

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

Educational Service District No. 112
Clark County

Audit Period
September 1, 2012 through August 31, 2013

Report No. 1011717

Issued **April 28, 2014**
Reissued **May 27, 2014**



Washington State Auditor
Troy Kelley

Independence • Respect • Integrity



Washington State Auditor Troy Kelley

May 27, 2014

Board of Directors
Educational Service District No. 112
Vancouver, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on Educational Service District No. 112's financial statements and compliance with federal laws and regulations.

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

Sincerely,

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

TROY KELLEY
STATE AUDITOR

Table of Contents

Educational Service District No. 112
Clark County
September 1, 2012 through August 31, 2013

Federal Summary	1
Schedule of Federal Audit Findings and Questioned Costs.....	3
Schedule of Prior Federal Audit Findings	7
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 <i>Government Auditing Standards</i>	9
Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.....	11
Independent Auditor's Report on Financial Statements	14
Financial Section.....	17

Federal Summary

Educational Service District No. 112 Clark County September 1, 2012 through August 31, 2013

The results of our audit of Educational Service District No. 112 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 of each major fund and the aggregate remaining fund information.

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 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>
10.558	Child and Adult Care Food Program
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)
84.412	Race to the Top Early Learning Challenge

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

Educational Service District No. 112 Clark County September 1, 2012 through August 31, 2013

1. The District did not comply with federal procurement requirements for the Child and Adult Care Food Program.

CFDA Number and Title:	10.558 Child and Adult Care Food Program
Federal Grantor Name:	U.S. Department of Agriculture
Federal Award/Contract Number:	NA
Pass-through Entity Name:	Office of Superintendent of Public Instruction
Pass-through Award/Contract Number:	06021286 and 06010333
Questioned Cost Amount:	\$0

Background

In fiscal year 2013, the District received \$1,301,538 in federal funds for its Child and Adult Care Food Program. Of this amount, \$189,058 was used to provide lunches and snacks at the District's child care centers. The District purchased food and snack products from two vendors for approximately \$154,000 and \$47,000, of which the majority was paid from federal funds.

We reported a finding in the prior audit related to the District's noncompliance with program procurement, and suspension and debarment requirements. After our audit report was issued, the District was able to implement procedures to comply with suspension and debarment requirements. In addition, the District worked diligently towards entering into a purchasing contract to meet federal procurement requirements. However, the District was unable to implement the new contract in time to comply with procurement requirements related to food purchases noted above.

Description of Condition

Federal law and District policy requires the District to follow RCW 28A.335.190 and obtain price or rate quotations from at least three qualified sources for purchases between \$40,000 up to \$75,000 and formal bids for purchases exceeding \$75,000. The District did not comply with the procurement requirements for purchases of approximately \$154,000.

Cause of Condition

Procurement, suspension and debarment requirements were brought to the attention of the District in the previous audit. Although it was working towards compliance it was unable

to fully complete the process in time to comply for purchases made during the 2012-2013 school year.

Effect of Condition and Questioned Costs

Noncompliance with federal procurement requirements can result in not obtaining the best services at the most competitive price. However, the products purchased are allowable under the federal program; as a result, we are not questioning these costs.

Recommendation

We recommend the District ensure its purchasing activities meet federal procurement requirements.

District's Response

The Educational Service District's 2011-2012 audit was completed May 13, 2013. The District acknowledged the audit finding last year and worked diligently to correct it. On July 23, 2013 the District joined the Puget Sound Food Purchasing cooperative. This cooperative is comprised of school districts from the State of Washington. Cooperative membership has allowed the District to take part in the cooperative's food bid.

The District was unable to purchase off this bid until the 2013-2014 school year as the new vendor was required to meet with the child care centers and determine their needs. This took the month of August as well as some of the fall as there were logistics among the 20 plus sites that needed to be figured out.

After the District joined the cooperative, cooperative bid lists were compared to prices of the incumbent vendor. In most cases pricing favored the incumbent vendor. The District believes that based on the price comparisons that it received the best pricing available at the time.

Due to the timing of the audit and the resulting follow up needed to take corrective action the District could not meet the deadline of August 31, 2013. Corrective action has already taken place at the time of this audit.

Auditor's Remarks

We thank the District for its cooperation and assistance during the audit and look forward to reviewing the District's corrective action during our next audit.

Applicable Laws and Regulations

U.S. Office of Management and Budget Circular A-133, *Audits of states, Local Governments, and Non-Profit Organizations*, 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.
- (c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.

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

b) Procurement standards.

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

(9) Grantees and subgrantees will maintain records sufficient to detail the significant history of a procurement. These records will include, but are not necessarily limited to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.

(d) Methods of procurement to be followed.

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

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

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

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

RCW 28A.335.190 Advertising for bids -- Competitive bid procedures, states in part:

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

(5) The contract for the work or purchase shall be awarded to the lowest responsible bidder as defined in RCW 43.19.1911 but the board may by resolution reject any and all bids and make further calls for bids in the same manner as the original call. On any work or purchase the board shall provide bidding information to any qualified bidder or the bidder's agent, requesting it in person.

Schedule of Prior Federal Audit Findings

Educational Service District No. 112 Clark County September 1, 2012 through August 31, 2013

This schedule presents the status of federal findings reported in prior audit periods. The status listed below is the representation of Educational Service District No. 112. The State Auditor's Office has reviewed the status as presented by the District.

Audit Period: 9/1/2011 to 8/31/2012	Report Ref. No: 1009637	Finding Ref. No: 1	CFDA Number(s): 10.558
Federal Program Name and Granting Agency: Child and Adult Care Food Program, U.S. Department of Agriculture		Pass-Through Agency Name: Office of Superintendent of Public Instruction	
Finding Caption: The District did not have adequate internal controls to ensure compliance with federal procurement and suspension and debarment requirements.			
Background: <p>In fiscal year 2012, the District received \$1,356,184 in federal funds for its Child and Adult Care Food Program. Of this amount, \$184,670 was used to provide lunches and snacks at the District's child care centers. The District purchased food and snack products from two vendors for approximately \$168,000 and \$44,590 of which the majority was paid from federal funds.</p> <ul style="list-style-type: none"> • The District did not comply with the procurement requirements for either purchase. • The District was unable to provide documentation that it verified vendors were not suspended or debarred from participating in federal programs prior to releasing federal funds. 			
Status of Corrective Action: (check one) <div style="display: flex; justify-content: space-between;"> <div> <input type="checkbox"/> Fully Corrected </div> <div> <input checked="" type="checkbox"/> Partially Corrected </div> <div> <input type="checkbox"/> No Corrective Action Taken </div> <div> <input type="checkbox"/> Finding is considered no longer valid </div> </div>			
Corrective Action Taken: <i>Procurement - When this was brought to our attention last spring, we started working on a food bid to go out for the following year and quickly found that we were not experts in the field. After much time and effort, we contacted the Department of Enterprise Services and they suggested that we contact KCDA and/or the Puget Sound Joint Purchasing Cooperative, which is an organization comprised of school districts throughout the state of Washington who award bids for food, supplies and commodity processing. After some research, we submitted a formal request to join the cooperative in June. They assessed our needs and sent us an Interlocal agreement, which we signed and returned in July 2013. Because of the late date and the need to meet with representatives from FSA (Food Services of America) to set up deliveries, billings, etc, we did not actually begin purchasing off of the bid until FY 13-14. (We also use some local</i>			

vendors to meet the needs of our childcare centers, but we make sure that we do price comparisons and maintain records as a backup to our decisions.)

Suspension/Debarment - We mitigated this situation by putting suspension/debarment certifications on all contracts and purchase orders, which covers most of our purchasing. We also have a one page suspension/debarment certification available when unusual needs arise and know to check the suspension/debarment website (SAM) when necessary for status confirmation.

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*

**Educational Service District No. 112
Clark County
September 1, 2012 through August 31, 2013**

Board of Directors
Educational Service District No. 112
Vancouver, 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 each major fund and the aggregate remaining fund information of Educational Service District No. 112, Clark 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 basic financial statements, and have issued our report thereon dated April 22, 2014. The District has omitted the management's discussion and analysis information that accounting principles generally accepted in the United States of America has determined to supplement, although not required to be a part of, the basic financial statements. Our opinion on the basic financial statements is not affected by this missing information. As discussed in Note 14 to the financial statements, during the year ended August 31, 2013, the District implemented Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*.

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 opinions 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

April 22, 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

**Educational Service District No. 112
Clark County
September 1, 2012 through August 31, 2013**

Board of Directors
Educational Service District No. 112
Vancouver, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of Educational Service District No. 112, Clark 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.

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 1. 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.

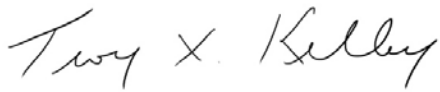
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement 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 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

April 22, 2014

Independent Auditor's Report on Financial Statements

Educational Service District No. 112 Clark County September 1, 2012 through August 31, 2013

Board of Directors
Educational Service District No. 112
Vancouver, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of each major fund and the aggregate remaining fund information of Educational Service District No. 112, Clark 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 basic financial statements as listed on page 17.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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 accounting 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund and the aggregate remaining fund information of Educational Service District No. 112, as of August 31, 2013, and the respective changes in financial position and, where applicable, cash flows 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 14 to the financial statements, in 2013, the District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the risk pools information on pages 37 through 45 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management's discussion and analysis information that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary and Other Information

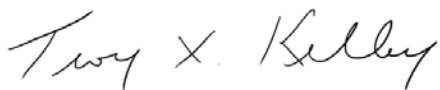
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments,*

and Non-Profit Organizations. This schedule is not a required part of the basic 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic financial statements taken as a whole.

