



Washington State Auditor's Office

Independence • Respect • Integrity

Financial Statements and Federal Single Audit Report

Educational Service District No. 105

Yakima County

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

Published May 28, 2015

Report No. 1014362





Washington State Auditor

May 28, 2015

Board of Directors
Educational Service District No. 105
Yakima, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on Educational Service District No. 105's financial statements and compliance with federal laws and regulations.

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

Sincerely,

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

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FEDERAL SUMMARY

Educational Service District No. 105 Yakima County September 1, 2013 through August 31, 2014

The results of our audit of Educational Service District No. 105 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.

Internal Control Over Financial Reporting:

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

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

Federal Awards

Internal Control Over Major Programs:

- *Significant Deficiencies:* We identified deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified deficiencies that we consider to be material weaknesses.

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

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

Identification of Major Programs:

The following were major programs during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
84.405	ARRA-Teacher Quality Partnerships
84.412	Race To The Top - Early Learning Challenge
95.001	High Intensity Drug Trafficking Areas Program

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. 105 Yakima County September 1, 2013 through August 31, 2014

2014-001 The District's internal controls were not adequate to ensure compliance with Federal Funding Accountability and Transparency Act (FFATA) reporting requirements.

CFDA Number and Title: 95.001 High Intensity Drug Trafficking Areas Program
Federal Grantor Name: U.S. Office of National Drug Control Policy
Federal Award/Contract Number: GW11NW0003A, GW12NW0003A, GW13NW0003A, GW14NW0003A
Pass-through Entity Name: NA
Pass-through Award/Contract Number: NA
Questioned Cost Amount: \$0

Background

The District received \$884,201 in federal funds for the High Intensity Drug Trafficking program during fiscal year 2014. The purpose of this grant is to coordinate and enhance drug enforcement efforts of local, state, and federal agencies in order to eliminate or reduce drug-trafficking and its harmful consequences in critical regions of the United States. Under the grant agreement, the District enters into contracts with service providers (subrecipients) at the Agency's direction. The District paid subrecipients \$841,849 through this program.

Description of Condition

The Federal Funding Accountability and Transparency Act of 2006 requires direct recipients of federal awards to report subawards over \$25,000. They must report each subaward by the end of the month following the month in which it was granted.

From September 2013 through August 2014 the District entered into eighteen subrecipient contracts in excess of \$25,000. While the District stated they were

aware of the federal reporting requirements, internal controls were not in place to ensure the District submitted the required reports before the deadline.

We consider the control deficiency to be a material weakness.

Cause of Condition

For grant awards through fiscal year 2013, the granting agency did not include the District as a prime recipient in the reporting system. As a result, the District was unable to prepare the required reports. For the fiscal year 2014 grant award, the District did not verify whether the new award was included in the reporting system and could not provide evidence that it demonstrated a “good faith” effort to comply with this requirement.

Effect of Condition and Questioned Costs

By not correctly submitting the required Accountability Act reports, the federal government’s ability to ensure transparency and accountability of federal spending is diminished.

Recommendation

We recommend the District work with its granting agency to receive access to the reporting system and ensure required Accountability and Transparency Act reports are reviewed and submitted in a timely manner.

District’s Response

The Federal Funding and Transparency Act (FFATA) of 2006 requires entities who received direct federal grants to report sub-contracts in the FFATA sub-award system. In 2006 sub-awards exceeding \$20,000,000 were required to be reported. In 2010 the threshold was reduced to \$550,000 for the reporting of sub-awards. The threshold was again reduced in 2011 to \$25,000 for the reporting of sub-awards.

Educational Service District No. 105 (ESD105) has been administering this grant for many years. The reporting requirement for ESD105 became effective in 2011, the year the reporting threshold was reduced to \$25,000. In order for ESD105 to report sub-awards on the FFATA sub-award system, the federal grantor must first add the grant to the reporting system. The grant was not available to ESD105 on the reporting system for the years 2011, 2012, and 2013. Through inquiry with the grantor, the grant was not available on the reporting system for any entity in the nation that also received this same type of grant for those years.

In July 2014, ESD105 issued eighteen sub-awards over \$25,000. ESD105 was unaware that that the 2014 HIDTA grants had been added to the FFATA sub-

award system since HIDTA grants have never been available on the FFATA sub-award reporting system. Now that these grants are available, ESD105 is in the process of gathering the sub-award data necessary to properly report the eighteen sub-awards in the FFATA sub-award system.

Auditor's Remarks

We appreciate the District's commitment to resolve this finding and thank the District for its cooperation and assistance during the audit. We will review the corrective action taken during our next regular audit.

Applicable Laws and Regulations

U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section 300, states in part:

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 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.

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

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

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 265, as follows:

.07 For purposes of generally accepted auditing standards, the following terms have the meanings attributed as follows: (a) The audit shall be conducted in accordance with GAGAS.

Material weakness. A deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Significant deficiency. 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.

Title 2, Code of Federal Regulations, APPENDIX A TO PART 170 – AWARD TERM, provides, in part:

I. Reporting Subawards and Executive Compensation.

Reporting of first-tier subawards.

1. Applicability. Unless you are exempt as provided in paragraph d. of this award term, you must report each action that obligates \$25,000 or more in Federal funds that does not include Recovery funds (as defined in section 1512(a)(2) of the American Recovery and Reinvestment Act of 2009, Pub. L. 111–5) for a subaward to an entity (see definitions in paragraph e. of this award term).

2. Where and when to report.

i. You must report each obligating action described in paragraph a.1. of this award term to <http://www.fsrs.gov>.

ii. For subaward information, report no later than the end of the month following the month in which the obligation was made. (For example, if the obligation was made on November 7, 2010, the obligation must be reported by no later than December 31, 2010.)

U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section 300, states in part:

Good Faith Effort for Submission Process

In the event that applicable subawards/subcontracts were not properly reported by a recipient pursuant to the Transparency Act, auditors should evaluate compliance with these requirements based on whether

a recipient demonstrated a “good faith” effort to comply with the submission process. Demonstration of a “good faith” effort by a recipient should be evidenced by proper documentation such as e-mails or phone logs of communication between a recipient and the awarding agency or GSA; or computer screen shots that illustrate recipient attempts to upload information into FSRS. Auditors are not required to report audit findings when there is evidence that a recipient demonstrated a “good faith” effort to submit the information. However, auditors still are required to report audit findings for non-compliance with the Transparency Act reporting requirements that are not supported by a recipient’s demonstrated “good faith” effort or are related to the accuracy of the information being submitted.

SCHEDULE OF FEDERAL AUDIT FINDINGS AND QUESTIONED COSTS

Educational Service District No. 105 Yakima County September 1, 2013 through August 31, 2014

2014-002 The District did not comply with cash management and reporting requirements for its Federal Race to the Top grant.

CFDA Number and Title:	84.412 Race To The Top – Early Learning Challenge
Federal Grantor Name:	U.S. Department of Education
Federal Award/Contract Number:	NA
Pass-through Entity Name:	Department of Early Learning
Pass-through Award/Contract Number:	14-1162
Questioned Cost Amount:	\$23,197

Description of Condition

The District received \$344,448 of federal funding for the Race to the Top Early Learning Challenge program during fiscal year 2014, of which \$284,192 was passed through the Washington State Department of Early Learning. The purpose of this program is to improve the quality of early childhood programs and to close the achievement gap for high-need children. The District contracted with nine Educational Service Districts to perform services through this program. These contract expenditures totaled \$219,332. The remaining \$64,860 was retained by the District to pay for direct and indirect costs associated with administering the program.

We audited the District's internal controls over cash management and reporting as required by federal regulations. Our audit found the District did not have adequate internal controls to ensure only allowable costs were requested for reimbursement. The District requested reimbursement of grant funds based on budgeted expenses instead of on a reimbursement basis for expenses actually incurred.

We consider this control weakness to be a significant deficiency.

Cause of Condition

The District misinterpreted the guidance from the granting agency and believed that grant claims should be based on the budgeted allocation as the District was performing administrative services on behalf of the granting agency.

Effect of Condition and Questioned Costs

The District claimed and received \$284,192 under this grant agreement but only incurred expenses of \$260,995. The difference of \$23,197 will be questioned as these costs cannot be supported with allowable and adequately supported program expenses. Additionally, the District maintained an excess balance from March 2014 through April 2015 earning an estimated \$246 in interest.

Recommendation

We recommend the District ensure all grants are administered under the terms of the grant agreement and federal regulations, including cost reimbursement and reporting requirements. We also recommend the District contact the pass-through granting agency to address the question costs and interest earned.

District's Response

Educational Service District No. 105 (ESD105) concurs with the auditor's findings. ESD105 received a contract through the Washington State Department of Early Learning for the scope of work commissioned with these federal funds. ESD105 misinterpreted the language in the grantor's contract to be a vendor contract when the grantor intended the contract to be a sub-recipient contract. During the audit the contract was found to be a sub-recipient contract; as a result, ESD105 had indeed overcharged the grant by \$23,197. ESD105 would have been correct in its previous accounting had the audit had determined the contract to be a vendor type contract. ESD105 has returned the questioned costs of \$23,197 plus accrued interest of \$246 to the grantor.

Auditor's Remarks

We appreciate the District's commitment to resolve this finding and thank the District for its cooperation and assistance during the audit. We will review the corrective action taken during our next regular audit.

Applicable Laws and Regulations

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

4.23 When performing GAGAS financial audits, auditors should communicate in the report on internal control over financial

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

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

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

Deficiency in 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 on a timely basis. A deficiency in *design* exists when (a) a control necessary to meet the control objective is missing, or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in *operation* exists when a properly designed control does not operate as designed or the person performing the control does not possess the necessary authority or competence to perform the control effectively.

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

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

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

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

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

U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States and Local Governments, and Nonprofit Organizations, Subpart C, Section 300 states in part:

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.

U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States and Local Governments, and Nonprofit Organizations, Subpart E, Section 510 states in part:

(a) Audit findings reported. The auditor shall report the following as audit findings in a schedule of findings and questioned costs:

(3) Known questioned costs which are greater than \$10,000 for a type of compliance requirement for a major program. Known questioned costs are those specifically identified by the auditor. In evaluating the effect of questioned costs on the opinion on compliance, the auditor considers the best estimate of total costs questioned (likely questioned costs), not just the questioned costs specifically identified (known questioned costs). The auditor shall also report known questioned costs when likely questioned costs are greater than \$10,000 for a type of compliance requirement for a major program. In reporting questioned costs, the auditor shall include information to provide proper perspective for judging the prevalence and consequences of the questioned costs.

U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States Local Governments, and Nonprofit Organization, Compliance Supplement March 2014, Part 3, Cash Management states in part:

. . . interest earned by local government and Indian tribal government grantees and subgrantees on advances is required to be submitted promptly, but at least quarterly, to the Federal agency.

When entities are funded on a reimbursement basis, program costs must be paid for by entity funds before reimbursement is requested from the Federal Government.

U.S. Office of Management and Budget (OMB) Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments (2 CFR 225), Attachment A, General Principles for Determining Allowable Costs, states in part:

C. Basic Guidelines

1. Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria:

- a. Be necessary and reasonable for proper and efficient performance and administration of Federal awards.
- b. Be allocable to Federal awards under the provisions of this Circular.
- c. Be authorized or not prohibited under State or local laws or regulations.
- d. Conform to any limitations or exclusions set forth in these principles, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.
- e. Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit.
- f. Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.
- g. Except as otherwise provided for in this Circular, be determined in accordance with generally accepted accounting principles.

- h. Not be included as a cost or used to meet cost sharing or matching requirements of any other Federal award in either the current or a prior period, except as specifically provided by Federal law or regulation.
- i. Be the net of all applicable credits.
- j. Be adequately documented.

**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. 105
Yakima County
September 1, 2013 through August 31, 2014**

Board of Directors
Educational Service District No. 105
Yakima, 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 of Educational Service District No. 105, Yakima 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 20, 2015. The District has omitted the management's discussion and analysis information that governmental accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be 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 a long horizontal stroke extending from the end of the name.

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

May 20, 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. 105
Yakima County
September 1, 2013 through August 31, 2014**

Board of Directors
Educational Service District No. 105
Yakima, Washington

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

We have audited the compliance of Educational Service District No. 105, Yakima 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.

Other Matters

The results of our auditing procedures also 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 2014-002. 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Finding 2014-001 to be a material weakness.

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. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Finding 2014-002 to be a significant deficiency.

District's Response to Findings

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

PURPOSE OF THIS REPORT

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

A handwritten signature in black ink, reading "Jan M. Jutte". The signature is fluid and cursive, with a long horizontal stroke at the end.

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

May 20, 2015

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Educational Service District No. 105 Yakima County September 1, 2013 through August 31, 2014

Board of Directors
Educational Service District No. 105
Yakima, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of each major fund of Educational Service District No. 105, Yakima 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 28.

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 of Educational Service District No. 105, 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 46 through 47 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.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated May 20, 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.

A handwritten signature in black ink, reading "Jan M. Jutte". The signature is fluid and cursive, with a long horizontal stroke extending from the end.

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

May 20, 2015

FINANCIAL SECTION

Educational Service District No. 105 Yakima County September 1, 2013 through August 31, 2014

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2014
Statement of Revenues, Expenses and Changes in Fund Net Position – 2014
Statement of Cash Flows – 2014
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REQUIRED SUPPLEMENTARY INFORMATION

Workers Compensation Insurance Fund – Ten-Year Claims Development Information for
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SUPPLEMENTARY AND OTHER INFORMATION

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

EDUCATIONAL SERVICE DISTRICT 105
STATEMENT OF NET POSITION - ALL FUNDS
AUGUST 31, 2014

	NOTE REF	OPERATING	WORKERS COMPENSATION FUND	UNEMPLOYMENT FUND	PROPERTY CASUALTY INSURANCE FUND	TOTAL ALL FUNDS
ASSETS						
CURRENT ASSETS						
Cash and Cash Equivalents	Note 1	55,577.88	156,504.79		210.55	212,293.22
Net Assets for Pool Participants				1,795,264.50		1,795,264.50
Investments	Note 2	3,830,000.00	10,613,000.00		91,150.00	14,534,150.00
Accounts Receivable (net of uncollectible allowance)	Note 1	1,554,539.15	5,582.39		46.53	1,560,168.07
Other Receivables	Note 8					-
Member Assessments/Contributions			217,748.51			217,748.51
Accrued Deductibles/Co-pays						-
Excess/Reinsurance Recoverable						-
Due from Other Governments	Note 1					-
Inventory	Note 1					-
Prepays	Note 1	4,678.14				4,678.14
Restricted Assets	Note 1					-
Other Current Assets	Note 1					-
TOTAL CURRENT ASSETS		<u>5,444,795.17</u>	<u>10,992,835.69</u>	<u>1,795,264.50</u>	<u>91,407.08</u>	<u>18,324,302.44</u>
NONCURRENT ASSETS						
Investments	Note 2					-
Capital Assets	Note 3					
Land		233,931.00				233,931.00
Building		6,378,948.00				6,378,948.00
Equipment		61,322.00				61,322.00
Less: Accumulated Depreciation		(1,801,916.00)				(1,801,916.00)
Net Capital Assets		<u>4,872,285.00</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,872,285.00</u>
Other Noncurrent Assets						
Net Cash/Investments Held for Compensated Absences						-
Net Cash/Investments Held for Unemployment						-
Investment in Joint Venture	Note 12	618,351.11				618,351.11
Contracts Receivable	Note 1					-
TOTAL NONCURRENT ASSETS		<u>5,490,636.11</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,490,636.11</u>
TOTAL ASSETS		<u>10,935,431.28</u>	<u>10,992,835.69</u>	<u>1,795,264.50</u>	<u>91,407.08</u>	<u>23,814,938.55</u>
DEFERRED OUTFLOWS OF RESOURCES						
	Note 1					-

EDUCATIONAL SERVICE DISTRICT 105
STATEMENT OF NET POSITION - ALL FUNDS
AUGUST 31, 2014

	NOTE REF	OPERATING	WORKERS COMPENSATION FUND	UNEMPLOYMENT FUND	PROPERTY CASUALTY INSURANCE FUND	TOTAL ALL FUNDS
LIABILITIES						
CURRENT LIABILITIES						
Accounts Payable	Note 1	423,079.34	203,084.18			626,163.52
Amount Due to Pool Participants				1,795,264.50		1,795,264.50
Notes Payable - Current	Note 5					-
Accrued Interest Payable	Note 5					-
Accrued Salaries	Note 1					-
Payroll Deductions & Taxes Payable	Note 1	32,659.88				32,659.88
Public Employees' Retirement System						-
Deferred Compensation						-
Compensated Absences - Current	Note 1					-
Bonds Payable - Current	Note 5	205,000.00				205,000.00
Capital Leases Payable - Current	Note 5					-
Claim Reserves - Current	Note 8					-
IBNR - Current						-
Open Claims - Current			555,983.00			555,983.00
Unallocated Loss Adjustment Expenses - Current			739,922.00			739,922.00
Deposits	Note 1		450,000.00			450,000.00
Unearned Revenue	Note 1					-
Unearned Member Assessments/Contributions	Note 8					-
Other Liabilities and Credits - Current	Note 1					-
TOTAL CURRENT LIABILITIES		660,739.22	1,948,989.18	1,795,264.50	-	4,404,992.90
NONCURRENT LIABILITIES						
Compensated Absences	Note 1	416,651.49				416,651.49
Unemployment						-
Notes Payable	Note 5					-
Claim Reserves	Note 8					-
IBNR						-
Open Claims			1,264,622.00		46,000.00	1,310,622.00
Bonds Payable			369,000.00			369,000.00
Capital Leases Payable	Note 5	3,795,000.00				3,795,000.00
Future L&I Assessments	Note 5					-
TOTAL NONCURRENT LIABILITIES		4,211,651.49	1,955,713.00	-	46,000.00	6,213,364.49
TOTAL LIABILITIES		4,872,390.71	3,904,702.18	1,795,264.50	46,000.00	10,618,357.39
DEFERRED INFLOWS OF RESOURCES						
	Note 1					-

EDUCATIONAL SERVICE DISTRICT 105
STATEMENT OF NET POSITION - ALL FUNDS
AUGUST 31, 2014

NOTE REF	OPERATING	WORKERS COMPENSATION FUND	UNEMPLOYMENT FUND	PROPERTY CASUALTY INSURANCE FUND	TOTAL ALL FUNDS
NET POSITION					
	872,285.00	-	-	-	872,285.00
Net Investment in Capital Assets	500,000.00				500,000.00
Restricted for Debt Service	-				-
Restricted for Self-Insurance	2,855,700.23	7,088,133.51		45,407.08	2,855,700.23
Restricted for Support Programs					7,133,540.59
Restricted for Risk Pool Net Position					-
Restricted for Other Items	618,351.11	-	-	-	618,351.11
Restricted for Joint Venture	1,216,704.23	-	-	-	1,216,704.23
Unrestricted	6,063,040.57	7,088,133.51	-	45,407.08	13,196,581.16
TOTAL NET POSITION					

EDUCATIONAL SERVICE DISTRICT 105
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED AUGUST 31, 2014

	OPERATING	WORKERS COMPENSATION FUND	UNEMPLOYMENT FUND	PROPERTY CASUALTY INSURANCE FUND	TOTAL ALL FUNDS
OPERATING REVENUES					
Local Sources	1,665,113.22				1,665,113.22
State Sources	1,701,128.35				1,701,128.35
Allotment	508,454.48				508,454.48
Federal Sources	3,274,138.99				3,274,138.99
Cooperative Programs	5,573,379.18				5,573,379.18
Other Programs	767,039.63				767,039.63
Member Assessments/Contributions		3,727,271.65	43,600.53	12.90	3,770,885.08
Supplemental Member Assessments					-
Other Operating Revenue					-
TOTAL OPERATING REVENUE	13,489,253.85	3,727,271.65	43,600.53	12.90	17,260,138.93
OPERATING EXPENSES					
General Operations and Administration	2,366,784.53	638,120.00	16,177.78		3,021,082.31
Instructional Support Programs	6,756,124.32				6,756,124.32
Non Instructional Support Programs	4,443,844.56				4,443,844.56
Incurred Loss/Loss Adjustment Expenses					-
Paid on Current Losses		1,133,785.85			1,133,785.85
Change in Loss Reserves		440,603.00			440,603.00
Unallocated Loss Adjustment Expenses					-
Paid Unallocated Loss Adjustment Expenses					-
Change in Unallocated Loss Reserves		121,365.00			121,365.00
Excess/Reinsurance Premiums		112,234.00			112,234.00
Professional Fees		28,325.00	27,422.75		55,747.75
Labor & Industries Assessments		1,198,882.29			1,198,882.29
Depreciation/Depletion	216,260.00				216,260.00
Other Operating Expenses					-
TOTAL OPERATING EXPENSES	13,783,013.41	3,673,315.14	43,600.53	-	17,499,929.08
OPERATING INCOME (LOSS)	(293,759.56)	53,956.51	-	12.90	(239,790.15)
NONOPERATING REVENUES (EXPENSES)					
Interest and Investment Income	31,741.23	78,685.09		681.55	111,107.87
Interest Expense and Related Charges	(253,236.50)				(253,236.50)
Lease Income					-
Gains (Losses) on Capital Asset Disposition					-
Change in Joint Venture	7,503.44				7,503.44
Change in Compensated Absences	69,849.84				69,849.84
Other Financing Uses					-
Other Nonoperating Revenues					-
Other Nonoperating Expenses					-
TOTAL NONOPERATING REVENUES (EXPENSES)	(144,141.99)	78,685.09	-	681.55	(64,775.35)
INCOME (LOSS) BEFORE OTHER ITEMS	(437,901.55)	132,641.60	-	694.45	(304,565.50)
Extraordinary Items					-
Special Items					-
INCREASE (DECREASE) IN NET POSITION	(437,901.55)	132,641.60	-	694.45	(304,565.50)
NET POSITION - BEGINNING BALANCE	6,500,942.12	6,955,491.91		44,712.63	13,501,146.66
PRIOR PERIOD ADJUSTMENT					-
NET POSITION - ENDING BALANCE	6,063,040.57	7,088,133.51	-	45,407.08	13,196,581.16

EDUCATIONAL SERVICE DISTRICT 105
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED AUGUST 31, 2014

	OPERATING	WORKERS COMPENSATION FUND	UNEMPLOYMENT FUND	PROPERTY CASUALTY INSURANCE FUND	TOTAL ALL FUNDS
CASH FLOW FROM OPERATING ACTIVITIES					
Cash Received from Customers	2,162,919.70				2,162,919.70
Cash Received from State and Federal Sources	5,832,666.97				5,832,666.97
Cash Received from Members	5,573,379.18	3,729,680.11	43,600.53	12.90	9,346,672.72
Payments to Suppliers for Goods and Services	(5,780,088.07)	(655,461.86)	(43,600.53)		(6,479,150.46)
Payments to Employees for Services	(7,769,437.41)				(7,769,437.41)
Cash Paid for Benefits/Claims		(1,093,839.75)			(1,093,839.75)
Internal Activity - Payments to Other Funds					-
Cash Paid for Reinsurance		(113,856.00)			(113,856.00)
Cash Paid for Labor and Industries Assessments		(1,213,422.24)			(1,213,422.24)
Cash Paid for Professional Services					-
Cash Paid for Other Operating Expense					-
Other Receipts (Payments)					-
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	19,440.37	653,100.26	-	12.90	672,553.53
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					-
Proceeds from Capital Debt					-
Principal and Interest Paid on Capital Debt	(453,236.50)				(453,236.50)
Capital Contributions					-
Lease Income					-
Other Receipts (Payments)					-
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(453,236.50)	-	-	-	(453,236.50)
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from Sales and Maturities of Investments					-
Lease Income					-
Purchase of Investments					-
Interest and Dividends Received	32,740.86	80,140.03		697.69	113,578.58
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	32,740.86	80,140.03	-	697.69	113,578.58
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(401,055.27)	733,240.29	-	710.59	332,895.61
CASH AND CASH EQUIVALENTS - BEGINNING PRIOR PERIOD ADJUSTMENT	4,286,633.15	10,036,264.50	-	90,649.96	14,413,547.61
CASH AND CASH EQUIVALENTS - ENDING	3,885,577.88	10,769,504.79	-	91,360.55	14,746,443.22
CHECK (should be zero)	-	-	-	-	-
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES					
OPERATING NET INCOME	(293,759.56)	53,956.51	-	12.90	(239,790.15)
Adjustment to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities					
Depreciation Expense	216,260.00				216,260.00
Change in Assets and Liabilities					-
Receivables, Net	79,712.01	38,026.03			117,738.04
Prepays	200.53	101,503.00			101,703.53
Inventories					-
Accounts and Other Payables	11,760.39	(102,353.28)			(90,592.89)
Accrued Expenses	5,267.00				5,267.00
Unearned Revenue					-
Other Changes					-
Claims Reserve-Current		482,294.00			482,294.00
Claims Reserve-Prior Year		(14,544.00)			(14,544.00)
IBNR-Current		(137,449.00)			(137,449.00)
IBNR-Prior Year		110,302.00			110,302.00
Future L&I Assessments		41,365.00			41,365.00
Provision for Unallocated Loss Adjustment		80,000.00			80,000.00
Unearned Member Assessments					-
Insurance Recoverables					-
Claim Reserves					-
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	19,440.37	653,100.26	-	12.90	672,553.53
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:					
					-

EDUCATIONAL SERVICE DISTRICT 105
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2014

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Educational Service District 105 ("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 105 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 105. The District is a separate legal entity and is fiscally independent from all other units of government.

The District serves 25 school districts in Yakima, Kittitas, part of Grant, and part of Klickitat 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, 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 *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 *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.

Assets, Liabilities, and Equity

Cash and Cash Equivalents

The Yakima County Treasurer is the ex-officio treasurer for the District. In this capacity, the county treasurer receives deposits and transacts investments on behalf of the District. On August 31, 2014, the treasurer was holding \$14,534,150 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 funds, the amounts represent balances due from clients within thirty days of payroll dates.

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, 2013, represents the net 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

Deferred Inflows

Deferred Inflows in the ESD General Fund are private grant funds that have been paid to the ESD prior to the ESD expending these funds. If the ESD does not expend all of the funds in accordance with contractual requirement, these funds would need to be returned to the funder.

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
Yakima County Treasurer Investment Pool	\$14,534,150	\$14,534,150
Total Investments	\$14,534,150	\$14,534,150

Credit Risk

The Yakima County Treasurer manages and operates a County Investment Pool for local governments in Yakima County. It is the policy of the County Investment Pool 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. 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.

Custodial credit risk, concentration of credit risk and interest rate risk for the County Investment Pool are disclosed in the most recent Yakima County Annual Report.

Note 3: CAPITAL ASSETS

Capital assets, which include property, facilities, and large equipment, are capitalized at total acquisition cost, provided such cost exceeds \$20,000 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
Buildings and structures	30
Land improvements	15

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	\$233,931	\$	\$	\$233,931
Construction in Progress				
Total capital assets not being depreciated	\$233,931			\$233,931

Depreciable capital assets:				
Buildings	\$6,200,711			\$6,200,711
Improvements other than buildings	\$178,237			\$178,237
Equipment	\$61,322			\$61,322
Other				
Total depreciable capital assets	\$6,440,270			\$6,440,270
Less accumulated depreciation for:				
Buildings	\$1,462,449	\$196,314		\$1,658,763
Improvements other than buildings	\$71,294	\$11,882		\$83,176
Equipment	\$51,913	\$8,064		\$59,977
Other				
Total accumulated depreciation	\$1,585,656	\$216,260		\$1,801,916
Total depreciable assets, net	\$4,854,614		\$216,260	\$4,638,354
Total assets, net	\$5,088,545	\$	\$216,260	\$4,872,285

Note 4: SHORT-TERM DEBT

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

Debt	Beginning Balance 9/1/2013	Increases	Decreases	Ending Balance 8/31/2014
Accounts Payable	\$757,895	\$	\$131,731	\$626,164

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 facilities or the acquisition and construction of facilities. 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	Average Amount of Installments
Build America Bonds	2010-2029	3.88%	\$5,000,000	\$363,978

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

Fiscal Year Ending August 31	Principal	Net Interest
2015	\$205,000	\$159,300
2016	\$210,000	\$153,423
2017	\$220,000	\$146,858
2018	\$225,000	\$139,393
2019 – 2029	\$3,140,000	\$869,310

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	\$4,200,000	\$	\$200,000	\$4,000,000	\$205,000
Compensated Absences (unfunded portion)	\$486,501	\$	\$69,850	\$416,651	
Total Long-Term Liabilities	\$4,686,501	\$	\$269,850	\$4,416,651	\$205,000

Note 6: ANNUAL PENSION COST AND NET PENSION OBLIGATION

A. General Information

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

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

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

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

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

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

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

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

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

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

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

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

B. Contributions

Employee contribution rates effective September 1, 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):

<u>Plan</u>	<u>FY 13-14</u>
Plan 1 TRS	\$15,936
Plan 2 TRS	\$19,169
Plan 3 TRS	\$203,382
Plan 1 PERS	\$33,256
Plan 2 SERS	\$105,953
Plan 3 SERS	\$168,273

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

State of Washington
Office of Financial Management
300 Insurance Building
PO 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 state retirement system. 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

The district administers, and is a member of three self-insurance pools. The three self-insurance pools' are governed by boards of directors elected to two year terms by the pool members.

Property/Casualty Insurance Fund

As of August 31, 2003 the Property/Casualty Insurance Fund ceased current operations. This was due to increases in the cost for reinsurance, which made it no longer economically feasible to operate this fund. The pool assets remain with the ESD for the payment of claims and related costs for insured losses incurred prior to September 1, 2003.

The following information applies to the 2002-2003 fiscal year. This fund formed in fiscal year 1986 as a risk transferring insurance pool, the pool had 19 member districts including the ESD. The pool insured property damage, errors and omissions, and general liability claims. The pool paid member districts' property claims up to a self-insured retention of \$100,000, general liability and errors and omissions claims up to a self-insured retention of \$100,000, and automobile liability up to a self-insured retention of \$100,000. Each member district paid a deductible of \$1,000 per occurrence on property damage and liability claims, the amount of claims beyond the self-insured retention levels were reinsured by the individual members. The pool charged member districts annual assessments based upon their initial contribution rate, the aggregate reinsurance limit, and any additional reserves the pool's board of directors determined necessary. Anticipated investment income was not considered in determining if a premium deficiency existed.

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 and member claims history. 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 annual aggregate retention is \$2,981,787. Since the Trust is a cooperative program, there is a joint liability among participating members.

For fiscal year 2014, there are 25 members in the pool including the ESD. The District is responsible for conducting the business affairs of the Trust. At August 31, 2014, the amount of liabilities totaled \$3,701,618. This liability is based upon an actuarial study performed by PricewaterhouseCoopers. Changes in the reported liability since August 31, 2013, are reported below:

	Beginning Balance 9/1/2013	Current Year Claims and Changes in Estimates	Ending Balance 8/31/2014
Incurring but not Reported	\$1,847,752	(\$27,147)	\$1,820,605
Reserves for Open Claims	\$641,172	\$467,750	\$1,108,922
Future L&I Assessments	\$280,726	\$41,365	\$322,091
Estimated Unallocated Loss Adjustment	\$370,000	\$80,000	\$450,000

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 taxable wage base. 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 20 members in the pool including the ESD.

Note 9: RISK MANAGEMENT

The district is a member of the Washington Schools Risk Management Pool (Pool). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The Pool was formed in 1986 when educational service districts and school districts in the state of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. Over 80 school and educational service districts have joined the Pool.

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

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

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

The Pool is fully funded by its member participants.

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

Note 10: JOINT VENTURE WITH UNDIVIDED INTEREST

Compensated Absences Liability Fund

The District entered into an agreement to participate in the North Central ESD Compensated Absences 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 \$15,744. 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		\$486,501
Beginning Pool Balance	\$19,507	
Payments to Pool	\$131,962	
Withdrawals from Pool	(\$135,725)	
Less Ending Pool Balance		\$15,744
Increase (Decrease) to Estimates of Long-term Liability		(\$54,106)
Ending Unfunded Liability		\$416,651

Note 11: INVESTMENT IN JOINT VENTURE

Washington School Information Processing Cooperative

The District is a member of the Washington School Information Processing Cooperative (WSIPC). 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/ Expenses (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. There were no additions or distributions in 2014.

Note 12: OTHER DISCLOSURES

Stewardship, Compliance, and Accountability

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

REQUIRED SUPPLEMENTAL INFORMATION

RSI For Workers Compensation Insurance Fund

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 year

Workers' Compensation Insurance Fund

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
1 Net earned required contribution and investment revenues	3,645,986	3,711,765	4,019,719	4,091,016	4,141,591	4,198,573	4,196,003	3,912,079	3,779,878	3,805,957
2 Unallocated expenses	1,566,098	1,561,981	1,536,692	1,681,071	1,814,651	1,900,975	2,042,479	2,139,340	1,762,908	2,098,926
3 Estimated incurred claims and expense, end of fiscal year	1,500,000	1,700,000	1,675,000	1,725,000	1,450,000	1,750,000	1,730,000	1,675,000	1,550,000	1,815,000
4 Paid (cumulative) as of:										
End of Policy Year	414,264	577,186	509,926	535,035	485,917	566,527	620,891	596,870	598,940	519,095
One year later	813,243	1,034,893	886,826	1,104,744	1,003,982	1,044,077	1,398,271	977,907	892,355	
Two years later	966,649	1,233,218	1,082,673	1,288,363	1,219,877	1,221,560	1,663,112	1,052,604		
Three years later	1,077,905	1,339,108	1,126,534	1,377,299	1,257,515	1,278,799	1,686,930			
Four years later	1,090,917	1,524,456	1,157,123	1,390,088	1,308,267	1,353,115				
Five years later	1,089,303	1,596,406	1,170,896	1,390,316	1,316,952					
Six years later	1,094,703	1,613,209	1,197,421	1,413,631						
Seven years later	1,116,702	1,652,216	1,226,740							
Eight years later	1,129,428	1,731,555								
Nine years later	1,143,813									
5 Reestimated incurred claims and expense:										
End of Policy Year	1,500,000	1,700,000	1,675,000	1,725,000	1,450,000	1,750,000	1,730,000	1,675,000	1,550,000	1,815,000
One year later	1,480,000	1,750,000	1,425,000	1,675,000	1,560,000	1,575,000	2,050,000	1,375,000	1,385,000	
Two years later	1,450,000	1,610,000	1,375,000	1,625,000	1,500,000	1,535,000	1,955,000	1,345,000		
Three years later	1,325,000	1,600,000	1,400,000	1,595,000	1,470,000	1,490,000	1,880,000			
Four years later	1,230,000	1,700,000	1,360,000	1,510,000	1,450,000	1,510,000				
Five years later	1,195,000	1,700,000	1,275,000	1,490,000	1,465,000					
Six years later	1,175,000	1,695,000	1,280,000	1,495,000						
Seven years later	1,170,000	1,770,000	1,275,000							
Eight years later	1,165,000	1,770,000								
Nine years later	1,174,000									
6 Increase (decrease) in estimated incurred claims and expense from end of fiscal year	(326,000)	70,000	(400,000)	(230,000)	15,000	(240,000)	150,000	(330,000)	(165,000)	

EDUCATIONAL SERVICE DISTRICT 105
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended August 31, 2014

Federal Agency Name	CFDA Number	Federal Program Title	Pass Through Agency	Other Identification Number	Direct	Pass Through Awards	Total	Footnotes
Dept of Education	84.010	Title I - Grants to LEAs	WA OSPI	222447		61,139.00	61,139.00	1,4a
				222622		170,702.09	170,702.09	1,4a
				227741		120,500.36	120,500.36	1,4a
	84.013	Title I State Agency Program for Neglected and Delinquent Children and Youth	WA OSPI	223018		49,195.78	49,195.78	1,4a
	84.027	Special Education - Grants to States	WA OSPI	320212		177,050.67	177,050.67	1,4a
	84.173	Special Education Preschool Grants	WA OSPI	380262		23,033.73	23,033.73	1,4a
	84.181	Special Education - Grants for Infants and Families	ESD 112	N/A		1,445.85	1,445.85	1,4a
	84.305	Education Research, Development and Dissemination	WA State University	120053_G003370		1,427.79	1,427.79	1,4a
	84.351	Arts in Education		U351C090043-11	32,165.16		32,165.16	1,4a
	84.365	English Language Acquisition State Grants	WA OSPI	401829		37,586.00	37,586.00	1,4a,5a
	84.367	Improving Teacher Quality State Grants	WA OSPI WA Student Achievement Council	539042		26,721.50	26,721.50	1,4a
	84.405	ARRA - Teacher Quality Partnerships	Heritage University	15-1A036		90,725.60	90,725.60	1,4a,5c
	84.411	Investing in Innovation (i3) Fund	NBPTS	U405A100020		404,398.14	404,398.14	1,2,3,4c
	84.412	Race To The Top - Early Learning Challenge	WA OSPI	1303007		20,000.00	20,000.00	1,4b,5d
				619902		51,665.81	51,665.81	1,4a
				619912		1,590.21	1,590.21	1,4a
			Thrive by Five Washington	162		4,481.00	4,481.00	1,4e
			Dept of Early Learning	14-1162		284,191.91	284,191.91	1,4b
Dept of Education Total								
Dept of Health and Human Services	93.243	Substance Abuse and Mental Health Services - Projects of Regional and National Significance	WA State University	119528_G003136		6,723.55	6,723.55	1,4a
	93.276	Drug-Free Communities Support Program Grants		1H79SP018248-01	7,847.76		7,847.76	1,3,4b
				1H79SP018248-02	126,887.46		126,887.46	1,3,4b
	93.505	Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	Thrive by Five Washington	162		10,500.00	10,500.00	1,4e
	93.575	Child Care and Development Block Grant	Thrive by Five Washington	2013-CM-100		7,500.00	7,500.00	1,4e
		Block Grants for Prevention and Treatment of Substance Abuse	Thrive by Five Washington	162		15,909.60	15,909.60	1,4e
	93.959		WA OSPI	998152		191,836.03	191,836.03	1,4a,5b
Dept of Health and Human Services Total								
Office of National Drug Control Policy	95.001	High Intensity Drug Trafficking Areas Program		G11NW0003A	14,705.63		14,705.63	1,4d,5e
				G12NW0003A	194,893.89		194,893.89	1,4d,5f
				G13NW0003A	519,322.17		519,322.17	1,4d,5g
				G14NW0003A	155,279.64		155,279.64	1,4d,5h
Office of National Drug Control Policy Total					884,201.33		884,201.33	
Grand Total					1,051,101.71	1,761,084.77	2,812,186.48	

The Notes to the Schedule of Expenditures of Federal Awards is an integral part of this statement

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 *accrual* basis of accounting.

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

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

The amount shown for this program, was paid from ARRA funds.

NOTE 3—PROGRAM COSTS/MATCHING CONTRIBUTIONS

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

NOTE 4—FEDERAL INDIRECT RATE

- 4a. The ESD used the federal *restricted* rate of 9% for this program.
- 4b. The ESD used the federal *unrestricted* rate for this program.
- 4c. The ESD used the federal *restricted* rate of 8% for this program.
- 4d. The ESD used the federal *restricted* rate of 5% for this program.
- 4e. The ESD used the federal *restricted* rate of 10% for this program.

NOTE 5—AMOUNTS PASSED THROUGH TO SUBRECIPIENTS

- 5a. Of the amount shown for this program, \$800.00 was passed-through to subrecipients.
- 5b. Of the amount shown for this program, \$126,555.00 was passed-through to subrecipients.
- 5c. Of the amount shown for this program, \$44,510.32 was passed-through to subrecipients.
- 5d. Of the amount shown for this program, \$6,015.00 was passed-through to subrecipients.
- 5e. Of the amount shown for this program, \$14,005.36 was passed-through to subrecipients.
- 5f. Of the amount shown for this program, \$183,721.41 was passed-through to subrecipients.
- 5g. Of the amount shown for this program, \$494,592.54 was passed-through to subrecipients.
- 5h. Of the amount shown for this program, \$147,885.37 was passed-through to subrecipients.

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

Educational Service District No. 105

Yakima County

September 1, 2013 through August 31, 2014

This schedule presents the corrective action planned by the auditee for findings reported in this report in accordance with OMB Circular A-133. The information in this schedule is the representation of the Educational Service District No. 105.

Finding ref number: 2014-001	Finding caption: The District's internal controls were not adequate to ensure compliance with Federal Funding Accountability and Transparency Act (FFATA) reporting requirements.
Name, address, and telephone of auditee contact person: Tom Fleming, CFO 33 South Second Avenue Yakima, WA 98902 (509) 575-2885	
Corrective action the auditee plans to take in response to the finding: <i>ESD105 was unaware that the 2014 HIDTA grants had been added to the FFATA sub-award system since HIDTA grants have never been available on the FFATA sub-award reporting system. Now that these grants are available, ESD105 is in the process of gathering the sub-award data necessary to properly report the eighteen sub-awards in the FFATA sub-award system.</i>	
Anticipated date to complete the corrective action: Immediate	

Finding ref number: 2014-002	Finding caption: The District did not comply with cash management and reporting requirements for its Federal Race to the Top grant.
Name, address, and telephone of auditee contact person: Tom Fleming, CFO 33 South Second Avenue Yakima, WA 98902 (509)575-2885	
Corrective action the auditee plans to take in response to the finding: <i>Educational Service District No. 105 (ESD105) concurs with the auditor's findings. ESD105 received a contract through the Washington State Department of Early Learning for the scope of work commissioned with these federal funds. ESD105 misinterpreted the language in the</i>	

grantor's contract to be a vendor contract when the grantor intended the contract to be a sub-recipient contract. During the audit the contract was found to be a sub-recipient contract; as a result, ESD105 had indeed overcharged the grant by \$23,197. ESD105 would have been correct in its previous accounting had the audit had determined the contract to be a vendor type contract. ESD105 has returned the questioned costs of \$23,197 plus accrued interest of \$246 to the grantor.

Anticipated date to complete the corrective action: Immediate

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.

Contact information for the State Auditor's Office	
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