

South Kitsap School District Audits Fiscal Years 2014 - 2017



State Audit & Financial Reports

Washington State Audit



The district's state audit reports can be found on the [SAO website](#). In the Search text field type in South Kitsap School District No. 402

Washington State Auditor's Office
Accountability Audit Report

South Kitsap School District No. 402
Kitsap County

Report Date
May 15, 2014

Report No. 1011925

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 Accountability

We appreciate the opportunity to work in cooperation with your District to promote accountability, integrity and openness in government. The State Auditor's Office takes seriously our role to advocate for government accountability and transparency and to promote positive change.

Please find attached our report on South Kitsap School District No. 402's accountability and compliance with state laws and regulations and its own policies and procedures. Thank you for working with us to ensure the efficient and effective use of public resources.

Sincerely,

TROY KELLEY
STATE AUDITOR

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Kitsap County
May 15, 2014

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Audit Summary

South Kitsap School District No. 402
Kitsap County
May 15, 2014

ABOUT THE AUDIT

This report contains the results of our independent accountability audit of South Kitsap School District No. 402 from September 1, 2011 through August 31, 2013.

We evaluated internal controls and performed audit procedures on the activities of the District. We also determined whether the District complied with state laws and regulations and its own policies and procedures.

In keeping with general auditing practices, we do not examine every transaction, activity or area. Instead, the areas examined were those representing the highest risk of noncompliance, misappropriation or misuse. The following areas were examined during this audit period:

- Teacher education and experience (staff mix) reporting
- Student enrollment reporting
- Student transportation reporting
- Special education reporting
- Use of restricted funds
- Financial condition
- Associated Student Body
- Payroll/personnel
- Payments/expenditures

RESULTS

In the areas we examined, the District's internal controls were adequate to safeguard public assets. The District also complied with state laws and regulations and its own policies and procedures in the areas we examined.

However, we identified certain matters that we communicated to District management. We appreciate the District's commitment to resolving these matters.

Related Reports

South Kitsap School District No. 402
Kitsap County
May 15, 2014

FINANCIAL

Our opinion on the District's financial statements and compliance with federal grant program requirements is provided in a separate report, which includes the District's financial statements.

FEDERAL GRANT PROGRAMS

We evaluated internal controls and tested compliance with the federal program requirements, as applicable, for the District's major federal program, which is listed in the Federal Summary section of the financial statement and single audit report.

Description of the District

South Kitsap School District No. 402 Kitsap County May 15, 2014

ABOUT THE DISTRICT

South Kitsap School District No. 402 operates 10 elementary schools, three junior high schools, one high school and two alternative schools. The District served an average of 9,055 full-time students during the years under audit. The District has approximately 1,200 employees who provide an array of services in basic, special, and vocational education and supporting services such as food and nutrition, health, maintenance and operations, transportation, student records, purchasing, human resources, financial and administrative.

The District is administered by an elected, five-member Board of Directors, which appoints a Superintendent to oversee the District's day-to-day operations. The District's general fund operating budget was approximately \$93 million for the year ended August 31, 2013.

ELECTED OFFICIALS

These officials served during the audit period:

Board of Directors:	Christopher Lemke, President Patty Henderson Keith Garton Greg Wall Kathryn Simpson (through November 2013) Rebecca Diehl (effective December 2013)
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APPOINTED OFFICIALS

Superintendent	Beverly Cheney, Ed. D. (through June 2013) Michelle Reid, Ed. D. (effective July 2013)
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DISTRICT CONTACT INFORMATION

Address: South Kitsap School District No. 402
1962 Hoover Avenue
Port Orchard, WA 98366

Phone: 360-874-6400

Website: www.skitsap.wednet.edu

AUDIT HISTORY

We audit the District annually. The District has had one finding in the past five years. Management has been responsive to prior audit recommendations. Audit concerns are often discussed, addressed and resolved prior to the completion of the audit.



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.

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

State Auditor
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Director of Performance and State Audit
Director of Local Audit
Deputy Director of State Audit
Deputy Director of Local Audit
Deputy Director of Local Audit
Deputy Director of Performance Audit
Deputy Director of Quality Assurance
Deputy Director of Communications
Local Government Liaison
Public Records Officer
Main number
Toll-free Citizen Hotline

Troy Kelley
Doug Cochran
Chuck Pfeil, CPA
Kelly Collins, CPA
Jan M. Jutte, CPA, CGFM
Sadie Armijo
Mark Rapozo, CPA
Lou Adams, CPA
Barb Hinton
Thomas Shapley
Mike Murphy
Mary Leider
(360) 902-0370
(866) 902-3900

Website
Subscription Service

www.sao.wa.gov
portal.sao.wa.gov/saoportal/Login.aspx

Washington State Auditor's Office
Special Report – Alternative Learning Experience

South Kitsap School District No. 402
Kitsap County

Audit Period
September 1, 2012 through August 31, 2013

Report No. 1012089

Issue Date
June 19, 2014



Washington State Auditor
Troy Kelley

Independence • Respect • Integrity



Washington State Auditor Troy Kelley

June 19, 2014

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

Report on Alternative Learning Experience

We appreciate the opportunity to work in cooperation with your District to promote accountability, integrity and openness in government. The State Auditor's Office takes seriously our role to advocate for government accountability and transparency and to promote positive change.

Please find attached our report on South Kitsap School District No. 402's compliance with alternative learning experience enrollment reporting rules. Thank you for working with us to ensure efficient and effective use of public resources.

Sincerely,

TROY KELLEY
STATE AUDITOR

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Kitsap County
September 1, 2012 through August 31, 2013

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Audit Summary

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

ABOUT THE ALTERNATIVE LEARNING EXPERIENCE

Alternative Learning Experience (ALE) programs are a form of basic K-12 public school education in Washington State. While students in traditional basic education attend classes on campus and have face-to-face contact with teachers and other staff, ALE students may spend most, or even all, of their time outside of a regular classroom setting.

Districts may build Internet-based educational programs that enroll students from anywhere in the state. Beside Internet programs, ALE can be accomplished through a contract between a student and district instructors, or through a parent-partner program in which parents participate in the design and teaching of the student's courses. These programs are different from homeschooling in that students remain part of the public school system and districts claiming funding are responsible for supervision, monitoring, assessing and evaluating the student's education.

Districts may count ALE students for funding when they report enrollment to the Office of Superintendent of Public Instruction (OSPI). In order to claim ALE students for funding, districts must: prepare detailed plans for each student; maintain regular contact with students; and evaluate student progress on a monthly basis. Districts must also keep detailed records to show they have met all of these requirements. In 2012 and 2013 the ALE funding provided by OSPI was reduced to 80 percent or 90 percent of the traditional basic education allocation rate based on student-instructor contact time.

ABOUT THE AUDIT

In 2013 the state Legislature passed ESSB 5946, requiring districts to receive biennial audits of their ALE courses. This report contains the results of our independent audit of ALE enrollment at South Kitsap School District No. 402 from September 1, 2012 through August 31, 2013.

We evaluated internal controls and performed audit procedures on the ALE activities of the District. We also determined whether the District complied with state laws and regulations over ALE enrollment.

In keeping with general auditing practices, we do not examine every transaction, activity or area. Instead, the areas examined were those representing the highest risk of noncompliance.

During the period under review, the District operated two ALE programs, which accounted for 3.85 percent of its total basic enrollment:

- Discovery Alternative High School is a contract-based program serving students in grades 9-12. Students attend onsite and offsite classes. This program has operated for 40 years and nonresident students represent 2.6 percent of students reported for funding. The program reported 96 percent of students at the 90 percent basic education allocation (BEA) funding rate.
- Explorer Academy is a parent-partnership program serving students in grades K-12. This program has operated for 14 years and nonresident students represent 2.9 of students reported for funding. The program reported 91 percent of students at the 90 percent BEA funding rate.

RESULTS

The District complied with state laws and regulations regarding ALE enrollment, except where noted below. For the year ending August 31, 2013, the District received approximately \$47.2 million in combined enrollment and staff mix funding; approximately \$16 million of this was related to its ALE programs.

Discovery Alternative High School – The program reported 182.96 average annual full-time equivalents (AAFTE). Our audit tested a sample of 10 students and found adequate supporting documentation for all students tested. The program correctly reported students at 80 percent or 90 percent funding based on documented contact time.

Explorer Academy – The program reported 165.36 average annual full-time equivalent (AAFTE). Our audit tested a sample of 10 students and found adequate supporting documentation for all students tested. The program correctly reported students at 80 percent or 90 percent funding based on documented contact time.

Description of the District

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

ABOUT THE DISTRICT

South Kitsap School District No. 402 provided education and related services to an average of 9,055 full-time students during the year under audit. The District has 10 elementary schools, three middle schools, two alternative schools and one high school.

An elected, five-member Board of Directors governs the District. The Board appoints a Superintendent to oversee the District's daily operations as well as its approximately 1,200 employees. For the year ending August 31, 2013, the District operated on an annual general fund budget of \$93 million.

DISTRCT CONTACT INFORMATION

Address: South Kitsap School District No. 402
1962 Hoover Avenue
Port Orchard, WA 98366

Phone: (360) 874-6400

Website: www.skitsap.wednet.edu

AUDIT HISTORY

You can find current and past audit reports for the District on our website, www.sao.wa.gov.



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.

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Deputy Director of Local Audit
Deputy Director of Performance Audit
Deputy Director of Quality Assurance
Deputy Director of Communications
Local Government Liaison
Public Records Officer
Main number
Toll-free Citizen Hotline

Troy Kelley
Doug Cochran
Chuck Pfeil, CPA
Kelly Collins, CPA
Jan M. Jutte, CPA, CGFM
Sadie Armijo
Mark Rapozo, CPA
Lou Adams, CPA
Barb Hinton
Thomas Shapley
Mike Murphy
Mary Leider
(360) 902-0370
(866) 902-3900

Website
Subscription Service

www.sao.wa.gov
portal.sao.wa.gov/saoportal/Login.aspx

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,

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 cursive script that reads "Troy X. Kelley".

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	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
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.

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.

E.S.D. 114

Statement Of Fiduciary Net Position

COUNTY: 18 Kitsap

Fiduciary Funds

August 31, 2013

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	0.00
Capital Assets, Land	0.00	0.00
Capital Assets, Buildings	0.00	0.00
Capital Assets, Equipment	0.00	0.00
Accum Depreciation, Buildings	0.00	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

	Private Purpose Trust	Other Trust
ADDITIONS:		
Contributions:		
Private Donations	0.00	0.00
Employer		0.00
Members		0.00
Other	0.00	0.00
TOTAL CONTRIBUTIONS	0.00	0.00
Investment Income:		
Net Appreciation (Depreciation) in Fair Value	0.00	0.00
Interest and Dividends	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%	9.19%
Plan 2 TRS	8.05%	Plan 2 SERS	7.59%	7.59%
Plan 3 TRS	8.05%	Plan 3 SERS	7.59%	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
------------------------------	---------------------

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.

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.

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 - non-cash 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	58,283.26		58,283.26	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		13,091.66	13,091.66	9
		Improving Teacher Quality State Grants	84.367	523054, 540217		318,326.59	318,326.59	9
		OESED #114						
		US Dept of ED Total				3,947,662.73	3,947,662.73	
US Dept of ED		Impact Aid	84.041	67-WA-2013-0052	356,623.41		356,623.41	
		Indian Education Grants to LEA's	84.060A	S060A120182	40,733.00		40,733.00	
		Department of Education Total			397,356.41		397,356.41	
US Dept of Health and Human Services		Headstart	93.600	n/a		23,266.65	23,266.65	3
	OESED #114	Medical-Medical Assist Program	93.778	Contract #0765-19254		81,581.36	81,581.36	3
	WA DSHS	HumanHealth 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.

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

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Doug Cochran
Chuck Pfeil, CPA
Kelly Collins, CPA
Jan M. Jutte, CPA, CGFM
Sadie Armijo
Mark Rapozo, CPA
Lou Adams, CPA
Barb Hinton
Thomas Shapley
Mike Murphy
Mary Leider
(360) 902-0370
(866) 902-3900

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Washington State Auditor's Office

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Accountability Audit Report

South Kitsap School District No. 402

Kitsap County

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

Published May 28, 2015

Report No. 1014124





Washington State Auditor

May 28, 2015

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

Report on Accountability

Thank you for the opportunity to work with you to promote accountability, integrity and openness in government. The State Auditor's Office takes seriously our role of providing state and local governments with assurance and accountability as the independent auditor of public accounts. In this way, we strive to help government work better, cost less, deliver higher value and earn greater public trust.

Independent audits provide essential accountability and transparency for District operations. This information is valuable to management, the governing body and public stakeholders when assessing the government's stewardship of public resources.

The attached comprises our report on the District's compliance and safeguarding of public resources. Our independent audit report describes the overall results and conclusions for areas we examined. We appreciate the opportunity to work with your staff and we value your cooperation during the audit.

Sincerely,

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

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AUDIT SUMMARY

Results in brief

In most areas we audited, District operations complied with applicable requirements and provided adequate safeguarding of public resources. The District also complied with state laws and regulations and its own policies and procedures in the areas we examined.

However, we identified areas in which the District could make improvements.

We recommended the District improve internal controls over ASB activities to ensure compliance with association guidance and state laws and regulations.

These recommendations were included in our report as a finding.

About the audit

This report contains the results of our independent accountability audit of South Kitsap School District No. 402 from September 1, 2013 through August 31, 2014.

Management is responsible for ensuring compliance and adequate safeguarding of public resources from fraud, loss or abuse. This includes the design, implementation and maintenance of internal controls relevant to these objectives.

Our audit involved performing procedures to obtain evidence about the District's uses of public resources, compliance with state laws and regulations and its own policies and procedures, and internal controls over such matters.

In keeping with general auditing practices, we do not examine every transaction, activity or area. Instead, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. The following areas were examined during this audit period:

- Teacher education and experience (staff mix) reporting
- Student enrollment reporting
- Financial condition
- Credit cards
- Associated Student Body
- Out of state travel
- Student store
- Food services

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

2014-001 The District's internal controls over Associated Student Body activities are insufficient to safeguard against loss and noncompliance with laws and regulations.

Description of Condition

The South Kitsap School District No. 402 Associated Student Body (ASB) program collected a total of \$978,159.50 in the 2013-2014 school year.

During our review of ASB procedures at South Kitsap High School and John Sedgwick Junior High School we identified the following issues:

Minutes:

Both schools did not retain student council minutes for fiscal year 2014. Under the School District Records Retention Schedule, ASB minutes are to be retained for six years after the end of the calendar year before being transferred to the Washington State Archives for permanent retention.

Fundraisers:

During our review of fundraisers we identified missing fundraiser documentation. We reviewed a total of six fundraisers between the two schools. We noted the following missing or inadequate documentation for three of the fundraisers:

- Student council approval prior to the event date.
- An analysis of expected revenue.
- A reconciliation of receipts to expected profit analysis following the event.
- A completed profit analysis.

Ticket Sales:

We reviewed 17 cash boxes used for ticket or yearbook sales by South Kitsap High School during fiscal year 2014. During these reviews, we noted the following:

- Twelve out of 17 cash boxes reviewed were either over or short and none of the ticket sales forms included an explanation as to what caused the over or short.

- Five of the 12 differences noted within the cash boxes reviewed were more significant:
 - \$11 over at a high school football game.
 - \$16 short at the high school's spring play.
 - \$38 over at the high school's spring play.
 - \$50 over at the high school's spring play.
 - \$100 short from receipting tickets for senior prom.
- The \$50 overage noted at the high school's spring play was not included with the amount receipted into the ASB system and was therefore never deposited. The ASB bookkeeper was unaware of what happened to these funds and they were never located.
- The \$100 shortage of revenue earned while receipting tickets for senior prom was never recovered and the loss was not reported to the State Auditor's Office.
- Cash receipted into the ASB system from the Madrigal Feast was not supported with ticket numbers. Total cash from these boxes was provided to the ASB bookkeeper and subsequently receipted into the system without any comparison to what was actually sold. The total unsupported revenue received for the Madrigal Feast was \$400.
- More than one event was being receipted out of the same cash box, before it was counted or reconciled.

Yearbooks:

- At South Kitsap High School we found 179 yearbooks, valued at about \$9,397.50, went unsold during fiscal year 2014; there was not adequate tracking to account for this unsold inventory.
- While reviewing the yearbook revenue that was receipted in through cash boxes, we noted that yearbooks were sold on June 9, 2014 and June 13, 2014. The revenue from these boxes were not receipted into the ASB system and therefore not deposited into the District's bank account until June 25, 2014 and June 26, 2014, respectively. Total revenue from both deposits was \$17,373.
- Cash receipted into the ASB system from yearbook sales was not supported with total books sold. Total cash from these boxes was provided to the ASB bookkeeper and subsequently receipted into the system

without any comparison to what was actually sold. The total unsupported revenue received for yearbook sales was \$7,963.

Cause of Condition

The District did not establish adequate internal controls over ASB activities to ensure all ASB activities were handled in accordance with the School District Accounting Manual, the Revised Code of Washington or School District Records Retention requirements.

Effect of Condition

Inadequate internal controls over ASB activities, revenues and general cash receipting resulted in decreased accountability and an increased risk that misappropriation, loss or misuse of public funds may occur and not be detected in a timely manner, if at all.

Recommendation

We recommend the District improve internal controls over ASB activities to ensure compliance with state laws and regulations. These improvements should include:

- Retaining student council minutes.
- Ensuring all necessary records are prepared, retained, and monitored.
- Ensuring staff and students selling tickets at an ASB event receive adequate training.
- Ensuring no more than one ticket sales form is filled out per cash box before being receipted and reconciled by the ASB bookkeeper.
- Ensuring that all funds received through the use of cash boxes are adequately supported before being receipted into the ASB system.
- Ensuring that all ASB revenues are receipted into the system and subsequently deposited in a timely manner.
- Reconciling the number of tickets sold to the amount receipted and ensuring any large differences are investigated.
- Reconciling yearbook revenue to the number of yearbooks sold and periodically reconciling yearbook inventory.

District's Response

The District concurs with the information as outlined in the finding document. The cause as recognized by the State Auditor determined the district did not establish adequate internal controls over ASB activities to ensure all ASB activities were handled in accordance with the School District Accounting Manual, the Revised Code of Washington, and the School District Records Retention requirements.

The District has taken steps to improve and strengthen internal controls through increased monitoring, and targeted training to staff specific to the items outlined in the "Finding" document. This will be accomplished in part with the addition of a Central Office position dedicated to ensuring staff involved with ASB activities are accountable and are in compliance with laws, regulations, and district expectations.

The District will be updating and standardizing all required forms to properly document ASB activities and fundraisers to be utilized by all school buildings. Written and verbal guidance will be provided to all ASB Advisors and Building Bookkeepers in order to establish accountability and expectations surrounding ASB activities. The District is establishing monitoring processes to include random visits to school sites during the school year performing internal audit functions specific to the areas of insufficient internal controls as outlined in the "Finding" document.

We appreciate the Auditor's recommendations and will be taking action to strengthen Associated Student Body internal controls sufficient to safeguard District assets.

Auditor's Remarks

We thank the District for its cooperation and assistance throughout the audit, and the steps it is taking to address this issue. We will review the status of the District's corrective action during our next audit.

Applicable Laws and Regulations

RCW 43.09.200 Local government accounting – Uniform system of accounting, states:

The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class.

The system shall exhibit true accounts and detailed statements of funds collected, received and expended for account of the public for any purpose whatever, and by all public officers, employees, or other persons.

The accounts shall show the receipt, use, and disposition of all public property, and the income, if any, derived there from; all sources of public income, and the amounts due and received from every source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate the validity of every transaction; all statements and reports made or required to be made, for the internal administration of the office to which they pertain; and all reports published or required to be published , for the information of the people regarding any and all details of the financial administration of public affairs.

RCW 43.09.240 Local government accounting – Public officers and employees – Duty to account and report – Removal from office – Deposit of collections, states in part:

Every public officer and employee, whose duty it is to collect or receive payments due or for the use of the public shall deposit such moneys collected or received by him or her with the treasurer of the local government once every twenty-four hours.

RCW 28A.400.030(3) Superintendent’s duties, states in part:

The Superintendent shall . . . keep accurate and detailed accounts of all receipts and expenditures of school money.

RCW 28A.325.030 Associated student body program fund – Fund-raising activities -- Nonassociated student body program fund moneys, states in part:

(1)(b) All moneys generated through the programs and activities of any associated student body shall be deposited in the associated student body program fund. Such funds may be invested for the sole benefit of the associated student body program fund in items enumerated in RCW 28A.320.320 and the county treasurer may assess a fee as provided therein. Disbursements from such fund shall be under the control and supervision, and with the approval, of the board of directors of the school district, and shall be by warrant as provided in *chapter 28A.350 . . .

