



Washington State Auditor's Office

Independence • Respect • Integrity

Financial Statements and Federal Single Audit Report

North Central Educational Service District No. 171

Chelan County

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

Published May 28, 2015

Report No. 1014424





Washington State Auditor

May 28, 2015

Board of Directors
North Central Educational Service District No. 171
Wenatchee, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on North Central Educational Service District No. 171's financial statements and compliance with federal laws and regulations.

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

Sincerely,

A handwritten signature in black ink, reading "Jan M. Jutte".

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

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FEDERAL SUMMARY

North Central Educational Service District No. 171 Chelan County September 1, 2013 through August 31, 2014

The results of our audit of North Central Educational Service District No. 171 are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

Financial Statements

An unmodified opinion was issued on the financial statements of each major fund and the aggregate remaining fund information.

Internal Control Over Financial Reporting:

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

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

Federal Awards

Internal Control Over Major Programs:

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

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

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

Identification of Major Programs:

The following were major programs during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
84.027	Special Education Cluster (IDEA) - Special Education - Grants to States (IDEA, Part B)
84.173	Special Education Cluster (IDEA) - Special Education - Preschool Grants (IDEA Preschool)
84.181	Special Education – Grants for Infants and Families

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

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

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

North Central Educational Service District No. 171

Chelan County

September 1, 2013 through August 31, 2014

2014-001 The District's internal controls over financial statement preparation are inadequate to ensure accurate financial reporting.

Background

It is the responsibility of District management to design, implement and maintain internal controls to ensure financial statements are fairly presented and provide reasonable assurance regarding the reliability of financial reporting. Our audit identified material weaknesses in controls over financial statement reporting that affected the District's ability to produce reliable financial statements.

Governmental Auditing Standards, prescribed by the Comptroller General of the United States, require the auditor to communicate material weaknesses, defined in the Applicable Laws and Regulations section below, as a finding.

Description of Condition

Our audit identified deficiencies in internal controls that, when taken together, represent a material weakness:

- Staff responsible for preparation of the financial statements lacked sufficient knowledge of Generally Accepted Accounting Principles (GAAP) and Governmental Accounting Standards Board (GASB) reporting.
- Although the District has a process for reviewing the prepared financial statements, this review was not effective in ensuring the financial statements were accurate in all respects.

Cause of Condition

The District did not dedicate the necessary time and resources to ensure the financial statements were accurately presented. In addition, the District did not perform an effective review to ensure the financial statements were accurately prepared and presented.

Effect of Condition

We identified the following errors during our audit of the District's financial statements:

- The District materially misreported its Statement of Fiduciary Net Position - Agency Funds. It reported over \$4 million as Net Position, rather than a liability.
- The Investments balance on the Statement of Fiduciary Net Position – Agency Funds was overstated by \$125,537.
- In the Worker's Compensation Fund, the District misclassified \$111,133 in Restricted Net Position as Unrestricted Net Position.
- The District over-reported its Schedule of Expenditure of Federal Awards by \$49,836 related to amounts received in the ESD's capacity as a vendor, not as a sub recipient of grant funds. .
- We also identified less significant errors during the course of our audit which were communicated to District management.

The District subsequently corrected a majority of the identified errors.

Recommendation

We recommend the District:

- Provide adequate training to staff responsible for financial reporting to ensure compliance with existing reporting requirements and prescribed GASB reporting standards.
- Establish a detailed secondary review process to ensure financial statements and schedules are free of errors and comply with current reporting requirements.

District's Response

While the District concurs with the Auditor's findings per the technical errors, we do disagree with their statement that the District does not "dedicate the necessary time and resources to ensure financial statements were accurately represented". The District spends significant time and resources, both human and financial, on what is at times an overwhelming task of meeting the exactness of the GASB/GAAP standards set forth by our State of Washington Auditors Office. All of the concerns listed in this Schedule of Audit Findings and Responses were the result of typographical errors, misunderstandings of guidance, and normally

expected issues that arise from attempting to be fully GAAP compliant while also trying to manage the business operations of a modern educational service organization. The District prides itself in providing accurate financial statements to the best of our ability and appreciates the work the State of Washington Auditor's Office does ensuring we are fully compliant with every facet of GAAP standards. As noted by the Audit team in the Effect of Condition section of the Schedule of Audit Findings and Responses all of the issues brought to our attention been reviewed, adjusted, and processes have been put into place to ensure that they will not recur. All of this has been done prior to the issuance of this statement. To address each of the concerns directly the District submits the following:

- *In response to “The District materially misreported its Statement of Fiduciary Net Position - Agency Funds. It reported over \$4 million as Net Position, rather than a liability. “*
 - o *This error is related to the Compensated Absences Pool fund balance currently held by the District. The issue occurred due to a misunderstanding by District staff in regard to the language on the Statement of Fiduciary Net Position – Agency Funds. In the Net Position, or Fund Balance section of the statement, it contains the phrase “Held in Trust for Benefits and Other Purposes”. As the balance in the Compensated Absence Pool is technically considered a financial benefit for those in which the funds are being held for, the language was misconstrued. We concur with the Auditor finding that this should be considered a liability and not a fund balance item. The issue has been corrected on the final financial statements. The District has a full understanding of where the problem occurred and has implemented measures to ensure that it does not happen again.*
- *In response to “The Investments balance on the Statement of Fiduciary Net Position – Agency Funds was overstated by \$125,537.”*
 - o *The amount noted above is equal to the Districts balance in the Compensated Absence Pool the District manages for itself and the school districts it represents. When the year-end financial statements were created and the District generated the Investments balance for the Statement of Fiduciary Net Position – Agency this balance was left in the total reported. This error was actually corrected prior to the arrival of the Auditors but subsequent to the filing of the F-185. The District concurs with the State Auditor and the financial statements have been updated to remove the Districts portion from the final*

balance. The District is fully aware of how this occurred and has implemented measures to ensure that it does not happen again.

