRS	\$ 90,554.25	\$ 118,282.90	\$ 121,930.41
Plan 2 TRS	\$ 415,713.01	\$ 390,247.18	\$ 294,568.85
Plan 3 TRS	\$ 4,656,283.28	\$ 2,682,095.60	\$ 2,084,021.62
Plan 1 SERS	\$ 31,100.62	\$ 32,599.96	\$ 29,200.43
Plan 2 SERS	\$ 407,413.87	\$ 383,457.61	\$ 285,889.07
Plan 3 SERS	\$ 603,122.23	\$ 636,284.19	\$ 469,461.61

Historical trend information showing TRS, PERS and SERS progress in accumulating sufficient assets to pay benefits when due is presented in the state of Washington's June 30, 2013, comprehensive annual financial report. Refer to this report for detailed trend information. It is available from:

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

NOTES TO FINANCIAL STATEMENTS

September 1, 2012 through August 31, 2013

NOTE 4: DEFERRED COMPENSATION PLANS

457 Plan-Deferred Compensation Plan

District employees have the option of participating in an IRC, Section 457, deferred compensation plan administered by the state deferred compensation plan.

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

The district offers a tax deferred annuity plan for its employees. The plan permits participants to defer a portion of their salary until future years under elective deferrals. The district complies with IRS regulations that require school districts to have a written plan to include participating investment companies, types of investments, loans, transfers, and various requirements. The plan is administered by a third party administrator. The plan assets are assets of the employees, not the school district, and are therefore not reflected on these financial statements.

NOTE 5: RISK MANAGEMENT

The South Kitsap School District is a member of the Schools Insurance Association of Washington (SIAW). 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, 1995, when seven mid-sized school districts in the State of Washington joined together by signing an Interlocal Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. Presently, the SIAW pool has 42 member districts.

The program allows members to jointly purchase insurance coverage and provide related services, such as administration, risk management, claims administration, etc. Coverage for Wrongful Act Liability and Employee Benefit Liability is on a claims-made basis. All other coverage is on an occurrence basis. The program provides the following forms of group purchased insurance coverage for its members: property, earthquake, liability, automobile liability, equipment breakdown, crime, employee benefits, and wrongful act liability.

The program acquires liability insurance from unrelated underwriters that are subject to a per-occurrence deductible of \$102,500. Members are responsible for the first \$2,500 of the deductible amount of each claim, while the pool is responsible for the remaining \$100,000. Insurance carriers cover insured losses over \$102,500 to the limits of each policy. Since the pool is a cooperative program, there is a joint liability among the participating members towards the sharing of the \$100,000 portion of the deductible. The pool, however, purchases a Stop Loss Policy in the amount of \$3,946,800, which it fully funds in its annual budget.

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

NOTES TO FINANCIAL STATEMENTS

September 1, 2012 through August 31, 2013

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

Members contract to remain in the program for one year and must give notice before December 31 before terminating participation the following September 1. Renewal of the Interlocal Agreement occurs automatically each year. Even after termination, a member is still responsible for contributions to the pool for any unresolved, unreported, and in-process claims for the period they were a signatory to the Interlocal Agreement.

The pool is fully funded by its member participants. Claims are filed by members with Canfield & Associates, which has been contracted to perform pool administration, claims adjustment and administration, and loss prevention for the pool. Fees paid to the third party administrator under this arrangement for the year ended August 31, 2013 were \$3,198,672.

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

In fiscal year ending August 2013 the district made payments totaling \$762,089 to the industrial insurance pool, which is administered by Olympic Educational Service District No. 114 on behalf of several local school districts. This fund is operated for the district's benefit in-lieu-of the district having to make monthly premium payments to the State of Washington for industrial insurance, thus minimizing the district's cost.

The district is self-insured for unemployment benefits and reimburses the State of Washington Employment Security for benefits paid on behalf of the district. During 2012-13, the district paid \$44,506.06 in unemployment benefits.

In addition, the district is self-insured with Northwest Administrators, Inc. for employee vision benefits. At the end of the benefit period the reserve balance held by Northwest Administrators equaled \$27,109.82 for a usage of \$19,016.43 from prior year balance of \$46,126.25. This balance is adequate to provide for three to four months of run out claims.