(2) Subject to applicable school board policies, student groups may conduct fund-raising activities, including but not limited to soliciting donations, in their private capacities for the purpose of generating non associated student body fund moneys. The school board policy shall include provisions to ensure appropriate accountability for these funds. Non associated student body program fund moneys generated and received by students for private purposes to use for scholarship, student exchange, and/or charitable purposes shall be held in trust in one or more separate accounts within an associated student body program fund and be disbursed for such purposes as the student group conducting the fund-raising activity shall determine:

Washington Administrative Code WAC 392-138-010 Definitions, states in part:

(2) "Associated student body program" means any activity which (a) is conducted in whole or part by or in behalf of an associated student body during or outside regular school hours and within or outside school grounds and facilities, and (b) is conducted with the approval, and at the direction or under the supervision, of the school district.

Washington Administrative Code (WAC) 392-138-014 Accounting procedures and records, states in part:

Associated student body moneys shall be accounted for as follows:

(1) Accounting methods and procedures shall comply with such rules and regulations and/or guidelines as are developed by the state auditor and the superintendent of public instruction and published in the Accounting Manual for Schools

Accounting Manual for School Districts in the State of Washington, Chapter III, states in part:

Each school board is responsible for establishing and maintaining an effective system of internal controls throughout the district.

Further, an internal control system; (should) ensure that resource use is consistent with law, regulation, and policy; that resources are guarded against waste, loss, and misuse; and that reliable data are obtained, maintained, and fairly disclosed in reports.

RELATED REPORTS

Financial

Our opinion on the District's financial statements and compliance with federal grant program requirements is provided in a separate report issued in May 2015, which includes the District's financial statements. That report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

Federal grant programs

We evaluated internal controls and tested compliance with the federal program requirements, as applicable, for the District's major federal programs, which are listed in the Federal Summary section of the financial statement and single audit report issued in May 2015. That report includes a federal finding regarding a significant deficiency in internal controls and questioned costs for the District's Impact Aid program. That report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

INFORMATION ABOUT THE DISTRICT

South Kitsap School District No. 402 operates 10 elementary schools, three junior high schools, one high school and two alternative schools. The District served an average of 8,875 full-time students during the year under audit. The District has approximately 1,200 employees who provide an array of services in basic, special and vocational education and supporting services such as food and nutrition, health, maintenance and operations, transportation, student records, purchasing, human resources, financial and administrative.

The District is administered by an elected, five-member Board of Directors which appoints a Superintendent to oversee the District's day-to-day operations. The District's general fund operating budget was approximately \$95 million for the fiscal year ended August 31, 2014.

Contact information related to this report	
Address:	South Kitsap School District No. 402 1962 Hoover Avenue Port Orchard, WA 98366
Contact:	Annette Baker, Director of Business Services
Telephone:	(360) 874-7015
Website:	www.skitsap.wednet.edu

Information current as of report publish date.

Audit history

You can find current and past audit reports for South Kitsap School District No. 402 at <http://portal.sao.wa.gov/ReportSearch>.

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

Contact information for the State Auditor's Office	
Deputy Director for Communications	Thomas Shapley Thomas.Shapley@sao.wa.gov (360) 902-0367
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov



Washington State Auditor's Office

Independence • Respect • Integrity

Financial Statements and Federal Single Audit Report

South Kitsap School District No. 402

Kitsap County

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

Published May 28, 2015

Report No. 1014331





Washington State Auditor

May 28, 2015

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

Report on Financial Statements and Federal Single Audit

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

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

Sincerely,

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

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FEDERAL SUMMARY

South Kitsap School District No. 402 Kitsap County September 1, 2013 through August 31, 2014

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

Financial Statements

An unmodified opinion was issued on the financial statements.

Internal Control Over Financial Reporting:

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

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

Federal Awards

Internal Control Over Major Programs:

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

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

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

Identification of Major Programs:

The following were major programs during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
84.010	Title I, Part A Cluster - Title I Grants to Local Educational Agencies
84.041	Impact Aid Cluster - Impact Aid (Title VIII of ESEA)

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.

SCHEDULE OF FEDERAL AUDIT FINDINGS AND QUESTIONED COSTS

South Kitsap School District No. 402 Kitsap County September 1, 2013 through August 31, 2014

2014-001 South Kitsap School District did not have adequate internal controls to ensure compliance with reporting requirements for the Impact Aid grant.

CFDA Number and Title:	84.041- Impact Aid
Federal Grantor Name:	U.S. Department of Education
Federal Award/Contract Number:	57-WA-2013-0052
Pass-through Entity Name:	NA
Pass-through Award/Contract Number:	NA
Questioned Cost Amount:	\$35,991

Description of Condition

Impact Aid is to assist local school districts that have lost property tax revenue due to the presence of tax-exempt Federal property, or that have experienced increased expenditures due to the enrollment of federally connected children. Grant funding is based on the number of students reported on the District's application. The District received \$488,392 in Impact Aid funding during fiscal year 2014 from the Department of Education.

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

We consider this control weakness to be a significant deficiency.

Cause of Condition

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

Effect of Condition and Questioned Costs

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

- The District reported that it received 130 more surveys than were actually available for review. This resulted in a funding overpayment of \$35,991.
- Total students within the District were over-reported by 280 students.
- Total students for which tuition was paid out was under-reported by 11 students.
- The District over reported 15 special education students.

Recommendation

Based on the issues found, we recommend that the District:

- Implement internal controls over the Impact Aid application compilation and review process to ensure all data is properly supported and accurate.
- Ensure that all students listed as eligible on the Impact Aid application are properly supported with surveys.
- Address the errors noted with the Department of Education and make any changes necessary as they also impact future funding.

District's Response

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

The District has taken steps to improve and strengthen internal controls through increased review and monitoring practices to ensure all data is properly supported and accurate. Additionally, steps will be taken to ensure that all students listed as eligible on the Impact Aid application are properly supported with surveys. Finally, the District will address the errors noted with the Department of Education and make any necessary changes.

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

Auditor's Remarks

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

Applicable Laws and Regulations

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

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

Section 300 Auditee responsibilities.

The auditee shall:

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

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

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

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

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

Material weakness in internal control over compliance.

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

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

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

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

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

**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, 2013 through August 31, 2014**

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of South Kitsap School District No. 402, Kitsap County, Washington, as of and for the year ended August 31, 2014, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated May 19, 2015. As discussed in Note 1 to the financial statements, during the year ended August 31, 2014, the District implemented Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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



JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

May 19, 2015

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

**South Kitsap School District No. 402
Kitsap County
September 1, 2013 through August 31, 2014**

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

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

We have audited the compliance of South Kitsap School District No. 402, Kitsap County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2014. The District's major federal programs are identified in the accompanying Federal Summary.

Management's Responsibility

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

Auditor's Responsibility

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

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

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

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2014.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal

control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Finding 2014-001 that we consider to be significant deficiencies.

District's Response to Findings

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

PURPOSE OF THIS REPORT

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

May 19, 2015

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

South Kitsap School District No. 402 Kitsap County September 1, 2013 through August 31, 2014

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

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of South Kitsap School District No. 402, Kitsap County, Washington, as of and for the year ended August 31, 2014, and the related notes to the financial statements, which collectively comprise the District's financial statements, as listed on page 19.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Unmodified Opinion on Regulatory Basis of Accounting (Accounting Manual)

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of South Kitsap School District No. 402, as of August 31, 2014, and the changes in financial position thereof for the year then ended in accordance with the basis of accounting described in Note 1.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the General, ASB, Debt Service, Capital Project, Transportation Vehicle and Fiduciary funds as of August 31, 2014, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 1 to the financial statements, the District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary and Other Information

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The accompanying Schedules of Long-Term Liabilities are also presented for purposes of additional analysis, as required by the prescribed Accounting Manual. These schedules are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements, and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated May 19, 2015 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



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

May 19, 2015

FINANCIAL SECTION

South Kitsap School District No. 402
Kitsap County
September 1, 2013 through August 31, 2014

FINANCIAL STATEMENTS

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

SUPPLEMENTARY AND OTHER INFORMATION

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

South Kitsap School District No. 402

Balance Sheet

Governmental Funds

August 31, 2014

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
ASSETS:							
Cash and Cash Equivalents	3,062,964.69	74,200.50	0.00	614,759.74	0.50	0.00	3,751,925.43
Minus Warrants Outstanding	-2,426,720.50	-4,278.95	0.00	-613,531.52	0.00	0.00	-3,044,530.97
Taxes Receivable	10,447,619.40		0.00	0.00	0.00	0.00	10,447,619.40
Due From Other Funds	5,695.48	1,628.40	0.00	285,467.93	0.00	0.00	292,791.81
Due From Other Governmental Units	449,643.46	0.00	0.00	0.00	0.00	0.00	449,643.46
Accounts Receivable	199,203.53	1,635.63	0.00	0.00	11,832.50	0.00	212,671.66
Interfund Loans Receivable	0.00		0.00	0.00	0.00	0.00	0.00
Accrued Interest Receivable	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Inventory	717,798.43	10,948.29					728,746.72
Prepaid Items	124,308.80	29,612.12		0.00	28,464.25	0.00	182,385.17
Investments	9,701,469.90	680,257.64	1,963.08	1,611,452.09	559,463.09	0.00	12,554,605.80
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	22,281,983.19	794,003.63	1,963.08	1,898,148.24	599,760.34	0.00	25,575,858.48
LIABILITIES:							
Accounts Payable	2,209,476.90	43,121.93	0.00	418,808.02	0.00	0.00	2,671,406.85
Contracts Payable Current	0.00	0.00		0.00	0.00	0.00	0.00
Accrued Interest Payable			0.00				0.00
Accrued Salaries	72,525.60	0.00		0.00			72,525.60
Anticipation Notes Payable	0.00		0.00	0.00	0.00		0.00
Payroll Deductions and Taxes Payable	33,026.07	0.00		0.00			33,026.07
Due To Other Governmental Units	35,000.00	0.00		0.00	0.00		35,000.00
Deferred Compensation Payable	0.00			0.00			0.00
Estimated Employee Benefits Payable	0.00						0.00
Due To Other Funds	287,096.33	5,695.48	0.00	0.00	0.00	0.00	292,791.81

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

South Kitsap School District No. 402

Balance Sheet

Governmental Funds

August 31, 2014

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
LIABILITIES:							
Interfund Loans Payable	0.00		0.00	0.00	0.00		0.00
Deposits	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	2,637,124.90	48,817.41	0.00	418,808.02	0.00	0.00	3,104,750.33
DEFERRED INFLOWS OF RESOURCES:							
Unavailable Revenue	228,301.84	101,175.94	0.00	0.00	0.00	0.00	329,477.78
Unavailable Revenue - Taxes Receivable	10,447,619.40		0.00	0.00	0.00		10,447,619.40
TOTAL DEFERRED INFLOWS OF RESOURCES	10,675,921.24	101,175.94	0.00	0.00	0.00	0.00	10,777,097.18
FUND BALANCE:							
Nonspendable Fund Balance	842,107.23	0.00	0.00	0.00	0.00	0.00	842,107.23
Restricted Fund Balance	1,855,883.00	644,010.28	1,963.08	1,000,164.52	599,760.34	0.00	4,101,781.22
Committed Fund Balance	4,667,225.00	0.00	0.00	361,749.75	0.00	0.00	5,028,974.75
Assigned Fund Balance	1,155,873.00	0.00	0.00	117,425.95	0.00	0.00	1,273,298.95
Unassigned Fund Balance	447,848.82	0.00	0.00	0.00	0.00	0.00	447,848.82
TOTAL FUND BALANCE	8,968,937.05	644,010.28	1,963.08	1,479,340.22	599,760.34	0.00	11,694,010.97
TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND FUND BALANCE	22,281,983.19	794,003.63	1,963.08	1,898,148.24	599,760.34	0.00	25,575,858.48

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

South Kitsap School District No. 402
Statement of Revenues, Expenditures, and Changes in Fund Balance

Governmental Funds

For the Year Ended August 31, 2014

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
REVENUES:							
Local	22,585,591.05	978,159.50	9.44	347,001.85	831.41		23,911,593.25
State	64,577,248.45		0.00	204,588.00	488,565.21		65,270,401.66
Federal	6,199,373.66		0.00	0.00	0.00		6,199,373.66
Federal Stimulus	0.00						0.00
Other	300.00			0.00	0.00	0.00	300.00
TOTAL REVENUES	93,362,513.16	978,159.50	9.44	551,589.85	489,396.62	0.00	95,381,668.57
EXPENDITURES:							
CURRENT:							
Regular Instruction	45,755,459.90						45,755,459.90
Federal Stimulus	0.00						0.00
Special Education	12,615,305.69						12,615,305.69
Vocational Education	3,954,176.27						3,954,176.27
Skill Center	0.00						0.00
Compensatory Programs	3,544,028.66						3,544,028.66
Other Instructional Programs	469,908.57						469,908.57
Community Services	756,559.63						756,559.63
Support Services	20,409,113.76						20,409,113.76
Student Activities/Other		958,943.73				0.00	958,943.73
CAPITAL OUTLAY:							
Sites				-135.31			-135.31
Building				869,969.35			869,969.35
Equipment				0.00			0.00
Instructional Technology				0.00			0.00
Energy				463,608.12			463,608.12
Transportation Equipment					52,953.00		52,953.00
Sales and Lease							0.00
Other	408,680.60						408,680.60
DEBT SERVICE:							
Principal	0.00		312,831.79	0.00	211,388.84		524,220.63
Interest and Other Charges	0.00		86,638.33	0.00	8,147.95		94,786.28
Bond/Levy Issuance				0.00	0.00		0.00
TOTAL EXPENDITURES	87,913,233.08	958,943.73	399,470.12	1,333,442.16	272,489.79	0.00	90,877,578.88

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

South Kitsap School District No. 402

Statement of Revenues, Expenditures, and Changes in Fund Balance

Governmental Funds

For the Year Ended August 31, 2014

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
DEBT SERVICE:							
REVENUES OVER (UNDER) EXPENDITURES	5,449,280.08	19,215.77	-399,460.68	-781,852.31	216,906.83	0.00	4,504,089.69
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		399,470.12	1,221,373.00	0.00		1,620,843.12
Transfers Out (GL 536)	-1,350,330.40		0.00	-270,512.72	0.00	0.00	-1,620,843.12
Other Financing Uses (GL 535)	0.00		0.00	0.00	0.00		0.00
Other	8,401.03		0.00	0.00	25,496.97		33,898.00
TOTAL OTHER FINANCING SOURCES (USES)	-1,341,929.37		399,470.12	950,860.28	25,496.97	0.00	33,898.00
EXCESS OF REVENUES/OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	4,107,350.71	19,215.77	9.44	169,007.97	242,403.80	0.00	4,537,987.69
BEGINNING 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
Prior Year(s) Corrections or Restatements	0.00	0.00	0.00	0.00	0.00	0.00	0.00
ENDING TOTAL FUND BALANCE	8,968,937.05	644,010.28	1,963.08	1,479,340.22	599,760.34	0.00	11,694,010.97

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, 2014

	Private Purpose Trust	Other Trust
ASSETS:		
Imprest Cash	0.00	0.00
Cash On Hand	0.00	0.00
Cash On Deposit with Cty Treas	0.00	0.00
Minus Warrants Outstanding	0.00	0.00
Due From Other Funds	0.00	0.00
Accounts Receivable	0.00	0.00
Accrued Interest Receivable	0.00	0.00
Investments	573.38	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	573.38	0.00
LIABILITIES:		
Accounts Payable	0.00	0.00
Due To Other Funds	0.00	0.00
TOTAL LIABILITIES	0.00	0.00
NET POSITION:		
Held in trust for:		
Restricted for Other Items	0.00	0.00
Restricted for Self Insurance	0.00	0.00
Restricted for Uninsured Risks	0.00	0.00
Nonspendable -- Trust Principal	0.00	0.00
Committed to Other Purposes	0.00	0.00
Held In Trust For Private Purposes	573.38	
Assigned to Fund Purposes	0.00	0.00
Held In Trust For Pension And Other Employee Benefits	0.00	0.00
Unassigned Fund Balance	0.00	0.00
TOTAL NET POSITION	573.38	0.00

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

South Kitsap School District No. 402
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended August 31, 2014

ADDITIONS:			
Contributions:			
Private Donations	0.00	0.00	0.00
Employer			0.00
Members			0.00
Other	0.00	0.00	0.00
TOTAL CONTRIBUTIONS	0.00	0.00	0.00
Investment Income:			
Net Appreciation (Depreciation) in Fair Value	0.00	0.00	0.00
Interest and Dividends	3.28	0.00	0.00
Less Investment Expenses	0.00	0.00	0.00
Net Investment Income	3.28	0.00	0.00
Other Additions:			
Rent or Lease Revenue	0.00	0.00	0.00
Total Other Additions	0.00	0.00	0.00
TOTAL ADDITIONS	3.28	0.00	0.00
DEDUCTIONS:			
Benefits			0.00
Refund of Contributions	0.00	0.00	0.00
Administrative Expenses	0.00	0.00	0.00
Scholarships	1,000.00		
Other	0.00	0.00	0.00
TOTAL DEDUCTIONS	1,000.00	0.00	0.00
Net Increase (Decrease)	-996.72	0.00	0.00
Net Position--Beginning	1,570.10	0.00	0.00
Prior Year(s) Corrections or Restatements	0.00	0.00	0.00
NET POSITION--ENDING	573.38	0.00	0.00

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

Notes to the Financial Statements for: South Kitsap School District

September 1, 2013 through August 31, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

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

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

Fund Accounting

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

Governmental funds

General Fund

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

Capital Projects Funds

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

Notes to the Financial Statements for: South Kitsap School District

September 1, 2013 through August 31, 2014

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 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 benefit of any individual.

Fiduciary Funds

Fiduciary funds include pension and other employee benefit trust funds, private-purpose trust funds, and agency funds and are used to account for assets that are held in trust by the District in a trustee and agency capacity.

Private-Purpose Trust Fund

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

Pension (and Other Employee Benefit) Trust Fund

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

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

Notes to the Financial Statements for: South Kitsap School District

September 1, 2013 through August 31, 2014

readily determined. Revenues are considered “available” when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days after year-end. Property taxes receivable are measurable but not available and are, therefore, not accrued. Categorical program claims and inter-district billings are measurable and available and are, therefore accrued.

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

Budgets

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

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

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

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

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

The government’s fund balance classifications policies and procedures.

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

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

Notes to the Financial Statements for: South Kitsap School District

September 1, 2013 through August 31, 2014

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

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

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

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

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

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

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

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

Cash and Cash Equivalents

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

Receivable and Payables

There were no receivables or payables not expected to be collected within one year.

Inventory

Inventory is valued at cost using the first-in, first-out (FIFO) method. The consumption method of inventory is used, which charges inventory as an expenditure when it is consumed. A portion of the fund balance, representing inventory, is considered Non-spendable. *(Such reserves for inventory indicate that*

Notes to the Financial Statements for: South Kitsap School District

September 1, 2013 through August 31, 2014

a portion of net current assets is set aside to replace or increase the inventory.) USDA commodity inventory consists of food donated by the United States Department of Agriculture. It is valued at the prices paid by the USDA for the commodities.

Accounting and Reporting changes for 2013-2014

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

NOTE 2: CASH DEPOSITS WITH FINANCIAL INSTITUTIONS

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

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

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

	Carrying Amount	Market Value
County Treasurer's Investment Pool	\$12,554,606	\$12,560,587

NOTE 3: SIGNIFICANT CONTINGENT LIABILITIES

The District has no known significant contingent liabilities as of August 31, 2014.

Litigation

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

Arbitrage Rebate

Arbitrage rebates are non-applicable to the District.

NOTE 4: SIGNIFICANT EFFECTS OF SUBSEQUENT EVENTS

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

Notes to the Financial Statements for: South Kitsap School District

September 1, 2013 through August 31, 2014

NOTE 5: ANNUAL PENSION COST AND NET PENSION OBLIGATIONS

General Information

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

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

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

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

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

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

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

Notes to the Financial Statements for: South Kitsap School District

September 1, 2013 through August 31, 2014

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 advice from the Office of the State Actuary. 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.

Contributions

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

Plan 1 TRS	6.00%	Plan 1 PERS	6.00%
Plan 2 TRS	4.96%	Plan 2 SERS	4.64%
Plan 3 TRS & SERS	5.00% (Minimum), 15% (Maximum)		

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

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

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

Under current law the employer must contribute 100 percent of the employer-required contribution. Employer required contributions in dollars (Participant information for all plans is as of August 31, 2014):

PLAN #	2013-14	2012-13	2011-12
Plan 1 TRS	\$ 104,104	\$ 90,554	\$ 118,283
Plan 2 TRS	\$ 530,635	\$ 415,713	\$ 390,247
Plan 3 TRS	\$ 3,218,250	\$ 2,634,548	\$ 2,682,096
Plan 1 PERS	\$ 34,020	\$ 31,101	\$ 32,600
Plan 2 SERS	\$ 537,081	\$ 407,414	\$ 383,458
Plan 3 SERS	\$ 744,234	\$ 603,122	\$ 636,284

Notes to the Financial Statements for: South Kitsap School District

September 1, 2013 through August 31, 2014

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

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

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

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

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

According to state law, the Washington State Treasurer collects a fee from all school district entities which have employees that are not current active members of the State Health Care authority, but participate in the state retirement system. The purpose of this fee is to cover the impact of the subsidized rate of health care benefits for school retirees that elect to purchase their health care benefits through the state Health Care authority. For the fiscal year 2013-14, the District was required to pay the HCA \$ 64.40 per month per full-time equivalent employee to support the program, for a total payment of \$746,083. This assessment to the District is set forth in the State's operating budget and is subject to change on an annual basis. This amount is not actuarially determined and is not placed in a trust to pay the obligations for post-employment health care benefits.