The Public Entity Risk Pool List of Participating Members and Office of Financial Management Schedule of Expenses on pages 47 through 52 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated April 22, 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 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

April 22, 2014

Financial Section

Educational Service District No. 112 Clark County September 1, 2012 through August 31, 2013

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2013
Statement of Revenues, Expenses and Changes in Fund Net Position – 2013
Statement of Cash Flows – 2013
Statement of Fiduciary Net Assets – Fiduciary Funds – 2013
Statement of Changes in Fiduciary Net Assets – 2013
Notes to Financial Statements – 2013

REQUIRED SUPPLEMENTARY INFORMATION

Workers Compensation Trust – Claims Development Information – 2013
Notes to the Workers' Compensation Trust – Claims Development Information – 2013
Unemployment Compensation Pool – Claims Development Information – 2013
Notes to the Unemployment Compensation Pool – Claims Development Information – 2013
Risk Management Insurance Cooperative – Claims Development Information – 2013
Notes to the Risk Management Insurance Cooperative – Claims Development Information – 2013
Workers' Compensation Trust Reconciliation of Claims Liabilities – 2013
Unemployment Compensation Insurance Fund – Reconciliation of Claims Liabilities – 2013
Property/Casualty (Risk Management Insurance Cooperative) – Reconciliation of Claims Liabilities – 2013

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards and Notes – 2013
SW WA Workers' Compensation Trust – Public Entity Risk Pool List of Participating Members – 2013
OFM Schedule of Expenses – Southwest Washington Workers' Compensation Trust – 2013
SW WA Unemployment Compensation Pool – Public Entity Risk Pool List of Participating Members – 2013
OFM Schedule of Expenses – Southwest Washington Unemployment Compensation Pool – 2013
SW WA Risk Management Insurance Cooperative – Public Entity Risk Pool List of Participating Members – 2013
OFM Schedule of Expenses – Southwest Washington Risk Management Insurance Cooperative – 2013

EDUCATIONAL SERVICE DISTRICT #112
STATEMENT OF NET POSITION - ALL FUNDS
AUGUST 31, 2013

	NOTE REF	OPERATING	WORKERS COMPENSATION FUND	UNEMPLOYMENT FUND	PROPERTY/CASUALTY FUND	CHILDCARE FUND	TOTAL ALL FUNDS
ASSETS							
CURRENT ASSETS							
Cash and Cash Equivalents	Note 1	(59,360.49)	87,498.35	20,802.98	13,854.70	32,688.26	95,483.80
Investments	Note 2	5,758,225.17	6,659,524.23	4,825,415.16	5,597,892.27	1,024,511.29	23,865,568.12
Accounts Receivable (net of uncollectible allowance)	Note 1	4,266,270.41	197,429.19	102,099.41	9,884.08	128,239.49	4,703,922.58
Other Receivables	Note 8						-
Member Assessments/Contributions							-
Accrued Deductibles/Co-pays							-
Excess/Reinsurance Recoverable			38,623.78		134,583.00		173,206.78
Due from Other Governments	Note 1	2,771.22					2,771.22
Inventory	Note 1						-
Prepays	Note 1						-
Restricted Assets	Note 1						-
Other Current Assets	Note 1						-
TOTAL CURRENT ASSETS		9,967,906.31	6,983,075.55	4,948,317.55	5,756,214.05	1,185,439.04	28,840,952.50
NONCURRENT ASSETS							
Investments	Note 2						-
Capital Assets	Note 3						-
Land							-
Building							-
Equipment		3,632,736.49					3,632,736.49
Less: Accumulated Depreciation		(2,439,420.04)					(2,439,420.04)
Net Capital Assets		1,193,316.45	-	-	-	-	1,193,316.45
Other Noncurrent Assets							-
Investment in Joint Venture	Note 12	610,847.67					610,847.67
Contracts Receivable	Note 1						-
TOTAL NONCURRENT ASSETS		1,804,164.12	-	-	-	-	1,804,164.12
TOTAL ASSETS		11,772,070.43	6,983,075.55	4,948,317.55	5,756,214.05	1,185,439.04	30,645,116.62
DEFERRED OUTFLOWS OF RESOURCES							
	Note 1						-
LIABILITIES							
CURRENT LIABILITIES							
Accounts Payable	Note 1	1,120,974.80	432,756.35	109,459.50	39,326.65	207,453.62	1,909,970.92
Notes Payable - Current	Note 5						-
Accrued Interest Payable	Note 5						-
Payroll Deductions & Taxes Payable	Note 1	4,102.80					4,102.80
Compensated Absences	Note 1	200,000.00					200,000.00
Bonds Payable - Current	Note 5	205,000.00					205,000.00
Capital Leases Payable - Current	Note 5						-
Claim Reserves	Note 8		874,858.00	120,876.00	293,323.00		1,289,057.00
IBNR			631,364.00		123,295.00		754,659.00
Open Claims							-
Unallocated Loss Adjustment Expenses			224,000.00	215,919.00	105,000.00		544,919.00
Unearned Member Assessments/Contributions	Note 8				70,960.00		70,960.00
TOTAL CURRENT LIABILITIES		1,530,077.60	2,162,978.35	446,254.50	631,904.65	207,453.62	4,978,668.72
NONCURRENT LIABILITIES							
Compensated Absences	Note 1	656,414.58	25,124.83	9,716.29	11,592.25		702,847.95
Notes Payable	Note 5						-
Claim Reserves	Note 8		1,051,239.00	15,613.00	934,086.00		2,000,938.00
IBNR			786,445.00		222,698.00		1,009,143.00
Open Claims			399,597.00				399,597.00
Future L&I Assessments							-
Bonds Payable	Note 5	570,000.00					570,000.00
Capital Leases Payable	Note 5						-
TOTAL NONCURRENT LIABILITIES		1,226,414.58	2,262,405.83	25,329.29	1,168,376.25	-	4,682,525.95
TOTAL LIABILITIES		2,756,492.18	4,425,384.18	471,583.79	1,800,280.90	207,453.62	9,661,194.67
DEFERRED INFLOWS OF RESOURCES							
	Note 1						-
NET POSITION							
Net Investment in Capital Assets		418,316.45	-	-	-	-	418,316.45
Restricted for Debt Service	Note 10						-
Restricted for Self-Insurance	Note 10	80,000.00					80,000.00
Restricted for Support Programs	Note 10	2,281,241.61					2,281,241.61
Restricted for Risk Pool Net Position	Note 10						-
Restricted for Other Items	Note 10						-
Restricted for Joint Venture	Note 12						-
Unrestricted		6,236,020.19	2,557,691.37	4,476,733.76	3,955,933.15	977,985.42	18,204,363.89
TOTAL NET POSITION		9,015,578.25	2,557,691.37	4,476,733.76	3,955,933.15	977,985.42	20,983,921.95

The accompanying notes are an integral part of the financial statements.

EDUCATIONAL SERVICE DISTRICT #112
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED AUGUST 31, 2013

	OPERATING	WORKERS COMPENSATION FUND	UNEMPLOYMENT FUND	PROPERTY/CASUALTY FUND	CHILDCARE FUND	TOTAL ALL FUNDS
OPERATING REVENUES						
Local Sources	2,047,060.05				4,148,647.75	6,195,707.80
State Sources	17,677,374.51				716,845.00	18,394,219.51
Allotment	493,168.92					493,168.92
Federal Sources	9,281,852.33				189,057.66	9,470,909.99
Cooperative Programs	6,732,499.77					6,732,499.77
Other Programs	9,224,420.34				1,948.41	9,226,368.75
Member Assessments/Contributions		5,072,294.45	1,664,881.52	2,957,342.00		9,694,517.97
Supplemental Member Assessments						-
Other Operating Revenue						-
TOTAL OPERATING REVENUE	45,456,375.92	5,072,294.45	1,664,881.52	2,957,342.00	5,056,498.82	60,207,392.71
OPERATING EXPENSES						
General Operations and Administration	4,211,366.18	914,935.25	187,196.82	343,608.18		5,657,106.43
Instructional Support Programs	28,032,448.84				4,931,574.79	32,964,023.63
Non Instructional Support Programs	13,260,400.29					13,260,400.29
Incurred Loss/Loss Adjustment Expenses						-
Paid on Current Losses		2,100,154.10	564,011.79	830,878.74		3,495,044.63
Change in Loss Reserves		283,585.00	(84,233.00)	336,576.00		535,928.00
Unallocated Loss Adjustment Expenses						-
Paid Unallocated Loss Adjustment Expenses						-
Change in Unallocated Loss Reserves						-
Excess/Reinsurance Premiums		113,521.00		1,281,592.45		1,395,113.45
Professional Fees		10,650.00				10,650.00
Labor & Industries Assessments		1,680,145.42				1,680,145.42
Depreciation/Depletion	305,879.47					305,879.47
Other Operating Expenses		40,509.50	212.00	111,063.75		151,785.25
TOTAL OPERATING EXPENSES	45,810,094.78	5,143,500.27	667,187.61	2,903,719.12	4,931,574.79	59,456,076.57
OPERATING INCOME (LOSS)	(353,718.86)	(71,205.82)	997,693.91	53,622.88	124,924.03	751,316.14
NONOPERATING REVENUES (EXPENSES)						
Interest and Investment Income	18,337.54	20,746.94	14,186.96	19,496.30	3,858.38	76,626.12
Interest Expense and Related Charges	-					-
Lease Income						-
Gains (Losses) on Capital Asset Disposition						-
Change in Joint Venture	4,355.54					4,355.54
Other Financing Uses						-
Other Nonoperating Revenues						-
Other Nonoperating Expenses						-
TOTAL NONOPERATING REVENUES (EXPENSES)	22,693.08	20,746.94	14,186.96	19,496.30	3,858.38	80,981.66
INCOME (LOSS) BEFORE OTHER ITEMS	(331,025.78)	(50,458.88)	1,011,880.87	73,119.18	128,782.41	832,297.80
Extraordinary Items						-
Special Items						-
INCREASE (DECREASE) IN NET POSITION	(331,025.78)	(50,458.88)	1,011,880.87	73,119.18	128,782.41	832,297.80
NET POSITION - BEGINNING BALANCE	9,346,604.03	2,608,150.25	3,464,852.89	3,882,813.97	849,203.01	20,151,624.15
NET POSITION - ENDING BALANCE	9,015,578.25	2,557,691.37	4,476,733.76	3,955,933.15	977,985.42	20,983,921.95

The accompanying notes are an integral part of the financial statements.