- *In response to “In the Worker’s Compensation Fund, the District misclassified \$111,133 in Restricted Net Position as Unrestricted Net Position.”*
 - o *Historically, the District has unreserved \$111,133.03 based on guidance from the North Central Washington Workers’ Compensation Trust Executive Board and the Fiscal Officer at that time. This practice has been in place since May of 1999. At the end of 13-14, in the original F-185, the total fund balance was reported as Restricted. A subsequent miscommunication with the Auditor occurred and caused the District to change back to reporting the balance based on the historical method. The District concurs with the finding, this issue has been corrected, and the District has implemented measures to ensure that it will not recur by informing the appropriate staff as to how it should be handled going forward.*
- *In response to “The District over-reported its Schedule of Expenditure of Federal Awards by \$49,836 related to amounts received in the ESD’s capacity as a vendor, not as a sub recipient of grant funds.”*
 - o *The District also concurs with the Auditors finding on this issue. The District has a contract that defines a relationship with a local agency in regard to a provision of services. The funding that the agency uses to pay for this contract is from a federal allocation. Due to its unique nature and some unclear language in the contract the District chose to report the funds on the Schedule of Federal Awards. It is the Districts policy to always strive for the highest level of transparency. In this case the District felt that taking the risk of this being included in a finding from the Auditor was less concerning than the potential loss of transparency that would have occurred by leaving it out. We appreciate the Auditor personally reaching out to the agency with which the District has the contract and helping clarify the issue. The financial statements have been updated, the District has a full understanding of how the problem occurred, and an attorney has been engaged to help update the contract language the District uses to ensure a scenario such as this does not happen again.*
- *In response to “We also identified less significant errors during the course of our audit which were communicated to District management.”*

- o Even though these concerns were considered of minor significance, the District appreciates the Auditors thoroughness in including this statement in their findings. All of these concerns have been addressed and the District has implemented measures to ensure that they will continue to be addressed appropriately in the future.*

The District has embraced the Auditor recommendations and has implemented the proposed dual review process. The District will also continue working to provide training to our business office team on every nuance of GASB and GAAP to ensure that we continue to provide transparent and accurate financial statements.

Auditor's Remarks

We appreciate the steps the District is taking to resolve these issues. We will review during our next 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 material weaknesses and significant deficiencies 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:

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.

Governmental Accounting Standards Board Statement No. 34, June 1999 Version

Paragraph 34 states in part:

Net assets should be reported as restricted when constraints placed on net asset use are either:

- a. Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments
- b. Imposed by law through constitutional provisions or enabling legislation.

Enabling legislation, as the term is used in this Statement, authorizes the government to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) *and* includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation.

Paragraph 73 states:

Agency funds should be used to report resources held by the reporting government in a purely custodial capacity (assets equal liabilities). Agency funds typically involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments.

Paragraph 110 states:

Reporting Agency Funds - In the statement of net assets, agency fund assets should equal liabilities. Agency funds should not be reported in the statement of changes in fiduciary net assets.

**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**

**North Central Educational Service District No. 171
Chelan County
September 1, 2013 through August 31, 2014**

Board of Directors
North Central Educational Service District No. 171
Wenatchee, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of each major fund and the aggregate remaining fund information of North Central Educational Service District No. 171, Chelan 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 21, 2015. The District has omitted the management's discussion and analysis information that accounting principles generally accepted in the United States of America has determined 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant

deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Audit Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying Schedule of Audit Findings and Responses as Finding 2014-01 to be material weaknesses.

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*.

DISTRICT'S RESPONSE TO FINDINGS

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

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's

internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

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

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

May 21, 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**

**North Central Educational Service District No. 171
Chelan County
September 1, 2013 through August 31, 2014**

Board of Directors
North Central Educational Service District No. 171
Wenatchee, Washington

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

We have audited the compliance of North Central Educational Service District No. 171, Chelan County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2014. The District's major federal programs are identified in the accompanying Federal Summary.

Management's Responsibility

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

Auditor's Responsibility

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

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

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

Opinion on Each Major Federal Program

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

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

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

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

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

PURPOSE OF THIS REPORT

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

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

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

May 21, 2015

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

North Central Educational Service District No. 171 Chelan County September 1, 2013 through August 31, 2014

Board of Directors
North Central Educational Service District No. 171
Wenatchee, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of each major fund and the aggregate remaining fund information of North Central Educational Service District No. 171, Chelan 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 22.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund and the aggregate remaining fund information of North Central Educational Service District No. 171, 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 39 through 41 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 financial statements. Such missing information, although not a part of the financial statements, is required by GASB who considers it to be an essential part of the financial reporting for placing the financial statements in an appropriate operational, economic or historical context. Our opinions on the financial statements are 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 21, 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 the first name "Jan" and last name "Jutte" clearly legible.