NOTE 6: LEASE AND CONDITIONAL SALES CONTRACT OBLIGATIONS

Vendor	Amount	Annual Installment	Final Installment Date	Interest Rate	Balance Due 8/31/13
Conditional Sales Contracts					
Key Municipal Finance					
Bus Purchase	\$1,075,363.79	\$105,679.79	09/2013	3.58%	\$102,027.21
Bus Purchase	906,820.55	\$113,857.00	09/2014	4.64%	\$137,499.45
TOTAL: CONDITIONAL SALES & LONG-TERM COMMITMENTS					\$ 239,526.66

NOTES TO FINANCIAL STATEMENTS

September 1, 2012 through August 31, 2013

NOTE 7: LONG-TERM DEBT

A. Voted Debt

There is no outstanding bonds payable at August 31, 2013.

B. Non-Voted Debt

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

Date of Issue	Amount Authorized	Annual Principal Payment	Final Maturity	Interest Rate(s)	Amount Outstanding
08/25/2010	\$ 1,066,500	\$ 99,045.00	June 1, 2020	3.950%	\$ 782,037
10/10/2012	\$ 2,385,043	\$200,000.00	Dec. 1, 2022	2.490%	\$ 2,385,043

Total Non-Voted Bonds	\$ 3,167,080
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C. Schedule of Long-Term Debt

The following is a summary of all long-term debt transactions of the district for the fiscal year ending August 31, 2013:

Long-Term Debt Payable at 9/1/2012	\$6,623,141.46
New Issues/Increase	\$2,875,237.93
Debt Retired/Decreased	\$3,393,340.79
Long-Term Debt Payable at 8/31/2013	\$6,105,038.60

D. Annual Debt Requirements

The following is a schedule of annual requirements to amortize long-term debt at August 31, 2013

Year Ending August 31,	Principal	Interest	Total
2014	524,220.62	94,786.27	619,006.89
2015	351,694.91	77,605.79	429,300.70

NOTES TO FINANCIAL STATEMENTS

September 1, 2012 through August 31, 2013

2016	329,158.03	67,659.92	396,817.95
2017	339,734.13	57,779.47	397,513.60
2018	350,189.19	47,575.25	397,764.44
2019-2022	1,511,609.95	92,615.98	1,604,225.93
Total	\$3,406,606.83	\$438,022.68	\$3,844,629.51

NOTE 8: SUMMARY OF SIGNIFICANT CONTINGENCIES

Litigation.

The district is party of various pending legal actions arising out of the normal conduct of business. While the final resolution of these proceedings is not feasible to predict, in the opinion of the administration, the ultimate liability, if any, will not have a material impact on the operations or financial position of the district

NOTE 9: OTHER DISCLOSURES

The district is a member of the King County Directors' Association, a purchasing cooperative consisting of more than 200 school districts throughout the State of Washington. The district's equity in this cooperative totals \$147,453.59 as of December 31, 2011; a loss of \$6,217.87 from beginning balance of \$153,671.46. The district has the right to withdraw its equity, subject to certain restrictions, over a period of up to 15 years. During calendar year 2012, the district's purchases from this cooperative totaled \$255,366.76 as compared with \$376,906.49 paid during the preceding year.

E.S.D. 114

Schedule of Long-Term Liabilities

COUNTY: 18 Kitsap

For the Year Ended August 31, 2013

Description	Beginning Outstanding Debt September 1, 2012	Amount Issued/Increased	Amount Redeemed/Decreased	Ending Outstanding Debt August 31, 2013
Total Voted Bonds	0.00	0.00	0.00	0.00
Total Non-Voted Notes/Bonds	3,382,283.00	2,385,043.00	2,600,246.00	3,167,080.00
Qualified Zone Academy Bonds (QZAB)	0.00	0.00	0.00	0.00
Qualified School Construction Bonds(QSCB)	0.00	0.00	0.00	0.00
Other Long-Term Debt				
Capital Leases	0.00	0.00	0.00	0.00
Contracts Payable (GL 603)	442,458.60	0.00	202,931.94	239,526.66
NonCancellable Operating Leases	0.00	0.00	0.00	0.00
Claims & Judgments	0.00	0.00	0.00	0.00
Compensated Absences	2,798,399.86	490,194.93	590,162.85	2,698,431.94
Other Long-Term Liabilities	0.00	0.00	0.00	0.00
Total Other Long-Term Liabilities	3,240,858.46	490,194.93	793,094.79	2,937,958.60
TOTAL LONG-TERM LIABILITIES	6,623,141.46	2,875,237.93	3,393,340.79	6,105,038.60