EDUCATIONAL SERVICE DISTRICT #112
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED AUGUST 31, 2013

	OPERATING	WORKERS COMPENSATION FUND	UNEMPLOYMENT FUND	PROPERTY/CASUALTY FUND	CHILDCARE FUND	TOTAL ALL FUNDS
CASH FLOW FROM OPERATING ACTIVITIES						
Cash Received from Customers	18,003,980.16				5,101,744.17	23,105,724.33
Cash Received from State and Federal Sources	28,509,217.26					28,509,217.26
Cash Received from Members		5,199,993.60	1,738,421.60	3,028,302.00		9,966,717.20
Payments to Suppliers for Goods and Services	(15,554,028.00)	(10,650.00)				(15,564,678.00)
Payments to Employees for Services	(30,271,604.90)					(30,271,604.90)
Cash Paid for Benefits/Claims		(2,120,753.88)	(639,133.60)	(830,878.74)		(3,590,766.22)
Internal Activity - Payments to Other Funds		(796,823.55)	(184,980.78)	(335,457.96)		(1,317,262.29)
Cash Paid for Reinsurance		(113,521.00)		(1,281,592.45)		(1,395,113.45)
Cash Paid for Labor and Industries Assessments		(1,673,949.80)				(1,673,949.80)
Other Receipts (Payments)		(40,509.50)	(212.00)	(137,174.16)	(4,935,468.16)	(5,113,363.82)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	687,564.52	443,785.87	914,095.22	443,198.69	166,276.01	2,654,920.31
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Operating Grants Received						-
Transfer to (from) Other Funds	-					-
Proceeds from Issuance of Notes	-					-
Principal and Interest Payment on Notes						-
Other Noncapital Activities	-					-
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	-	-	-	-	-	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Purchase of Capital Assets	(228,409.12)					(228,409.12)
Proceeds from Capital Debt						-
Principal and Interest Paid on Capital Debt	(195,000.00)					(195,000.00)
Capital Contributions						-
Other Receipts (Payments)						-
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(423,409.12)	-	-	-	-	(423,409.12)
CASH FLOWS FROM INVESTING ACTIVITIES						
Proceeds from Sales and Maturities of Investments						-
Purchase of Investments						-
Interest and Dividends Received	18,337.54	20,746.94	14,186.96	19,496.30	3,858.38	76,626.12
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	18,337.54	20,746.94	14,186.96	19,496.30	3,858.38	76,626.12
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	282,492.94	464,532.81	928,282.18	462,694.99	170,134.39	2,308,137.31
CASH AND CASH EQUIVALENTS - BEGINNING	5,416,371.74	6,282,489.77	3,917,935.96	5,149,051.98	887,065.16	21,652,914.61
CASH AND CASH EQUIVALENTS - ENDING	5,698,864.68	6,747,022.58	4,846,218.14	5,611,746.97	1,057,199.55	23,961,051.92
CHECK (should be zero)	-	-	-	-	-	-
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES						
OPERATING NET INCOME	(353,718.86)	(71,205.82)	997,693.91	53,622.88	124,924.03	751,316.14
Adjustment to Reconcile Operating Income to Net Cash						
Provided (Used) by Operating Activities	12,163.42					12,163.42
Depreciation Expense	305,879.47					305,879.47
Change in Assets and Liabilities	-					-
Receivables, Net	1,056,821.50	127,699.15	73,540.08	(11,016.49)	45,245.35	1,292,289.59
Prepays						-
Inventories	-					-
Accounts and Other Payables	(333,581.01)	124,307.32	(72,905.77)	3,415.43	(3,893.37)	(282,657.40)
Accrued Expenses						-
Other Changes						-
Provision for Unallocated Loss Adjustment		9,000.00	(3,965.00)	18,000.00		23,035.00
Unearned Member Assessments				70,960.00		70,960.00
Insurance Recoverables		(20,599.78)		(10,359.13)		(30,958.91)
Claim Reserves		274,585.00	(80,268.00)	318,576.00		512,893.00
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	687,564.52	443,785.87	914,095.22	443,198.69	166,276.01	2,654,920.31
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:						
<i>(Insert Description if Applicable)</i>						-

The accompanying notes are an integral part of the financial statements.

EDUCATIONAL SERVICE DISTRICT #112
STATEMENT OF FIDUCIARY NET POSITION - DEFERRED COMPENSATION
AUGUST 31, 2013

	Deferred Compensation
ASSETS	
Cash and Cash Equivalents	17,344.04
Investments	
Accounts Receivable	
Assets Used in Operations	
TOTAL ASSETS	<u>17,344.04</u>
LIABILITIES	
Accounts Payable	
Program Refunds Payable to JV Participants	
TOTAL LIABILITIES	<u>-</u>
NET POSITION	
Held in Trust for Benefits and Other Purposes	17,344.04
TOTAL NET POSITION	<u>17,344.04</u>

The accompanying notes are an integral part of the financial statements.

EDUCATIONAL SERVICE DISTRICT #112
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION - FIDUCIARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2013

	Deferred Compensation
ADDITIONS	
Contributions	
Employer	
Members	
Total Contributions	-
Investment Earnings	
Interest	256.42
Net Increase (Decrease) in the Fair Value of Investments	
Total Investment Earnings	256.42
Other Additions	
TOTAL ADDITIONS	256.42
DEDUCTIONS	
Distribution to Pool Participants	
Refunds of Contributions	
Administrative Expenses	
Other Payments in Accordance with Trust Agreement	
TOTAL DEDUCTIONS	-
CHANGE IN NET POSITION	256.42
NET POSITION - BEGINNING	17,087.62
NET POSITION - ENDING	17,344.04

The accompanying notes are an integral part of the financial statements.

EDUCATIONAL SERVICE DISTRICT 112
Notes to Financial Statements
August 31, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the District conform to generally accepted accounting principles (GAAP) applicable to governmental enterprise units. The following summary of the more significant accounting policies is presented to assist the reader in interpreting the financial statements and other data in this report. These policies should be viewed as an integral part of the accompanying financial statements.

Reporting Entity

Educational Service District 112 is one of nine municipal corporations of the State of Washington organized pursuant to Title 28A Revised Code of Washington for the purpose of (1) providing cooperative and informational services to local school districts; (2) assisting the state superintendent of public instruction and the state board of education in the performance of their respective statutory or constitutional duties; and (3) providing services to school districts to assure equal educational opportunities.

As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. Based on the standards set by Governmental Accounting Standards Board (GASB) Statement 14, there were no component units of ESD 112. The District is a separate legal entity and is fiscally independent from all other units of government.

The District serves 30 school districts in Clark, Cowlitz, Klickitat, Pacific, Skamania and Wahkiakum Counties. Oversight responsibility for the District's operations is vested with the Board of Directors who are elected by the school directors of the educational service district, one from each of seven educational service district board-member districts. Management of the District is appointed by and accountable to the Board of Directors. Fiscal responsibility, including budget authority, the power to operate cooperatives, set fees for services and issue debt consistent with the provisions of state statutes, rest with the Board. For financial reporting purposes, the District's financial statements include all fund entities that are controlled by the District's Board of Directors and managed by the administrative staff, unless noted hereafter.

Basis of Accounting and Reporting

The District's accounting policies, as reflected in the accompanying financial statements, conform to the *Accounting Manual for Educational Service Districts*, prescribed by the Office of Superintendent of Public Instruction (OSPI). This manual allows for a practice that differs from generally accepted accounting principles in the following manner: (1) The Management Discussion and Analysis is not required.

The financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Under this method, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The District reports the following major proprietary funds:

The *General Expense* fund is the ESD's primary fund. It accounts for all financial resources of the ESD that are not reported in the following funds.



The *Unemployment Compensation* fund accounts for the collection of premium from members of the fund and the related payment of associated claims and expenses. The SW Washington Unemployment Compensation Pool is an Enterprise Fund established in 1978 for the purpose of providing group insurance and claims control for unemployment compensation to the member districts and such other agencies as the members of the cooperative shall deem appropriate.

The *Property and Casualty Insurance* fund accounts for premiums collected from members and set aside for the payment of deductibles on member property/casualty insurance claims. The SW Washington Risk Management / Insurance Cooperative is an Enterprise Fund established in 1986 for the purpose of providing group self-funding, claims control, and risk management for property / casualty liabilities to member school districts and ESDs.

The *Workers' Compensation* fund accounts for workers' compensation payroll taxes collected from members, and the payment of associated claims, assessments and expenses. The SW Washington Workers' Compensation Trust is an Enterprise Funds established in 1983 for the purpose of providing group insurance and claims control for workers' compensation to the member school districts and ESDs.