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

NOTE 7: COMMITMENTS UNDER NONCAPITALIZED (OPERATING) LEASES

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

Notes to the Financial Statements for: South Kitsap School District

September 1, 2013 through August 31, 2014

Similarly, the District completed a conditional sale contractual agreement with Key Municipal Finance in 2003 in order to purchase 12 Type D Buses. The note was for a ten year period and expired as of September 2013.

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

Vendor	Amount	Annual Installment	Final Installment Date	Interest Rate	Balance Due 8/31/14
Conditional Sales Contracts					
Key Municipal Finance/Ford Bus Purchase	\$906,820	\$28,464	09/2014	4.64%	\$28,138
Key Municipal Finance/Ford Bus Purchase	\$1,075,364	\$105,680	08/2013	3.47%	\$0
TOTAL: CONDITIONAL SALES & LONG-TERM COMMITMENTS					\$ 28,138

NOTE 8: CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

The District did not have construction in progress, or any other significant commitments as of August 31, 2014.

Encumbrances

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

Fund	Amount
General	\$231,666
ASB Fund	\$ 1,992
Capital Projects fund	\$ 72,776

NOTE 9: CAPITAL ASSETS

The District's capital assets are insured in the amount of \$390,285,349 for fiscal year 2014. In the opinion of the District's insurance consultant, the amount is sufficient to adequately fund replacement of the District's assets.

Notes to the Financial Statements for: South Kitsap School District
September 1, 2013 through August 31, 2014

NOTE 10: REQUIRED DISCLOSURES ABOUT LONG-TERM LIABILITIES

Long Term Debt

There were no bonds issued as of August 31, 2014.

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 (for 13-14)		Final Maturity	Interest Rate(s)	Amount Outstanding as of 8/31/2014
08/25/2010	\$ 1,066,500	\$ 102,997	ENERGY	June 1, 2020	3.950%	\$ 682,992
10/10/2012	\$ 2,385,043	\$220,560	LAND	Dec. 1, 2022	2.490%	\$ 2,171,256

Total Non-Voted Bonds **\$ 2,854,248**

The following is a summary of all long-term debt transactions of the district for the fiscal year ending August 31, 2014:

Long-Term Debt Payable at 9/1/2013	\$6,105,038.60
New Issues/Increase	\$597,079.99
Debt Retired/Decreased	\$1,056,638.45
Long-Term Debt Payable at 8/31/2014	\$5,645,481.14

Notes to the Financial Statements for: South Kitsap School District

September 1, 2013 through August 31, 2014

Annual Debt Requirements

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

Year Ending August 31:	Principal	Interest	Total
2015	\$351,694	\$77,606	\$429,300
2016	329,158	67,660	396,818
2017	339,734	57,779	397,514
2018	350,189	47,575	397,764
2019	360,520	37,048	397,568
2020	370,728	26,198	396,926
2021	255,568	16,249	271,817
2022	260,232	9,827	270,059
2023	264,563	3,294	267,856
Total	\$2,882,386	\$343,236	\$3,225,622

NOTE 11: INTERFUND BALANCES AND TRANSFERS

The following table depicts inter-fund transfer activity as of August 31, 2014:

Purpose	Transfer To/From	Amount
LGO Bond 2010 (Energy)	From GF to DSF	\$128,957
LGO Bond 2012 (Land)	From CPF to DSF	\$270,513
CPF Projects	From GF to CPF	\$1,221,373

NOTE 12: ENTITY RISK MANAGEMENT ACTIVITIES

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

The South Kitsap School District was a member of the Schools Insurance Association of Washington (SIAW) through August 31, 2014. Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Inter-local Cooperation Act. The program was formed on September 1, 1995, when seven mid-sized school districts in the State of Washington joined together by signing an Inter-local 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

Notes to the Financial Statements for: South Kitsap School District

September 1, 2013 through August 31, 2014

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 \$3,400,000, which it fully funds in its annual budget.

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

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 Inter-local 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 Inter-local 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, 2014 were \$2,956,786

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 2014 the district made payments totaling \$647,876 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 2013-14, the district paid \$58,382 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 \$30,557 for decline in usage of \$3,447 from prior year balance of \$27,110. This balance is adequate to provide for three to four months of claims.

Notes to the Financial Statements for: South Kitsap School District

September 1, 2013 through August 31, 2014

NOTE 13: PROPERTY TAXES

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

NOTE 14: JOINT VENTURES AND JOINTLY GOVERNED ORGANIZATIONS

The district is a member of the King County Directors' Association (KCDA). KCDA is a purchasing cooperative designed to pool the member districts' purchasing power. The board authorized joining the association as of September 9, 1974, and has remained in the joint venture ever since. The District's current equity of \$146,732 is the accumulation of the annual assignment of KCDA's operating surplus based upon the percentage derived from KCDA's total sales to the District compared to all other districts applied against paid administrative fees. The District may withdraw from the joint venture and will receive its equity in ten annual allocations of merchandise or 15 annual payments.

The District participates in the WSIPC data processing cooperative under the authority of the Inter-local Cooperation Act (chapter 39.34 RCW). The relationship with WSIPC is as a "jointly governed organization." Payments are made on a fee-for-service basis with no ongoing financial obligation on the part of participating districts. Unless there is a related party transaction, no note disclosure is necessary.

Notes to the Financial Statements for: South Kitsap School District

September 1, 2013 through August 31, 2014

NOTE 15: FUND BALANCE CLASSIFICATION DETAILS
--

	General Fund	ASB	Capital Projects Fund	Debt Service Fund	Transportation Vehicle Fund
Non-spendable Fund Balance					
Inventory and Prepaid	842,107				
Restricted Fund Balance					
Carryover of Restricted Revenues	1,855,883				
Debt Service				1,963	599,760
Associated Student Body		644,010			
Impact Fees Restricted for CPF			985,619		
Mitigation Fees Restricted for CPF			14,546		
Restricted for Purchase of Busses for TVF					
Committed Fund Balance					
Minimum Fund Balance Policy	4,667,225				
Committee for Levy Projects Committed for Energy Grant for CPF			361,750		
Assigned Fund Balance					
Contingencies	100,000				
Other Capital Projects			117,426		
Other Transportation Vehicle Funds					
Other Purposes	1,055,873				
Unassigned Fund Balance	447,849				
<i>Totals</i>	<i>8,968,937</i>	<i>644,010</i>	<i>1,479,340</i>	<i>1,963</i>	<i>599,760</i>

Notes to the Financial Statements for: South Kitsap School District

September 1, 2013 through August 31, 2014

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

457 Plan – Deferred compensation Plan

District employees have the option of participating in an IRC, Section 457, and deferred compensation plan as defined in Section 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 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 Omni Group, Water Tower Office Park, and 1099 Jay Street, Rochester, NT 14611. The Omni Group website is 222.omni403b.com. The plan assets are assets of the employees, not the assets of the school district, and are not reflected on these financial statements.

NOTE 17: TERMINATION BENEFITS

Compensated Absences

Employees can earn sick leave at a rate of up to 12 days per year with a maximum of 1 contract year. Under the provisions of RCW 28A.400.210, sick leave accumulated by District employees is reimbursed at death or retirement at the rate of one day for each four days of accrued leave, limited to 180 accrued days. The District also provides for an annual buy out of an amount up to the maximum annual accumulation of 12 days. For buyout purposes, employees may accumulate such leave to a maximum of 192 days, including the annual accumulation, as of December 31 of each year.

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

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

Note 18: Is not applicable to the South Kitsap School District for the 2013-2014 fiscal year.

South Kitsap School District No. 402
 Schedule of Long-Term Liabilities: GENERAL FUND
 For the Year Ended August 31, 2014

Description	Beginning Outstanding Debt September 1, 2013	Amount Issued / Increased	Amount Redeemed / Decreased	Ending Outstanding Debt August 31, 2014	Amount Due Within One Year
Non-Voted Debt and Liabilities					
Capital Leases	0.00	0.00	0.00	0.00	0.00
Contracts Payable	0.00	0.00	0.00	0.00	0.00
Non-Cancellable Operating Leases	0.00	0.00	0.00	0.00	0.00
Claims & Judgements	0.00	0.00	0.00	0.00	0.00
Compensated Absences	2,698,431.94	597,079.99	532,417.85	2,763,094.08	613,307.00
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
Total Long-Term Liabilities	2,698,431.94	597,079.99	532,417.85	2,763,094.08	613,307.00

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

South Kitsap School District No. 402
 Schedule of Long-Term Liabilities: DEBT SERVICE FUND
 For the Year Ended August 31, 2014

Description	Beginning Outstanding Debt September 1, 2013	Amount Issued / Increased	Amount Redeemed / Decreased	Ending Outstanding Debt August 31, 2014	Amount Due Within One Year
Voted Debt					
Voted Bonds	0.00	0.00	0.00	0.00	0.00
LOCAL Program Proceeds Issued in Lieu of Bonds	0.00	0.00	0.00	0.00	0.00
Non-Voted Debt					
Non-Voted Bonds	3,167,080.00	0.00	312,831.79	2,854,248.21	323,557.08
LOCAL Program Proceeds	0.00	0.00	0.00	0.00	0.00
Total Long-Term Liabilities	3,167,080.00	0.00	312,831.79	2,854,248.21	323,557.08

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

South Kitsap School District No. 402

Schedule of Long-Term Liabilities: TRANSPORTATION VEHICLE FUND

For the Year Ended August 31, 2014

Description	Beginning Outstanding Debt September 1, 2013	Amount Issued / Increased	Amount Redeemed / Decreased	Ending Outstanding Debt August 31, 2014	Amount Due Within One Year
Non-Voted Debt and Liabilities					
Capital Leases	0.00	0.00	0.00	0.00	0.00
Contracts Payable	239,526.66	0.00	211,388.81	28,137.85	28,137.85
Long-Term Notes	0.00	0.00	0.00	0.00	0.00
Anticipation Notes Payable	0.00	0.00	0.00	0.00	0.00
Lines of Credit	0.00	0.00	0.00	0.00	0.00
Other Non-Voted Debt	0.00	0.00	0.00	0.00	0.00
Other Liabilities					
Non-Voted Notes Not Recorded as Debt	0.00	0.00	0.00	0.00	0.00
Total Long-Term Liabilities	239,526.66	0.00	211,388.81	28,137.85	28,137.85

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

SOUTH KITSAP SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ending August 31, 2014

1	2	3	4	5	6	7	8	9
Federal Agency Name	Pass Through Agency	Federal Program Title	CFDA Number	Other Identification Number	From Direct Awards	From Pass Through Awards	Total	Footnote
USDA	WA OSPI							
		National School Lunch - noncash assistance	10.555	SKSD 18-402		144,564.98	144,564.98	1,4
		National School Lunch(A) - Cash Lunches	10.555	SKSD 18-402		1,434,884.34	1,434,884.34	1
		National School Lunch - Cash Snacks	10.555	SKSD 18-402		9,012.58	9,012.58	1
		National School Breakfast Program	10.553	SKSD 18-402		403,585.80	403,585.80	1
		Summer Food Service Program	10.559	SKSD 18-402		43,167.43	43,167.43	1
		US Department of Agriculture Total:				2,035,215.13	2,035,215.13	
		Department of Defense						
		Naval Junior Reserve Officers Training Corp	12.999	N3125214MJRTC/4VQ67	51,308.51		51,308.51	1,3
		Department of Defense Total:			51,308.51		51,308.51	
		US Dept of Education						
	WA OSPI	Title I Grants to Local Educational Agencies	84.010	0201455, 0224420		1,124,051.42	1,124,051.42	1,5,9
		Title I Grants to State Agency Program for Neglected and Delinquent children	84.013	0222463, 0222464		137,154.52	137,154.52	1,9
		Special Education_ Grants to States	84.027A	0304739, 0337671		1,952,832.00	1,952,832.00	1,5
		Special Ed - Preschool Grants	84.173	0364738		53,290.25	53,290.25	1
		Career and Technical Education - Basic Grants to States	84.048	0173075		57,440.00	57,440.00	1,9
		English Language Acquisition Grants	84.365	0401896		11,812.62	11,812.62	1,9
		Improving Teacher Quality State Grants	84.367	0523382		82,169.27	82,169.27	1,9
		US Dept of Education						
		Impact Aid	84.041	57-WA-2013-0052	488,392.22		488,392.22	1
		Indian Education Grants to LEA's	84.060A	S060A130182	38,434.00		38,434.00	1
		Department of Education Total:			526,826.22	3,418,750.08	3,945,576.30	
		US Dept of Health and Human Services						
	OESD #1114	Early Head Start	93.600	n/a		20,816.00	20,816.00	1,3
	WA DSHS	Medical Assist Program - Medicaid	93.778	Contract #0765-19254		87,846.93	87,846.93	1,3
		Human/Health Services Dept Total			0.00	108,662.93	108,662.93	
		Grand Total			578,134.73	5,562,628.14	6,140,762.87	

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 South Kitsap School District's financial statements. South Kitsap School District uses the *modified accrual* basis of accounting. Expenditures represent only the federally funded portions of the program. District records should be consulted to determine amounts expended or matched from non-federal sources.

NOTE 2—AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA) of 2009

Of the amount shown for this program, \$0.00 was paid from ARRA funds.

NOTE 3—PROGRAM COSTS/MATCHING CONTRIBUTIONS

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

NOTE 4—NONCASH AWARDS

The amount of *commodities* reported on the schedule is the value of commodities distributed by South Kitsap School District 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 District #402 in its schoolwide program. Title I (84.010) \$820,984.77; IDEA (84.027A) \$291,911.27.

NOTE 9—FEDERAL INDIRECT RATE

South Kitsap School District used the federal *restricted* rate of .0332 percent for this program.

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

**South Kitsap School District No. 402
Kitsap County
September 1, 2013 through August 31, 2014**

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

Finding ref number: 2014-001	Finding caption: Impact Aid- Internal controls and reporting
Name, address, and telephone of auditee contact person: Tracy Patterson, Assistant Superintendent of Business Services 1962 Hoover Ave Port Orchard, WA 98366	
Corrective action the auditee plans to take in response to the finding: <i>The District will implement internal controls over the Impact Aid application compilation and review process to ensure all data is properly supported and accurate. There will be additional review and oversight prior to the final submission of current and future Impact Aid grant applications to verify accuracy of the data for compliance purposes.</i> <i>The District will ensure that all students listed as eligible on the Impact Aid application are properly supported with surveys. There will be additional review and oversight prior to the final submission of current and future Impact Aid grant applications to ensure compliance.</i> <i>The District will address the errors noted with the Department of Education and make any changes necessary as they also impact future funding.</i>	
Anticipated date to complete the corrective action: August 2015	

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

Contact information for the State Auditor's Office	
Deputy Director for Communications	Thomas Shapley Thomas.Shapley@sao.wa.gov (360) 902-0367
Public Records requests	(360) 725-5617
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov



Washington State Auditor's Office

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Examination Report

South Kitsap School District No. 402

Kitsap County

For the period July 1, 2013 through June 30, 2014

Published May 26, 2015

Report No. 1014378





Washington State Auditor

May 26, 2015

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

Marcie Frost, Director
Department of Retirement Systems
Olympia, Washington

Examination Report

The Washington State Department of Retirement Systems (DRS) administers eight public retirement systems for state and local government employees, with 15 different plans within those systems. These systems serve nearly 700,000 current and former public employees. Both public employers and their employees contribute to the retirement plans and the amounts they contribute are calculated as a percentage of the employee's pay.

Government entities are responsible for reporting accurate and complete pensionable wage and contribution information to DRS in accordance with the applicable retirement plan's requirements set forth in Title 415 of the Washington Administrative Code. The plan's actuarially derived pension liabilities are dependent on demographic data of the plan participants, which is referred to as census data. Significant elements of census data may include: date of birth; date of hire or years of service; marital status; eligible compensation; class of employee; gender; date of termination or retirement; spouse date of birth; and employment status (active, inactive, or retired).

Please find attached our examination report on the South Kitsap School District No. 402.

Sincerely,

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

INDEPENDENT ACCOUNTANT'S REPORT

South Kitsap School District No. 402

Kitsap County

July 1, 2013 through June 30, 2014

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

Marcie Frost, Director
Department of Retirement Systems
Olympia, Washington

We have examined the South Kitsap School District No. 402's management's assertion that pensionable wages and contributions reported to the Washington State Department of Retirement Systems (DRS) for the year ended June 30, 2014 are accurate and complete in accordance with applicable retirement plan requirements set forth in Title 415 of the Washington Administrative Code.

The District's management is responsible for the assertion. Our responsibility is to express an opinion on the assertion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Accordingly, it included examining on a test basis, evidence supporting management's assertion and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, management's assertion above is fairly stated, in all material respects, based on the applicable retirement plan requirements set forth in Title 415 of the Washington Administrative Code.

Our examination disclosed no issues that are required to be reported under *Government Auditing Standards*.



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

May 19, 2015

ABOUT THE STATE AUDITOR'S OFFICE

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

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Washington State Auditor's Office

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Accountability Audit Report

South Kitsap School District No. 402

Kitsap County

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

Published May 26, 2016

Report No. 1016762





Washington State Auditor's Office

May 26, 2016

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

Report on Accountability

Thank you for the opportunity to work with you to promote accountability, integrity and openness in government. The State Auditor's Office takes seriously our role of providing state and local governments with assurance and accountability as the independent auditor of public accounts. In this way, we strive to help government work better, cost less, deliver higher value and earn greater public trust.

Independent audits provide essential accountability and transparency for District operations. This information is valuable to management, the governing body and public stakeholders when assessing the government's stewardship of public resources.

The attached comprises our report on the District's compliance and safeguarding of public resources. Our independent audit report describes the overall results and conclusions for areas we examined. We appreciate the opportunity to work with your staff and we value your cooperation during the audit.

Sincerely,

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

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AUDIT SUMMARY

Results in brief

In the areas we audited, District operations complied with applicable requirements and provided adequate safeguarding of public resources. The District also complied with state laws and regulations and its own policies and procedures in the areas we examined.

About the audit

This report contains the results of our independent accountability audit of South Kitsap School District No. 402 from September 1, 2014 through August 31, 2015.

Management is responsible for ensuring compliance and adequate safeguarding of public resources from fraud, loss or abuse. This includes the design, implementation and maintenance of internal controls relevant to these objectives.

Our audit involved performing procedures to obtain evidence about the District's uses of public resources, compliance with state laws and regulations and its own policies and procedures, and internal controls over such matters.

In keeping with general auditing practices, we do not examine every transaction, activity or area. Instead, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. The following areas were examined during this audit period:

- Career and technical education
- Safeguarding of small and attractive assets such as computers
- Third party cash receipting
- Associated Student Body
- Vendor payments/disbursements
- Self-insurance
- Procurement

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

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

This schedule presents the status of findings reported in prior audit periods. The status listed below is the representation of South Kitsap School District No. 402. The State Auditor’s Office has reviewed the status as presented by the District.

<p>Audit Period: Fiscal Year 2014</p>	<p>Report Ref. No.: 1014124</p>	<p>Finding Ref. No.: 2014-001</p>
<p>Finding Caption: The District’s internal controls over Associated Student Body activities are insufficient to safeguard against loss and noncompliance with laws and regulations.</p>		
<p>Background: During our review of ASB procedures at South Kitsap High School and John Sedgwick Junior High School we identified the following issues:</p> <p><u>Minutes:</u> Both schools did not retain student council minutes for fiscal year 2014. Under the School District Records Retention Schedule, ASB minutes are to be retained for six years after the end of the calendar year before being transferred to the Washington State Archives for permanent retention.</p> <p><u>Fundraisers:</u> During our review of fundraisers we identified missing fundraiser documentation. We reviewed a total of six fundraisers between the two schools. We noted the following missing or inadequate documentation for three of the fundraisers:</p> <ul style="list-style-type: none"> • Student council approval prior to the event date. • An analysis of expected revenue. • A reconciliation of receipts to expected profit analysis following the event. • A completed profit analysis. <p><u>Ticket Sales:</u> We reviewed 17 cash boxes used for ticket or yearbook sales by South Kitsap High School during fiscal year 2014. During these reviews, we noted the following:</p> <ul style="list-style-type: none"> • Twelve out of 17 cash boxes reviewed were either over or short and none of the ticket sales forms included an explanation as to what caused the over or short. • The \$50 overage noted at the high school’s spring play was not included with the amount receipted into the ASB system and was therefore never deposited. The ASB bookkeeper was 		

unaware of what happened to these funds and they were never located.

- The \$100 shortage of revenue earned while receipting tickets for senior prom was never recovered and the loss was not reported to the State Auditor's Office.
- Cash receipted into the ASB system from the Madrigal Feast was not supported with ticket numbers. Total cash from these boxes was provided to the ASB bookkeeper and subsequently receipted into the system without any comparison to what was actually sold. The total unsupported revenue received for the Madrigal Feast was \$400.
- More than one event was being receipted out of the same cash box, before it was counted or reconciled.