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

May 21, 2015

FINANCIAL SECTION

North Central Educational Service District No. 171 Chelan 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
Statement of Fiduciary Net Position – 2014
Notes to Financial Statements – 2014

REQUIRED SUPPLEMENTARY INFORMATION

Worker's Compensation Insurance Fund – Ten Year Claims Development Information –
2014
Worker's Compensation Insurance Fund – Changes in Claims Liability - 2014

SUPPLEMENTARY AND OTHER INFORMATION

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

EDUCATIONAL SERVICE DISTRICT #171
STATEMENT OF NET POSITION - ALL FUNDS
31-Aug-14

	NOTE REF	OPERATING	WORKERS COMPENSATION FUND	UNEMPLOYMENT FUND	TOTAL ALL FUNDS
ASSETS					
CURRENT ASSETS					
Cash and Cash Equivalents	Note 1	\$ 5,805.53	\$ 577,159.79	\$	582,965.32
Net Assets for Pool Participants				\$ 1,202,161.55	\$ 1,202,161.55
Investments	Note 2	\$ 4,327,719.97	\$ 5,662,346.38		\$ 9,990,066.35
Accounts Receivable	Note 1	\$ 1,802,648.33			\$ 1,802,648.33
Other Receivables	Note 8				\$ -
Member Assessments/Contributions			\$ 167,132.69		\$ 167,132.69
Prepays	Note 1	\$ 162,244.79	\$ 118,751.00		\$ 280,995.79
TOTAL CURRENT ASSETS		\$ 6,298,418.62	\$ 6,525,389.86	\$ 1,202,161.55	\$ 14,025,970.03
NONCURRENT ASSETS					
Capital Assets	Note 3				
Land		\$ 434,000.00			\$ 434,000.00
Building		\$ 3,872,055.00			\$ 3,872,055.00
Equipment					\$ -
Less: Accumulated Depreciation		\$ (1,529,009.00)			\$ (1,529,009.00)
Net Capital Assets		\$ 2,777,046.00	\$ -	\$ -	\$ 2,777,046.00
Other Noncurrent Assets					
Net Cash/Investments Held for Compensated Absences		\$ 125,537.46			\$ 125,537.46
Net Cash/Investments Held for Unemployment		\$ 91,451.36			\$ 91,451.36
Investment in Joint Venture	Note 12	\$ 618,344.00			\$ 618,344.00
Contracts Receivable	Note 1				\$ -
TOTAL NONCURRENT ASSETS		\$ 3,612,378.82	\$ -	\$ -	\$ 3,612,378.82
TOTAL ASSETS		\$ 9,910,797.44	\$ 6,525,389.86	\$ 1,202,161.55	\$ 17,638,348.85
DEFERRED OUTFLOWS OF RESOURCES	Note 1				\$ -
LIABILITIES					
CURRENT LIABILITIES					
Accounts Payable	Note 1	\$ 393,020.79	\$ 212,804.52		\$ 605,825.31
Amount Due to Pool Participants				\$ 1,202,161.55	\$ 1,202,161.55
Accrued Interest Payable	Note 5	\$ 25,045.00			\$ 25,045.00
Accrued Salaries	Note 1	\$ 42,070.92			\$ 42,070.92
Payroll Deductions & Taxes Payable	Note 1	\$ 26,916.57			\$ 26,916.57
Compensated Absences - Current	Note 1	\$ 100,528.00			\$ 100,528.00
Bonds Payable - Current	Note 5	\$ 29,040.00			\$ 29,040.00
Claim Reserves - Current	Note 8				\$ -
IBNR - Current			\$ 445,562.00		\$ 445,562.00
Open Claims - Current			\$ 583,621.00		\$ 583,621.00
Unallocated Loss Adjustment Expenses - Current			\$ 167,000.00		\$ 167,000.00
TOTAL CURRENT LIABILITIES		\$ 616,621.28	\$ 1,408,987.52	\$ 1,202,161.55	\$ 3,227,770.35
NONCURRENT LIABILITIES					
Compensated Absences	Note 1	\$ 295,167.46			\$ 295,167.46
Unemployment		\$ 91,451.36			\$ 91,451.36
Claim Reserves	Note 8				\$ -
IBNR			\$ 1,278,595.00		\$ 1,278,595.00
Open Claims			\$ 181,538.00		\$ 181,538.00
Bonds Payable	Note 5	\$ 2,833,215.94			\$ 2,833,215.94
Future L&I Assessments			\$ 284,968.00		\$ 284,968.00
TOTAL NONCURRENT LIABILITIES		\$ 3,219,834.76	\$ 1,745,101.00	\$ -	\$ 4,964,935.76
TOTAL LIABILITIES		\$ 3,836,456.04	\$ 3,154,088.52	\$ 1,202,161.55	\$ 8,192,706.11
DEFERRED INFLOWS OF RESOURCES	Note 1	\$ 8,195.95			\$ 8,195.95
NET POSITION					
Net Investment in Capital Assets		\$ (85,209.94)	\$ -	\$ -	\$ (85,209.94)
Restricted for Risk Pool Net Position			\$ 3,371,301.34		\$ 3,371,301.34
Restricted for Joint Venture	Note 12	\$ 618,344.00	\$ -	\$ -	\$ 618,344.00
Unrestricted		\$ 5,533,011.39	\$ -	\$ -	\$ 5,533,011.39
TOTAL NET POSITION		\$ 6,066,145.45	\$ 3,371,301.34	\$ -	\$ 9,437,446.79

