



Washington State Auditor's Office

Independence • Respect • Integrity

Financial Statements and Federal Single Audit Report

Educational Service District No. 123

Franklin County

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

Published May 28, 2015

Report No. 1014312





Washington State Auditor

May 28, 2015

Board of Directors
Educational Service District No. 123
Pasco, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on Educational Service District No. 123'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 black ink, reading "Jan M. Jutte".

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

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FEDERAL SUMMARY

Educational Service District No. 123 Franklin County September 1, 2013 through August 31, 2014

The results of our audit of Educational Service District No. 123 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 its major federal program.

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

Identification of Major Programs:

The following was a major program during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
84.287	Twenty-First Century Community Learning Centers

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

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

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

**Educational Service District No. 123
Franklin County
September 1, 2013 through August 31, 2014**

Board of Directors
Educational Service District No. 123
Pasco, 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. 123, Franklin County, Washington, as of and for the year ended August 31, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated May 18, 2015. 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.

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.

A handwritten signature in black ink, reading "Jan M. Jutte". The signature is fluid and cursive, with the first name "Jan" and last name "Jutte" clearly legible.

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

May 18, 2015

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

**Educational Service District No. 123
Franklin County
September 1, 2013 through August 31, 2014**

Board of Directors
Educational Service District No. 123
Pasco, Washington

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

We have audited the compliance of Educational Service District No. 123, Franklin County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2014. The District's major federal programs are identified in the accompanying Federal Summary.

Management's Responsibility

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

Auditor's Responsibility

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

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

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

Opinion on Each Major Federal Program

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

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

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

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

control that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

PURPOSE OF THIS REPORT

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

A handwritten signature in black ink, appearing to read "Jan M. Jutte", with a stylized, flowing script.

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

May 18, 2015

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Educational Service District No. 123 Franklin County September 1, 2013 through August 31, 2014

Board of Directors
Educational Service District No. 123
Pasco, 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. 123, Franklin County, Washington, as of and for the year ended August 31, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 15.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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. 123, as of August 31, 2014, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the risk pools information on pages 33 through 35 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.

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.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated May 18, 2015 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

May 18, 2015

FINANCIAL SECTION

**Educational Service District No. 123
Franklin County
September 1, 2013 through August 31, 2014**

BASIC FINANCIAL STATEMENTS

Statement of Net Position – All Funds – 2014
Statement of Revenues, Expenses and Changes in Fund Net Position – 2014
Statement of Cash Flows – 2014
Statement of Fiduciary Net Position – Agency Funds – 2014
Statement of Changes in Fiduciary Net Position – Fiduciary Funds – 2014
Notes to the Financial Statements – 2014

REQUIRED SUPPLEMENTARY INFORMATION

Risk Pools Information – 2014

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2014
Notes to the Schedule of Expenditures of Federal Awards – 2014