Yearbooks:

- At South Kitsap High School we found 179 yearbooks, valued at about \$9,397.50, went unsold during fiscal year 2014; there was not adequate tracking to account for this unsold inventory.
- While reviewing the yearbook revenue that was receipted in through cash boxes, we noted that yearbooks were sold on June 9, 2014 and June 13, 2014. The revenue from these boxes were not receipted into the ASB system and therefore not deposited into the District's bank account until June 25, 2014 and June 26, 2014, respectively. Total revenue from both deposits was \$17,373.
- Cash receipted into the ASB system from yearbook sales was not supported with total books sold. Total cash from these boxes was provided to the ASB bookkeeper and subsequently receipted into the system without any comparison to what was actually sold. The total unsupported revenue received for yearbook sales was \$7,963.

Status of Corrective Action: (check one)

Fully Corrected Partially Corrected No Corrective Action Taken Finding is considered no longer valid

Corrective Action Taken:

Minutes:

Both schools have retained student council minutes for fiscal year 2015.

Fundraisers:

Fundraising documentation has been improved to include;

- *Student council approval prior to the event date.*
- *An analysis of expected revenue.*
- *A reconciliation of receipts to expected profit analysis following the event.*
- *A completed profit analysis.*

Ticket Sales:

Ticket sales documentation, internal controls, and reconciliations have been improved to include:

- *Over and shorts are supported with written documentation.*
- *Ticket sales are supported with numbered tickets.*
- *Each cash box issued for an event is counted and reconciled prior to be re-issued for*

another event.

Yearbooks:

- *The remaining yearbooks are accounted for through physical inventories and kept in a secure location.*
- *Cash receipts are deposited timely and intact.*
- *All yearbook sales will be done out of the bookkeepers office to ensure that cash receipted reconciles to the number of books sold.*

RELATED REPORTS

Financial

Our opinion on the District's financial statements and compliance with federal grant program requirements is provided in a separate report, which includes the District's financial statements. That report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

Federal grant programs

We evaluated internal controls and tested compliance with the federal program requirements, as applicable, for the District's major federal programs, which are listed in the Federal Summary section of the separate financial statement and single audit report. That report includes a federal finding regarding controls over the Impact Aid Program. That report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

INFORMATION ABOUT THE DISTRICT

South Kitsap School District No. 402 operates ten elementary schools, three junior high schools, one high school and two alternative schools. The District served an average of 9,326 full-time students during the year under audit. The District has approximately 1,200 employees who provide an array of services in basic, special and vocational education and supporting services such as: food and nutrition, health, maintenance and operations, transportation, student records, purchasing, human resources, financial and administrative.

The District is administered by a five-member Board of Directors, which appoints a Superintendent to oversee the District's day-to-day operations. The District's general fund operating budget was approximately \$95.6 million for the year ended August 31, 2015.

Contact information related to this report	
Address:	South Kitsap School District No. 402 1962 Hoover Avenue Port Orchard, WA 98366
Contact:	Annette Baker, Director of Business Services
Telephone:	(360) 874-7015
Website:	www.skitsap.wednet.edu

Information current as of report publish date.

Audit history

You can find current and past audit reports for South Kitsap School District No. 402 at <http://portal.sao.wa.gov/ReportSearch>.

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

Contact information for the State Auditor's Office	
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov



Washington State Auditor's Office

Government that works for citizens

Special Report
Alternative Learning Experience
South Kitsap School District No. 402
Kitsap County

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

Published June 23, 2016

Report No. 1016954





Washington State Auditor's Office

June 23, 2016

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

Report on Alternative Learning Experience

Thank you for the opportunity to work with you to promote accountability, integrity and openness in government. The State Auditor's Office takes seriously our role of providing state and local governments with assurance and accountability as the independent auditor of public accounts. In this way, we strive to help government work better, cost less, deliver higher value and earn greater public trust.

Independent audits provide essential accountability and transparency for District operations. This information is valuable to management, the governing body and public stakeholders when assessing the government's stewardship of public resources.

The attached comprises our report on the District's compliance with alternative learning experience enrollment reporting rules. Our independent audit report describes the overall results and conclusions for areas we examined. We appreciate the opportunity to work with your staff and we value your cooperation during the audit.

Sincerely,

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

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AUDIT SUMMARY

Results in brief

District operations complied with applicable state laws and regulations and its own policies and procedures regarding alternative learning experience (ALE) enrollment. For the year ending August 31, 2015, the District received approximately \$52.2 million in combined enrollment and staff mix funding; approximately \$2.25 million of this was related to its ALE programs.

- Discovery Alternative High School – The program reported 205.5 average annual full-time equivalent (AAFTE). Procedures performed over this program were limited to considering internal controls the District has in place to assure compliance with reporting requirements. Nothing came to our attention to cause us to believe the District did not comply with reporting requirements.
- Explorer Academy – The program reported 189.32 average annual full-time equivalent (AAFTE). Procedures performed over this program were limited to considering internal controls the District has in place to assure compliance with reporting requirements. Nothing came to our attention to cause us to believe the District did not comply with reporting requirements.

About alternative learning experience programs

ALE programs are a form of basic K-12 public school education in Washington State. While students in traditional basic education attend classes on campus and have face-to-face contact with teachers and other staff, ALE students may spend most, or even all, of their time outside of a regular classroom setting.

Districts may build Internet-based educational programs that enroll students from anywhere in the state. Besides Internet programs, ALE can be accomplished through a contract between a student and district instructors, or through a parent-partner program in which parents participate in the design and teaching of the student's courses. These programs are different from homeschooling in that students remain part of the public school system and districts claiming funding are responsible for supervision, monitoring, assessing and evaluating the student's education.

Districts may count ALE students for funding when they report enrollment to the Office of Superintendent of Public Instruction (OSPI). In order to claim ALE students for funding, ALE programs must satisfy OSPI's requirement for courses of study leading to a high school diploma. Districts must prepare detailed plans for each student, maintain regular contact with students, and evaluate student progress on a monthly basis. Districts must also keep detailed records to show they have met all of these requirements.

During the period under review, the District operated two ALE programs, which accounted for 4.4 percent of its total basic student enrollment:

- Discovery Alternative High School is a contract based program serving students in grades 9-12. Students are on the District campus for most of their courses. The program has operated for 44 years and non-resident students represent one percent of students reported for funding.
- Explorer Academy is a parent partnership program serving students in grades K-12. Students are online for most of their courses. The program has operated for 18 years and non-resident students represent 3.4 percent of students reported for funding.

About the audit

Per RCW 28A.232.010, school districts must receive biennial audits of their ALE program. This report contains the results of our independent audit of ALE enrollment at South Kitsap School District No. 402 from September 1, 2014 through August 31, 2015.

Management is responsible for ensuring compliance with applicable ALE requirements. This includes the design, implementation and maintenance of internal controls relevant to these objectives.

Our audit involved performing procedures to obtain evidence about the District's compliance with state laws and regulations and its own policies and procedures, and internal controls over such matters, with regard to its ALE program.

In keeping with general auditing practices, we do not examine every transaction, activity or area. Instead, the areas examined were those representing the highest risk of noncompliance.

INFORMATION ABOUT THE DISTRICT

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Website	www.sao.wa.gov



Washington State Auditor's Office

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Financial Statements and Federal Single Audit Report

South Kitsap School District No. 402

Kitsap County

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

Published May 26, 2016

Report No. 1016763





Washington State Auditor's Office

May 26, 2016

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

Report on Financial Statements and Federal Single Audit

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

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

Sincerely,

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

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FEDERAL SUMMARY

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

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

Financial Statements

An unmodified opinion was issued on the financial statements.

Internal Control Over Financial Reporting:

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

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

Federal Awards

Internal Control Over Major Programs:

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

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

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

Identification of Major Programs:

The following were major programs during the period under audit:

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

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

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

SCHEDULE OF FEDERAL AUDIT FINDINGS AND QUESTIONED COSTS

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

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

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

Description of Condition

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

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

We consider this control weakness to be a significant deficiency.

Cause of Condition

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

Effect of Condition and Questioned Costs

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

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

Recommendation

We recommend the District:

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

District's Response

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

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

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

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

Auditor's Remarks

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

Applicable Laws and Regulations

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

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

Section 300 Auditee responsibilities.

The auditee shall:

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

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

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

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

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

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

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

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

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

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

SCHEDULE OF PRIOR FEDERAL AUDIT FINDINGS

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

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

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

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

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

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

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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



TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

May 17, 2016

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

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

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

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

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

Management's Responsibility

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

Auditor's Responsibility

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

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

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

Opinion on Each Major Federal Program

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

Other Matters

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

District's Response to Findings

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

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

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

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

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

District's Response to Findings

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

PURPOSE OF THIS REPORT

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

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

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive style with a large, stylized "X" between the first and last names.

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

May 17, 2016

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

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

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

REPORT ON THE FINANCIAL STATEMENTS

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Unmodified Opinion on Regulatory Basis of Accounting (Accounting Manual)

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of South Kitsap School District No. 402, as of August 31, 2015, and the changes in financial position thereof for the year then ended in accordance with the basis of accounting described in Note 1.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the General, ASB, Debt Service, Capital Projects, Transportation Vehicle and Fiduciary funds as of August 31, 2015, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 1 to the financial statements, the District adopted new accounting guidance, Governmental Accounting Standards Board *Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary and Other Information

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The accompanying Schedules of Long-Term Liabilities are also presented for purposes of additional analysis, as required by the prescribed Accounting Manual. These schedules are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements, and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated May 17, 2016 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

May 17, 2016

FINANCIAL SECTION

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

FINANCIAL STATEMENTS

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Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental
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Balance Sheet

Governmental Funds

August 31, 2015

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

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

Balance Sheet

Governmental Funds

August 31, 2015

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

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

Statement of Revenues, Expenditures, and Changes in Fund Balance

Governmental Funds

For the Year Ended August 31, 2015

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

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

Statement of Revenues, Expenditures, and Changes in Fund Balance

Governmental Funds

For the Year Ended August 31, 2015

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

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

Statement Of Fiduciary Net Position

Fiduciary Funds

August 31, 2015

	Private Purpose Trust	Other Trust
ASSETS:		
Imprest Cash	0.00	0.00
Cash On Hand	0.00	0.00
Cash On Deposit with Cty Treas	0.00	0.00
Minus Warrants Outstanding	0.00	0.00
Due From Other Funds	0.00	0.00
Accounts Receivable	0.00	0.00
Accrued Interest Receivable	0.00	0.00
Investments	576.66	0.00
Investments/Cash With Trustee	0.00	0.00
Other Assets	0.00	0.00
Capital Assets, Land	0.00	0.00
Capital Assets, Buildings	0.00	0.00
Capital Assets, Equipment	0.00	0.00
Accum Depreciation, Buildings	0.00	0.00
Accum Depreciation, Equipment	0.00	0.00
TOTAL ASSETS	576.66	0.00
LIABILITIES:		
Accounts Payable	0.00	0.00
Due To Other Funds	0.00	0.00
TOTAL LIABILITIES	0.00	0.00
NET POSITION:		
Held in trust for:		
Held In Trust For Intact Trust Principal	0.00	0.00
Held In Trust For Private Purposes	576.66	0.00
Held In Trust For Pension Or Other Post-Employment Benefits	0.00	0.00
Held In Trust For Other Purposes	0.00	0.00
TOTAL NET POSITION	576.66	0.00

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

Statement of Changes in Fiduciary Net Position

Fiduciary Funds

For the Year Ended August 31, 2015

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

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

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

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

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

Fund Accounting

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

Governmental funds

General Fund

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

Capital Projects Funds

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

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

Debt Service Fund

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

Special Revenue Fund

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

Permanent Funds

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

Fiduciary Funds

Fiduciary funds include pension and other employee benefit trust funds, private-purpose trust funds, and agency funds and are used to account for assets that are held in trust by the District in a trustee and agency capacity.

Private-Purpose Trust Fund

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

Pension (and Other Employee Benefit) Trust Fund

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

Agency Funds

These funds are used to account for assets that the District holds on behalf of others in a purely custodial capacity.

Measurement focus, basis of accounting and fund financial statement presentation

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

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

Budgets

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

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

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

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

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

The government's fund balance classifications policies and procedures.

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

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

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

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

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

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

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

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

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

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

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

Cash and Cash Equivalents

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

Receivable and Payables

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

Inventory

Inventory is valued at cost using the first-in, first-out (FIFO) method. The consumption method of inventory is used, which charges inventory as an expenditure when it is consumed. A portion of fund balance, representing inventory, is considered Non-spendable. (*Such reserves for inventory indicate that a portion of net current assets is set aside to replace or increase the inventory.*) USDA commodity inventory consists of food donated by the United States Department of Agriculture. It is valued at the prices paid by the USDA for the commodities.

Accounting and Reporting Changes for 2014-2018

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

NOTE 2: DEPOSITS AND INVESTMENTS

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

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

Investments are presented at cost.

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

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

NOTE 3: SIGNIFICANT CONTINGENT LIABILITIES

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

Litigation

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

Arbitrage Rebate

Arbitrage rebates are non-applicable to the District.

NOTE 4: SIGNIFICANT EFFECTS OF SUBSEQUENT EVENTS

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

NOTE 5: PENSION PLANS

General Information

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

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

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

Membership Participation

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

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

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

The latest actuarial valuation date for all plans was June 30, 2014.
Source: Washington State Office of the State Actuary

Membership & Plan Benefits

Certificated employees are members of TRS. Classified employees are members of PERS (if Plan 1) or SERS. Plan 1 under the TRS and PERS programs are defined benefit pension plans whose members joined the system on or before September 30, 1977. TRS 1 and PERS 1 are closed to new entrants.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Plan Contributions

The employer contribution rates for PERS, TRS, and SERS (Plans 1, 2, and 3) and the TRS and SERS Plan 2 employee contribution rates are established by the Pension Funding Council based upon the rates set by the Legislature. The methods used to determine the contribution requirements are established under chapters 41.40, 41.32, and 41.35 RCW for PERS, TRS and SERS respectively. Employers do not contribute to the defined contribution portions of TRS Plan 3 or SERS Plan 3. Under current law the employer must contribute 100 percent of the employer-required contribution. The employee contribution rate for Plan 1 in PERS and TRS is set by statute at six percent and does not vary from year to year.

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

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

The Collective Net Pension Liability

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

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

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

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

\$ 41,539,102

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

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

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

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

Actuarial Assumptions

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

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

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

Mortality Rates

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

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

Long-term Expected Rate of Return

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

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

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

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

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

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

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

Discount Rate

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

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

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

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

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

Source: DRS CAFR 6/30/2015

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

General Information

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

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

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

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

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

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

Employers participating in the plan include the State of Washington (which includes general government agencies and higher education institution), 60 of the state's K-12 school districts and educational services districts (ESDs), and 221 political subdivisions and tribal governments. Additionally, the PEBB plan is available to the retirees of the remaining 247 K-12 school districts and ESDs. The District's retirees are eligible to participate in the PEBB plan under this arrangement.

According to state law, the Washington State Treasurer collects a fee from all school district entities which have employees that are not current active members of the State Health Care authority, but participate in the state retirement system. The purpose of this fee is to cover the impact of the subsidized rate of health care benefits for school retirees that elect to purchase their health care benefits through the state Health Care authority. For the fiscal year 2014-15, the District was required to pay the HCA \$ 66.64 per month per full-time equivalent employee to support the program, for a total payment of \$787,084. This assessment to the District is set forth in the State's operating budget and is subject to change on an annual basis. This amount is not actuarially determined and is not placed in a trust to pay the obligations for post-employment health care benefits.

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

NOTE 7: COMMITMENTS UNDER NONCAPITALIZED (OPERATING) LEASES

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

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

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

NOTE 8: CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

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

Encumbrances

Encumbrance accounting is employed in governmental funds. Purchase orders, contracts, and other commitments for the expenditure of moneys are recorded in order to reserve a portion of the applicable appropriation. Encumbrances lapse at the end of the fiscal year and may be re-encumbered the following year. The following encumbrance amounts were re-encumbered by fund on September 1, 2015.

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

NOTE 9: CAPITAL ASSETS

The District’s capital assets are insured in the amount of \$373,589,800 for fiscal year 2015. In the opinion of the District’s insurance consultant, the amount is sufficient to adequately fund replacement of the District’s assets.

NOTE 10: REQUIRED DISCLOSURES ABOUT LONG-TERM LIABILITIES

Long Term Debt

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

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

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

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

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

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

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

Annual Debt Requirements

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

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

NOTE 11: INTERFUND BALANCES AND TRANSFERS

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

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

NOTE 12: ENTITY RISK MANAGEMENT ACTIVITIES

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

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

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

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

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

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

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

The Pool is fully funded by its member participants.

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

Industrial Insurance

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

Unemployment Insurance

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

Vision Insurance

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

NOTE 13: PROPERTY TAXES

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

NOTE 14: JOINT VENTURES AND JOINTLY GOVERNED ORGANIZATIONS

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

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

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

NOTE 15: FUND BALANCE CLASSIFICATION DETAILS

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

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

Based on the source of the revenues:

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

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

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

457 Plan – Deferred compensation Plan

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

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

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

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

NOTE 17: TERMINATION BENEFITS

Compensated Absences

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

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

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

South Kitsap School District No. 402
 Schedule of Long-Term Liabilities: GENERAL FUND

For the Year Ended August 31, 2015

Description	Beginning Outstanding Debt September 1, 2014	Amount Issued / Increased	Amount Redeemed / Decreased	Ending Outstanding Debt August 31, 2015	Amount Due Within One Year
Non-Voted Debt and Liabilities					
Capital Leases	0.00	0.00	0.00	0.00	0.00
Contracts Payable	28,137.85	0.00	28,137.85	0.00	0.00
Non-Cancellable Operating Leases	0.00	0.00	0.00	0.00	0.00
Claims & Judgements	0.00	0.00	0.00	0.00	0.00
Compensated Absences	2,763,094.08	321,116.12	324,150.73	2,760,059.47	414,883.67
Long-Term Notes	0.00	0.00	0.00	0.00	0.00
Anticipation Notes Payable	0.00	0.00	0.00	0.00	0.00
Lines of Credit	0.00	0.00	0.00	0.00	0.00
Other Non-Voted Debt	0.00	0.00	0.00	0.00	0.00
Other Liabilities					
Non-Voted Notes Not Recorded as Debt	0.00	0.00	0.00	0.00	0.00
Net Pension Liabilities:					
Net Pension Liabilities TRS 1	0.00	25,284,279.00	0.00	25,284,279.00	0.00
Net Pension Liabilities TRS 2/3	0.00	6,763,280.00	0.00	6,763,280.00	0.00
Net Pension Liabilities SERS 2/3	0.00	3,158,631.00	0.00	3,158,631.00	0.00
Net Pension Liabilities PERS 1	0.00	6,332,912.00	0.00	6,332,912.00	0.00
Total Long-Term Liabilities	2,791,231.93	41,860,218.12	352,288.58	44,299,161.47	414,883.67

Schedule of Long-Term Liabilities: DEBT SERVICE FUND

For the Year Ended August 31, 2015

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

SOUTH KITSAP SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ending August 31, 2015

1	2	3	4	5	6	7	8	9
Federal Agency Name	Pass Through Agency	Federal Program Title	CFDA Number	Other Identification Number	From Direct Awards	From Pass Through Awards	Total	Footnote
USDA	WA OSPI							
		National School Lunch - noncash assistance	10.555	SKSD 18-402		252,064.80	252,064.80	1,3
		National School Lunch(A) - Cash Lunches	10.555	SKSD 18-402		1,582,569.04	1,582,569.04	1
		National School Lunch - Cash Snacks	10.555	SKSD 18-402		9,833.00	9,833.00	1
		National School Breakfast Program	10.553	SKSD 18-402		437,645.60	437,645.60	1
		Summer Food Service Program	10.559	SKSD 18-402		46,772.64	46,772.64	1
		US Department of Agriculture Total:				2,328,885.08	2,328,885.08	
Department of Defense								
		Naval Junior Reserve Officers Training Corp	12.999	JROTC144S	70,095.29		70,095.29	1
		Naval Junior Reserve Officers Training Corp	12.999	N3125215MJRTC/4VO67	15,829.94		15,829.94	1,2
		Department of Defense Total:			85,925.23		85,925.23	
National Endowment for the Arts								
		Promotion of the Arts Partnership Agreements	45.025	2015194		5,000.00	5,000.00	2
US Dept of Education								
	WA OSPI							
		Title I Grants to Local Educational Agencies	84.010	0201760		1,307,617.29	1,307,617.29	1,4,7
		Title I Grants to State Agency Program for Neglected and Delinquent children	84.010	0222486, 0222487		117,134.99	117,134.99	1,7
		Special Education Grants to States	84.027A	0305124		1,849,724.42	1,849,724.42	1,4
		Special Ed - Preschool Grants	84.173A	033773, 0363124		84,087.04	84,087.04	1
		Career and Technical Education - Basic Grants to States	84.048	0173244		63,701.00	63,701.00	1,7
		English Language Acquisition Grants	84.365	0402113		5,838.10	5,838.10	1,7
		Improving Teacher Quality State Grants	84.367	0523678		180,182.29	180,182.29	1,7
US Dept of Education								
		Impact Aid	84.041	57-WA-2013-0052	365,431.15		365,431.15	1
		Indian Education Grants to LEA's	84.060A	S060A140182	37,120.00		37,120.00	1
		Department of Education Total:			402,551.15	3,608,285.13	4,010,836.28	
US Dept of Defense								
		Impact Aid - Department of Defense		DFAS-CL CAPS-W Armp	90,635.70		90,635.70	1
US Dept of Health and Human Services								
	OESD #114	Early Head Start	93.600	n/a		25,512.37	25,512.37	1,2
		Human/Health Services Dept Total			0.00	25,512.37	25,512.37	
		Grand Total			579,112.08	5,967,682.58	6,546,794.66	

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

2014-15
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

SOUTH KITSAP SCHOOL DISTRICT

NOTE 1 – BASIS OF ACCOUNTING

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

NOTE 2 – PROGRAM COSTS/MATCHING CONTRIBUTIONS

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

NOTE 3 – NONCASH AWARDS

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

NOTE 4 – SCHOOLWIDE PROGRAMS

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

NOTE 7 – FEDERAL INDIRECT RATE

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

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

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

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

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

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

Contact information for the State Auditor's Office	
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov



Office of the Washington State Auditor
Pat McCarthy

Accountability Audit Report

South Kitsap School District No. 402

Kitsap County

For the period September 1, 2015 through August 31, 2016

Published May 25, 2017

Report No. 1019117





Office of the Washington State Auditor
Pat McCarthy

May 25, 2017

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

Report on Accountability

Thank you for the opportunity to work with you to promote accountability, integrity and openness in government. The State Auditor's Office takes seriously our role of providing state and local governments with assurance and accountability as the independent auditor of public accounts. In this way, we strive to help government work better, cost less, deliver higher value and earn greater public trust.