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

EDUCATIONAL SERVICE DISTRICT #171
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED AUGUST 31, 2014

	OPERATING	WORKERS COMPENSATION FUND	UNEMPLOYMENT FUND	TOTAL ALL FUNDS
OPERATING REVENUES				
Local Sources	\$ 1,034,645.91			\$ 1,034,645.91
State Sources	\$ 1,139,803.41			\$ 1,139,803.41
Allotment	\$ 508,454.48			\$ 508,454.48
Federal Sources	\$ 2,712,885.72			\$ 2,712,885.72
Cooperative Programs	\$ 2,474,983.41			\$ 2,474,983.41
Other Programs	\$ 5,088,126.70			\$ 5,088,126.70
Member Assessments/Contributions		\$ 3,725,424.85	\$ 92,938.72	\$ 3,818,363.57
TOTAL OPERATING REVENUE	\$ 12,958,899.63	\$ 3,725,424.85	\$ 92,938.72	\$ 16,777,263.20
OPERATING EXPENSES				
General Operations and Administration	\$ 1,632,282.49			\$ 1,632,282.49
Instructional Support Programs	\$ 7,714,041.35			\$ 7,714,041.35
Non Instructional Support Programs	\$ 3,133,853.93			\$ 3,133,853.93
Incurred Loss/Loss Adjustment Expenses				\$ -
Paid on Current Losses		\$ 1,084,425.28		\$ 1,084,425.28
Change in Loss Reserves		\$ (403,810.00)		\$ (403,810.00)
Unallocated Loss Adjustment Expenses				\$ -
Paid Unallocated Loss Adjustment Expenses				\$ -
Change in Unallocated Loss Reserves		\$ (25,000.00)		\$ (25,000.00)
Excess/Reinsurance Premiums		\$ 117,668.00		\$ 117,668.00
Professional Fees		\$ 156,251.27	\$ 20,920.31	\$ 177,171.58
Labor & Industries Assessments		\$ 791,895.76		\$ 791,895.76
Depreciation/Depletion	\$ 193,603.00			\$ 193,603.00
Other Operating Expenses		\$ 277,776.54	\$ 72,018.41	\$ 349,794.95
TOTAL OPERATING EXPENSES	\$ 12,673,780.77	\$ 1,999,206.85	\$ 92,938.72	\$ 14,765,926.34
OPERATING INCOME (LOSS)	\$ 285,118.86	\$ 1,726,218.00	\$ -	\$ 2,011,336.86
NONOPERATING REVENUES (EXPENSES)				
Interest and Investment Income	\$ 4,465.77	\$ 5,169.37		\$ 9,635.14
Interest Expense and Related Charges	\$ (142,174.70)			\$ (142,174.70)
Lease Income	\$ 15,870.00			\$ 15,870.00
Change in Joint Venture	\$ 7,503.00			\$ 7,503.00
TOTAL NONOPERATING REVENUES (EXPENSE)	\$ (114,335.93)	\$ 5,169.37	\$ -	\$ (109,166.56)
INCOME (LOSS) BEFORE OTHER ITEMS	\$ 170,782.93	\$ 1,731,387.37	\$ -	\$ 1,902,170.30
Extraordinary Items				\$ -
Special Items				\$ -
INCREASE (DECREASE) IN NET POSITION	\$ 170,782.93	\$ 1,731,387.37	\$ -	\$ 1,902,170.30
NET POSITION - BEGINNING BALANCE	\$ 5,895,362.52	\$ 1,639,913.97		\$ 7,535,276.49
PRIOR PERIOD ADJUSTMENT				\$ -
NET POSITION - ENDING BALANCE	\$ 6,066,145.45	\$ 3,371,301.34	\$ -	\$ 9,437,446.79

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

EDUCATIONAL SERVICE DISTRICT #171
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED AUGUST 31, 2014