EDUCATIONAL SERVICE DISTRICT #123
STATEMENT OF NET POSITION - ALL FUNDS
AUGUST 31, 2014

	NOTE REF	OPERATING	WORKERS COMPENSATION FUND	UNEMPLOYMENT FUND	TOTAL ALL FUNDS
ASSETS					
CURRENT ASSETS					
Cash and Cash Equivalents	Note 1	\$ 169,369.58	\$ 438.99		\$ 169,808.57
Net Assets for Pool Participants				\$ 3,327,948.82	\$ 3,327,948.82
Investments	Note 2	\$ 601,788.76	\$ 8,308,152.60		\$ 8,909,941.36
Accounts Receivable (net of uncollectible allowa	Note 1	\$ 1,167,464.78			\$ 1,167,464.78
Other Receivables	Note 8				
Member Assessments/Contributions			\$ 206,488.50	\$ 7,016.96	\$ 213,505.46
Excess/Reinsurance Recoverable			\$ 463,513.93		\$ 463,513.93
Prepays	Note 1	\$ 1,104.99			\$ 1,104.99
TOTAL CURRENT ASSETS		\$ 1,939,728.11	\$ 8,978,594.02	\$ 3,334,965.78	\$ 14,253,287.91
NONCURRENT ASSETS					
Capital Assets	Note 3				
Land		\$ 242,500.00			\$ 242,500.00
Building		\$ 2,745,153.00			\$ 2,745,153.00
Less: Accumulated Depreciation		\$ (1,139,435.00)			\$ (1,139,435.00)
Net Capital Assets		\$ 1,848,218.00	\$ -	\$ -	\$ 1,848,218.00
Other Noncurrent Assets					
Net Cash/Investments Held for Compensated Absences		\$ 62,375.38			\$ 62,375.38
Net Cash/Investments Held for Unemployment		\$ 576,724.54			\$ 576,724.54
Investment in Joint Venture	Note 12	\$ 618,351.12			\$ 618,351.12
TOTAL NONCURRENT ASSETS		\$ 3,105,669.04	\$ -	\$ -	\$ 3,105,669.04
TOTAL ASSETS		\$ 5,045,397.15	\$ 8,978,594.02	\$ 3,334,965.78	\$ 17,358,956.95
DEFERRED OUTFLOWS OF RESOURCES	Note 1				\$ -
LIABILITIES					
CURRENT LIABILITIES					
Accounts Payable	Note 1	\$ 443,884.80	\$ 323,157.43	\$ 37,098.68	\$ 804,140.91
Amount Due to Pool Participants				\$ 3,297,867.10	\$ 3,297,867.10
Accrued Salaries	Note 1	\$ 30,473.95			\$ 30,473.95
Payroll Deductions & Taxes Payable	Note 1	\$ 2,415.83			\$ 2,415.83
Compensated Absences - Current	Note 1	\$ 177,727.20			\$ 177,727.20
Bonds Payable - Current	Note 5	\$ 160,588.81			\$ 160,588.81
IBNR - Current			\$ 643,883.80		\$ 643,883.80
Open Claims - Current			\$ 697,540.90		\$ 697,540.90
Unallocated Loss Adjustment Expenses - Current			\$ 275,000.00		\$ 275,000.00
TOTAL CURRENT LIABILITIES		\$ 815,090.59	\$ 1,939,582.13	\$ 3,334,965.78	\$ 6,089,638.50
NONCURRENT LIABILITIES					
Claim Reserves	Note 8				
IBNR			\$ 1,314,996.10		\$ 1,314,996.10
Open Claims			\$ 1,424,579.20		\$ 1,424,579.20
Bonds Payable	Note 5	\$ 511,188.36			\$ 511,188.36
Future L&I Assessments			\$ 501,000.00		\$ 501,000.00
TOTAL NONCURRENT LIABILITIES		\$ 511,188.36	\$ 3,240,575.30	\$ -	\$ 3,751,763.66
TOTAL LIABILITIES		\$ 1,326,278.95	\$ 5,180,157.43	\$ 3,334,965.78	\$ 9,841,402.16
DEFERRED INFLOWS OF RESOURCES	Note 1				\$ -
NET POSITION					
Net Investment in Capital Assets		\$ 1,848,218.00	\$ -	\$ -	\$ 1,848,218.00
Restricted for Self-Insurance		\$ 576,724.54			\$ 576,724.54
Restricted for Support Programs	Note 10	\$ 442,029.98			\$ 442,029.98
Restricted for Risk Pool Net Position			\$ 3,798,436.59	\$ -	\$ 3,798,436.59
Unrestricted		\$ 852,145.68	\$ -	\$ (0.00)	\$ 852,145.68
TOTAL NET POSITION		\$ 3,719,118.20	\$ 3,798,436.59	\$ (0.00)	\$ 7,517,554.79

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

EDUCATIONAL SERVICE DISTRICT #123
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED AUGUST 31, 2014

	OPERATING	WORKERS COMPENSATION FUND	UNEMPLOYMENT FUND	TOTAL ALL FUNDS
OPERATING REVENUES				
Local Sources	\$ 710,929.66			\$ 710,929.66
State Sources	\$ 938,871.64			\$ 938,871.64
Allotment	\$ 889,769.04			\$ 889,769.04
Federal Sources	\$ 2,956,223.29			\$ 2,956,223.29
Cooperative Programs	\$ 1,818,622.27			\$ 1,818,622.27
Other Programs	\$ 1,319,570.73			\$ 1,319,570.73
Member Assessments/Contributions		\$ 3,216,569.61	\$ 35,279.62	\$ 3,251,849.23
Other Operating Revenue		\$ 96,006.67		\$ 96,006.67
TOTAL OPERATING REVENUE	\$ 8,633,986.63	\$ 3,312,576.28	\$ 35,279.62	\$ 11,981,842.53
OPERATING EXPENSES				
General Operations and Administration	\$ 1,502,267.14	\$ 703,639.23	\$ 39,630.70	\$ 2,245,537.07
Instructional Support Programs	\$ 5,798,466.83			\$ 5,798,466.83
Non Instructional Support Programs	\$ 877,147.04			\$ 877,147.04
Incurred Loss/Loss Adjustment Expenses				
Paid on Current Losses		\$ 519,000.00		\$ 519,000.00
Paid Unallocated Loss Adjustment Expenses		\$ 191,000.00		\$ 191,000.00
Excess/Reinsurance Premiums		\$ 126,294.00		\$ 126,294.00
Professional Fees		\$ 34,200.00		\$ 34,200.00
Labor & Industries Assessments		\$ 216,441.93		\$ 216,441.93
Depreciation/Depletion	\$ 102,544.00			\$ 102,544.00
Other Operating Expenses		\$ 1,992,559.37		\$ 1,992,559.37
TOTAL OPERATING EXPENSES	\$ 8,280,425.01	\$ 3,783,134.53	\$ 39,630.70	\$ 12,103,190.24
OPERATING INCOME (LOSS)	\$ 353,561.62	\$ (470,558.25)	\$ (4,351.08)	\$ (121,347.71)
NONOPERATING REVENUES (EXPENSES)				
Interest and Investment Income	\$ 49.31	\$ 8,233.47	\$ 4,351.08	\$ 12,633.86
Interest Expense and Related Charges	\$ (39,102.89)			\$ (39,102.89)
Change in Joint Venture	\$ 7,503.45			\$ 7,503.45
TOTAL NONOPERATING REVENUES (EXPENSES)	\$ (31,550.13)	\$ 8,233.47	\$ 4,351.08	\$ (18,965.58)
INCOME (LOSS) BEFORE OTHER ITEMS	\$ 322,011.49	\$ (462,324.78)	\$ -	\$ (140,313.29)
INCREASE (DECREASE) IN NET POSITION	\$ 322,011.49	\$ (462,324.78)	\$ -	\$ (140,313.29)
NET POSITION - BEGINNING BALANCE	\$ 3,334,485.07	\$ 4,260,761.37	\$ -	\$ 7,595,246.44
PRIOR PERIOD ADJUSTMENT	\$ 62,621.64			\$ 62,621.64
NET POSITION - ENDING BALANCE	\$ 3,719,118.20	\$ 3,798,436.59	\$ -	\$ 7,517,554.79

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

EDUCATIONAL SERVICE DISTRICT #123
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED AUGUST 31, 2014

	OPERATING	WORKERS COMPENSATION FUND	UNEMPLOYMENT FUND	TOTAL ALL FUNDS
CASH FLOW FROM OPERATING ACTIVITIES				
Cash Received from Customers	\$ 3,775,266.06			\$ 3,775,266.06
Cash Received from State and Federal Sourc	\$ 4,880,695.23			\$ 4,880,695.23
Cash Received from Members		\$ 3,233,816.46	\$ 35,279.62	\$ 3,269,096.08
Payments to Suppliers for Goods and Service	\$ (2,339,193.63)		\$ (39,630.70)	\$ (2,378,824.33)
Payments to Employees for Services	\$ (4,344,126.63)			\$ (4,344,126.63)
Cash Paid for Benefits/Claims	\$ (1,371,217.50)	\$ (2,034,246.98)		\$ (3,405,464.48)
Internal Activity - Payments to Other Funds		\$ (757,620.96)		\$ (757,620.96)
Cash Paid for Reinsurance		\$ (126,294.00)		\$ (126,294.00)
Cash Paid for Labor and Industries Assessments		\$ (219,314.36)		\$ (219,314.36)
Cash Paid for Professional Services		\$ (34,200.00)		\$ (34,200.00)
Other Receipts (Payments)		\$ 707,087.19		\$ 707,087.19
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 601,423.53	\$ 769,227.35	\$ (4,351.08)	\$ 1,366,299.80
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	\$ -	\$ -	\$ -	\$ -
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Principal and Interest Paid on Capital Debt	\$ (190,905.27)			\$ (190,905.27)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	\$ (190,905.27)	\$ -	\$ -	\$ (190,905.27)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest and Dividends Received	\$ 49.31	\$ 8,233.47	\$ 4,351.08	\$ 12,633.86
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	\$ 49.31	\$ 8,233.47	\$ 4,351.08	\$ 12,633.86
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ 410,567.57	\$ 777,460.82	\$ -	\$ 1,188,028.39
CASH AND CASH EQUIVALENTS - BEGINNII	\$ 360,590.77	\$ 7,531,130.77	\$ -	\$ 7,891,721.54
PRIOR PERIOD ADJUSTMENT				\$ -
CASH AND CASH EQUIVALENTS - ENDING	\$ 771,158.34	\$ 8,308,591.59	\$ -	\$ 9,079,749.93
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
OPERATING NET INCOME	\$ 353,561.62	\$ (470,558.25)	\$ (4,351.08)	\$ (121,347.71)
Adjustment to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities				
Depreciation Expense	\$ 102,544.00			\$ 102,544.00
Receivables, Net	\$ 21,974.66	\$ 17,246.85		\$ 39,221.51
Prepays	\$ 346.03			\$ 346.03
Accounts and Other Payables	\$ 122,997.22	\$ (98,541.77)		\$ 24,455.45
Other Changes				
Claims Reserve-Current		\$ 142,099.30		\$ 142,099.30
Claims Reserve-Prior Year		\$ 376,900.70		\$ 376,900.70
Future L&I Assessments		\$ 157,000.00		\$ 157,000.00
Provision for Unallocated Loss Adjustment		\$ 34,000.00		\$ 34,000.00
Insurance Recoverables		\$ 611,080.52		\$ 611,080.52
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 601,423.53	\$ 769,227.35	\$ (4,351.08)	\$ 1,366,299.80
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:				
				\$ -

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

EDUCATIONAL SERVICE DISTRICT #123
STATEMENT OF FIDUCIARY NET POSITION - AGENCY FUNDS
AUGUST 31, 2014

	COMPENSATED ABSENCES	DELTA HIGH ASB	WSIPC {ESD 123 ONLY}
ASSETS			
Cash and Cash Equivalents	\$ 51.72	\$ 4,032.79	\$ 49,639.48
Investments	\$ 1,074,007.84	\$ 6,677.68	\$ 3,075,476.98
Accounts Receivable	\$ 27,988.63		
TOTAL ASSETS	\$ 1,102,048.19	\$ 10,710.47	\$ 3,125,116.46
LIABILITIES			
Accounts Payable	\$ 120,509.88		
Deposits (from school districts)	\$ 981,538.31		
TOTAL LIABILITIES	\$ 1,102,048.19	\$ -	\$ -
NET POSITION			
Held in Trust for Benefits and Other Purposes	\$ -	\$ 10,710.47	\$ 3,125,116.46
TOTAL NET POSITION	\$ -	\$ 10,710.47	\$ 3,125,116.46

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

EDUCATIONAL SERVICE DISTRICT #123
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION - FIDUCIARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2014

	<u>DELTA HIGH ASB</u>
ADDITIONS	
Contributions	
Employer	
Members	<u>8,072.96</u>
Total Contributions	<u>8,072.96</u>
TOTAL ADDITIONS	<u>8,072.96</u>
DEDUCTIONS	
Other Payments in Accordance with Trust Agreement	<u>8,475.76</u>
TOTAL DEDUCTIONS	<u>8,475.76</u>
CHANGE IN NET POSITION	<u>(402.80)</u>
NET POSITION - BEGINNING	11,113.27
PRIOR PERIOD ADJUSTMENT	
NET POSITION - ENDING	<u>10,710.47</u>

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

NOTES TO THE FINANCIAL STATEMENTS

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Educational Service District No. 123 (“the District”) were developed under authority of the Office of Superintendent of Public Instruction. Except where noted as exceptions, the rules of generally accepted accounting principles (GAAP) are the basis for accounting and financial reporting in the District. 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 No. 123 is one of nine municipal corporations of the State of Washington organized pursuant to Title 28A *Revised Code of Washington* (RCW) 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 123. The District is a separate legal entity and is fiscally independent from all other units of government.

The District serves 23 school districts in Asotin, Benton, Columbia, Franklin, Grant, Garfield and Walla Walla 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 nine 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, rests 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 *Workers' Compensation* fund accounts for workers' compensation payroll taxes collected from members, and the payment of associated claims, assessments and expenses.

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.

In addition, the District reports the following fund types:

The *Compensated Absences Pool Agency Fund* accounts for assets held by the district to provide a funding mechanism for members to pay for the cash-out of liabilities for compensated absences when employees of member districts leave service or retire.

The *Washington Information Processing Cooperative Agency Fund* accounts for assets held by the district to operate the joint venture on behalf of the members of the cooperative.

The *Delta High School ASB Fund* was established to hold in trust those monies collected by the Delta High School Associated Student Body for their use. The Educational Service District #123 is the fiscal agent for Delta High School.

Trust or agency funds are used to account for assets held by the district in a trustee or agency capacity.

Assets, Liabilities, and Equity

Cash and Cash Equivalents

The Franklin 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, 2014, the treasurer was holding \$171,922 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.

All receivables are shown net of an allowance for uncollectibles. Uncollectible accounts are written off on an annual basis.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements.

Inventory

The District does not maintain material amounts of inventory.

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, 2014, represents the aggregate amount of vacation and sick leave payable for all eligible employees of the District.

Other Accrued Liabilities

These accounts consist of accrued wages and accrued employee benefits.

Long Term Debt – See Note 5

Note 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, 2014, the District had the following investments:

Investment	Maturity	Fair Value
Local Government Investment Pool	Daily	14,256,781
County Investment Pool		
Certificate of Deposit		
Money Market Account		
Total Investments		14,256,781

Credit Risk

The Local Government Investment Pool (LGIP) 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.

The pool is managed and operated by the Office of the State Treasurer for the State of Washington. The LGIP publishes an annual report, which is on the Internet at the Treasurer's Web site (<http://tre.wa.gov>). As of the most recent report date, fair value equaled amortized cost. It is the policy of the LGIP to permit participants to withdraw their investments on a daily basis; therefore, the District's investment balance in the pool is equal to fair value.

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 \$14,430,702, \$14,256,781 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, 2014, the LGIP's average duration was less than one year. 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.

Note 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 capitalization if the acquisition cost is over \$5,000. 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, 2014, was as follows:

	Beginning Balance 9/1/2013	Increases	Decreases	Ending Balance 8/31/2014
Capital assets not being depreciated:				
Land	\$ 242,500	\$	\$	\$ 242,500
Construction in Progress				
Total capital assets not being depreciated	242,500			242,500
Depreciable capital assets:				
Buildings	2,745,153			2,745,153
Improvements other than buildings				
Equipment				
Other				
Total depreciable capital assets	2,745,153			2,745,153
Less accumulated depreciation for:				
Buildings	1,036,891	102,544		1,139,435
Improvements other than buildings				
Equipment				
Other				
Total accumulated depreciation	1,036,891	102,544		1,139,435
Total depreciable assets, net				
Total assets, net	\$1,950,762	\$102,544	\$	\$1,848,218

During fiscal year 2014, the District capitalized \$ 0 of net interest costs for funds borrowed to finance the construction of capital assets.

Note 4: SHORT-TERM DEBT

Short-term activities for the fiscal year ended August 31, 2014, were as follows:

Debt	Beginning Balance 9/1/2013	Increases	Decreases	Ending Balance 8/31/2014
Roof Loan	\$ 0.00	\$	\$	\$ 0.00

Note 5: LONG-TERM DEBT, LIABILITIES AND LEASES

Long-Term Debt

The District issues general obligation bonds and other debt instruments to finance the purchase of main office building and acquisition and construction of the professional development center. The following is a summary of long-term debt instruments of the District for the fiscal year ended August 31, 2014:

Purpose	Maturity Range	Interest Rate	Original Amount	Amount of Installments
Purchase and Remodel Main Office Building	07/2016	5.11%	1,438,209.48	6,295 to 13,180
Construct Professional Developmental Building	07/2018	5.11%	500,000.00	675 to 15,197

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

Fiscal Year Ending August 31	Principal	Interest
2015	160,588.81	31,031.39
2016	169,740.62	22,554.82
2017	174,287.00	13,572.40
2018	167,160.74	4,333.50

Operating Leases

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 \$18,729. Future minimum rental commitments for these leases are as follows:

Fiscal Year Ending August 31	Amount
2015	13,998
2016	13,998
2017	13,998

Changes in Long-Term Liabilities

During the fiscal year ended August 31, 2014, the following changes occurred in long-term liabilities:

	Beginning Balance 9/1/2013	Additions	Reductions	Ending Balance 8/31/2014	Due Within One Year
Bonds Payable	\$ 823,579.55	\$	\$151,802.38	\$671,777.17	\$160,588.81
Capital Leases					
Compensated Absences (unfunded portion)	125,759.13		10,407.31	115,351.82	N/A
Claims and Judgments					
OPEB					
Total Long-Term Liabilities	\$949,338.68	\$	\$162,209.69	\$787,128.99	\$160,588.81

Note 6: PENSION PLANS

Substantially all of the District's 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 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, 2013, it includes 119,978 active and inactive members.

The Public Employees' Retirement System (PERS) includes non-certificated staff of state, county, local government, and 295 public school district employers. As of June 30, 2013, it includes 267,081 active and inactive members.

The School Employees' Retirement System (SERS) was established effective September 1, 2000, and includes non-certificated 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, 2013, SERS includes 72,962 active and inactive 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 2 is also determined by the Legislature. However, 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. Non-certificated 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 5 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 SERS are eligible to retire with full benefits after 5 years of credited service and attainment of age 65 or after 20 years of credited service and attainment of age 55 with the benefit 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 55 with benefits 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 sixty 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 sixty 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 one percent per year of service with provision for a cost-of-living adjustment.

Contributions

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

Plan 1 TRS	6.00%	Plan 1 PERS	6.00%
Plan 2 TRS	4.96%	Plan 2 SERS	4.64%
Plan 3 TRS and SERS	5.00% (minimum),	15.00% (maximum)	

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

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

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

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

Plan	<u>FY 14</u>
Plan 1 TRS	\$ 2,821.19
Plan 2 TRS	\$ 43,356.30
Plan 3 TRS	\$ 50,965.14
Plan 1 PERS	\$ 7,918.43
Plan 2 SERS	\$ 198,189.68
Plan 3 SERS	\$ 45,734.37

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, 2013, 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
P.O. Box 43113
Olympia, WA 98504-3113

Note 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 District employees, not the ESD, and are therefore not reflected in these financial statements.

Note 8: SHARED RISK POOL DISCLOSURES

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 \$400,000 and the bi-annual aggregate retention is \$5,533,482. Since the Trust is a cooperative program, there is a joint liability among participating members.

For fiscal year 2014, there are 19 members in the pool including 18 participating school districts. A Board comprised of one designated representative from each participating member and a six member Executive Board governs the Trust. The Executive Board has five members elected by the Board and the District Superintendent. The District is responsible for conducting the business affairs of the Trust. At August 31, 2014, the amount of liabilities totaled \$5,180,157. This liability is the District's best estimate based on available information. Changes in the reported liability since August 31, 2014, resulted in the following:

	Beginning Balance 9/1/2013	Current Year Claims and Changes in Estimates	Ending Balance 8/31/2014
Incurred but not Reported	\$ 3,562,000	\$519,000	\$4,081,000
Future L&I Assessments	344,000	157,000	501,000
Estimated Unallocated Loss Adjustment	241,000	34,000	275,000

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 pays 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 2014, there are 17 members in the pool including 16 participating school districts. The pool is governed by a Cooperative Board, which is comprised of one designated representative from each participating member and a six member Executive Board. Five members elected by the Cooperative Board and the District Superintendent comprise the Executive Board. At August 31, 2014, the amount of liabilities totaled \$3,334,966. 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 9/1/2013	Current Year Claims and Changes in Estimates	Ending Balance 8/31/2014
Claims Reserve	\$ 300,921	\$(300,921)	\$0

Note 9: RISK MANAGEMENT

The District is a member of the Washington Schools Risk Management Pool. 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 August 30, 1986 to pool their self-insured losses and jointly purchase insurance and administrative services. The District joined the *Pool* effective September 1, 1998.

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, General Liability, Errors and Omissions Liability, and Employment Practices Liability. Members are responsible for the first \$ 1,000 of all property claims and the *Pool* is responsible for the next \$ 999,999. There is no member deductible for liability claims. Excess insurance covers insured losses over \$ 1,000,000 up to the limits of each policy. The *Pool* is a member of Lexington Insurance Group 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 \$ 1,000. 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 nine member executive committee is responsible for conducting the business affairs of the Pool. Financial statements and disclosures for the Pool can be obtained from the following address:

Washington Schools Risk Management Pool
320 Andover Park East, Suite 275
Tukwila, WA. 98188

Note 10: NET POSITION, RESTRICTED

The District's statement of net position reports \$ 442,030 of restricted assets for Support Programs. The following lists the programs restricted by the Board of Directors:

Support Program	Amount
Instructional	\$301,394
Non-Instructional	140,636
Total Restricted for Support Programs	\$442,030

Note 11: JOINT VENTURE WITH UNDIVIDED INTEREST

Compensated Absences Liability Fund

The Compensated Absences Liability Fund is organized under the provisions of Chapter 39.34 Interlocal Cooperation Act for the purpose of managing leave payouts. Membership is established by execution of an agreement between the District and each local school district. The District is also a member of the Fund.

For fiscal year 2014, there are 6 members in the Fund including 5 participating school districts. The Fund allows members to accumulate dedicated funds for payment of leave related to sick leave and vacation leave buy out at retirement and certain other instances. Payroll contributions are made to the Fund at the time leave is earned to reserve assets for expenditures. Coverage is on an "occurrence" basis. Expenditures of leave taken during employment continue to be recorded when paid.

The District contributes to the Compensated Absences Liability Pool for liabilities relating to sick leave and vacation leave cash outs. As of August 31, 2014, the District's total compensated absences balance in the pool was \$115,352. The District only reports the balance of the liabilities that are not fully funded by the pool in the statement of net position.

Changes for the fiscal year are summarized below.

		Balance at 8/31/2014
Beginning Long-term Liability		\$125,759.13
Beginning Pool Balance	\$44,199.93	
Payments to Pool	\$18,103.29	
Interest	\$72.16	
Withdrawals from Pool	(\$ 0.00)	
Less Ending Pool Balance		\$62,375.38
Increase (Decrease) to Estimates of Long-term Liability		\$51,968.07
Ending Unfunded Liability		\$115,351.82

Note 12: 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, 2014, is as follows: Condensed Financial Statements	Amount
Assets	
Current Assets	3,904,782
Non-Current Assets	2,330,513
Other Assets	0
Total Assets	6,235,295
Liabilities and Joint Venture Capital	
Current Liabilities	670,135
Investment in Joint Venture	5,565,160
Total Liabilities and Joint Venture Capital	6,235,295
Operating Revenues	19,417,813
Plus/Minus Other Income/Expense (Net)	4,230
Less Operating Expenses	19,354,512
Net Income	67,531

The District's share of the total Investment in the Joint Venture is \$618,351. Each ESD has an equal equity share.

The financial statements of the joint venture may be obtained by contacting Washington State Information Processing Cooperative (WSIPC) at:

*Washington School Information Processing Cooperative
2121 W. Casino Road
Everett, WA 98204-1472*

Note 13: CONTINGENT LIABILITIES AND LITIGATIONS

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

Note 14: OTHER DISCLOSURES

Stewardship, Compliance, and Accountability

There have been no material violations of finance-related legal or contractual provisions.

Prior Period Adjustments

The ending Total Fund Balance for the Operating Fund on the Statement of Revenues, Expenditures, and Changes in Fund Net Position includes a Prior Year Adjustment of \$62,621.64. This adjustment was necessary to record the District's cash balance held by

the unemployment compensation trust fund with ESD 123 for the purpose of paying unemployment claims. This balance was not reported in the financial records in prior years as it was not required by the Educational Service District Accounting manual. The balance reflected as the prior year adjustment is the difference in the 8/31/2013 and 8/31/2014 cooperative calculated cash balance for the Educational Service District unemployment fund. The 8/31/2013 balance was manually added to the financial statements per the State Auditor's request but was not recorded in the accounting records until the following year.

Accounting and Reporting Changes

There have been no accounting and reporting changes.

Subsequent Events

There were no events after the financial reporting date that would have a material impact on the next future years.

REQUIRED SUPPLEMENTAL INFORMATION

RSI for Property/Casualty Cooperatives/Pools and Workers Compensation Pools:

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

Part 1 - Ten-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 reinsurers) and other expenses assumed by the pool 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 gross earned contribution revenue, investment revenue, contribution revenue ceded to reinsurers, and net earned contribution revenue and reported investment revenue.
2. This line shows each fiscal year's other operating costs of the pool including overhead and claims expense not allocable to individual claims.
3. This line shows the pool's gross 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 re-estimated 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 net incurred claims increased or decreased as of the end of successive years. (This annual re-estimation 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 net incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of net 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 net incurred claims currently recognized in less mature policy years. The columns of the table show data for successive policy years.

Fiscal and Policy Year Ended
(In Thousands)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
1. Required contribution and investment revenue										
Earned	\$3,949	\$2,769	\$3,000	\$3,092	\$3,100	\$3,082	\$3,199	\$3,273	\$3,090	\$3,225
Ceded	<u>111</u>	<u>128</u>	<u>95</u>	<u>105</u>	<u>102</u>	<u>135</u>	<u>108</u>	<u>108</u>	<u>111</u>	<u>126</u>
Net earned	3,838	2,641	2,905	2,988	2,998	2,947	3,091	3,165	2,979	3,099
2. Unallocated expenses	487	755	754	780	790	814	805	740	657	704
3. Estimated claims and expenses end of policy year:										
Incurred	2,800	1,400	1,500	1,600	1,400	1,553	1,845	1,695	1,929	2,279
Ceded*	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>39</u>	<u>45</u>	<u>35</u>	<u>29</u>	<u>29</u>
Net incurred	2,800	1,400	1,500	1,600	1,400	1,514	1,800	1,660	1,900	2,250
4. Net paid (cumulative) as of:										
End of policy year	907	410	388	425	412	385	536	422	564	692
One year later	1,351	806	966	937	850	843	959	1,110	1,132	
Two years later	1,676	1,040	1,219	1,130	1,081	1,089	1,257	1,471		
Three years later	1,865	1,104	1,185	1,171	1,204	1,213	1,372			
Four years later	1,980	1,139	1,227	1,186	1,344	1,257				
Five years later	2,034	1,170	1,274	1,190	1,400					
Six years later	2,061	1,218	1,320	1,191						
Seven years later	2,138	1,234	1,340							
Eight years later	2,173	1,245								
Nine years later	2,176									
5. Re-estimated ceded claims and expenses	366	6	6	6	7	8	10	13	17	29
6. Re-estimated net incurred claims and expenses										
End of policy year	2,800	1,400	1,500	1,600	1,400	1,514	1,800	1,660	1,900	2,250
One year later	2,900	1,350	1,475	1,650	1,513	1,500	1,600	2,000	2,050	
Two years later	2,850	1,250	1,600	1,525	1,500	1,475	1,775	2,000		
Three years later	2,600	1,400	1,468	1,425	1,475	1,415	1,750			
Four years later	2,275	1,366	1,450	1,345	1,515	1,400				
Five years later	2,224	1,325	1,400	1,285	1,600					
Six years later	2,250	1,339	1,410	1,265						
Seven years later	2,269	1,305	1,425							
Eight years later	2,251	1,300								
Nine years later	2,224									
7. Increase (decrease) in estimated net incurred claims and expenses from end of policy year	(576)	(100)	(75)	(335)	200	(114)	(50)	340	150	0

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

Part 2 - Reconciliation of Claims Liabilities by Type of Contract

The schedule below presents the changes in claims liabilities for the past two years for the pool's two types of contracts: property and casualty, and employee health and accident benefits.

	<u>Employee Health and Accident</u> (In Thousands)	
	Year Ended 8/31/2014	Year Ended 8/31/2013
Unpaid claims and claim adjustment expenses at beginning of the fiscal year	4,148	4,160
Incurring claims and claim adjustment expenses:	2,250	1,900
Provision for insured events of the current fiscal year	373	101
Increases in provision for insured events of prior fiscal years	146	424
	34	7
Total incurred claims and claim adjustment expenses	2,803	2,432
Payments:		
Claims and claim adjustment expenses attributable to insured events of the current fiscal year	692	564
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	1,185	1,500
	216	381
Total payments	2,094	2,444
Total unpaid claims and claim adjustment expenses at end of the fiscal year.	4,857	4,148

Educational Service District No. 123
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ending August 31, 2014

1	2	3	4	5	6	7	8	9
Federal Agency Name	Pass Through Agency	Federal Program Title	CFDA Number	Other Identification Number	From Direct Awards	From Pass Through Awards	Total	Footnote
U.S. Dept of ED	WA - OSPI	Title 1 Part D Grants to Local Educational Agencies	84.010	FY13-14 Grant No.227749; FY14-15 Grant No. 0227758		121,103	121,103	4
	WA - OSPI	Title 1 Part D Grants to Local Educational Agencies	84.010	Grant No. 0222625		105,690	105,690	4
	WA - OSPI	Title 1 Part D Grants to Local Educational Agencies	84.010	Grant No. 0226025		55,705	55,705	4
	WA - OSPI	Title 1 Part D Grants to Local Educational Agencies	84.010	Grant No. 0222449		39,523	39,523	4
	WA - OSPI	Special Education Grants to States	84.027	Grant No 0320215		191,376	191,376	4
	DEL	Special Education-Grants for Infants and Families	84.181	FY13-14 Contract No. 14-1050; FY14-15 Contract No 14-1292		33,608	33,608	4
	DEL	Special Education-Grants for Infants and Families	84.181	FY13-14 Contract No 14-1047; FY 14-15 Contract No 14-1281		52,493	52,493	4
	WA - OSPI	Special Education- Preschool Grants	84.173	Grant No 0380265		25,055	25,055	4
	WA - OSPI	Improving Teacher Quality State Grants	84.367	Grant No 0639045		50,000	50,000	4
	WA - OSPI	Twenty-First Century Community Learning Centers	84.287	Grant No. 992903		540,566	540,566	4
	WA - OSPI	Twenty-First Century Community Learning Centers	84.287	Grant No. 992706		416,500	416,500	4
	Thrive By Five	Race to the top-Early Learning Challenge	84.412	Contract ID 163		2,627	2,627	4
	WA - OSPI	Race to the top-Early Learning Challenge	84.412	FY 2013-14 Grant No. 0619905; FY 2014-15 Grant No 0619915		42,369	42,369	4
	Reading Foundation	Fund for the Improvement of Education	84.215	n/a		29,768	29,768	3,4
	WA - OSPI	Mathematics and Science Partnerships	84.366	Grant No 0555367		118,150	118,150	4
		Subtotal U.S. Department of Education			-	\$1,824,532	\$1,824,532	
U.S Dept of HHS	WA - OSPI	Block Grants for Prevention and Treatment of Substance Abuse	93.959	FY 13-14 Grant No. 0998144; FY14-15 Grant No.0998163		\$462,293	\$462,293	4
U.S Dept of HHS	DEL	Child Care and Development Block Grant	93.575	Contract No. 14-1069		94,011	94,011	4
	Thrive By Five	Child Care and Development Block Grant	93.575	Contract ID 163		33,362	33,362	4
U.S Dept of HHS	DEL	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	ECEAP DEL Contract No 14-1340		16,012	16,012	4
U.S Dept of HHS	B-F Counties	Block Grants for Prevention and Treatment of Substance Abuse	93.959	DSHS Agreement #11/13-SA-ESD-02		4,603	\$4,603	4
		Subtotal U.S. Department of Health and Human Services			\$0	\$610,281	\$610,281	
Total Federal Awards Expended					\$0	\$2,434,813	\$2,434,813	

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE 1—BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal Awards is prepared on the same basis of accounting as the ESD's financial statements. The ESD uses the *GAAP* basis of accounting.

Expenditures represent only the federally funded portions of the program. District records should be consulted to determine amounts expended or matched from non-federal sources.

NOTE 2—PROGRAM COSTS/MATCHING CONTRIBUTIONS

The amounts shown as current year expenses represent only the *federal* grant portion of the program costs. Entire program costs, including the ESD's portion, may be more than shown.

NOTE 3—NOT AVAILABLE (N/A)

There is no other identification number.

NOTE 4—FEDERAL INDIRECT RATE

The ESD used the federal *restricted* rate of 9 percent for this program.

NOTE 5—FEDERAL INDIRECT RATE

The ESD used the federal *restricted* rate of 2 percent for this program.

NOTE 6 - AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA)

The funding for this program was provided by the American Recovery and Reinvestment Act of 2009 (ARRA)
Of the amount shown, \$0 was paid to subrecipients.

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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