Independent audits provide essential accountability and transparency for District operations. This information is valuable to management, the governing body and public stakeholders when assessing the government's stewardship of public resources.

The attached comprises our report on the District's compliance and safeguarding of public resources. Our independent audit report describes the overall results and conclusions for areas we examined. We appreciate the opportunity to work with your staff and we value your cooperation during the audit.

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA

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AUDIT SUMMARY

Results in brief

In the areas we audited, District operations complied with applicable requirements and provided adequate safeguarding of public resources. The District also complied with state laws and regulations and its own policies and procedures in the areas we examined.

About the audit

This report contains the results of our independent accountability audit of South Kitsap School District No. 402 from September 1, 2015 through August 31, 2016.

Management is responsible for ensuring compliance and adequate safeguarding of public resources from fraud, loss or abuse. This includes the design, implementation and maintenance of internal controls relevant to these objectives.

Our audit involved performing procedures to obtain evidence about the District's uses of public resources, compliance with state laws and regulations and its own policies and procedures, and internal controls over such matters.

In keeping with general auditing practices, we do not examine every transaction, activity or area. Instead, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. The following areas were examined during this audit period:

- Safeguarding of small and attractive assets - facilities
- Credit cards
- Associated Student Body-middle/junior high schools
- Procurement (bidding/prevaling wage)
- Teacher education and experience (staff mix) reporting

RELATED REPORTS

Financial

Our opinion on the District's financial statements and compliance with federal grant program requirements is provided in a separate report, which includes the District's financial statements. That report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

Federal grant programs

We evaluated internal controls and tested compliance with the federal program requirements, as applicable, for the District's major federal programs, which are listed in the Schedule of Findings and Questioned Costs section of the separate financial statement and single audit report. That report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

INFORMATION ABOUT THE DISTRICT

South Kitsap School District No. 402 operates 10 elementary schools, three middle/junior high schools, one high school and two alternative schools. The District served approximately 9,800 full-time students during the 2015-2016 school year. The District has approximately 1,500 employees who provide an array of services in basic, special, and vocational education and supporting services such as: food and nutrition, health, maintenance and operations, transportation, student records, purchasing, human resources, financial, and administrative.

The District is administered by a five-member Board of Directors, which appoints a Superintendent to oversee the District's day-to-day operations. The District's general fund operating budget was approximately \$110 million for the year ended August 31, 2016.

Contact information related to this report	
Address:	South Kitsap School District No. 402 1962 Hoover Avenue Port Orchard, WA 98366
Contact:	Annette Baker, Director of Business Services
Telephone:	(360) 874-7015
Website:	www.skitsap.wednet.edu

Information current as of report publish date.

Audit history

You can find current and past audit reports for South Kitsap School District No. 402 at <http://portal.sao.wa.gov/ReportSearch>.

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov



Office of the Washington State Auditor
Pat McCarthy

**Financial Statements and Federal Single Audit
Report**

South Kitsap School District No. 402

Kitsap County

For the period September 1, 2015 through August 31, 2016

Published May 25, 2017

Report No. 1019116





Office of the Washington State Auditor
Pat McCarthy

May 25, 2017

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

Report on Financial Statements and Federal Single Audit

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

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

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

South Kitsap School District No. 402
Kitsap County
September 1, 2015 through August 31, 2016

SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of South Kitsap School District No. 402 are summarized below in accordance with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

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 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 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 in accordance with 2 CFR 200.516(a).

Identification of Major Federal Programs:

The following programs were selected as major programs in our audit of compliance in accordance with the Uniform Guidance.

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
10.555	Child Nutrition Cluster – National School Lunch Program
10.553	Child Nutrition Cluster – School Breakfast Program
10.559	Child Nutrition Cluster – Summer Food Service Program for Children
84.010	Title I Grants to Local Educational Agencies

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by the Uniform Guidance, was \$750,000.

The District did not qualify as a low-risk auditee under the Uniform Guidance.

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

South Kitsap School District No. 402 Kitsap County September 1, 2015 through August 31, 2016

This schedule presents the status of federal findings reported in prior audit periods. The status listed below is the representation of South Kitsap School District No. 402. The State Auditor's Office has reviewed the status as presented by the District.

Audit Period: 9/1/2015 – 8/31/2016	Report Ref. No: 1016763	Finding Ref. No: 2015-001	CFDA Number(s): 84.014
Federal Program Name and Granting Agency: U.S. Department of Education		Pass-Through Agency Name: NA	
Finding Caption: The District did not have adequate internal controls to ensure compliance with reporting requirements for the Impact Aid.			
Background: Our audit found the following errors on the Impact Aid application: (1) the District reported 108 special education children twice (both in Table 2 and table 5 of the application), the result was overfunding of \$30,797; (2) expenditures of \$53,997 for all children with disabilities were not included in table 7; and (3) total students enrolled in state approved education programs for all children with disabilities were underreported by 6 children.			
Status of Corrective Action: (check one) <input checked="" type="checkbox"/> Fully Corrected <input type="checkbox"/> Partially Corrected <input type="checkbox"/> Not Corrected <input type="checkbox"/> Finding is considered no longer valid			
Corrective Action Taken: <i>Additional audit was conducted by Federal Government and revenue to the District was adjusted in 2015-16. Subsequent filing was thoroughly reviewed before submission.</i>			

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

**South Kitsap School District No. 402
Kitsap County
September 1, 2015 through August 31, 2016**

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of South Kitsap School District No. 402, Kitsap County, Washington, as of and for the year ended August 31, 2016, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated May 18, 2017.

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.



Pat McCarthy

State Auditor

Olympia, WA

May 18, 2017

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND REPORT ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH THE UNIFORM GUIDANCE**

**South Kitsap School District No. 402
Kitsap County
September 1, 2015 through August 31, 2016**

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

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

We have audited the compliance of South Kitsap School District No. 402, Kitsap County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) 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, 2016. 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 Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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, 2016.

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 the Uniform Guidance, 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 the Uniform Guidance. 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 "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy
State Auditor
Olympia, WA

May 18, 2017

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

South Kitsap School District No. 402 Kitsap County September 1, 2015 through August 31, 2016

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

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of South Kitsap School District No. 402, Kitsap County, Washington, as of and for the year ended August 31, 2016, and the related notes to the financial statements, which collectively comprise the District's financial statements, as listed on page 15.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Unmodified Opinion on Regulatory Basis of Accounting (Accounting Manual)

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of South Kitsap School District No. 402, as of August 31, 2016, and the changes in financial position thereof for the year then ended in accordance with the basis of accounting described in Note 1.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the General, ASB, Debt Service, Capital Projects, Transportation Vehicle, and Fiduciary funds as of August 31, 2016, 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 for governmental and fiduciary funds.

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 Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). 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 18, 2017 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.



Pat McCarthy
State Auditor
Olympia, WA

May 18, 2017

FINANCIAL SECTION

South Kitsap School District No. 402
Kitsap County
September 1, 2015 through August 31, 2016

FINANCIAL STATEMENTS

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Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental
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SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Long-Term Liabilities – 2016
Schedule of Expenditures of Federal Awards – 2016
Notes to the Schedule of Expenditures of Federal Awards – 2016

Balance Sheet

Governmental Funds

August 31, 2016

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
ASSETS:							
Cash and Cash Equivalents	3,101,209.26	153,121.13	39.67	74,629.61	541,839.31	0.00	3,870,838.98
Minus Warrants Outstanding	-1,359,925.90	-6,057.50	0.00	0.00	0.00	0.00	-1,365,983.40
Taxes Receivable	10,746,103.24		0.00	0.00	0.00		10,746,103.24
Due From Other Funds	6,724.31	24,446.81	0.00	100,000.00	0.00	0.00	131,171.12
Due From Other Governmental Units	873,338.42	0.00	0.00	0.00	0.00	0.00	873,338.42
Accounts Receivable	238,346.80	25,927.42	0.00	30,000.00	0.00	0.00	294,274.22
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	632,334.96	0.00		0.00			632,334.96
Prepaid Items	210,386.84	3,344.38			0.00	0.00	213,731.22
Investments	16,544,110.23	531,580.69	1,987.24	2,279,446.05	162,903.95	0.00	19,520,028.16
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	30,992,628.16	732,362.93	2,026.91	2,484,075.66	704,743.26	0.00	34,915,836.92
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	30,992,628.16	732,362.93	2,026.91	2,484,075.66	704,743.26	0.00	34,915,836.92
LIABILITIES:							
Accounts Payable	2,233,433.90	12,852.63	0.00	781,146.26	0.00	0.00	3,027,432.79
Contracts Payable Current	0.00	0.00		0.00	0.00	0.00	0.00
Accrued Interest Payable			0.00				0.00
Accrued Salaries	219,721.61	0.00		0.00			219,721.61
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, 2016

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
LIABILITIES:							
Payroll Deductions and Taxes Payable	115,071.83	0.00	0.00	0.00			115,071.83
Due To Other Governmental Units	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Deferred Compensation Payable	0.00			0.00			0.00
Estimated Employee Benefits Payable	0.00						0.00
Due To Other Funds	124,446.81	6,724.31	0.00	0.00	0.00	0.00	131,171.12
Interfund Loans Payable	0.00		0.00	0.00	0.00		0.00
Deposits	32,123.56	0.00		0.00			32,123.56
Unearned Revenue	0.00	95,118.00	0.00	0.00	0.00		95,118.00
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	2,724,797.71	114,694.94	0.00	781,146.26	0.00	0.00	3,620,638.91
DEFERRED INFLOWS OF RESOURCES:							
Unavailable Revenue	123,867.16	25,356.62	0.00	0.00	0.00	0.00	149,223.78
Unavailable Revenue - Taxes Receivable	10,746,103.24		0.00	0.00	0.00		10,746,103.24
TOTAL DEFERRED INFLOWS OF RESOURCES	10,869,970.40	25,356.62	0.00	0.00	0.00	0.00	10,895,327.02
FUND BALANCE:							
Nonspendable Fund Balance	842,722.00	0.00	0.00	0.00	0.00	0.00	842,722.00
Restricted Fund Balance	471,630.00	592,311.37	2,026.91	1,057,587.37	704,743.26	0.00	2,828,298.91
Committed Fund Balance	0.00	0.00	0.00	524,087.51	0.00	0.00	524,087.51
Assigned Fund Balance	8,791,424.78	0.00	0.00	121,254.52	0.00	0.00	8,912,679.30
Unassigned Fund Balance	7,292,083.27	0.00	0.00	0.00	0.00	0.00	7,292,083.27
TOTAL FUND BALANCE	17,397,860.05	592,311.37	2,026.91	1,702,929.40	704,743.26	0.00	20,399,870.99
TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND FUND BALANCE	30,992,628.16	732,362.93	2,026.91	2,484,075.66	704,743.26	0.00	34,915,836.92

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, 2016

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
REVENUES:							
Local	25,528,562.63	1,026,470.86	52.32	358,759.90	117,835.36		27,031,681.07
State	77,795,782.51		0.00	0.00	541,839.31		78,337,621.82
Federal	7,329,159.26		0.00	0.00	0.00		7,329,159.26
Federal Stimulus	0.00						0.00
Other	46,375.37			0.00	0.00	0.00	46,375.37
TOTAL REVENUES	110,699,879.77	1,026,470.86	52.32	358,759.90	659,674.67	0.00	112,744,837.52
EXPENDITURES:							
CURRENT:							
Regular Instruction	55,655,233.25						55,655,233.25
Federal Stimulus	0.00						0.00
Special Education	13,718,788.30						13,718,788.30
Vocational Education	4,343,743.01						4,343,743.01
Skill Center	0.00						0.00
Compensatory Programs	4,557,833.99						4,557,833.99
Other Instructional Programs	933,498.47						933,498.47
Community Services	888,469.92						888,469.92
Support Services	23,088,135.59						23,088,135.59
Student Activities/Other		1,033,180.49				0.00	1,033,180.49
CAPITAL OUTLAY:							
Sites				281,752.48			281,752.48
Building				827,860.37			827,860.37
Equipment				0.00			0.00
Instructional Technology				0.00			0.00
Energy				10,997.43			10,997.43
Transportation Equipment					442,067.46		442,067.46
Sales and Lease				0.00			0.00
Other	643,438.02						643,438.02
DEBT SERVICE:							
Principal			429,158.03	0.00	0.00		429,158.03
Interest and Other Charges			88,360.20	0.00	0.00		88,360.20
Bond/Levy Issuance			0.00	0.00	0.00		0.00
TOTAL EXPENDITURES	103,829,140.55	1,033,180.49	517,518.23	1,120,610.28	442,067.46	0.00	106,942,517.01

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, 2016

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
DEBT SERVICE:							
REVENUES OVER (UNDER) EXPENDITURES	6,870,739.22	-6,709.63	-517,465.91	-761,850.38	217,607.21	0.00	5,802,320.51
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			517,518.23	750,000.00	0.00		1,267,518.23
Transfers Out (GL 536)	-878,958.13		0.00	-388,560.10	0.00	0.00	-1,267,518.23
Other Financing Uses (GL 535)	0.00		0.00	0.00	0.00		0.00
Other	4,422.00		0.00	0.00	3,259.78		7,681.78
TOTAL OTHER FINANCING SOURCES (USES)	-874,536.13		517,518.23	361,439.90	3,259.78	0.00	7,681.78
EXCESS OF REVENUES/OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	5,996,203.09	-6,709.63	52.32	-400,410.48	220,866.99	0.00	5,810,002.29
BEGINNING TOTAL FUND BALANCE	11,401,656.96	599,021.00	1,974.59	2,103,339.88	483,876.27	0.00	14,589,868.70
Prior Year(s) Corrections or Restatements	0.00	0.00	0.00	0.00	0.00	0.00	0.00
ENDING TOTAL FUND BALANCE	17,397,860.05	592,311.37	2,026.91	1,702,929.40	704,743.26	0.00	20,399,870.99

Statement Of Fiduciary Net Position

Fiduciary Funds

August 31, 2016

	Private Purpose Trust	Other Trust
ASSETS:		
Imprest Cash	0.00	0.00
Cash On Hand	0.00	0.00
Cash On Deposit with Cty Treas	0.00	0.00
Minus Warrants Outstanding	0.00	0.00
Due From Other Funds	0.00	0.00
Accounts Receivable	0.00	0.00
Accrued Interest Receivable	0.00	0.00
Investments	580.15	0.00
Investments/Cash With Trustee	0.00	0.00
Other Assets	0.00	0.00
Capital Assets, Land	0.00	0.00
Capital Assets, Buildings	0.00	0.00
Capital Assets, Equipment	0.00	0.00
Accum Depreciation, Buildings	0.00	0.00
Accum Depreciation, Equipment	0.00	0.00
TOTAL ASSETS	580.15	0.00
LIABILITIES:		
Accounts Payable	0.00	0.00
Due To Other Funds	0.00	0.00
TOTAL LIABILITIES	0.00	0.00
NET POSITION:		
Held in trust for:		
Held In Trust For Intact Trust Principal	0.00	0.00
Held In Trust For Private Purposes	580.15	
Held In Trust For Pension Or Other Post-Employment Benefits		0.00
Held In Trust For Other Purposes	0.00	0.00
TOTAL NET POSITION	580.15	0.00

Statement of Changes in Fiduciary Net Position

Fiduciary Funds

For the Year Ended August 31, 2016

	Private Purpose Trust	Other Trust
ADDITIONS:		
Contributions:		
Private Donations	0.00	0.00
Employer		0.00
Members		0.00
Other	0.00	0.00
TOTAL CONTRIBUTIONS	0.00	0.00
Investment Income:		
Net Appreciation (Depreciation) in Fair Value	0.00	0.00
Interest and Dividends	3.49	0.00
Less Investment Expenses	0.00	0.00
Net Investment Income	3.49	0.00
Other Additions:		
Rent or Lease Revenue	0.00	0.00
Total Other Additions	0.00	0.00
TOTAL ADDITIONS	3.49	0.00
DEDUCTIONS:		
Benefits		0.00
Refund of Contributions	0.00	0.00
Administrative Expenses	0.00	0.00
Scholarships	0.00	
Other	0.00	0.00
TOTAL DEDUCTIONS	0.00	0.00
Net Increase (Decrease)	3.49	0.00
Net Position--Prior Year August Beginning	576.66	0.00
Prior Year F-196 Manual Revision	0.00	0.00
Net Position - Total	576.66	0.00
Prior Year(s) Corrections or Restatements	0.00	0.00
NET POSITION--ENDING	580.15	0.00

Notes to the Financial Statements for: South Kitsap School District

September 1, 2015 through August 31, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The South Kitsap School District is a municipal corporation organized pursuant to Title 28A of the *Revised Code of Washington* (RCW) for the 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 those that are required to be accounted for in another fund. In keeping with the principle of as few funds as necessary, activities such as food services, maintenance, data processing, printing, and transportation are included in the General Fund.

Capital Projects Funds

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

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.

Notes to the Financial Statements for: South Kitsap School District

September 1, 2015 through August 31, 2016

Debt Service Fund

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

Special Revenue Fund

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

Permanent Funds

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

Fiduciary Funds

Fiduciary funds include pension and other employee benefit trust funds, private-purpose trust funds, and agency funds, and are used to account for assets that are held in trust by the District in a trustee and agency capacity.

Private-Purpose Trust Fund

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

Pension and Other Employee Benefit Trust Fund

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

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 are considered to be available only if they are collected within 30 days after year-end. Categorical program claims and inter-district billings are measurable and available and are, therefore accrued.

Expenditures are recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for un-matured principal and interest on long-term debt which are recorded when due. Purchases of capital assets are expensed during the year of acquisition. For federal grants, the recognition of

Notes to the Financial Statements for: South Kitsap School District

September 1, 2015 through August 31, 2016

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.

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

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

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

Assigned Fund Balance In the General Fund, amounts that are reported as Assigned are those resources that the District has set aside for specific purposes. These accounts reflect tentative management plans for future financial resource use such as the replacement of equipment or the assignment of resources for

Notes to the Financial Statements for: South Kitsap School District

September 1, 2015 through August 31, 2016

contingencies. Assignments reduce the amount reported as Unassigned fund Balance, but may not reduce that balance below zero.

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

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

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

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

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

Cash and Cash Equivalents

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

Receivable and Payables

There were no receivables or payables not expected to be collected within one year.

Inventory

Inventory is valued at cost using the first-in, first-out (FIFO) method. The consumption method of inventory is used, which charges inventory as an expenditure when it is consumed. A portion of the fund balance, representing inventory, is considered Non-spendable. Such reserves for inventory indicate that a portion of net current assets is set aside to replace or increase the inventory. USDA commodity inventory consists of food donated by the United States Department of Agriculture. It is valued at the prices paid by the USDA for the commodities.

NOTE 2: DEPOSITS AND INVESTMENTS

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

The district's deposits and certificates of deposit are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

Notes to the Financial Statements for: South Kitsap School District

September 1, 2015 through August 31, 2016

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.

Washington State statues authorize the district to invest in the following types of securities:

- Certificates, notes, or bonds of the United States, its agencies, or any corporation wholly owned by the government of the United States.
- Obligations of government-sponsored corporations which are eligible as collateral for advances to member banks as determined by the Board of Governors of the Federal Reserve System.
- Bankers' acceptances purchased on the secondary market.
- Repurchase agreements for securities listed in the three items above, provided that the transaction is structured so that the public treasurer obtains control over the underlying securities.
- Investment deposits with qualified public depositories.
- Washington State Local Government Investment Pool, and
- County Treasurer Investment Pools.