	OPERATING	WORKERS COMPENSATION FUND	UNEMPLOYMENT FUND	TOTAL ALL FUNDS
CASH FLOW FROM OPERATING ACTIVITIES				
Cash Received from Customers	\$ 8,509,762.70			\$ 8,509,762.70
Cash Received from State and Federal Sources	\$ 4,175,858.49			\$ 4,175,858.49
Cash Received from Members		\$ 3,821,068.33	\$ 92,938.72	\$ 3,914,007.05
Payments to Suppliers for Goods and Services	\$ (4,296,731.78)			\$ (4,296,731.78)
Payments to Employees for Services	\$ (4,086,515.33)			\$ (4,086,515.33)
Cash Paid for Benefits/Claims	\$ (3,791,038.31)	\$ (1,084,476.13)		\$ (4,875,514.44)
Internal Activity - Payments to Other Funds				\$ -
Cash Paid for Reinsurance		\$ (129,103.00)		\$ (129,103.00)
Cash Paid for Labor and Industries Assessments		\$ (890,749.08)		\$ (890,749.08)
Cash Paid for Professional Services		\$ (159,545.98)	\$ (20,920.31)	\$ (180,466.29)
Cash Paid for Other Operating Expense		\$ (273,324.01)	\$ (72,018.41)	\$ (345,342.42)
Other Receipts (Payments)				\$ -
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 511,335.77	\$ 1,283,870.13	\$ -	\$ 1,795,205.90
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	\$ (324,509.70)			\$ (324,509.70)
Capital Contributions				\$ -
Lease Income	\$ 15,870.00			\$ 15,870.00
Other Receipts (Payments)				\$ -
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	\$ (308,639.70)	\$ -	\$ -	\$ (308,639.70)
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from Sales and Maturities of Investments				\$ -
Lease Income				\$ -
Purchase of Investments				\$ -
Interest and Dividends Received	\$ 4,465.77	\$ 5,169.37		\$ 9,635.14
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	\$ 4,465.77	\$ 5,169.37	\$ -	\$ 9,635.14
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ 207,161.84	\$ 1,289,039.50	\$ -	\$ 1,496,201.34
CASH AND CASH EQUIVALENTS - BEGINNING	\$ 4,126,363.66	\$ 4,950,466.67		\$ 9,076,830.33
PRIOR PERIOD ADJUSTMENT				\$ -
CASH AND CASH EQUIVALENTS - ENDING	\$ 4,333,525.50	\$ 6,239,506.17	\$ -	\$ 10,573,031.67
CHECK (should be zero)	\$ -	\$ -	\$ -	\$ -
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
OPERATING NET INCOME	\$ 285,118.86	\$ 1,726,218.00	\$ -	\$ 2,011,336.86
Adjustment to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities				
Depreciation Expense	\$ 193,603.00			\$ 193,603.00
Change in Assets and Liabilities				\$ -
Receivables, Net	\$ (139,019.30)	\$ (16,371.92)		\$ (155,391.22)
Prepays	\$ (49,833.39)	\$ (9,409.00)		\$ (59,242.39)
Inventories				\$ -
Accounts and Other Payables	\$ 43,883.00			\$ 43,883.00
Accrued Expenses	\$ 169,619.57	\$ 12,243.05		\$ 181,862.62
Unearned Revenue	\$ 7,964.03			\$ 7,964.03
Other Changes				\$ -
Claims Reserve-Current		\$ (98,890.00)		\$ (98,890.00)
Claims Reserve-Prior Year		\$ (156,125.00)		\$ (156,125.00)
IBNR-Current		\$ (49,578.00)		\$ (49,578.00)
IBNR-Prior Year		\$ (65,135.00)		\$ (65,135.00)
Future L&I Assessments		\$ (34,082.00)		\$ (34,082.00)
Provision for Unallocated Loss Adjustment		\$ (25,000.00)		\$ (25,000.00)
Unearned Member Assessments				\$ -
Insurance Recoverables				\$ -
Claim Reserves				\$ -
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 511,335.77	\$ 1,283,870.13	\$ -	\$ 1,795,205.90
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:	\$ 7,503.00			

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

EDUCATIONAL SERVICE DISTRICT #171
STATEMENT OF FIDUCIARY NET POSITION - AGENCY FUNDS
August 31, 2014

	<u>COMPENSATED ABSENCES</u>
ASSETS	
Cash and Cash Equivalents	\$ 25,127.90
Investments	\$ 4,549,967.28
Accounts Receivable	\$ 110,079.85
Assets Used in Operations	
TOTAL ASSETS	<u><u>\$ 4,685,175.03</u></u>
LIABILITIES	
Accounts Payable	\$ 602,448.14
Deposits (from school districts)	\$ 4,082,726.89
TOTAL LIABILITIES	<u><u>\$ 4,685,175.03</u></u>

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

NOTES TO THE FINANCIAL STATEMENTS

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Educational Service District No. 171 (“the District”) were developed under authority of the Office of Superintendent of Public Instruction. Except where noted as exceptions, the rules of generally accepted accounting principles (GAAP) are the basis for accounting and financial reporting in the District. The following summary of the more significant accounting policies is presented to assist the reader in interpreting the financial statements and other data in this report. These policies should be viewed as an integral part of the accompanying financial statements.

Reporting Entity

Educational Service District No. 171 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 171. The District is a separate legal entity and is fiscally independent from all other units of government.

The District serves 29 school districts in Chelan, Douglas, Grant and Okanogan 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 *Workers' Compensation* fund accounts for workers' compensation payroll taxes collected from members, and the payment of associated claims, assessments and expenses.

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

In addition, the District reports the following fund types:

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

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

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

Assets, Liabilities, and Equity

Cash and Cash Equivalents

The Chelan County Treasurer is the ex-officio treasurer for the District. In this capacity, the county treasurer receives daily deposits and transacts investments on behalf of the District. On August 31, 2014, the treasurer was holding \$608,093 in short-term residual investments of surplus cash. This amount is classified on the statement of net position as cash and cash equivalents.

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

Deposits and Investments – See Note 2

Receivables

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

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.

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.

Other Accrued Liabilities

These accounts consist of accrued expenditures for accrued wages, benefits, interest payable, bond payable and accounts payable.

Long Term Debt – See Note 5

Note 2: DEPOSITS AND INVESTMENTS

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

Statutes authorize the District to invest in (1) securities, certificates, notes, bonds, short-term securities, or other obligations of the United States, and (2) deposits in any state bank or trust company, national banking association, stock savings bank, mutual savings bank, savings and loan association, and any branch bank engaged in banking in the state in accordance with RCW 30.04.300 if the institution has been approved by the Public Deposit Protection Commission to hold public deposits and has segregated eligible collateral having a value of not less than its maximum liability.