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

South Kitsap School District #402
Kitsap County
EIN: 91-8001633

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ending August 31, 2013

1	2	3	4	5	6	7	8	9
Federal Agency Name	Pass Through Agency	Federal Program Title	CFDA Number	Other Identification Number	From Direct Awards	From Pass Through Awards	Total	Footnote
USDA	WA OSPI	National School Lunch - noncash assistance	10.555	SKSD 18-402		215,372.77	215,372.77	4
		National School Lunch(A) - Cash	10.555	SKSD 18-402		1,449,924.51	1,449,924.51	
		National School Breakfast Program	10.553	SKSD 18-402		374,850.50	374,850.50	
		Summer Food Service Program	10.559	SKSD 18-402		29,930.12	29,930.12	
		US Department of Agriculture Total				2,070,077.90	2,070,077.90	
Dept. of Defense		Department of Defense	12.999	87VEDU12V0115	141,483.47		141,483.47	
		Naval Junior Reserve Officers Training Corp	12.999	N3125211MRTC4VQ87	58,283.28		58,283.28	3
		Office of Naval Research	12.300	N00014-12-1-0924	35,928.00		35,928.00	
		Department of Defense Total			235,692.73		235,692.73	
National Endowment for the Arts	WSAC	Promotion of the Arts, Grants to Organizations and Individuals	45.024	2013103		10,000.00	10,000.00	3
		National Endowment for the Arts Total				10,000.00	10,000.00	
US Dept of ED	WA OSPI	Title I Grants to Local Educational Agencies	84.010	201062		1,269,545.52	1,269,545.52	5,9
		Title I Grants to State Agency Program for Neglected and Delinquent children	84.013	222437, 222438		129,813.02	129,813.02	
		Special Education, Grants to States	84.027A	304342, 337573		2,100,525.00	2,100,525.00	5
		Career and Technical Education - Basic Grants to States	84.048	172678		57,537.00	57,537.00	9
		Special Ed - Preschool Grants	84.173	364342		59,824.00	59,824.00	5
		English Language Acquisition Grants	84.365	401656		13,091.68	13,091.68	9
		Improving Teacher Quality State Grants	84.367	523054, 540217		318,328.59	318,328.59	9
US Dept of ED	OESD #114	Impact Aid						
		Indian Education Grants to LEA's	84.041	57-WA-2013-0052	356,623.41		356,623.41	
		Department of Education Total	84.060A	S060A120182	40,733.00		40,733.00	
					397,356.41	3,947,682.73	4,345,018.20	
US Dept of Health and Human Services		Headstart	93.600	n/a		23,286.65	23,286.65	3
	OESD #114	Medicaid-Medical Assist Program	93.778	Contract #0765-19254		81,581.36	81,581.36	3
	WA DSHS	Human/Health Services Dept Total				104,868.01	104,868.01	
		Totals			633,049.14	6,132,608.70	6,765,657.84	

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

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

NOTE 1—BASIS OF ACCOUNTING

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

NOTE 3—PROGRAM COSTS/MATCHING CONTRIBUTIONS

The amounts shown as current year expenses represent only the federal grant portion of the program costs. Entire program costs, including the South Kitsap School Dist #402 portion, may be more than shown.

NOTE 4—NONCASH AWARDS

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

NOTE 5—SCHOOLWIDE PROGRAMS

The South Kitsap School Dist. #402 operates a "schoolwide program" in four elementary buildings. Using federal funding, schoolwide programs are designed to upgrade an entire educational program within a school for all students, rather than limit services to certain targeted students. The following federal program amounts were expended by the South Kitsap School Dist. #402 in its schoolwide program. Title I (84.010) \$856,735.05, IDEA(84.027A) \$266,011.76, Title II Teacher Quality (84.367) \$143,545.36.

NOTE 8—NOT AVAILABLE (N/A)

The South Kitsap School Dist. #402 was unable to obtain other identification number.

NOTE 9—FEDERAL INDIRECT RATE

The South Kitsap School Dist. #402 used the federal *restricted* rate of .0391 percent for this program.



ABOUT THE STATE AUDITOR'S OFFICE

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

We work with our audit clients and citizens as an advocate for government accountability. As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

The State Auditor's Office employees are located around the state to deliver services effectively and efficiently.

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

The results of our work are widely distributed through a variety of reports, which are available on our Web site and through our free, electronic subscription service.

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