The District's investments as of August 31, 2016 are as follows:

	Carrying Amount	Market Value
Kitsap County Treasurer's Investment Pool	\$19,520,608	\$19,522,942

The district's participation in the Kitsap County Investment Pool is voluntary and the pool is not rated by a nationally recognized statistical rating organization (NRSRO). The fair value of the district's investment in the pool is measured using a net asset value (NAV) as determined by the pool. The pool maintains a (duration/weighted average maturity) of 1.34 years.

NOTE 3: SIGNIFICANT CONTINGENT LIABILITIES

Significant Contingent Liabilities

The District has no known significant contingent liabilities as of August 31, 2016.

Litigation

The District is aware of potential litigation, but none meet the materiality threshold.

Arbitrage Rebate

Arbitrage rebates are non-applicable to the District.

NOTE 4: SIGNIFICANT EFFECTS OF SUBSEQUENT EVENTS

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

Notes to the Financial Statements for: South Kitsap School District

September 1, 2015 through August 31, 2016

NOTE 5: ANNUAL PENSION COST AND NET PENSION OBLIGATIONS

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, 2016, was as follows:

Plan	Retirees and Beneficiaries Receiving Benefits	Inactive Plan Members Entitled to but not yet Receiving Benefits	Active Plan Members
PERS 1	49,417	827	3,230
SERS 2	7,391	5,704	26,127
SERS 3	6,715	7,899	32,409
TRS 1	34,859	223	962
TRS 2	4,700	2,443	17,612
TRS 3	8,866	8,373	53,417

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

Notes to the Financial Statements for: South Kitsap School District

September 1, 2015 through August 31, 2016

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.

Notes to the Financial Statements for: South Kitsap School District

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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 RS is set by statute at six percent and does not vary from year to year.

Notes to the Financial Statements for: South Kitsap School District

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The Employer and employee contribution rates for the PES 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 2016) were as follows:

Employee contribution rates effective September 1, 2015 through August 31, 2016:

Plan 1 TRS	6.00%	Plan 1 PERS	6.00%
Plan 2 TRS	5.95%	Plan 2 SERS	5.63%
Plan 3 TRS & SERS	5.00% (Minimum), 15% (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, 2015 through August 31, 2016:

Plan 1 TRS	13.13%	Plan 1 PERS	11.18%
Plan 2 TRS	13.13%	Plan 2 SERS	11.58%
Plan 3 TRS	13.13%	Plan 3 SERS	11.58%

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, 2016):

The Collective Net Pension Liability

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

The Collective Net Pension Liability as of June 30, 2016:				
Dollars in Thousands	PERS 1	SERS 2/3	TRS 1	TRS 2/3
Total Pension Liability	\$12,496,872	\$4,870,806	\$9,001,257	\$12,172,222
Plan fiduciary net position	(\$7,126,401)	(\$4,214,039)	(\$5,587,020)	(\$10,798,925)
Participating employers' net pension liability	\$5,370,471	\$656,767	\$3,414,237	\$1,373,297
Plan fiduciary net position as a percentage of the total pension liability	57.03%	86.52%	62.07%	88.72%

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

At June 30, 2016, the school district reported a total liability of \$50,641,318 for its proportionate shares of the individual plans' collective net pension liability. Proportions of net pension liability is based on annual contributions for each of the employers participating in the DRS administered plans. At June 30, 2016, the district's proportionate share of each plan's net pension liability is reported below:

Notes to the Financial Statements for: South Kitsap School District

September 1, 2015 through August 31, 2016

June 30, 2016	PERS 1	SERS 2/3	TRS 1	TRS 2/3
District's Annual Contributions	681,176	927,961	2,475,019	2,683,735
Proportionate Share of the Net Pension Liability	6,450,815	5,094,306	27,804,747	11,291,450

At June 30, 2016, the school district's percentage of the proportionate share of the collective net pension liability was as follows and the change in the allocation percentage from the prior period is illustrated below.

Allocation percentages	PERS 1	SERS 2/3	TRS 1	TRS 2/3
Current year proportionate share of the Net Pension Liability	0.120116%	0.775664%	0.814377%	0.822215%
Prior year proportionate share of the Net Pension Liability	0.1201067%	0.777699%	0.798079%	0.801525%
Net difference percentage	-0.000950%	-0.002035%	0.016298%	0.020690%

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, 2015, with the results rolled forward to June 30, 2016, 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, 2015, 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 2015 actuarial valuation report.

Notes to the Financial Statements for: South Kitsap School District

September 1, 2015 through August 31, 2016

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 CMA's. The CMA's 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 CMA's 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, 2016, are summarized in the following table:

TRS 1, 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.

Notes to the Financial Statements for: South Kitsap School District

September 1, 2015 through August 31, 2016

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

The table below presents the South Kitsap School District's proportionate share of the net pension liability (NPL) calculated using the discount rate of 7.50%, 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%) or one percentage point higher (8.50%) than the current rate. Amounts are calculated by plan using the district's allocation percentage.

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
PERS 1 NPL	\$6,476,248,000	\$5,370,471,000	\$4,418,882,000
Allocation Percentage	0.120116%	0.120116%	0.120116%
Proportionate Share of Collective NPL	\$7,779,034	\$6,450,815	\$5,307,800
SERS 2/3 NPL	\$1,600,655,000	\$656,767,000	(\$75,324,000)
Allocation Percentage	0.775664%	0.775664%	0.775664%
Proportionate Share of Collective NPL	\$12,415,785	\$5,094,306	(\$584,261)
TRS 1 NPL	\$4,197,137,000	\$3,414,237,000	\$2,739,882,000
Allocation Percentage	0.814377%	0.814377%	0.814377%
Proportionate Share of Collective NPL	\$34,180,502	\$27,804,747	\$22,312,958
TRS 2/3 NPL	\$3,107,958,000	\$1,373,297,000	(\$1,595,357,000)
Allocation Percentage	0.822215%	0.822215%	0.822215%
Proportionate Share of Collective NPL	\$25,554,087	\$11,291,450	(\$13,117,260)

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

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

Employers participating in the plan include the State of Washington (which includes general government agencies and higher education institution), 60 of the state's K-12 school districts and educational services districts (ESDs), and 221 political subdivisions and tribal governments. Additionally, the PEBB plan is available to the retirees of the remaining 237 K-12 school districts and ESDs. The District's retirees are eligible to participate in the PEBB plan under this arrangement.

Notes to the Financial Statements for: South Kitsap School District

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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 2015-16, 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 \$818,085. This assessment to the District is set forth in the State’s operating budget and is subject to change on an annual basis. This amount is not actuarially determined and is not placed in a trust to pay the obligations for post-employment health care benefits.

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

NOTE 7: COMMITMENTS UNDER NONCAPITALIZED (OPERATING) LEASES

The District entered into an operating lease agreement with Lease Servicing Center, Inc. dba National Cooperative Leasing in order to provide 57 copiers districtwide. The lease agreement is for a period of 61 months ending November 2020.

For the fiscal years ended August 31, 2016, the district had incurred additional long-term debt as follows:

Vendor	Amount	Annual Installment	Final Installment Date	Interest Rate	Balance
Conditional Sales Contracts					
Copier Lease Agreement Provide	\$266,115	\$61,966	11/2020	6.7342%	\$228,469
TOTAL: CONDITIONAL SALES & LONG-TERM COMMITMENTS					\$ 228,469

NOTE 8: CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

The District did not have construction in progress, or any other significant commitments as of August 31, 2016.

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 in September 2016.

<u>Fund</u>	<u>Amount</u>
General	\$185,368
Capital Projects fund	\$116,255

Notes to the Financial Statements for: South Kitsap School District

September 1, 2015 through August 31, 2016

NOTE 9: CAPITAL ASSETS

The District's capital assets are insured in the amount of \$376,811,043 for fiscal year 2016. 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

There were no General Obligation Bonds issued as of August 31, 2016.

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 (for 15-16)		Final Maturity	Interest Rate(s)	Amount Outstanding as of 8/31/2016
08/25/2010	\$ 1,066,500	\$ 107,106	ENERGY	June 1, 2020	3.950%	\$ 472,889
10/10/2012	\$ 2,385,043	\$222,052	LAND	Dec. 1, 2022	2.490%	\$ 1,728,644
07/02/2015	\$ 1,000,000	\$100,000	TURF FIELD	June 1, 2025	2.300%	\$ 900,000

Total Non-Voted Bonds	\$ 3,101,533
------------------------------	---------------------

The following is a summary of all long-term debt transactions of the district for the fiscal year ending August 31, 2016:

Long-Term Debt Payable at 9/1/2015	\$6,290,751
New Issues/Increase	\$514,332
Debt Retired/Decreased	\$832,480
Long-Term Debt Payable at 8/31/2016	\$5,972,602

Notes to the Financial Statements for: South Kitsap School District

September 1, 2015 through August 31, 2016

Annual Debt Requirements

The following is a schedule of annual requirements to amortize long-term debt at August 31, 2016:

Year Ending August 31:	Principal	Interest	Total
2016	429,158	88,360	517,518
2017	439,734	79,145	518,879
2018	450,189	67,333	517,522
2019	460,520	54,938	515,458
2020	470,728	41,990	512,718
2021	355,568	29,722	385,290
2022	360,232	20,779	381,011
2023	364,562	11,529	376,091
2024	100,000	5,357	105,357
2025	100,000	2,335	102,335
TOTALS	\$3,530,691	\$401,488	\$3,932,179

NOTE 11: INTERFUND BALANCES AND TRANSFERS

The following table depicts inter-fund transfer activity as of August 31, 2016:

Purpose	Transfer To/From	Amount
LGO Bond 2010 (Energy)	From GF to DSF	\$128,958
LGO Bond 2012 (Land)	From CPF to DSF	\$267,860
LGO Bond 2015 (Turf)	From CPF to DSF	\$120,700
CPF Projects	From GF to CPF	\$750,000

NOTE 12: ENTITY RISK MANAGEMENT ACTIVITIES

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

The South Kitsap School District participates with the Washington Schools Risk Management Pool. In September 2014, the District joined together with other districts in the state to form the Washington Schools Risk Management Pool, a public entity risk pool currently operating as a common risk management and insurance program. The District pays an annual premium to the pool for its general insurance coverage. The agreement for formation of the Washington Schools Risk Management Pool provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$1 million for each insured event.

Olympic Educational Service District No. 114 administers the industrial insurance pool on behalf of South Kitsap School District, along with several other 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.

Notes to the Financial Statements for: South Kitsap School District

September 1, 2015 through August 31, 2016

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 2015-16, the district paid \$7,340 in unemployment benefits.

In addition, the district is insured with Northwest Administrators, Inc. for employee vision benefits. At the end of the benefit period the reserve balance held by Northwest Administrators equaled \$88,528. This balance is adequate to provide for more than four months of claims.

NOTE 13: PROPERTY TAXES

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

In 2015-16, following historical practices, property taxes collected in the following fiscal year were not recorded as revenue. We will be revising this in 2016-17, based on guidance by the State Auditor Office and Office of Superintendent of Public Instruction to accrue collections received in September.

NOTE 14: JOINT VENTURES AND JOINTLY GOVERNED ORGANIZATIONS

The district is a member of the King County Directors' Association (KCDA). KCDA is a purchasing cooperative designed to pool the member districts' purchasing power. The board authorized joining the association as of September 9, 1974, and has remained in the joint venture ever since. The District's current equity of \$121,569 is the accumulation of the annual assignment of KCDA's operating surplus based upon the percentage derived from KCDA's total sales to the District compared to all other districts applied against paid administrative fees. The District may withdraw from the joint venture and will receive its equity in ten annual allocations of merchandise or 15 annual payments.

The District participates in the WSIPC data processing cooperative under the authority of the Inter-local Cooperation Act (chapter 39.34 RCW). The relationship with WSIPC is as a "jointly governed organization." Payments are made on a fee-for-service basis with no ongoing financial obligation on the part of participating districts.

Notes to the Financial Statements for: South Kitsap School District

September 1, 2015 through August 31, 2016

NOTE 15: FUND BALANCE CLASSIFICATION DETAILS

	General Fund	ASB	Capital Projects Fund	Debt Service Fund	Transportation Vehicle Fund
Non-spendable Fund Balance					
Inventory and Prepaid	842,722				
Restricted Fund Balance					
Carryover of Restricted Revenues	471,630				
For Other Items					704,743
Debt Service				2,027	
Associated Student Body		592,311			
Impact Fees Restricted for CPF			1,028,495		
Mitigation Fees Restricted for CPF			29,092		
Committed Fund Balance					
Committed for Levy Proceeds			524,087		
Assigned Fund Balance					
Contingencies	1,384,107				
Other Capital Projects			121,255		
Committed to Minimum FB Policy	6,642,258				
Other Purposes	7,407,318				
Unassigned Fund Balance	649,825				
Totals	17,397,860	592,311	1,702,929	2,027	704,743

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

2015-16 Capital Projects Fund Restricted and Committed Fund Balance					
	Committed from Levy Proceeds	\$	524,088		
	Restricted from Other Proceeds	\$	-		
	Restricted Impact Fees	\$	1,028,495		
	Restricted Mitigation Fees	\$	29,092		
	Assigned to Fund Purposes	\$	121,255		
	Totals Capital Projection Fund Balance	\$	1,702,929		

The board of directors has established financial planning that shall not deviate materially from the Board’s Ends policies, fail to adhere to state law, or risk fiscal jeopardy to the district. Ends Limitation 8.2: “Maintain and protect the minimum maintenance of the un-assigned committed general fund balance in an amount equal to or greater than 5.0 percent in 2015-16 to provide financial stability and contingencies within the District. 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 the Unassigned fund balance.

Notes to the Financial Statements for: South Kitsap School District

September 1, 2015 through August 31, 2016

NOTE 16: POST-EMPLOYMENT BENEFIT PLANS OTHER THAN PENSION PLANS—BOTH IN SEPARATELY ISSUES 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 Section 457 of the Internal Revenue Code that is administered by the state deferred compensation plan, or the District.

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

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

The district complies with IRS regulations that require school districts to have a written plan to include participating investment companies, types of investments, loans, transfers, and various requirements. The plan is administered by a third party administrator, The Omni Group, Water Tower Office Park, and 1099 Jay Street, Rochester, NY 14611. The Omni Group website is 222.Omni403b.com. The plan assets are assets of the employees, not the assets of the school district, and therefore not reflected on these financial statements.

NOTE 17: TERMINATION BENEFITS

Compensated Absences

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

Under the provisions of RCW 28A.400.210, sick leave accumulated by District employees is reimbursed at death or retirement at the rate of one day for each four days of accrued leave, limited to 180 accrued days. This provision 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 31st of each year.

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

South Kitsap School District No. 402
 Schedule of Long-Term Liabilities
 For the Year Ended August 31, 2016

Description	Beginning Outstanding Debt September 1, 2015	Amount Issued / Increased	Amount Redeemed / Decreased	Ending Outstanding Debt August 31, 2016	Amount Due Within One Year
Voted Debt					
Voted Bonds	0.00	0.00	0.00	0.00	0.00
LOCAL Program Proceeds Issued in Lieu of Bonds	0.00	0.00	0.00	0.00	0.00
Non-Voted Debt and Liabilities					
Non-Voted Bonds	3,530,691.30	0.00	429,158.03	3,101,533.27	439,734.13
LOCAL Program Proceeds	0.00	0.00	0.00	0.00	0.00
Capital Leases	0.00	266,114.85	37,645.62	228,469.23	37,645.00
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	2,760,059.47	514,331.84	403,322.15	2,871,069.16	430,660.37
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	25,284,279.00	2,520,469.00	0.00	27,804,748.00	0.00
Net Pension Liabilities TRS 2/3	6,763,280.00	4,528,170.00	0.00	11,291,450.00	0.00
Net Pension Liabilities SERS 2/3	3,158,631.00	1,935,675.00	0.00	5,094,306.00	0.00
Net Pension Liabilities PERS 1	6,332,912.00	117,903.00	0.00	6,450,815.00	0.00
Total Long-Term Liabilities	47,829,852.77	9,882,663.69	870,125.80	56,842,390.66	908,039.50

**SOUTH KITSAP SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**
For the Year Ending August 31, 2016

1	2	3	4	5	6	7	8	9	10
Federal Agency Name	Pass Through Agency	Federal Program Title	CFDA Number	Other Identification Number	From Direct Awards	From Pass Through Awards	Total	Passed Through to Subrecipients	Footnote
Child Nutrition Cluster:									
US Dept of Agriculture	WA OSPI	Nat'l School Lunch - noncash assistance	10.555	SKSD 18-402		324,526.23	324,526.23		1.3
US Dept of Agriculture	WA OSPI	Nat'l School Lunch(A) - Cash Lunches	10.555	SKSD 18-402		1,607,916.38	1,607,916.38		1
US Dept of Agriculture	WA OSPI	Nat'l School Lunch - Cash Snacks	10.555	SKSD 18-402		6,546.75	6,546.75		1
US Dept of Agriculture	WA OSPI	Nat'l School Breakfast Program	10.853	SKSD 18-402		434,334.74	434,334.74		1
US Dept of Agriculture	WA OSPI	Summer Food Service Program	10.559	SKSD 18-402		47,861.10	47,861.10		1
		Child Nutrition Cluster				2,421,185.20	2,421,185.20		
		Department of Agriculture Total:				2,421,185.20	2,421,185.20		
U S Department of Defense		Impact Aid - Department of Defense	12.558	DFAS-CL CAPS-W Army	121,200.23		121,200.23		1
U S Department of Defense		Naval Jr Reserve Officers Training Corp	12.999	JROTC144S	67,399.01		67,399.01		1
U S Department of Defense		Naval Jr Reserve Officers Training Corp	12.999	N3125216MJRTC4VQ67	11,354.84		11,354.84		1.2
		Department of Defense Total:			199,954.08		199,954.08		
Special Education Cluster:									
US Dept of Education	WA OSPI	Special Education, Grants to States	027A/84.017	0305459, 0337878		1,922,746.75	1,922,746.75		1.4.7
US Dept of Education	WA OSPI	Special Ed - Preschool Grants	027A/84.017	0363451		52,223.00	52,223.00		1.7
		Subtotal Special Education Cluster				1,974,969.75	1,974,969.75		
US Dept of Education	WA OSPI	Title I Grants to Local Ed. Agencies	84.010	0202283		1,883,938.57	1,883,938.57		1.4.7
US Dept of Education	WA OSPI	Title I Grants to State Agency Program for Neglected and Delinquent children	84.010	0222508, 0222509		68,430.79	68,430.79		1.7
US Dept of Education	WA OSPI	Title 1 Grants to Local Ed. Agencies	84.010	0263095		19,691.77	19,691.77		1.7
US Dept of Education	WA OSPI	Career and Technical Ed.n - Basic Grants	84.048	0173618		66,878.00	66,878.00		1.7
US Dept of Education	WA OSPI	Career and Technical Education - Basic Grants to States	84.048	0189104		9,300.00	9,300.00		1.7
US Dept of Education	WA OSPI	English Language Acquisition Grants	84.365	0402272		15,385.25	15,385.25		1
US Dept of Education	WA OSPI	Improving Teacher Quality State Grants	84.367	0523799		328,253.13	328,253.13		1.7
US Dept of Education	WA OSPI	Impact Aid	84.041	57-WA-2013-0052	89,024.12		89,024.12		1
US Dept of Education	WA OSPI	Indian Education Grants to LEA's	84.050A	S060A150182	38,026.00		38,026.00		1
		Subtotal Dept. of Education Subtotal			127,050.12		127,050.12		
		Department of Education Total:				4,366,847.26	4,366,847.26		
US Dept of Health & Human Services	OESD #114	Early Head Start	93.600	n/a		21,087.00	21,087.00		1.2
US Dept of Health & Human Services	WA DSHS	Medical Assistant Program - Medicaid	93.778	Contract # 0765-19254/K1585		115,300.29	115,300.29		1
		Human/Health Services Dept. Total				136,387.29	136,387.29		
		Grand Total			327,004.20	6,924,419.75	7,251,423.95		

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

NOTE 1—BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal Awards is prepared on the same basis of accounting as the South Kitsap School District's financial statements. South Kitsap 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 South Kitsap School District #402's local matching share, may be more than shown. Such expenditures are recognized following, as applicable, either the cost principles in the OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3—NONCASH AWARDS

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

NOTE 4—SCHOOLWIDE PROGRAMS

The South Kitsap School District 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 District in its schoolwide program: Title I (84.010) \$405,389.48; IDEA (84.027) \$196,142.92.

NOTE 7—FEDERAL INDIRECT RATE

The South Kitsap School District used the federal *restricted* rate of 4.85%. The South Kitsap School District has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

Contact information for the State Auditor's Office	
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov



Office of the Washington State Auditor
Pat McCarthy

Accountability Audit Report

South Kitsap School District No. 402

Kitsap County

For the period September 1, 2016 through August 31, 2017

Published April 26, 2018

Report No. 1021183





Office of the Washington State Auditor
Pat McCarthy

April 26, 2018

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

Report on Accountability

Thank you for the opportunity to work with you to promote accountability, integrity and openness in government. The State Auditor's Office takes seriously our role of providing state and local governments with assurance and accountability as the independent auditor of public accounts. In this way, we strive to help government work better, cost less, deliver higher value and earn greater public trust.