As of August 31, 2014, the District had the following investments:

Investment	Maturity	Fair Value
WA Investment Pool		\$16,006,086
Total Investments		\$16,006,086

Credit Risk

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

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

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

Note 3: CAPITAL ASSETS

Capital assets, which include property, facilities, and large equipment, are capitalized at total acquisition cost, provided such cost exceeds \$50,000 and has an expected useful life of more than five years. Property, facilities, and large equipment that are purchased using Federal money are subject to capitalization if the acquisition cost is over \$5,000. Depreciation is recorded on all depreciable capital assets on a straight-line basis over the following estimated useful lives:

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

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

Capital assets activity for the fiscal year ended August 31, 2014, was as follows:

	Beginning Balance 9/1/2013	Increases	Decreases	Ending Balance 8/31/2014
Capital assets not being depreciated:				
Land	\$434,000			\$434,000
Construction in Progress				
Total capital assets not being depreciated	\$434,000			\$434,000
Depreciable capital assets:				
Buildings	\$3,863,325	\$17,460	\$8,730	\$3,872,055
Improvements other than buildings				
Equipment				
Other				
Total depreciable capital assets	\$3,863,325	\$17,460	\$8,730	\$3,872,055
Less accumulated depreciation for:				
Buildings	\$1,335,406	\$193,603		\$1,529,009
Improvements other than buildings				
Equipment				
Other				
Total accumulated depreciation	\$1,335,406	\$193,603		\$1,529,009
Total depreciable assets, net	\$2,527,919	\$-176,143	\$8,730	\$2,343,046
Total assets, net	\$2,961,919	\$-176,143	\$8,730	\$2,777,046

Current balance on Statement of Net Position for Amount Invested in Capital Assets, Net of Related Debt is (\$85,210). The negative balance is due to accumulated depreciation against debt payments through August 31, 2014. Debt payments will increase approximately 3% each year through 2026.

Note 5: LONG-TERM DEBT, LIABILITIES AND LEASES

Long-Term Debt

The District issued general obligation bonds to finance the purchase of 430 Olds Station Rd. The following is a summary of long-term debt instruments of the District for the fiscal year ended August 31, 2014:

Purpose	Maturity Range	Interest Rate	Original Amount	Amount of Installments
Facility Purchase	20 year	5.25	\$4,000,000	\$1,137,744

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

Fiscal Year Ending August 31	Principal	Interest
2015	\$176,529	\$147,982
2016	\$185,915	\$138,592
2017	\$195,807	\$128,703
2018	\$206,222	\$118,289
2019 – 2026	\$2,097,780	\$498,301

Operating Lease(s)

The District is committed under various leases for space and equipment. All leases are considered operating leases for accounting purposes because the District does not acquire interests in the property. Lease expenses for the year ended August 31, 2014 totaled \$63,137. Future minimum rental commitments for these leases are as follows:

Fiscal Year Ending August 31	Amount
2015	\$70,129
2016	\$37,323
2017	\$21,024
2018	\$21,024

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	\$3,029,869		\$167,613	\$2,862,256	\$176,529
Compensated Absences	\$226,275	\$169,420		\$395,695	
Unemployment Compensation	\$0	\$91,451		\$91,451	
Total Long-Term Liabilities	\$3,256,144	\$260,871	\$167,613	\$3,349,402	\$176,529

Note 6: ANNUAL PENSION COST AND NET PENSION OBLIGATIONS

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, 2012:

<u>Program</u>	<u>Active Members</u>	<u>Inactive Vested Members</u>	<u>Retired Members</u>
TRS	65,357	9,545	42,918
PERS	150,590	30,515	82,242
SERS	51,558	10,920	7,651

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):

Plan	FY 11-12	FY 12-13	FY 13-14
Plan 1 TRS	\$5,416	\$5,482	\$0
Plan 2 TRS	\$15,401	\$33,053	\$20,834
Plan 3 TRS	\$94,026	\$81,840	\$61,414
Plan 1 PERS	\$3,200	\$0	\$0
Plan 2 SERS	\$114,171	\$120,707	\$85,317
Plan 3 SERS	\$158,484	\$157,768	\$81,896

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

State of Washington
Office of Financial Management
300 Insurance Building
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 District, a state retirement system, or another governmental entity. The plan assets and all related income are held in trust for the exclusive benefit of the participants and their beneficiaries.

403(b) Plan – Tax Sheltered Annuity (TSA)

The District offers a tax deferred annuity plan for its employees. The plan permits participants to defer a portion of their salary until future years under the elective deferral (employee contribution method). The District complies with IRS regulations that require school districts to have written plans to include participating investment companies, types of investments, loans, transfers, and various requirements. The plan is administered by CPI, (a third party administrator).

The plan assets are assets of District employees, not the ESD, and are therefore not reflected in these financial statements.

Note 8: SHARED RISK POOL DISCLOSURES

Workers' Compensation Insurance Trust

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

The Trust provides industrial injury accident insurance coverage for its membership. The Trust is fully funded by its member participants. Member contributions are calculated based on the members' hours worked. The Trust retains responsibility for the payment of claims within specified self-insured retention limits prior to the application of coverage provided by its excess insurance contracts. The Trust acquires insurance from unrelated underwriters. The Trust's per-occurrence retention limit is \$400,000 and the annual aggregate retention is \$2,000,000. Since the Trust is a cooperative program, there is a joint liability among participating members.