The *Child Care Fund* is an Enterprise Fund established in 1991 for the purpose of providing child care services to local school districts, through the collection of parent fees. The Educational Service District provides the administrative support to the cooperative and the cooperative contracts with a non-profit, Children Northwest, for its employees.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principle ongoing operations. Operating expenses for proprietary funds include the cost of providing services, administrative expenses, depreciation on capital assets, and gain/loss on sale of assets. Grants used to finance operations and expenses not related to the provision of District services are reported as non-operating revenues and expenses.

Fiduciary funds are used to account for assets held by the district in a trustee or agency capacity. The ESD at one time provided a deferred compensation program for its employees. This account is no longer accessible to employees and will close when the final depositor receives their funds.

The District has prepared an annual program report to OSPI in a format issued separately. These reports require specific information and are not prepared on the basis of generally accepted accounting principles.

Assets, Liabilities, and Equity

Cash and Cash Equivalents

The Clark County Treasurer is the ex-officio treasurer for the District. In this capacity, the county treasurer receives daily deposits and transacts investments on behalf of the District. On August 31, 2013, the treasurer was holding \$ in short-term residual investments of surplus cash. This amount is classified on the statement of net position as cash and cash equivalents.

For the purposes of the statement of cash flows, the District considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash and cash equivalents.



Deposits and Investments – See Note 2

Receivables

For the operating fund, accounts and contracts receivable represent the value of goods and services provided and invoiced to clients at fiscal year-end. For remaining proprietary and agency funds, the amounts represent balances due from clients within thirty days of payroll dates.

Uncollectible accounts are written off on an annual basis.

Capital Assets and Depreciation – See Note 3

Compensated Absences

Employees earn vacation leave at varying rates in accordance with District policy. Vacation is payable upon termination.

Employees earn sick leave at a rate of 12 days per year and may accumulate an unlimited sick leave balance. 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 accumulations of 12 days. For buy-back purposes, employees may accumulate such leave to a maximum of 192 days, including annual accumulation, as of December 31 of each year.

The balance reported in the statement of net position as of August 31, 2013, represents the aggregate amount of vacation and sick leave payable for all eligible employees of the District. Employees of the Insurance pools sick and vacation leave balances appear in those specific funds.

Other Accrued Liabilities

These accounts consist of accrued wages and accrued employee benefits.

Long Term Debt – See Note 5

2. DEPOSITS AND INVESTMENTS

All of the District's bank balances are insured by the Federal Depository Insurance Corporation (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

Statutes authorize the District to invest in (1) securities, certificates, notes, bonds, short-term securities, or other obligations of the United States, and (2) deposits 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.

As of August 31, 2013, the District had the following investments:



Investment	Maturity	Fair Value
County Investment Pool	Average Maturity of 14.7 months	\$23,865,568.12
Certificate of Deposit		
Money Market Account		
Total Investments		\$23,865,568.12

Credit Risk

The Clark County Investment Pool is considered extremely low risk. The pool is operated in a manner consistent with the Securities and Exchange Commission's Rule 2a-7 of the Investment Company Act of 1940. Rule 2a-7 funds are limited to high quality obligations with limited maximum and average maturities, the effect of which is to minimize both market and credit risk. The pool's portfolio is made up of high quality, highly liquid securities, and its relatively short average maturity reduces the pool's price sensitivity to market interest rate fluctuations. The pool also has a strong degree of asset diversification to minimize risk and maintain adequate rates of return.

The pool is not insured or guaranteed by any government; therefore, maintenance of principal is not fully insured. The LGIP does not have a credit rating.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a failure of the counterparty to an investment transaction, the District would not be able to recover the value of the investment or collateral securities. Of the District's total cash and investment position of \$23,961,051.92, \$431,298.93 is exposed to custodial credit risk because the investments held by the LGIP are not insured or guaranteed by any government. The District does not have a policy for custodial credit risk.

Concentration of Credit Risk

The District does not have investments in any one issuer that represents five percent or more of total investments.

Interest Rate Risk

As of August 31, 2013, the Clark County Investment Pool's average maturity is 14.7 months (447 days). As a means of limiting its exposure to rising interest rates, securities purchased in the pool must have a final maturity, or weighted average life, no longer than five years. While the pool's market value is calculated on a monthly basis, unrealized gains and losses are not distributed to participants. The pool distributes earnings monthly using an amortized cost methodology.

3. CAPITAL ASSETS

Capital assets, which include property, facilities, and large equipment, are capitalized at total acquisition cost, provided such cost exceeds \$50,000 and has an expected useful life of more than five years. Property, facilities, and large equipment that are purchased using Federal money are subject to inventory reporting if the acquisition cost is over \$3,000. Depreciation is recorded on all depreciable capital assets on a straight-line basis over the following estimated useful lives:

Asset	Years
Vehicles	5-10
Equipment	5-20
Buildings and structures	10-40
Land improvements	5-40

Major expenses for capital assets, including capital leases and major repairs that extend the useful life of an asset are capitalized. Assets under the capitalization threshold, maintenance, repairs, and minor renewals are accounted for as expenses when incurred.

Capital assets activity for the fiscal year ended August 31, 2013 was as follows:

	Beginning Balance 9/1/2012	Increases	Decreases	Ending Balance 8/31/2013
Capital assets not being depreciated:				
Land	\$	\$	\$	\$
Construction in progress				
Total capital assets not being depreciated				
Depreciable capital assets:				
Buildings				
Improvements other than buildings	\$2,500,000			\$2,500,000
Equipment	\$904,327	\$228,409		\$1,132,736
Other				
Total depreciable capital assets	\$3,404,327	\$228,409		\$3,632,736
Less accumulated depreciation for:				
Buildings				
Improvements other than buildings	\$1,791,667		\$166,667	\$1,958,334
Equipment	\$341,874		\$139,213	\$481,087
Other				
Total accumulated depreciation	\$2,133,541		\$305,880	\$2,439,421
Total depreciable assets, net				
Total assets, net	\$1,270,786	\$228,409	\$305,880	\$1,193,315

4. **LONG-TERM DEBT, LIABILITIES AND LEASES**

Long-Term Debt

The District issues general obligation bonds and other debt instruments to finance leasehold improvements for the facility. The following is a summary of long-term debt instruments of the District for the fiscal year ended August 31, 2013.

Purpose	Maturity Range	Interest Rate	Original Amount	Amount of Installments
Leasehold Improvements	Dec 2016	5.55%	\$2,500,000	\$242-252,000

The annual debt service requirements to maturity for general obligation bonds are as follows:

Fiscal Year Ending August 31	Principal	Interest
2014	\$205,000	\$40,238
2015	\$220,000	\$28,583
2016	\$230,000	\$16,234
2017	\$120,000	\$ 3,330

Operating Lease (s)

The District is committed under various leases for space and equipment. All leases are considered operating leases for accounting purposes because the District does not acquire interests in the property. Lease expenses for the year ended August 31, 2013, totaled \$703,656. Future minimum rental commitments for these leases are as follows:

Fiscal Year Ending August 31	Amount
2014	\$727,104
2015	\$591,564
2016	\$609,024
2017	\$627,828

Changes in Long-Term Liabilities

During the fiscal year ended August 31, 2013, the following changes occurred in long-term liabilities:

	Beginning Balance 9/1/12	Additions	Reductions	Ending Balance 8/31/13	Due Within One Year
Bonds Payable	\$970,000		\$195,000	\$775,000	\$205,000
Compensated Absences (unfunded portion)	\$913,580		\$57,165	\$856,415	\$200,000
Total Long-Term Liabilities	\$1,883,580		\$252,165	\$1,631,415	\$405,000

5. PENSION PLANS

Substantially all Educational Service District 112 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 State of Washington through the Department of Retirement Systems (DRS).

The Teachers' Retirement System (TRS) includes certificated staff of 295 public school district employers and other public employers. As of June 30, 2012, it includes 74,902 active and inactive vested members.

The Public Employees' Retirement System (PERS) includes noncertificated staff of 295 public school district employers and other public employers. As of June 30, 2012, it includes 181,105 active and inactive vested members.

The School Employees' Retirement System (SERS) was established effective September 1, 2000, and includes noncertificated staff of 295 public school district employers. In addition, effective September 1, 2000, all members of PERS Plan 2 were switched to SERS Plan 2 and a new SERS Plan 3 was established. PERS Plan 1 members remained in PERS. As of June 30, 2012, it includes 62,478 active and inactive vested members.

The employee and employer contribution rates for Plans 1 and 2 (for PERS, TRS, and SERS) are established each biennium by the Legislature. The employee contribution rate for Plan 1 is set by statute at 6 percent and does not vary from year to year. The employer and employee contribution rates for Plan 2 are developed by the state actuary to fully fund these plans. The employer rates for Plan 1 are not necessarily adequate to fully fund the level established by the Legislature. The methods used to determine the contribution requirements are established under Chapters 41.40 and 41.32 RCW for PERS and TRS, respectively.



Plan 3 (for TRS and SERS) is a combination defined benefit, defined contribution plan. Employer contribution rates are established each biennium by the Legislature. The state actuary calculates the rates, the economic revenue forecast council adopts the rates, and the Legislature enacts the rates for the defined benefit portion of the plan. Employee rates are established each biennium by the Legislature as well. These rates fund the defined contribution portion of the plan.

Employee contribution rates have been set at rates reflective of amounts that have been appropriated by the State Legislature.

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

General System Information by Internal Benefit Plans

Certificated public employees are members of TRS. Noncertificated public employees are members of either PERS or SERS.

Plan 1 (employment on or before September 30, 1977) members of TRS and PERS are eligible to retire with full benefits after five years of credited service and attainment of age 60, or after 25 years of credited service and attainment of age 55, or after 30 years of credited service.

Plan 2 (employment on or after October 1, 1977) members of TRS and PERS are eligible to retire with full benefits after five years of credited service and attainment of age 65, or after 20 years of credited service and attainment of age 55 with the benefits of actuarially reduced from age 65.