Independent audits provide essential accountability and transparency for District operations. This information is valuable to management, the governing body and public stakeholders when assessing the government's stewardship of public resources.

The attached comprises our independent audit report on the District's compliance with applicable requirements and safeguarding of public resources for the areas we examined. We appreciate the opportunity to work with your staff and we value your cooperation during the audit.

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA

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AUDIT RESULTS

This report describes the overall results and conclusions for the areas we examined. In those selected areas, District operations complied with applicable state laws, regulations, and its own policies, and provided adequate controls over the safeguarding of public resources.

About the audit

This report contains the results of our independent accountability audit of South Kitsap School District No. 402 from September 1, 2016 through August 31, 2017.

Management is responsible for ensuring compliance and adequate safeguarding of public resources from fraud, loss or abuse. This includes the design, implementation and maintenance of internal controls relevant to these objectives.

This audit was conducted under the authority of RCW 43.09.260, which requires the Office of the State Auditor to examine the financial affairs of all local governments. Our audit involved performing procedures to obtain evidence about the District's uses of public resources, compliance with state laws and regulations and its own policies and procedures, and internal controls over such matters.

In keeping with general auditing practices, we do not examine every transaction, activity or area. Instead, based on our risk assessment for the year ended August 31, 2017, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. The following areas were examined during this audit period:

- Credit cards
- Small & attractive assets
- Basic enrollment
- Self-insurance for vision
- Associated Student Body (ASB) –
Marcus Whitman Middle School &
John Sedgewick Middle School
- Out of State Purchasing Cooperatives

RELATED REPORTS

Financial

Our opinion on the District's financial statements and compliance with federal grant program requirements is provided in a separate report, which includes the District's financial statements. That report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

Federal grant programs

We evaluated internal controls and tested compliance with the federal program requirements, as applicable, for the District's major federal programs, which are listed in the Schedule of Findings and Questioned Costs section of the separate financial statement and single audit report. That report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

INFORMATION ABOUT THE DISTRICT

South Kitsap School District No. 402 operates ten elementary schools, three junior high schools, one high school and two alternative schools. The District served approximately 9,900 full-time students during the 2016-2017 school year. The District has approximately 1,500 employees who provide an array of services in basic, special, and vocational education and supporting services such as: food and nutrition, health, maintenance and operations, transportation, student records, purchasing, human resources, financial, and administrative.

The District is administered by a five-member Board of Directors, which appoints a Superintendent to oversee the District's day-to-day operations. The District's general fund operating budget was approximately \$117 million for the year ended August 31, 2017.

Contact information related to this report	
Address:	South Kitsap School District No. 402 1962 Hoover Avenue Port Orchard, WA 98366
Contact:	Kira Acker, Director of Business Services
Telephone:	(360) 874-7015
Website:	www.skitsap.wednet.edu

Information current as of report publish date.

Audit history

You can find current and past audit reports for South Kitsap School District No. 402 at <http://portal.sao.wa.gov/ReportSearch>.

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov



Office of the Washington State Auditor
Pat McCarthy

Financial Statements and Federal Single Audit Report

South Kitsap School District No. 402

Kitsap County

For the period September 1, 2016 through August 31, 2017

Published April 26, 2018

Report No. 1021209





Office of the Washington State Auditor

Pat McCarthy

April 26, 2018

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,

Pat McCarthy
State Auditor
Olympia, WA

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

South Kitsap School District No. 402
Kitsap County
September 1, 2016 through August 31, 2017

SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of South Kitsap School District No. 402 are summarized below in accordance with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

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 adverse opinion on the fair presentation of all funds with regard to accounting principles generally accepted in the United States of America (GAAP) because the financial statements are prepared using a basis of accounting other than 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 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 in accordance with 2 CFR 200.516(a).

Identification of Major Federal Programs:

The following programs were selected as major programs in our audit of compliance in accordance with the Uniform Guidance.

<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 the Uniform Guidance, was \$750,000.

The District did not qualify as a low-risk auditee under the Uniform Guidance.

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

**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, 2016 through August 31, 2017**

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, 2017, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated April 18, 2018.

We issued an unmodified opinion on the fair presentation of the District's financial statements in accordance with its regulatory basis of accounting. We issued an adverse opinion on the fair presentation with regard to accounting principles generally accepted in the United States of America (GAAP) because, as described in Note 1, the *Accounting Manual for Public School Districts in the State of Washington* does not require the District to prepare the government-wide statements presenting the financial position and changes in financial position of its governmental activities as required by GAAP. The effects on the financial statements of the variances between the basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy
State Auditor
Olympia, WA

April 18, 2018

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND REPORT ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH THE UNIFORM GUIDANCE**

**South Kitsap School District No. 402
Kitsap County
September 1, 2016 through August 31, 2017**

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) 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, 2017. 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 Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Those standards and the Uniform Guidance 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, 2017.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

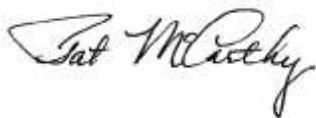
Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the 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 the Uniform Guidance, 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 the Uniform Guidance. 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 "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy
State Auditor
Olympia, WA

April 18, 2018

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

South Kitsap School District No. 402 Kitsap County September 1, 2016 through August 31, 2017

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, 2017, and the related notes to the financial statements, which collectively comprise the District's financial statements, as listed on page 16.

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

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

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

Unmodified Opinion on Regulatory Basis of Accounting (Accounting Manual)

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of South Kitsap School District No. 402, as of August 31, 2017, and the changes in financial position thereof for the year then ended in accordance with the basis of accounting described in Note 1.

Basis for Adverse Opinion on U.S. GAAP

Auditing standards issued by the American Institute of Certified Public Accountants (AICPA) require auditors to formally acknowledge when governments do not prepare their financial statements, intended for general use, in accordance with GAAP. GAAP requires presentation of government-wide financial statements to display the financial position and changes in financial position of its governmental activities.

As described in Note 1, the Accounting Manual does not require the District to prepare the government-wide financial statements, and consequently such amounts have not been determined or presented. We are therefore required to issue an adverse opinion on whether the financial statements are presented fairly, in all material respects, in accordance with GAAP.

Adverse Opinion on U.S. GAAP

The financial statements referred to above were not intended to, and in our opinion they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of South Kitsap School District No. 402, as of August 31, 2017, or the changes in financial position or cash flows for the year then ended, due to the significance of the matter discussed in the above “Basis for Adverse Opinion on U.S. GAAP” paragraph.

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 Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The 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 April 18, 2018 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.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy
State Auditor
Olympia, WA

April 18, 2018

FINANCIAL SECTION

South Kitsap School District No. 402
Kitsap County
September 1, 2016 through August 31, 2017

FINANCIAL STATEMENTS

Balance Sheet – Governmental Funds – 2017
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental
Funds – 2017
Statement of Changes in Fiduciary Net Position – Fiduciary Funds – 2017
Statement of Net Position – Fiduciary Funds – 2017
Notes to Financial Statements – 2017

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Long-Term Liabilities – 2017
Schedule of Expenditures of Federal Awards – 2017
Notes to the Schedule of Expenditures of Federal Awards – 2017

South Kitsap School District No. 402

Balance Sheet

Governmental Funds

August 31, 2017

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
ASSETS:							
Cash and Cash Equivalents	2,756,132.36	178,595.54	45.86	1,119,414.20	1,567,659.22	0.00	5,621,847.18
Minus Warrants Outstanding	-1,847,826.26	-20,596.95	0.00	0.00	0.00	0.00	-1,868,423.21
Taxes Receivable	10,613,797.99		0.00	0.00	0.00	0.00	10,613,797.99
Due From Other Funds	73,878.52	58,315.88	0.00	0.00	0.00	0.00	132,194.40
Due From Other Governmental Units	887,821.29	0.00	0.00	0.00	0.00	0.00	887,821.29
Accounts Receivable	383,904.63	26,855.56	0.00	0.00	0.00	0.00	410,760.19
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	674,752.56	0.00		0.00			674,752.56
Prepaid Items	316,117.95	14,856.09			0.00		330,974.04
Investments	18,196,093.13	637,130.82	2,004.90	1,340,354.62	107,587.74	0.00	20,283,171.21
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	32,054,672.17	895,156.94	2,050.76	2,459,768.82	1,675,246.96	0.00	37,086,895.65
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	32,054,672.17	895,156.94	2,050.76	2,459,768.82	1,675,246.96	0.00	37,086,895.65
LIABILITIES:							
Accounts Payable	1,914,172.15	28,421.84	0.00	811,149.33	0.00	0.00	2,753,743.32
Contracts Payable Current	0.00	0.00		0.00	0.00	0.00	0.00
Accrued Interest Payable			0.00				0.00
Accrued Salaries	203,914.87	0.00		0.00			203,914.87
Anticipation Notes Payable	0.00		0.00	0.00	0.00		0.00

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

South Kitsap School District No. 402

Balance Sheet

Governmental Funds

August 31, 2017

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
LIABILITIES:							
Payroll Deductions and Taxes Payable	110,236.70	0.00		0.00			110,236.70
Due To Other Governmental Units	0.00	0.00		0.00	0.00	0.00	0.00
Deferred Compensation Payable	0.00			0.00			0.00
Estimated Employee Benefits Payable	0.00			0.00			0.00
Due To Other Funds	58,315.88	21,450.70	0.00	52,427.82	0.00	0.00	132,194.40
interfund Loans Payable	0.00		0.00	0.00	0.00		0.00
Deposits	34,534.74	0.00		0.00			34,534.74
Unearned Revenue	0.00	114,736.35	0.00	0.00	0.00		114,736.35
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	2,321,174.34	164,608.89	0.00	863,577.15	0.00	0.00	3,349,360.38
DEFERRED INFLOWS OF RESOURCES:							
Unavailable Revenue	207,813.82	24,850.84	0.00	0.00	0.00	0.00	232,664.66
Unavailable Revenue - Taxes Receivable	10,613,797.99		0.00	0.00	0.00		10,613,797.99
TOTAL DEFERRED INFLOWS OF RESOURCES	10,821,611.81	24,850.84	0.00	0.00	0.00	0.00	10,846,462.65
FUND BALANCE:							
Nonspendable Fund Balance	990,870.00	0.00	0.00	0.00	0.00	0.00	990,870.00
Restricted Fund Balance	818,620.00	705,697.21	2,050.76	1,191,238.16	1,675,246.96	0.00	4,392,853.09
Committed Fund Balance	0.00	0.00	0.00	404,953.51	0.00	0.00	404,953.51
Assigned Fund Balance	10,035,067.00	0.00	0.00	0.00	0.00	0.00	10,035,067.00
Unassigned Fund Balance	7,067,329.02	0.00	0.00	0.00	0.00	0.00	7,067,329.02
TOTAL FUND BALANCE	18,911,886.02	705,697.21	2,050.76	1,596,191.67	1,675,246.96	0.00	22,891,072.62
TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND FUND BALANCE	32,054,672.17	895,156.94	2,050.76	2,459,768.82	1,675,246.96	0.00	37,086,895.65

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

South Kitsap School District No. 402
Statement of Revenues, Expenditures, and Changes in Fund Balance

Governmental Funds							
For the Year Ended August 31, 2017							
	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
REVENUES:							
Local	25,757,061.58	988,905.92	23.85	480,123.78	1,214.01		27,227,329.14
State	82,101,918.56		0.00	0.00	567,094.22		82,669,012.78
Federal	7,410,599.99		0.00	0.00	0.00		7,410,599.99
Federal Stimulus	0.00						0.00
Other	12,082.27			0.00	0.00	0.00	12,082.27
TOTAL REVENUES	115,281,662.40	988,905.92	23.85	480,123.78	568,308.23	0.00	117,319,024.18
EXPENDITURES:							
CURRENT:							
Regular Instruction	62,057,113.23						62,057,113.23
Federal Stimulus	0.00						0.00
Special Education	15,054,544.61						15,054,544.61
Vocational Education	4,139,034.45						4,139,034.45
Skill Center	0.00						0.00
Compensatory Programs	4,454,082.84						4,454,082.84
Other Instructional Programs	956,314.19						956,314.19
Community Services	759,362.11						759,362.11
Support Services	23,937,548.64						23,937,548.64
Student Activities/Other		875,520.08				0.00	875,520.08
CAPITAL OUTLAY:							
Sites				2,459.55			2,459.55
Building				894,480.62			894,480.62
Equipment				0.00			0.00
Instructional Technology				0.00			0.00
Energy				0.00			0.00
Transportation Equipment					1,038,498.42		1,038,498.42
Sales and Lease				0.00			0.00
Other	203,117.51						203,117.51
DEBT SERVICE:							
Principal	0.00		439,734.13	0.00	0.00		439,734.13
Interest and Other Charges	0.00		79,144.47	0.00	0.00		79,144.47
Bond/Levy Issuance				0.00	0.00		0.00
TOTAL EXPENDITURES	111,561,117.58	875,520.08	518,878.60	896,940.17	1,038,498.42	0.00	114,890,954.85

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

South Kitsap School District No. 402

Statement of Revenues, Expenditures, and Changes in Fund Balance

Governmental Funds

For the Year Ended August 31, 2017

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
DEBT SERVICE:							
REVENUES OVER (UNDER) EXPENDITURES	3,720,544.82	113,385.84	-518,854.75	-416,816.39	-470,190.19	0.00	2,428,069.33
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		518,878.60	700,000.00	1,425,000.00		2,643,878.60
Transfers Out (GL 536)	-2,253,957.26		0.00	-389,921.34	0.00	0.00	-2,643,878.60
Other Financing Uses (GL 535)	0.00		0.00	0.00	0.00		0.00
Other	47,438.41		0.00	0.00	15,693.89		63,132.30
TOTAL OTHER FINANCING SOURCES (USES)	-2,206,518.85		518,878.60	310,078.66	1,440,693.89	0.00	63,132.30
EXCESS OF REVENUES/OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	1,514,025.97	113,385.84	23.85	-106,737.73	970,503.70	0.00	2,491,201.63
BEGINNING TOTAL FUND BALANCE	17,397,860.05	592,311.37	2,026.91	1,702,929.40	704,743.26	0.00	20,399,870.99
Prior Year(s) Corrections or Restatements	0.00	0.00	0.00	0.00	0.00	0.00	0.00
ENDING TOTAL FUND BALANCE	18,911,886.02	705,697.21	2,050.76	1,596,191.67	1,675,246.96	0.00	22,891,072.62

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, 2017

	Private Purpose Trust	Other Trust
ASSETS:		
Imprest Cash	0.00	0.00
Cash On Hand	0.00	0.00
Cash On Deposit with Cty Treas	0.00	0.00
Minus Warrants Outstanding	0.00	0.00
Due From Other Funds	0.00	0.00
Accounts Receivable	0.00	0.00
Accrued Interest Receivable	0.00	0.00
Investments	585.31	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	585.31	0.00
LIABILITIES:		
Accounts Payable	0.00	0.00
Due To Other Funds	0.00	0.00
TOTAL LIABILITIES	0.00	0.00
NET POSITION:		
Held in trust for:		
Held In Trust For Intact Trust Principal	0.00	0.00
Held In Trust For Private Purposes	585.31	0.00
Held In Trust For Pension Or Other Post-Employment Benefits		0.00
Held In Trust For Other Purposes	0.00	0.00
TOTAL NET POSITION	585.31	0.00

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

South Kitsap School District No. 402

Statement of Changes in Fiduciary Net Position

Fiduciary Funds

For the Year Ended August 31, 2017

	Private Purpose Trust	Other Trust
ADDITIONS:		
Contributions:		
Private Donations	0.00	0.00
Employer		0.00
Members		0.00
Other	0.00	0.00
TOTAL CONTRIBUTIONS	0.00	0.00
Investment Income:		
Net Appreciation (Depreciation) in Fair Value	0.00	0.00
Interest and Dividends	5.16	0.00
Less Investment Expenses	0.00	0.00
Net Investment Income	5.16	0.00
Other Additions:		
Rent or Lease Revenue	0.00	0.00
Total Other Additions	0.00	0.00
TOTAL ADDITIONS	5.16	0.00
DEDUCTIONS:		
Benefits	0.00	0.00
Refund of Contributions	0.00	0.00
Administrative Expenses	0.00	0.00
Scholarships	0.00	0.00
Other	0.00	0.00
TOTAL DEDUCTIONS	0.00	0.00
Net Increase (Decrease)	5.16	0.00
Net Position--Prior Year August Beginning	580.15	0.00
Prior Year F-196 Manual Revision	0.00	0.00
Net Position - Total	580.15	0.00
Prior Year(s) Corrections or Restatements	0.00	0.00
NET POSITION--ENDING	585.31	0.00

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

Notes to the Financial Statements for: South Kitsap School District

September 1, 2016 through August 31, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The South Kitsap School District is a municipal corporation organized pursuant to Title 28A of the *Revised Code of Washington* (RCW) for the 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.
- (4) Property Taxes collected after the end of the fiscal period are not considered available for revenue accrual.

Fund Accounting

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

Governmental funds

General Fund

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

Capital Projects Funds

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

Notes to the Financial Statements for: South Kitsap School District

September 1, 2016 through August 31, 2017

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 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 that legally belonging to the District. As a special revenue fund, amounts within the ASB Fund may only be used for those purposes that relate to the operation of the Associated Student Body of the District.

Permanent Funds

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

Fiduciary Funds

Fiduciary funds include pension and other employee benefit trust funds, private-purpose trust funds, and agency funds, and are used to account for assets that are held in trust by the District in a trustee and agency capacity.

Private-Purpose Trust Fund

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

Pension and Other Employee Benefit Trust Fund

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

Notes to the Financial Statements for: South Kitsap School District

September 1, 2016 through August 31, 2017

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. Categorical program claims and interdistrict billings are measurable and available and are accrued. Property taxes not collected by the fiscal year end are measurable and recorded as a receivable, however the receivable is not considered available of revenue accrual, but is recorded as a deferred inflow of resources.

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

Budgets

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

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

The government’s policy regarding whether to first apply restricted 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

Notes to the Financial Statements for: South Kitsap School District

September 1, 2016 through August 31, 2017

are restricted or committed to that purpose are considered first before any unrestricted or unassigned amounts are expended.

The government's fund balance classifications policies and procedures

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

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

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

Assigned Fund Balance In the General Fund, amounts that are reported as Assigned are those resources that the District has set aside for specific purposes. These accounts reflect tentative management 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 and/or designee are the only persons who have the authority to create Assignments of fund balance.

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

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

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

Notes to the Financial Statements for: South Kitsap School District

September 1, 2016 through August 31, 2017

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 for the date of acquisition.

Receivable and Payables

There were no receivables or payables not expected to be collected within one year.

Inventory

Inventory is valued at cost using the first-in, first-out (FIFO) method. The consumption method of inventory is used, which charges inventory as an expenditure when it is consumed. A portion of the fund balance, representing inventory, is considered Non-spendable. Such reserves for inventory indicate that a portion of net current assets is set aside to replace or increase the inventory. USDA commodity inventory consists of food donated by the United States Department of Agriculture. It is valued at the prices paid by the USDA for the commodities.

Summary of Significant Accounting Policies Changes for 2016-17

Property Taxes – For purposes of revenue recognition, property taxes received after the fiscal year end are not considered available for revenue accrual as defined by GASBS 33 and interpretation 5. Amounts outstanding are recognized as a deferred inflow of resources on the financial statements.

Tax Abatements – The South Kitsap School District implemented provisions of GASB Statement 77, Tax Abatement Disclosure, Information about tax abatements entered into by other government entities that affect the district's levy rates will be disclosed in a schedule in the Property Taxes note, as applicable.

Nongovernmental Pension Plans – The South Kitsap School District implemented provisions of GASB Statement 78, Pension Provided through Certain Multiple-Employer Defined Benefit Plans. Information about nongovernmental pension plans will be included in a separate note disclosure, as applicable.

NOTE 2: DEPOSITS AND INVESTMENTS

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

The district's deposits and certificates of deposit are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

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.

Washington State statutes authorize the district to invest in the following types of securities:

Notes to the Financial Statements for: South Kitsap School District

September 1, 2016 through August 31, 2017

- Certificates, notes, or bonds of the United States, its agencies, or any corporation wholly owned by the government of the United States.
- Obligations of government-sponsored corporations which are eligible as collateral for advances to member banks as determined by the Board of Governors of the Federal Reserve System.
- Bankers' acceptances purchased on the secondary market.
- Repurchase agreements for securities listed in the three items above, provided that the transaction is structured so that the public treasurer obtains control over the underlying securities.
- Investment deposits with qualified public depositories.
- Washington State Local Government Investment Pool, and
- County Treasurer Investment Pools.