For fiscal year 2013-14, there are 30 members in the pool including 29 participating school districts. A Board comprised of one designated representative from each participating member and a six member Executive Board governs the Trust. The Executive Board has five members elected by the Board and the District Superintendent. The District is responsible for conducting the business affairs of the Trust. At August 31, 2014, the amount of liabilities totaled \$3,154,089. This liability is the Districts best estimate based on available information. Changes in the reported liability since August 31, 2014, resulted in the following:

	Beginning Balance 9/1/2013	Current Year Claims and Changes in Estimates	Ending Balance 8/31/2014
Incurred but not Reported	\$1,838,870	(\$114,713)	\$1,724,157
Future L&I Assessments	\$319,050	(\$34,082)	\$284,968
Estimated Unallocated Loss Adjustment	\$192,000	(\$25,000)	\$167,000

Unemployment Compensation Insurance Fund

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

The pool provides unemployment compensation coverage for members of the pool arising from previous employees. The pool is fully funded by its member participants. Member districts pay a percentage of their employee's wages. These contributions plus investment earnings pays for unemployment claims and for the administration of the fund. There is provision that members can be additionally assessed if the Pool needs additional funding.

For fiscal year 2014, there are 27 members in the pool including 26 participating school districts. The pool is governed by a Cooperative Board, which is comprised of one designated representative from each participating member and a six member Executive Board. Five members elected by the Cooperative Board and the District Superintendent comprise the Executive Board. At August 31, 2014, the amount of liabilities

totaled \$60,437. This liability is the Districts best estimate based on available information. Changes in the reported liability since August 31, 2013, resulted in the following:

	Beginning Balance 9/1/2013	Current Year Claims and Changes in Estimates	Ending Balance 8/31/2014
Claims Reserves	\$37,650		\$37,650

Note 9: RISK MANAGEMENT

The North Central ESD is a member of United Schools Insurance Program. Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The program was formed on September 1, 1985, when 29 school districts in the state of Washington joined together by signing a Joint Purchasing Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. Current membership includes 155 school districts.

The program allows members to jointly purchase insurance coverage and provide related services, such as administration, risk management, claims administration, etc. Coverage for Wrongful Act Liability and Employee Benefit Liability is on a claims-made basis. All other coverages are on an occurrence basis. The program provides the following forms of group purchased insurance coverage for its members: Property, General Liability, Automotive Liability, Wrongful Acts Liability, and Crime.

Liability insurance is subject to a self-insured retention of \$100,000. Members are responsible for a \$1,000 deductible for each claim (member deductibles may vary), while the program is responsible for the \$100,000 self-insured retention (SIR). Insurance carriers cover insured losses over \$101,000 to the limits of each policy. Since the program is a cooperative program, there is a joint liability among the participating members towards the sharing of the \$100,000 SIR. The program also purchases a stop loss policy with an attachment point of \$995,000, as an additional layer of protection for its members.

Property insurance is subject to a per-occurrence deductible of \$100,000. Members are responsible for \$1,000 deductible for each claim (Member deductibles may vary), while the program is responsible for the \$100,000 SIR.

Equipment Breakdown insurance is subject to a per-occurrence deductible of \$10,000. Members are responsible for the deductible amount of each claim.

Each new member now pays the program an admittance fee. This amount covers the member's share of unrestricted reserves. Members contract to remain in the program for a minimum of one year, and must give notice before August 31 to terminate participation the following September 1. The Interlocal Agreement is renewed automatically each year. Even after termination, a member is still responsible for contributions to the program for any unresolved, unreported, and in-process claims for the period they were a signatory to the Joint Purchasing Agreement.

The program is fully funded by its member participants. Claims are filed by members with Canfield, which has been contracted to perform program administration, claims adjustment, and loss prevention for the program.

Fees paid to the third party administrator under this arrangement for the year ending August 31, 2014, were \$1,514,980.35.

A board of directors of nine members is selected by the membership from six areas of the state on a staggered term basis and is responsible for conducting the business affairs of the program. The Board of Directors has contracted with Canfield to perform day-to-day administration of the program. This program has no employees.

Note 10: NET POSITION, RESTRICTED

The District's statement of net position reports \$618,344 of restricted assets for Joint Venture. The following lists the programs restricted by the Board of Directors:

Support Program	Amount
Joint Venture	\$618,344
Total Restricted for Joint Venture	\$618,344

Note 11: JOINT VENTURE WITH UNDIVIDED INTEREST

Compensated Absences Liability Fund

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

For fiscal year 2014, there are 28 members in the Fund including 26 participating school districts. The Fund allows members to accumulate dedicated funds for payment of leave related to sick leave and vacation leave buy out at retirement and certain other instances. Payroll contributions are made to the Fund at the time leave is earned to reserve assets for expenditures. Coverage is on an "occurrence" basis. Expenditures of leave taken during employment continue to be recorded when paid.

The District contributes to the Compensated Absences Liability Pool for liabilities relating to sick leave and vacation leave cash outs. As of August 31, 2014, the District's total compensated absences balance in the pool was \$125,538.

Changes for the fiscal year are summarized below.