Plan 3 (employment on or after July 1, 1996) members of TRS and Plan 3 (employment on or after September 1, 2000) members of SERS are eligible to retire with full benefits after 10 years of credited service and attainment of age 65 or after 10 years of credited service and attainment of age 65 or after 10 years of credited service and attainment of age 55 with benefit actuarially reduced from age 65.

Average final compensation (AFC) of Plan 1 TRS and PERS members is the annual average of the greatest compensation earnable during any consecutive two-year period of service credit months for which service credit is allowed. For Plan 2 TRS and SERS members, it is the average compensation earnable of the highest consecutive 60 months of service credit months.

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

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 and SERS	5.0% (minimum)	15.0% (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 8.5 percent.

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

:

EDUCATIONAL SERVICE DISTRICT 112

Notes to 2012-13 Financial Statements



	9/1/11-8/31/12		9/1/12-6/30/13	7/1/13-8/31/13
Plan 1 TRS	6.14%*	Plan 1 PERS	7.07%*	9.19%
Plan 2 TRS	6.14%*	Plan 2 SERS	5.45%*	7.59%
Plan 3 TRS and SERS	6.14%*	Plan 3 SERS	5.45%*	7.59%

*Includes DRS Administrative Expense Rate of .16%

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

Plan	FY 12-13	FY 11-12	FY 10-11
Plan 1 TRS	\$ 4,286	\$ 43,324	\$ 39,487
Plan 2 TRS	\$252,605	\$216,786	\$156,505
Plan 3 TRS	\$322,554	\$295,252	\$233,143
Plan 1 PERS	\$ 17,967	\$ 17,638	\$ 19,668
Plan 2 SERS	\$665,199	\$549,375	\$494,667
Plan 3 SERS	\$688,652	\$599,461	\$564,095

Historical trend information showing TRS and PERS progress in accumulating sufficient assets to pay benefits when due is presented in the State of Washington's June 30, 2012, comprehensive annual financial report. Refer to said report for detailed trend information. It is available from:

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

7. OTHER POST EMPLOYMENT BENEFIT PLANS

457 Plan – Deferred Compensation Plan

District employees have the option of participating in an IRC, Section 457, deferred compensation plan administered by the district, a state retirement system, or another governmental entity. The plan assets and all related income are held in trust for the exclusive benefit of the participants and their beneficiaries.

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 the elective deferral (employee contribution method). The district complies with IRS regulations that require school districts to have written plans to include participating investment companies, types of investments, loans, transfers, and various requirements. The plan is administered by CPI, (a third party administrator).

The plan assets are assets of the school district employees, not the educational service district, and are therefore not reflected on these financial statements.

8. SHARED RISK POOL DISCLOSURES

Property and Liability Risk Pool

The District operates a group self-funding, claims control and risk management fund for property and casualty liabilities to member school districts and ESDs.



Unpaid Claims Liabilities

The pool establishes claims liabilities based on estimates of the ultimate cost of claims including future claim adjustment expenses, that have been reported but not settled, and claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved. Estimated amounts of salvage, subrogation, and reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claims liabilities does not necessarily result in an exact amount, particularly for coverages such as general liability. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made.

Reinsurance

The pool uses reinsurance agreements to reduce its exposure to large losses on all types of insured events. Reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the pool as direct insurer of the risks reinsured. The pool does not report reinsured risks as liabilities unless it is probable that those risks will not be covered by reinsurers. The amount deducted from claims liabilities as of August 31, 2013, for reinsurance was \$134,583.00. Premiums ceded to reinsurers during 2013 were \$1,281,592.45.

Member Assessments and Unearned Member Assessments

Member assessments are collected and recognized as revenue in the period for which insurance protection is provided. The assessment is calculated based on exposure data, (student FTE, vehicle count, property values).

Unpaid Claims

Claims are charged to income as incurred. Claim reserves represent the accumulation of estimates for reported, unpaid claims, and a provision for claims incurred, but not reported. These estimates are continually reviewed and updated, and any resulting adjustments are reflected in current earnings.

Reserve for Unallocated Loss Adjustment Expenses

The reserve for unallocated loss adjustment expenses represents the estimated cost to be incurred with respect to the settlement of claims in process and claims incurred but not reported. An actuarial firm estimates this liability at the end of each year. The change in the liability each year is reflected in current earnings.

Exemption from Federal and State Taxes

Pursuant to revenue ruling number 90-74, income of Municipal Risk Pools is excluded from gross income under IRC Section 115(1).

Chapter 48.62 RCW exempts the pool from insurance premium taxes, and business and occupation taxes imposed pursuant to Chapter 82.04 RCW.

Risk Financing Limits

The following table reflects the risk financing limits on coverage policies issued and retained by the pool at August 31, 2013:

Type of Coverage	Member Deductibles	Self-Insured Retention	Excess Limits
Property	\$1,000	\$250,000	\$500,000,000
Equipment Breakdown	\$1,000	\$25,000	\$500,000,000
Liability	\$0	\$250,000	\$20,250,000
Crime	\$1,000	\$250,000	\$50,000/\$500,000
Governmental Crime	\$1,000	\$5,000	\$1,000,000
Public Official Bonds	\$0	\$0	\$5,000/\$50,000
Privacy & Network Liability	\$1,000	\$10,000/\$25,000	\$1,000,000

Excess Insurance Contracts/Reinsurance

The pool maintains excess insurance contracts with several insurance carriers, which provide various limits of coverage over the pool's self-insured retention limits. The limits provided by these excess insurance contracts are as follows:

Excess Insurance Contracts	2012-13
WSRMP – Property	\$500,000,000
WSRMP - :Liability	\$20,000,000

Per-occurrence coverage limits provided by the pool, including the excess insurance limits combined with the pool's self-insured retention limits, are as follows:

Excess Insurance Contracts	2012-13
WSRMP – Property	\$500,000,000
WSRMP – Liability	\$20,250,000

Members' Supplemental Assessments and Credits

The interlocal governmental agreement provides for supplemental assessments to members based on actual claim experience. (During fiscal year 2013, the pool did not make a supplemental assessment).

Unpaid Claims Liabilities

As discussed above, the pool establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses, both allocated and unallocated. The following represents changes in those aggregate liabilities for the pool during the past two years:

	2013	2012
Unpaid claims and claim adjustment expenses at beginning of year	\$1,341,826	\$1,106,790
Inurred claims and claim adjustment expenses:		
Provision for insured events of current year	598,398	1,070,453
Increases in provision for insured events of prior years	569,057	(62,044)

Total incurred claims and claim adjustment expenses	1,167,455	1,008,409
Payments:		
Claims and claim adjustment expenses attributable to insured events of current year	181,780	390,972
Claims and claim adjustment expenses attributable to insured events of prior years	649,099	382,401
Total Payments	830,879	773,373
Total unpaid claims and claim adjustment expenses at end of year	\$1,678,402	\$1,341,826

Workers' Compensation Insurance Trust

The Workers' Compensation Trust is organized pursuant to Title 51.14 RCW for the purpose of managing workers' compensation payroll taxes, employee claims, and safety programs. Membership is established by execution of an agreement between the District and each local school district. The District is also a member of the Trust.

The Trust provides industrial injury accident insurance coverage for its membership. The Trust is fully funded by its member participants. Member contributions are calculated based on the members' hours worked. The Trust retains responsibility for the payment of claims within specified self-insured retention limits prior to the application of coverage provided by its excess insurance contracts. The Trust acquires insurance from unrelated underwriters. The Trust's per-occurrence retention limit is \$350,000 and the annual aggregate retention is \$3,763,519. Since the Trust is a cooperative program, there is a joint liability among participating members.

For fiscal year 2013, there are 30 members in the pool including 29 participating school districts. A Board comprised of one designated representative from each participating member and a five member Executive Board governs the Trust. The Executive Board has five members elected by the Board. The District is responsible for conducting the business affairs of the Trust. At August 31, 2013, the amount of liabilities totaled \$3,967,503. This liability is the District's best estimate based on available information. Changes in the reported liability since August 31, 2013, resulted in the following:

	Beginning Balance 9/1/2012	Current Year Claims and Changes in Estimates	Ending Balance 8/31/2013
Incurred but not Reported	\$1,540,780	\$(122,971)	\$1,417,809
Future L&I Assessments	\$359,646	\$39,951	\$399,597
Estimated Unallocated Loss Adjustment	\$215,000	\$9,000	\$224,000
Claim Reserves	\$1,568,492	\$357,605	\$1,926,097

Unemployment Compensation Insurance Fund

The Unemployment Compensation Pool is organized pursuant to Title 50.44 RCW for the purpose of managing unemployment compensation payroll taxes and employee claims. Membership is established by execution of an agreement between the District and each local school district. The District is also a member of the pool.

The pool provides unemployment compensation coverage for members of the pool arising from previous employees. The pool is fully funded by its member participants. Member districts pay a percentage of their employee's wages. These contributions plus investment earnings pay for



unemployment claims and for the administration of the fund. There is provision that members can be additionally assessed if the Pool needs additional funding.

For fiscal year 2013, there are 29 members in the pool including 28 participating school districts. The pool is governed by a Cooperative Board, which is comprised of one designated representative from each participating member and a five member Executive Board. At August 31, 2013, the amount of liabilities totaled \$352,408. This liability is the Districts best estimate based on available information. Changes in the reported liability since August 31, 2013, resulted in the following:

	Beginning Balance 9/1/2012	Current Year Claims and Changes in Estimates	Ending Balance 8/31/2013
Claims Reserves and ULAE	\$436,641	\$(84,233)	\$352,408

9. RISK MANAGEMENT

The District is a member of the Southwest Washington Risk Management Insurance Cooperative. This Pool provides property and casualty insurance coverage for its membership as authorized by Chapter 48.62 RCW. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The Pool was formed on September 1, 1985 to pool their self-insured losses and jointly purchase insurance and administrative services. The District joined the Pool effective September 1, 1985.

The Pool purchases excess insurance coverage and provides related services, such as administration, risk management, and claims administration. All coverage is on an occurrence basis. The Pool provides the following forms of group purchased insurance coverage for its members: Property, including owned buildings, automobiles and equipment, Equipment Breakdown, Commercial Crime and Public Official Bonds, General Liability, Errors and Omissions Liability, and Employment Practices Liability and Privacy and Network Liability. Members are responsible for the first \$1,000 of all property claims and the Pool is responsible for the next \$500 million. There is no member deductible for liability claims. Excess insurance covers insured losses over \$750,000 up to the limits of each policy. The Pool is a member of Washington Schools Risk Management Pool to obtain this excess insurance.

The Pool also purchases additional excess crime coverage as well as required Public Official Bonds. The Commercial Crime coverage is subject to a per-occurrence deductible of \$5,000. Members are responsible for \$1,000 of that deductible amount for each claim.

Pool members contract to automatically renew from year to year unless the member gives written notice of its election to terminate at least 180 days prior to August 31 of any year. Termination occurs on August 31. 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 governmental agreement. 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. A five member executive committee is responsible for conducting the business affairs of Pool. Financial statements and disclosures for the {Cooperative/Pool} can be obtained from the following address: 2500 NE 65th Avenue, Vancouver WA 98661.



10. NET POSITION, RESTRICTED

The District's statement of net position reports \$2,281,241.61 of restricted assets for Support Programs. The following lists the programs restricted by the Board of Directors:

Support Program	Amount
Restricted for Transportation Equipment	\$322,956.55
Restricted for Instructional Programs	\$1,787,781.82
Restricted for Non-instructional Programs	\$170,503.24
Total Restricted for Support Programs	\$2,281,241.61

11. INVESTMENT IN JOINT VENTURE

Washington State Information Processing Cooperative

The District is a member of the Washington Information Processing Cooperative. The WSIPC Board of Directors consists of a member of each the nine Educational Service Districts in the state. ESD 123 is the fiscal agent of the joint venture and answers directly to the WSIPC Board of Directors in financial matters.

Condensed financial information of the joint venture for the fiscal year ended August 31, 2013, is as follows:

Condensed Financial Statements	Amount
Assets	
Current Assets	\$4,176,337
Non-Current Assets	\$2,248,125
Other Assets	\$0
Total Assets	\$6,424,462
Liabilities and Joint Venture Capital	
Current Liabilities	\$926,833
Investment in Joint Venture	\$5,497,629
Total Liabilities and Joint Venture Capital	\$6,424,462
Operating Revenues	\$18,365,419
Plus/ Minus Other Income/ Expenses (Net)	-8,178
Less Operating Expenses	\$18,318,101
Net Income	\$39,140

The District's share of the total Investment in the Joint Venture is \$610,847. The District contributed \$0 to the Joint Venture during 2013. There were no distributions in 2013. Complete financial statements for the Washington Information Processing Cooperative can be obtained by contacting

Janet Gilmore
2121 W Casino Road
Everett, WA 98204-1472

12. CONTINGENT LIABILITIES AND LITIGATIONS

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

13. OTHER DISCLOSURES

In 2011-12, the ESD began to self-insure for dental benefits. As regulated by RCW 48.62, the ESD has been required to establish a reserve to cover up to three months worth of dental expenses for the agency. Monthly costs range from \$20,000 - \$25,000. As of August 31, 2013, the reserve maintains a balance of \$80,000.

In September 2013 the ESD Board of Directors entered into a purchase and sale agreement to obtain land on which to construct a building in the future. Financing for the purchase was approved at the September 24, 2013 board meeting. The ESD has less than four years remaining on its current lease and intends to build a new facility to coincide with the ending of the lease. On October 18, 2013 the ESD closed on 5.2 acres of land at NE 1st Street, Vancouver WA 98661. The ESD sold a 10 year Limited General Obligation Bond to Columbia Bank in the amount of \$1,880,000 at an interest rate of 2.55% from the closing date until 12/1/17. From and after December 1, 2017. The interest rate shall mean a fixed rate equal to 0.69 multiplied by the sum of (a) 2.15% plus (b) the Federal Home Loan Bank of Seattle, (FHLB), six year fully amortizing rate, as in effect for December 1, 2017 (the index); provided that if no FHLB six year rate is published, the index shall be the average of the published FHLB five and seven year fully amortizing rates. In the event of nonpayment of any amounts payable under the Bond or loss of the tax-exempt status of the Bond, the interest rate will increase, at the election of the purchaser, to 6.00% per annum.

14. ACCOUNTING AND REPORTING CHANGES

The District implemented GASB 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. This renamed the Statement of Net Assets to the "*Statement of Net Position*". Likewise the Statement of Revenues, Expenses and Changes in Net Assets was retitled to "*Statement of Revenues, Expenses and Changes in Net Position*." All references to net asset accounts was changed to net position.

Claims Development Information for Fiscal Year Ending August 31, 2013

* Estimates were not done for years prior to 2009-10

SW WA Workers' Compensation Trust
REQUIRED SUPPLEMENTARY INFORMATION
September 1, 2012 Through August 31, 2013

This required supplementary information is an integral part of the accompanying financial statements.

1. Ten-Year Claims Development Information

The table below illustrates how the Trust's earned revenues (net of reinsurance) and investment income compare to related costs of loss (net of loss assumed by re-insurers) and other expenses assumed by the Trust as of the end of each of the last ten years. The rows of the table are defined as follows:

- 1) This line shows the total of each fiscal year's earned contribution revenues and investment revenues, contribution revenue ceded to reinsurers, and net earned contribution revenue and reported investment revenue.
- 2) This line shows each fiscal year's operating costs of the Trust including overhead and claims expenses not allocable to individual claims.
- 3) This line shows the Trust's incurred claims and allocated claim adjustment expenses, claims assumed by reinsurers, and net incurred claims and allocated adjustment expenses (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year).
- 4) This section of ten rows shows the cumulative net amounts paid as of the end of successive years for each policy year.
- 5) This line shows the latest reestimated amount of claims assumed by reinsurers as of the end of the current year for each accident year.
- 6) This section of ten rows shows how each policy year's incurred claims increased or decreased as of the end of successive years. This annual reestimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known.
- 7) This line compares the latest re-estimated incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years.

1. Required contribution & investment revenue:

Earned	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Investment Income	592,251	610,979	641,412	691,224	725,377	706,927	2,140,056	2,110,945	1,664,882
Ceded	37,218	68,131	102,852	103,416	61,675	25,813	13,346	12,365	14,187
Net Earned	629,469	679,110	744,264	794,640	787,052	732,740	2,153,401	2,123,310	1,679,068

2. Unallocated expenses (ESD Admin)

	157,674	140,080	148,884	150,312	171,788	179,746	181,165	193,309	187,197
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3. Estimated claims & expenses end of policy Year:

Incurred		1,309,650			1,309,650	1,059,312	898,305	893,371	711,703
Ceded									
Net incurred	0	0	0	0	1,309,650	1,059,312	898,305	893,371	711,703

4. Net paid (cumulative) as of:

End of policy year									
One year later					1,005,472	839,270	617,799	728,633	578,679
Two years later					770,415	1,058,589	957,795	1,421,961	

Three years later									
Four years later									
Five years later									
Six years later									

5. Reestimated net ceded claims and expenses

6. Reestimated net incurred claims & expenses:

End of policy year		1,309,650	1,059,312	898,305	893,371	711,703
One year later		1,026,641	1,068,343	970,184	1,430,885	

Two years later						
Three years later						
Four years later						
Five years later						
Six years later						

7. Increase (decrease) in estimated net incurred claims & expenses from end of policy year

	0	0	0	0	-283,009	9,031	71,879	537,514	0
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8/31/2010 the actuary changed review method. This data was not available in this format before then.

SW WA Unemployment Compensation Pool

REQUIRED SUPPLEMENTARY INFORMATION

September 1, 2012 through August 31, 2013

This required supplementary information is an integral part of the accompanying financial statements.

1. Five-Year Claims Development Information

The table below illustrates how the Pool's earned revenues (net of reinsurance) and investment income compare to related costs of loss (net of loss assumed by re-insurers) and other expenses assumed by the Pool as of the end of each of the last five years. The rows of the table are defined as follows:

- 1) This line shows the total of each fiscal year's earned contribution revenues and investment revenues, contribution revenue ceded to reinsurers, and net earned contribution revenue and reported investment revenue.
- 2) This line shows each fiscal year's operating costs of the Pool including overhead and claims expenses not allocable to individual claims.
- 3) This line shows the Pool's incurred claims and allocated claim adjustment expenses, claims assumed by reinsurers, and net incurred claims and allocated adjustment expenses (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year).
- 4) This section of three rows shows the cumulative net amounts paid as of the end of successive years for each policy year.
- 5) This line shows the latest reestimated amount of claims assumed by reinsurers as of the end of the current year for each accident year.
- 6) This section of five rows shows how each policy year's incurred claims increased or decreased as of the end of successive years. This annual reestimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known.
- 7) This line compares the latest re-estimated incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years.

Claims Development Information for Fiscal Year Ending August 31, 2013

1. Required contribution & investment revenue:

Earned	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Ceded	2,260,926	2,412,076	2,772,272	3,043,314	3,175,375	3,184,350	3,260,088	3,322,027	3,260,959	2,976,838
Net Earned	1,510,259	1,384,513	1,426,694	1,555,211	1,489,622	1,358,576	1,435,897	1,861,825	1,628,803	1,281,592
	750,667	1,027,563	1,345,578	1,488,103	1,685,753	1,825,774	1,824,191	1,460,202	1,632,156	1,695,246

2. Unallocated expenses

	306,046	322,796	355,321	390,200	353,785	396,339	357,809	358,608	365,257	343,608
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3. Estimated claims & expenses end of policy Year:

Incurred	575,000	954,181	676,019	471,496	633,019	958,100	1,251,483	1,701,304	1,660,057	1,011,221
Ceded *	0	0	0	0	0	0	391,144	802,721	589,604	412,823
Net incurred	575,000	954,181	676,019	471,496	633,019	958,100	860,339	898,583	1,070,453	598,398

4. Net paid (cumulative) as of:

End of policy year	207,602	490,547	187,252	127,157	331,685	314,939	386,235	312,911	390,972	181,780
One year later	271,872	638,405	344,131	167,816	395,572	761,004	893,404	622,000	709,917	
Two years later	271,123	969,267	384,726	162,510	483,837	843,632	904,033	648,377		
Three years later	269,289	1,210,853	396,909	173,620	623,956	887,723	915,982			
Four years later	269,289	1,271,614	433,271	188,990	642,861	948,479				
Five years later	269,289	1,308,423	433,271	189,054	856,582					
Six years later	271,744	1,316,310	433,271	166,750						
Seven years later	271,868	1,316,199	470,324							
Eight years later	271,868	1,316,045								
Nine years later	271,868									

5. Reestimated net ceded claims and expenses *

	2,757	1,706,853	72,638	127,106	300,778	965,962	153,809	272,420	416,181	412,823
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6. Reestimated net incurred claims & expenses:

End of policy year	575,000	954,181	676,019	471,496	633,019	958,100	860,339	898,583	1,070,453	598,398
One year later	384,105	999,494	537,399	284,816	617,107	985,601	1,067,690	763,596	1,291,492	
Two years later	339,193	1,333,132	463,399	243,816	637,107	958,446	982,690	722,150		
Three years later	295,821	1,320,809	501,099	214,816	697,044	1,071,854	972,690			
Four years later	282,764	1,336,654	451,399	206,209	779,044	1,134,818				
Five years later	277,964	1,322,295	441,715	195,209	865,044					
Six years later	289,764	1,325,295	438,715	179,209						
Seven years later	280,764	1,321,295	687,715							
Eight years later	274,764	1,320,295								
Nine years later	273,764									

7. Increase (decrease) in estimated net incurred claims & expenses from end of policy year

	-301,236	366,114	11,696	-292,287	232,025	176,718	112,351	-176,433	221,039	0
	-52.4%	38.4%	1.7%	-62.0%	36.7%	18.4%	13.1%	-19.6%	20.6%	0.0%

* Estimates were not done for years prior to 2009-10

SW WA Risk Management Insurance Cooperative

REQUIRED SUPPLEMENTARY INFORMATION

September 1, 2012 Through August 31, 2013

This required supplementary information is an integral part of the accompanying financial statements.

1. Ten-Year Claims Development Information

The table below illustrates how the Cooperative's earned revenues (net of reinsurance) and investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the Cooperative as of the end of each of the last ten years. The rows of the table are defined as follows:

- 1) This line shows the total of each fiscal year's earned contribution revenues and investment revenues, contribution revenue ceded to reinsurers, and net earned contribution revenue and reported investment revenue.
- 2) This line shows each fiscal year's operating costs of the Cooperative including overhead and claims expenses not allocable to individual claims.
- 3) This line shows the cooperative's incurred claims and allocated claim adjustment expenses, claims assumed by reinsurers, and net incurred claims and allocated adjustment expenses (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year).
- 4) This section of ten rows shows the cumulative net amounts paid as of the end of successive years for each policy year.
- 5) This line shows the latest reestimated amount of claims assumed by reinsurers as of the end of the current year for each accident year.
- 6) This section of ten rows shows how each policy year's incurred claims increased or decreased as of the end of successive years. This annual reestimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known.
- 7) This line compares the latest re-estimated incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years.

Reconciliation of Claims Liabilities by Type of Contract

The schedule below presents the changes in claims liabilities for the past two fiscal years by individual insurance pool.

	Workers' Compensation Insurance Fund	
	Year Ended 8/31/13	Year Ended 8/31/12
Unpaid Claims and Claim Adjustment Expenses at Beginning of the Fiscal Year	3,683,918	3,550,936
<i><u>Incurred Claims and Claim Adjustment Expenses:</u></i>		
Provision for Insured Events of the Current Fiscal Year	2,275,000	1,950,000
Provision for Insured Events of the Current Fiscal Year - L & I Assessments	1,720,096	1,760,651
Increases (Decreases) in Provision for Insured Events of Prior Years	58,000	79,500
Changes in Provision for ULAE	9,000	0
Total Incurred Claims and Claim Adjustment Expenses	4,062,096	3,790,151
<i><u>Payments:</u></i>		
Claim Expenses Attributable to Insured Events of the Current Year	768,778	633,705
Claim Expenses Attributable to Insured Events of Prior Years	1,329,588	1,351,514
Washington State L & I Assessment Payments	1,680,145	1,671,950
Total Payments	3,778,511	3,657,169
Total Unpaid Claims and Claim Adjustment Expenses at the End of the Year	3,967,503	3,683,918
<i><u>Components:</u></i>		
Reserve for Open Claims	1,926,097	1,568,492
Claims Incurred But Not Reported (IBNR)	1,417,809	1,540,780
Unallocated Loss Adjustment Exp (ULAE)	224,000	215,000
Washington State L & I Assessment (L & I)	399,597	359,646
Total Claims Liabilities	3,967,503	3,683,918
Current Portion	2,529,985	1,316,295
Non-Current Portion	1,437,518	2,367,623
Total Claims Liabilities	3,967,503	3,683,918

Reconciliation of Claims Liabilities by Type of Contract

The schedule below presents the changes in claims liabilities for the past two fiscal years by individual insurance pool.

	Unemployment Insurance Fund	
	Year Ended 8/31/13	Year Ended 8/31/12
Unpaid Claims and Claim Adjustment Expenses at Beginning of the Fiscal Year	216,758	391,591
<i><u>Incurred Claims and Claim Adjustment Expenses:</u></i>		
Provision for Insured Events of the Current Fiscal Year	751,508	1,181,681
Increases (Decreases) in Provision for Insured Events of Prior Years	(263,800)	(326,291)
Changes in Provision for ULAE	(3,965)	4,243
Total Incurred Claims and Claim Adjustment Expenses	483,743	859,633
<i><u>Payments:</u></i>		
Claim Expenses Attributable to Insured Events of the Current Year	403,409	757,492
Claim Expenses Attributable to Insured Events of Prior Years	160,603	276,974
Total Payments	564,012	1,034,466
Total Unpaid Claims and Claim Adjustment Expenses at the End of the Year	136,489	216,758

Reconciliation of Claims Liabilities by Type of Contract

The schedule below presents the changes in claims liabilities for the past two fiscal years by individual insurance pool.

	Property/Casualty Insurance Fund	
	Year Ended 8/31/13	Year Ended 8/31/12
Unpaid Claims and Claim Adjustment Expenses at Beginning of the Fiscal Year	1,341,826	1,106,790
<i><u>Incurred Claims and Claim Adjustment Expenses:</u></i>		
Provision for Insured Events of the Current Fiscal Year	598,398	1,070,453
Increases (Decreases) in Provision for Insured Events of Prior Years	551,057	(77,044)
Changes in Provision for ULAE	18,000	15,000
Total Incurred Claims and Claim Adjustment Expenses	1,167,455	1,008,409
<i><u>Payments:</u></i>		
Claim Expenses Attributable to Insured Events of the Current Year	181,780	390,972
Claim Expenses Attributable to Insured Events of Prior Years	649,099	382,401
Total Payments	830,879	773,373
Total Unpaid Claims and Claim Adjustment Expenses at the End of the Year	1,678,402	1,341,826
<i><u>Components:</u></i>		
Reserve for Open Claims	1,227,409	904,128
Claims Incurred But Not Reported (IBNR)	345,993	350,698
Unallocated Loss Adjustment Exp (ULAE)	105,000	87,000
Total Claims Liabilities	1,678,402	1,341,826
Current Portion	675,500	679,481
Non-Current Portion	1,002,902	662,345
Total Claims Liabilities	1,678,402	1,341,826

ESD 112 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDING AUGUST 31, 2013

			EXPENDITURES			Note Reference
Grantor/Pass through Agency	Program Name	CFDA No. Grant Number	Direct	Pass Through	Total	
US Dept of Agriculture						
DOH	Special Supplemental Nutrition Program for Women, Infants, and Children	10.557 N18028		115,883	115,883	2.3
WA SPI	Child and Adult Care Food Program	10.558 N/A		1,301,538	1,301,538	2
TOTAL US DEPARTMENT OF AGRICULTURE			-	1,417,421	1,417,421	2
US Department of Justice						
DOJ	Juvenile Justice and Delinquency Prevention Allocation to States	16.540 I-300-00213		46,867	46,867	2
TOTAL US DEPARTMENT OF JUSTICE			-	46,867	46,867	2
US Dept of Labor						
Private Industry Council	WIA Youth Activities	17.259 WDC10-12		1,321,593	1,321,593	2.3
TOTAL US DEPARTMENT OF LABOR			-	1,321,593	1,321,593	
US Department of Education						
WA SPI	Title 1 Grants to Local Educational Agencies	84.010 227731, 227742		265,404	265,404	2
		222613				
WA SPI	Title 1 State Agency Program for Neglected and Delinquent Children and Youth	84.013 223016		20,082	20,082	2
WA SPI	Special Education - Grants to States	84.027 337579, 320203		3,360,725	3,360,725	2.3,4
		304443, 329031				
WA SPI	Special Education Preschool Grants	84.173 380253, 364442		148,291	148,291	2.3
WA SPI	Twenty-first Century Community Learning Centers	84.287 993676		369,455	369,455	2
WA SPI	Mathematics and Science Partnerships	84.366 555352, 555331		176,259	176,259	2
WA SPI	Improving Teacher Quality State Grants	84.367 539031		76,258	76,258	2
WA DEL	Race to the Top Early Learning Challenge	84.412 0-710-20113-26		523,484	523,484	2.5
TOTAL DEPARTMENT OF EDUCATION			-	4,939,958	4,939,958	
Dept of Health and Human Services						
DHHS	Drug Free Communities Support Program Grants	93.276 12SPI14467A	197,008		197,008	2
		11SPI18597A				
DSHS	Center for Disease Control and Prevention - Investigation and Technical Assistance	93.283 N18028		17,184	17,184	2
DHHS	Community Transformation Grants and National Dissemination and Support for	93.531 N18028		135,032	135,032	2
	Community Transformation Grants - financed solely by 2012 Prevention and Public Health Funds					
DHHS	Childcare and Development Block Grant	93.575 N/A		318,929	318,929	2.3
DHHS	Head Start	93.600 10CHO182/01	492,893		492,893	2.3
DSHS	Medical Assistance Program	93.778 N/A		31,128	31,128	
DSHS	Block Grants for Prevention and Treatment of Substance Abuse	93.959 998114		385,586	385,586	2
TOTAL DEPARTMENT OF HEALTH AND HUMAN SERVICES			689,901	887,859	1,577,760	
Corporation for National Service						
CNCS	AmeriCorps	94.006 07NDHWA001		107,125	107,125	2
TOTAL CORPORATION FOR NATIONAL SERVICE			-	107,125	107,125	
TOTAL FEDERAL FINANCIAL ASSISTANCE			689,901	8,720,823	9,410,724	

NOTE 1 - BASIS OF ACCOUNTING
The Schedule of Expenditures of Federal Awards is prepared on the same basis of accounting as the Educational Service District's financial statements. The District uses the modified accrual basis of accounting. Expenditures represent only those federally funded portions of the program. District records should be consulted to determine amounts expended or matched from non-federal sources.

NOTE 2 - FEDERAL INDIRECT COST RATE
The amount expended includes \$639,440 claimed as an indirect cost recovery using an approved indirect cost rate of 9 percent.

NOTE 3 - PROGRAM COSTS
The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, including the district's portion, are more than shown.

NOTE 4 - AMOUNTS AWARDED TO SUBRECIPIENTS
Included in the total amount expended for this program are awards that were passed through to a subrecipient that administered its own project.

NOTE 5 - PERFORMANCE BASED CONTRACTS
Revenues received based on performance standards. Revenues are allowed to be carried forward for expenditure in the following fiscal year.

SW WA Workers' Compensation Trust

PUBLIC ENTITY RISK POOL LIST OF PARTICIPATING MEMBERS

Workers' Compensation:

Battle Ground School District #119
Camas School District # 117
Castle Rock School District #401
Centerville School District #215
Educational Service District 112
Evergreen School District #114
Glenwood School District #401
Green Mountain School District #103
Hockinson School District #98
Kalama School District #402
Kelso School District #458
Klickitat School District #402
LaCenter School District #101
Longview School District #122
Lyle School District #406
Mill A School District #31
Mount Pleasant School District #029-93
Naselle-Grays River School District #155
Ocean Beach School District #101
Ridgefield School District #122
Roosevelt School District #403
Skamania School District #2
Stevenson-Carson School District #303
Toutle Lake School District #130
Trout Lake School District #R-400
Wahkiakum School District #200
Washougal School District #112-6
White Salmon Valley School District #405-17
Wishram School District #94
Woodland School District #404

OFM SCHEDULE OF EXPENSES

SOUTHWEST WASHINGTON WORKERS' COMPENSATION TRUST

For the Fiscal Year Ended August 31, 2013

Excess Insurance	<u>113,521.00</u>
Contracted Services:	
Third Party Administrator Fees	
Actuarial	<u>104,422.00</u>
Audit Expenses	
Brokerage Fees	<u>10,650.00</u>
Legal Fees	<u>549.36</u>
Other Consultant Fees	<u>6,283.38</u>
General Administrative Expenses:	
Payroll	<u>699,733.21</u>
Communication & Network	<u>22,844.67</u>
Supplies and Materials	<u>18,167.38</u>
Dues and Conferences	<u>5,837.12</u>
Retreat/Board Meetings	<u>145.92</u>
Training	<u>2,368.11</u>
Depreciation	
Travel	<u>10,206.07</u>
Lease	<u>37,951.84</u>
Printing/Copier	<u>6,426.19</u>
Miscellaneous	<u></u>
Other:	
Claims Paid	<u>2,100,154.10</u>
Change in Claim Reserves	<u>283,585.00</u>
Labor & Industry Assessment	<u>1,680,145.42</u>
Right to Know	<u>18,009.50</u>
Safe Schools Online Training	<u>22,500.00</u>
Total Operating Expenses	<u>5,143,500.27</u>

SW WA Unemployment Compensation Pool

PUBLIC ENTITY RISK POOL LIST OF PARTICIPATING MEMBERS

Unemployment:

Camas School District # 117
Castle Rock School District #401
Centerville School District #215
Educational Service District 112
Evergreen School District #114
Glenwood School District #401
Green Mountain School District #103
Hockinson School District #98
Kalama School District #402
Kelso School District #458
Klickitat School District #402
LaCenter School District #101
Longview School District #122
Lyle School District #406
Mill A School District #31
Mount Pleasant School District #029-93
Naselle-Grays River School District #155
Ocean Beach School District #101
Ridgefield School District #122
Roosevelt School District #403
Skamania School District #2
Stevenson-Carson School District #303
Toutle Lake School District #130
Trout Lake School District #R-400
Wahkiakum School District #200
Washougal School District #112-6
White Salmon Valley School District #405-17
Wishram School District #94
Woodland School District #404

OFM SCHEDULE OF EXPENSES

SOUTHWEST WASHINGTON UNEMPLOYMENT COMPENSATION POOL

For the Fiscal Year Ended August 31, 2013

Excess Insurance	
Contracted Services:	
Third Party Administrator Fees	
Actuarial	16,350.00
Audit Expenses	
Brokerage Fees	
Legal Fees	
Other Consultant Fees	
General Administrative Expenses:	
Payroll	149,055.44
Communication & Network	4,164.98
Supplies and Materials	959.43
Dues and Conferences	1,413.36
Retreat/Board Meetings	
Training	54.50
Depreciation	
Travel	2,213.80
Lease	11,073.44
Printing/Copier	1,911.87
Miscellaneous	
Other:	
Claims Paid	564,011.79
Change in Claim Reserves	-84,233.00
Miscellaneous	212.00
Total Operating Expenses	667,187.61

SW WA Risk Management Insurance Cooperative

PUBLIC RISK POOL LIST OF PARTICIPATING MEMBERS

As of August 31, 2013

Risk Management:

Bickleton School District #203
Camas School District #117
Castle Rock School District #401
Centerville School District #215
East Valley (Yakima) School District #90
Educational Service District 112
Glenwood School District #401
Green Mountain School District #103
Hockinson School District #98
KWRL Transportation
Kalama School District #402
Kelso School District #458
Klickitat School District #402
La Center School District #101
Lyle School District #406
Mabton School District #120
Mill A School District #31
Mount Pleasant School District #029-93
Naselle-Grays River School District #155
Ocean Beach School District #101
Ridgefield School District #122
Roosevelt School District #403
Skamania School District #2
Stevenson-Carson School District #303
Toutle Lake School District #130
Trout Lake School District #R-400
Wahkiakum School District #200
Washougal School District #112-6
White Salmon Valley School District #405-17
Wishram School District #94
Woodland School District #404
(WSIPC) Washington School Information Processing
Cooperative

OFM SCHEDULE OF EXPENSES

SOUTHWEST WASHINGTON RISK MANAGEMENT INSURANCE COOPERATIVE

For the Fiscal Year Ended August 31, 2013

Excess Insurance	<u>1,281,592.45</u>
Contracted Services:	
Third Party Administrator Fees	
Actuarial	<u>28,231.00</u>
Audit Expenses	
Brokerage Fees	
Legal Fees	<u>5,013.75</u>
Other Consultant Fees	<u>8,762.35</u>
General Administrative Expenses:	
Payroll	<u>248,196.06</u>
Communication & Network	<u>3,671.52</u>
Supplies and Materials	<u>1,396.34</u>
Dues and Conferences	<u>2,710.43</u>
Retreat/Board Meetings	<u>2,533.87</u>
Training	<u>1,136.16</u>
Depreciation	
Travel	<u>15,897.54</u>
Lease	<u>14,596.33</u>
Printing/Copier	<u>10,023.03</u>
Miscellaneous	<u>1,439.80</u>
Other:	
Claims Paid	<u>830,878.74</u>
Change in Claim Reserves	<u>336,576.00</u>
State Risk Manager Fee	<u>5,867.20</u>
Refund to Member Districts	
District Security Audits	<u>97,989.05</u>
Pre-Loss Attorney Consultation	<u>7,207.50</u>
Total Operating Expenses	<u>2,903,719.12</u>



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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Director of Local Audit
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Deputy Director of Local Audit
Deputy Director of Local Audit
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