The District's investments as of August 31, 2017 are as follows:

	Carrying Amount	Market Value
Kitsap County Treasurer's Investment Pool	\$20,238,756	\$20,289,239

The district's participation in the Kitsap County Investment Pool is voluntary and the pool is not rated by a nationally recognized statistical rating organization (NRSRO). The fair value of the district's investment in the pool is measured using a net asset value (NAV) as determined by the pool.

The pool maintains a (duration/weighted average maturity) of 1.13 years.

NOTE 3: SIGNIFICANT CONTINGENT LIABILITIES

Significant Contingent Liabilities

The District has no known significant contingent liabilities as of August 31, 2017.

Litigation

The District is aware of potential litigation, but none meet the materiality threshold.

Arbitrage Rebate

Arbitrage rebates are non-applicable to the District.

Notes to the Financial Statements for: South Kitsap School District

September 1, 2016 through August 31, 2017

NOTE 4: SIGNIFICANT EFFECTS OF SUBSEQUENT EVENTS

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

NOTE 5: ANNUAL PENSION COST AND NET PENSION OBLIGATIONS

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, 2017, was as follows:

Plan	Retirees and Beneficiaries Receiving Benefits	Inactive Plan Members Entitled to but not yet Receiving Benefits	Active Plan Members
PERS 1	48,268	663	2,593
SERS 2	8,229	5,880	27,011
SERS 3	7,735	8,330	33,890
TRS 1	34,225	188	697
TRS 2	5,076	2,532	19,133
TRS 3	10,289	8,568	54,487

Notes to the Financial Statements for: South Kitsap School District

September 1, 2016 through August 31, 2017

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.

Notes to the Financial Statements for: South Kitsap School District

September 1, 2016 through August 31, 2017

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

Notes to the Financial Statements for: South Kitsap School District

September 1, 2016 through August 31, 2017

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 RS is set by statute at six percent and does not vary from year to year.

The Employer and employee contribution rates for the PES 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 2017) were as follows:

Employee contribution rates effective September 1, 2016 through August 31, 2017:

Plan 1 TRS	6.00%	Plan 1 PERS	6.00%
Plan 2 TRS	5.95%	Plan 2 SERS	5.63%
Plan 3 TRS & SERS	5.00% (Minimum), 15% (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, 2016 through August 31, 2017:

Plan 1 TRS	13.13%	Plan 1 PERS	11.18%
Plan 2 TRS	13.13%	Plan 2 SERS	11.58%
Plan 3 TRS	13.13%	Plan 3 SERS	11.58%

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, 2017):

The Collective Net Pension Liability

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

Notes to the Financial Statements for: South Kitsap School District

September 1, 2016 through August 31, 2017

The Collective Net Pension Liability as of June 30, 2017:				
Dollars in Thousands	PERS 1	SERS 2/3	TRS 1	TRS 2/3
Total Pension Liability	\$12,241,998	\$5,357,035	\$8,782,761	\$13,446,531
Plan fiduciary net position	(\$7,496,920)	(\$4,863,560)	(\$5,759,493)	(\$12,523,588)
Participating employers' net pension liability	\$4,745,078	\$493,475	\$3,023,268	\$922,943
Plan fiduciary net position as a percentage of the total pension liability	61.24%	90.79%	65.58%	93.14%

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

At June 30, 2017, the school district reported a total liability of \$46,523,292 for its proportionate shares of the individual plans' collective net pension liability. Proportions of net pension liability is based on annual contributions for each of the employers participating in the DRS administered plans. At June 30, 2017, the district's proportionate share of each plan's net pension liability is reported below:

June 30, 2017	PERS 1	SERS 2/3	TRS 1	TRS 2/3
District's Annual Contributions	818,866	1,118,602	3,187,485	3,373,389
Proportionate Share of the Net Pension Liability	6,459,545	4,075,408	27,538,225	8,450,115

At June 30, 2017, the school district's percentage of the proportionate share of the collective net pension liability was as follows and the change in the allocation percentage from the prior period is reported below.

Allocation percentages	PERS 1	SERS 2/3	TRS 1	TRS 2/3
Current year proportionate share of the Net Pension Liability	0.136131%	0.825859%	0.910876%	0.915562%
Prior year proportionate share of the Net Pension Liability	0.120116%	0.775664%	0.814377%	0.822215%
Net difference percentage	0.016015%	0.050195%	0.096499%	0.093347%

Notes to the Financial Statements for: South Kitsap School District

September 1, 2016 through August 31, 2017

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, 2017, with the results rolled forward to June 30, 2017, 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, 2016, 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 2015 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.

Notes to the Financial Statements for: South Kitsap School District

September 1, 2016 through August 31, 2017

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, 2017, are summarized in the following table:

TRS 1, 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%	4.90%
Real Estate	15.00%	5.80%
Global Equity	37.00%	6.30%
Private Equity	23.00%	9.30%

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 table below presents the South Kitsap School District's proportionate share of the net pension liability (NPL) calculated using the discount rate of 7.50%, 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%) or one percentage point higher (8.50%) than the current rate. Amounts are calculated by plan using the district's allocation percentage.

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
PERS 1 NPL	\$5,780,412,000	\$4,745,078,000	\$3,848,257,000
Allocation Percentage	0.136131%	0.136131%	0.136131%
Proportionate Share of Collective NPL	\$7,868,961	\$6,459,545	\$5,238,690

Notes to the Financial Statements for: South Kitsap School District

September 1, 2016 through August 31, 2017

SERS 2/3 NPL	\$1,278,921,000	\$493,475,000	(\$153,665,000)
Allocation Percentage	0.825859%	0.825859%	0.825859%
Proportionate Share of Collective NPL	\$10,562,084	\$4,075,408	(\$1,269,056)
TRS 1 NPL			
TRS 1 NPL	\$3,759,368,000	\$3,023,268,000	\$2,386,123,000
Allocation Percentage	0.910876%	0.910876%	0.910876%
Proportionate Share of Collective NPL	\$34,243,183	\$27,538,225	\$21,734,623
TRS 2/3 NPL			
TRS 2/3 NPL	\$3,134,647,000	\$922,943,000	(\$873,375,000)
Allocation Percentage	0.915562%	0.915562%	0.915562%
Proportionate Share of Collective NPL	\$28,699,634	\$8,450,115	(\$7,996,289)

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

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

Employers participating in the plan include the State of Washington (which includes general government agencies and higher education institution), 60 of the state's K-12 school districts and educational services districts (ESDs), and 221 political subdivisions and tribal governments. Additionally, the PEBB plan is available to the retirees of the remaining 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 2016-17, the District was required to pay the HCA \$ 66.39 per month per full-time equivalent employee to support the program, for a total payment of \$842,004.54. This assessment to the District is set forth in the State's operating budget and is subject to change on an annual basis. This amount is not actuarially determined and is not placed in a trust to pay the obligations for post-employment health care benefits.

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

Notes to the Financial Statements for: South Kitsap School District

September 1, 2016 through August 31, 2017

NOTE 7: COMMITMENTS UNDER NONCAPITALIZED (OPERATING) LEASES

The District entered into an operating lease agreement with Lease Servicing Center, Inc. dba National Cooperative Leasing in order to provide 57 copiers districtwide. The lease agreement is for a period of 61 months ending November 2020.

For the fiscal years ended August 31, 2017, the district had incurred additional long-term debt as follows:

Vendor	Amount	Annual Installment	Final Installment Date	Interest Rate	Balance
Conditional Sales Contracts					
Copier Lease Agreement Provide	\$228,469	\$48,045	11/2020	6.7342%	\$180,424
TOTAL: CONDITIONAL SALES & LONG-TERM COMMITMENTS					\$ 180,424

NOTE 8: CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

The District did not have construction in progress, or any other significant commitments as of August 31, 2017.

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 in September 2017.

<u>Fund</u>	<u>Amount</u>
General	\$67,613
Capital Projects fund	\$1,220,233
ASB	\$2,515

Notes to the Financial Statements for: South Kitsap School District

September 1, 2016 through August 31, 2017

NOTE 9: CAPITAL ASSETS

The District's capital assets are insured in the amount of \$379,996,493 for fiscal year 2017. 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

There were no General Obligation Bonds issued as of August 31, 2017.

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 (for 16-17)	Final Maturity	Interest Rate(s)	Amount Outstanding as of 8/31/2017
08/25/2010	\$ 1,066,500	\$ 111,378 ENERGY	June 1, 2020	3.950%	\$ 361,511
10/10/2012	\$ 2,385,043	\$228,356 LAND	Dec. 1, 2022	2.490%	\$ 1,500,288
07/02/2015	\$ 1,000,000	\$100,000 TURF FIELD	June 1, 2025	2.300%	\$ 800,000

Total Non-Voted Bonds	\$ 2,661,799
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The following is a summary of all long-term debt transactions of the district for the fiscal year ending August 31, 2017:

Long-Term Debt Payable at 9/1/2016	\$5,972,602
New Issues/Increase	\$605,679
Debt Retired/Decreased	\$901,944
Long-Term Debt Payable at 8/31/2017	\$5,070,657

Notes to the Financial Statements for: South Kitsap School District

September 1, 2016 through August 31, 2017

Annual Debt Requirements

The following is a schedule of annual requirements to amortize long-term debt at August 31, 2017:

Year Ending August 31:	Principal	Interest	Total
2017	439,734	79,144	518,878
2018	450,189	67,333	517,522
2019	460,520	54,938	515,458
2020	470,728	41,990	512,718
2021	355,568	29,722	385,290
2022	360,232	20,779	381,011
2023	364,562	11,529	376,091
2024	100,000	5,357	105,357
2025	100,000	2,335	102,335
TOTALS	\$3,101,533	\$313,127	\$3,414,661

NOTE 11: INTERFUND BALANCES AND TRANSFERS

The following table depicts inter-fund transfer activity as of August 31, 2017:

Purpose	Transfer To/From	Amount
LGO Bond 2010 (Energy)	From GF to DSF	\$128,958
LGO Bond 2012 (Land)	From CPF to DSF	\$268,556
LGO Bond 2015 (Turf)	From CPF to DSF	\$121,365
CPF Projects	From GF to CPF	\$700,000
Bus Purchases	From GF to TVF	\$1,500,000

NOTE 12: ENTITY RISK MANAGEMENT ACTIVITIES

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

The South Kitsap School District participates with the Washington Schools Risk Management Pool. In September 2014, the District joined together with other districts in the state to form the Washington Schools Risk Management Pool, a public entity risk pool currently operating as a common risk management and insurance program. The District pays an annual premium to the pool for its general insurance coverage. The agreement for formation of the Washington Schools Risk Management Pool provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$1 million for each insured event.

Notes to the Financial Statements for: South Kitsap School District

September 1, 2016 through August 31, 2017

Olympic Educational Service District No. 114 administers the industrial insurance pool on behalf of South Kitsap School District, along with several other 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 2016-17, the district paid \$8,993 in unemployment benefits.

In addition, the district is insured with Northwest Administrators, Inc. for employee vision benefits. At the end of the benefit period the reserve balance held by Northwest Administrators equaled \$174,300. This balance is adequate to provide for more than four months of claims.

NOTE 13: PROPERTY TAXES

Property tax revenues are collected as the result of special levies passed by the voters in the District. Taxes are levied on January 1. The taxpayer has the obligation of paying all taxes on April 30 or one-half then and one-half on October 31. Typically, slightly more than half of the collections are made on the April 30th date. The tax collections occurring after the end of the fiscal period are unavailable for revenue accrual. Therefore, the fall portion of property taxes is not accrued as revenue. Instead, the property taxes due after the end of the fiscal period are recorded as a deferred inflow of resources.

NOTE 14: JOINT VENTURES AND JOINTLY GOVERNED ORGANIZATIONS

The district is a member of the King County Directors' Association (KCDA). KCDA is a purchasing cooperative designed to pool the member districts' purchasing power. The board authorized joining the association as of September 9, 1974, and has remained in the joint venture ever since. The District's current equity of \$123,260 is the accumulation of the annual assignment of KCDA's operating surplus based upon the percentage derived from KCDA's total sales to the District compared to all other districts applied against paid administrative fees. The District may withdraw from the joint venture and will receive its equity in ten annual allocations of merchandise or 15 annual payments.

The District participates in the WSIPC data processing cooperative under the authority of the Inter-local Cooperation Act (chapter 39.34 RCW). The relationship with WSIPC is as a "jointly governed organization." Payments are made on a fee-for-service basis with no ongoing financial obligation on the part of participating districts.

Notes to the Financial Statements for: South Kitsap School District

September 1, 2016 through August 31, 2017

NOTE 15: FUND BALANCE CLASSIFICATION DETAILS

	General Fund	ASB	Capital Projects Fund	Debt Service Fund	Transportation Vehicle Fund
Non-spendable Fund Balance					
Inventory and Prepaid	990,870				
Restricted Fund Balance					
Carryover of Restricted Revenues	818,620				
For Other Items					1,675,246
Debt Service				2,050	
Associated Student Body		705,697			
Impact Fees Restricted for CPF			1,076,862		
Mitigation Fees Restricted for CPF			114,375		
Committed Fund Balance					
Committed for Levy Proceeds			404,953		
Assigned Fund Balance					
Contingencies	4,009,843				
Other Capital Projects					
Undesignated Committed to Minimum FB Policy	6,916,900				
Other Purposes	6,025,224				
Unassigned Fund Balance	150,429				
Totals	18,911,866	705,697	1,596,191	2,050	1,675,246

Notes to the Financial Statements for: South Kitsap School District

September 1, 2016 through August 31, 2017

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

2016-17 Capital Projects Fund Restricted and Committed Fund Balance		
	Committed from Levy Proceeds	\$ -
	Restricted from Other Proceeds	\$ -
	Restricted Impact Fees	\$ 1,076,862.00
	Restricted Mitigation Fees	\$ 114,375.00
	Assigned to Fund Purposes	\$ 404,954.00
		\$ 1,596,191.00

The board of directors has established financial planning that shall not deviate materially from the Board's Ends policies, fail to adhere to state law, or risk fiscal jeopardy to the district. Ends Limitation 8.2: "Maintain and protect the minimum maintenance of the un-assigned committed general fund balance in an amount equal to or greater than 6.0 percent in 2016-17 to provide financial stability and contingencies within the District. 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 the Unassigned fund balance.

NOTE 16: POST-EMPLOYMENT BENEFIT PLANS OTHER THAN PENSION PLANS—BOTH IN SEPARATELY ISSUES 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 Section 457 of the Internal Revenue Code that is administered by the state deferred compensation plan, or the District.

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

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

The district complies with IRS regulations that require school districts to have a written plan to include participating investment companies, types of investments, loans, transfers, and various requirements. The plan is administered by a third party administrator, The Omni Group, Water Tower Office Park, and 1099 Jay Street, Rochester, NT 14611. The Omni Group website is 222.Omni403b.com. The plan assets are assets of the employees, not the assets of the school district, and therefore not reflected on these financial statements.

Notes to the Financial Statements for: South Kitsap School District

September 1, 2016 through August 31, 2017

NOTE 17: TERMINATION BENEFITS

Compensated Absences

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

Under the provisions of RCW 28A.400.210, sick leave accumulated by District employees is reimbursed at death or retirement at the rate of one day for each four days of accrued leave, limited to 180 accrued days. This provision 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 31st of each year.

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

South Kitsap School District No. 402
 Schedule of Long-Term Liabilities
 For the Year Ended August 31, 2017

Description	Beginning Outstanding Debt September 1, 2016	Amount Issued / Increased	Amount Redeemed / Decreased	Ending Outstanding Debt August 31, 2017	Amount Due Within One Year
Voted Debt					
Voted Bonds	0.00	0.00	0.00	0.00	0.00
LOCAL Program Proceeds Issued in Lieu of Bonds	0.00	0.00	0.00	0.00	0.00
Non-Voted Debt and Liabilities					
Non-Voted Bonds	3,101,533.27	0.00	439,734.13	2,661,799.14	450,189.19
LOCAL Program Proceeds	0.00	0.00	0.00	0.00	0.00
Capital Leases	228,469.23	0.00	48,045.72	180,423.51	51,383.01
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	2,871,069.16	605,679.40	462,210.56	3,014,538.00	452,180.70
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	27,804,747.14	0.00	266,522.53	27,538,224.61	
Net Pension Liabilities TRS 2/3	11,291,449.67	0.00	2,841,335.16	8,450,114.51	
Net Pension Liabilities SERS 2/3	5,094,306.32	0.00	1,018,898.67	4,075,407.65	
Net Pension Liabilities PERS 1	6,450,814.58	8,730.88	0.00	6,459,545.46	
Total Long-Term Liabilities	56,842,389.37	614,410.28	5,076,746.77	52,380,052.88	953,752.90

SOUTH KITSAP SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Year Ending August 31, 2017

1	2	3	4	5	6	7	8	9	10
Federal Agency Name	Pass Through Agency Name	Federal Program Title	CFDA Number	Other Identification/Award Number	From Direct Awards	Expenditures From Pass Through Awards	Total	Passed Through to Subrecipients	Footnote
Child Nutrition Cluster:									
US Dept of Agriculture	WA OSPI	Natl School Lunch - noncash assistance	10.555	SKSD 18-402		381,375.56	381,375.56		1.3
US Dept of Agriculture	WA OSPI	Natl School Lunch(A) - Cash Lunches	10.555	SKSD 18-402		1,602,757.22	1,602,757.22		1
US Dept of Agriculture	WA OSPI	Natl School Lunch - Cash Snacks	10.555	SKSD 18-402		11,882.34	11,882.34		1
US Dept of Agriculture	WA OSPI	Natl School Breakfast Program	10.553	SKSD 18-402		433,771.01	433,771.01		1
US Dept of Agriculture	WA OSPI	Summer Food Service Program	10.559	SKSD 18-402		32,143.18	32,143.18		1
		Child Nutrition Cluster				2,461,929.31	2,461,929.31		
		Department of Agriculture Total:							
U S Department of Defense		Impact Aid - Department of Defense	12.558	n/a	131,699.54		131,699.54		1
U S Department of Defense		Naval Jr Reserve Officers Training Corp	12.999	JROTC1745	72,103.32		72,103.32		1
U S Department of Defense		Naval Jr Reserve Officers Training Corp	12.999	N312527MJRTC4VQ67	7,915.15		7,915.15		1.2
		Department of Defense Total:			211,718.01		211,718.01		
Special Education Cluster:									
US Dept of Education	WA OSPI	Special Education Grants to States	84.027A/84.0173A	0305740, 0337976	2400/Safety Net	1,864,012.94	1,864,012.94		1.4,7
US Dept of Education	WA OSPI	Special Ed - Preschool Grants	84.027A/84.0173A	0363740	2405	58,407.00	58,407.00		1.7
		Subtotal Special Education Cluster				1,922,419.94	1,922,419.94		
US Dept of Education	WA OSPI	Title I Grants to Local Ed. Agencies	84.010	0202523	5100-5199/Title I	1,928,827.18	1,928,827.18		1.4,7
US Dept of Education	WA OSPI	Title I Grants to State Agency Program for Neglected and Delinquent children	84.010	0222531, 0222532	5101, 5179/Kitsap/Ciallum	57,067.86	57,067.86	\$57,067.86	1.7
US Dept of Education	WA OSPI	Title I Grants to Local Ed. Agencies	84.010	0263146	5135	20,000.00	20,000.00		1.7
US Dept of Education	WA OSPI	Career and Technical Ed.n - Basic Grants to States	84.048	0173885	3800	73,708.00	73,708.00		1.7
US Dept of Education	WA OSPI	English Language Acquisition State Grants	84.365	0402330	6474/Title III	8,862.31	8,862.31		1
US Dept of Education	WA OSPI	Improving Teacher Quality State Grants	84.367	0524143	5248/Title II	100,153.90	100,153.90		1.7
US Dept of Education	WA OSPI	Impact Aid	84.041	S041B-2016-5507, S041B-2017-5507	341,913.74		341,913.74		1
US Dept of Education	WA OSPI	Indian Education Grants to LEA's	84.060A	S060A160182	36,354.00		36,354.00		1
		Subtotal Dept. of Education Subtotal				378,267.74	2,188,619.25	2,566,886.99	
		Department of Education Total:				378,267.74	4,111,039.19	4,489,306.93	
US Dept of Health & Human Services	OEESD #114	Early Head Start	93.600	n/a		38,765.62	38,765.62		1.2
US Dept of Health & Human Services	WA DSHS	Medical Assistant Program - Medicaid	93.778	KT585		114,295.88	114,295.88		1
		Human/Health Services Dept Total				153,061.50	153,061.50		
		Grand Total				589,985.75	6,726,030.00	7,316,015.75	

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

NOTE 1—BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal Awards is prepared on the same basis of accounting as the South Kitsap School District's financial statements. South Kitsap 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 South Kitsap School District #402's local matching share, may be more than shown. Such expenditures are recognized following, as applicable, either the cost principles in the OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3—NONCASH AWARDS

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

NOTE 4—SCHOOLWIDE PROGRAMS

The South Kitsap School District 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 District in its schoolwide program: Title I (84.010) \$563,970.42 IDEA (84.027) \$175,398.02.

NOTE 7—FEDERAL INDIRECT RATE

The South Kitsap School District used the federal *restricted* rate of 5.42%. The South Kitsap School District has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

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.

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

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

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Contact information for the State Auditor's Office	
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov