



## Washington State Auditor Troy Kelley

May 15, 2014

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

### Management Letter

This letter includes a summary of specific matters that we identified in planning and performing our accountability audit of the South Kitsap School District No. 402 from September 1, 2011 through August 31, 2013. We believe our recommendations will assist you in improving the District's internal controls and compliance in these areas.

We will review the status of these matters during our next audit. We have already discussed our comments with and made suggestions for improvements to District officials and personnel. If you have any further questions, please contact me at (360) 895-6133.

This letter is intended for the information and use of management and the governing body. However, this letter is a matter of public record and its distribution is not limited.

We would also like to take this opportunity to extend our appreciation to your staff for the cooperation and assistance given during the course of the audit.

Sincerely,

*[Insert Electronic Signature]*

Mark Rapozo, Deputy Director of Local Audit

Attachment

**PRELIMINARY DRAFT** - Not Disclosable Under RCW 42.56.280

Management Letter  
 South Kitsap School District No. 402  
 September 1, 2011 through August 31, 2013

**Financial Condition**

The District's financial condition has been declining with falling enrollment and decreasing State and Federal funding. In trying to keep cuts away from the classroom, fund balance has been drawn down significantly and is nearly exhausted. **As a result, the District is not positioned to respond to unanticipated needs.**

	<b>2011</b>	<b>2012</b>	<b>2013</b>
Beginning General Fund Balance	8,621,546.47	7,756,636.49	5,715,974.68
Ending General Fund Balance	<u>7,756,636.49</u>	<u>5,715,974.68</u>	<u>4,861,586.34</u>
Change in General Fund Balance	(864,909.98)	(2,040,661.81)	(854,388.34)
Percent Change	-10%	-26%	-15%

**The District has only 22 days of expenditures in cash.**

**There is no long term plan or ongoing source to support capital needs. Maintenance on buildings has been deferred as well as replacement of school buses.**

The District has taken the following steps to address their financial condition:

- The District hired a consultant to assess the District's financial condition. Her report dated August 6, 2013 included eight observations and recommendations.
- The Board has adopted goals for fund balance and days of cash-on-hand.
- All vacant positions are evaluated before they are filled.
- The District has changed how enrollment is projected for budgeting purposes to be more conservative.
- The District is now focusing on why enrollment is decreasing and looking at ways to reduce out-of-district transfers, such as offering all-day kindergarten at all schools.
- The District has committed to bringing expenditures in line with revenues to remain fiscally solvent.

**We recommend the District continue to take steps to improve its financial condition in order to ensure it can meet future financial needs and develop a plan to address future capital needs.**