		Balance at 8/31/2014
Beginning Long-term Liability		\$226,275
Beginning Pool Balance	\$161,056	
Payments to Pool	\$80,950	
Interest	\$208	
Withdrawals from Pool	(\$116,676)	
Less Ending Pool Balance		\$125,538
Increase (Decrease) to Estimates of Long-term Liability		\$169,421
Ending Unfunded Liability		\$270,158

Note 12: INVESTMENT IN JOINT VENTURE

Washington State Information Processing Cooperative

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

Condensed financial information of the joint venture for the fiscal year ended August 31, 2014, is as follows:

Condensed Financial Statements	Amount
Assets	
Current Assets	\$3,904,782
Non-Current Assets	2,330,513
Other Assets	
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
	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 \$618,344. The Districts contributed \$820,217 to the Joint Venture during fiscal year 2013-14.

Note 14: OTHER DISCLOSURES

Other

The NCESD Foundation was formed in November 2008. The Foundation is separate from the North Central Educational Service District, although its primary purpose is to support and assist the educational and certification training activities of the four counties which comprise North Central ESD. As of August 31, 2014 the Foundation has a balance of \$24,559. These funds are assets of the NCESD Foundation and are therefore not reflected in these financial statements.

REQUIRED SUPPLEMENTAL INFORMATION

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

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

Part 1 - Ten-Year Claims Development Information

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

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

NORTH CENTRAL WASHINGTON WORKERS COMPENSATION TRUST
TEN-YEAR CLAIMS DETAIL INFORMATION
FISCAL AND POLICY YEAR ENDED AUGUST 31, 2014 (IN THOUSANDS)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Net earned required contribution and										
1 investment revenues	2,118	2,535	2,761	2,824	2,664	2,705	2,982	3,206	3,438	3,731
2 Unallocated Expenses	1,836	1,005	1,045	1,259	1,454	1,423	1,242	1,687	1,436	1,310
Estimated Incurred Claims and										
3 Expense, End of Policy Year	1,007	1,036	1,003	1,183	1,184	1,163	1,136	1,276	1,178	1,029
4 Paid (Cumulative) as of:										
End of Policy Year	318	363	322	692	566	482	463	577	947	420
One Year Later	626	867	694	1,302	1,008	967	879	973	1,411	
Two Years Later	848	1,101	879	1,548	1,223	1,382	1,167	1,024		
Three Years Later	932	1,273	991	1,717	1,298	1,539	1,198			
Four Years Later	998	1,354	1,100	1,841	1,296	1,612				
Five Years Later	1,106	1,389	1,117	1,847	1,296					
Six Years Later	1,219	1,407	1,108	1,863						
Seven Years Later	1,225	1,429	1,108							
Eight Years Later	1,226	1,429								
Nine Years Later	1,226									
Reestimated Incurred Claims and										
5 Expense:										
End of Policy Year	1,325	1,400	1,325	1,875	1,750	1,645	1,600	1,850	2,125	1,450
One Year Later	1,200	1,525	1,295	2,000	1,600	1,625	1,600	1,550	1,925	
Two Years Later	1,220	1,465	1,275	1,925	1,600	1,875	1,525	1,300		
Three Years Later	1,180	1,500	1,260	1,950	1,515	1,825	1,390			
Four Years Later	1,175	1,505	1,250	2,025	1,425	1,735				
Five Years Later	1,255	1,510	1,205	1,940	1,385					
Six Years Later	1,275	1,487	1,165	1,935						
Seven Years Later	1,265	1,475	1,155							
Eight Years Later	1,255	1,460								
Nine Years Later	1,248									
Increase(Decrease) in Estimated										
Incurred Claims and Expense from End										
6 of Policy Year.	241	424	152	752	201	572	254	24	747	421

NORTH CENTRAL WASHINGTON WORKERS COMPENSATION TRUST
CHANGES IN CLAIMS LIABILITY

	2012-13	2013-14
Unpaid claims and claim adjustment expenses at beginning of year	3,301,594	2,859,044
Incurring claims and claim adjustment expenses: Provision for insured events of the current year	2,125,000	1,450,000
Increase (decrease) in provision for insured events of prior years	(676,000)	(645,000)
Total incurred claims and claim adjustment	4,750,594	3,664,044
Payments:		
Claims and claim adjustment expenses attributable to insured events of the current year	(947,349)	(420,817)
Claims and claim adjustment expenses attributable to insured event of prior years	(944,201)	(753,911)
Total unpaid claims and claim adjustment expenses at end of the year	2,859,044	2,489,316

For the year ending August 31, 2014

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

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1 - BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal Awards is prepared on the 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 - SUBRECIPIENTS

All disbursement to subrecipients are considered expenditures of federal awards and are included in the total amount expended for the program.

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

**North Central Educational Service District No. 171
Chelan 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 North Central Educational Service District No. 171.

Finding ref number: 2014-001	Finding caption: The District's internal controls over financial statement preparation are inadequate to ensure accurate financial reporting.
Name, address, and telephone of auditee contact person: David Arp, Executive Director of Administrative Services 430 Olds Station Road Wenatchee, WA 98801 (509) 665-2618	
Corrective action the auditee plans to take in response to the finding: <i>The District has already undertaken all necessary measures to correct the technical errors the Washington State Auditor's Office identified which led to the finding described above. These measures have included informing the appropriate staff of the issues, adjusting existing processes to be more comprehensive, conforming internal guidance to the noted GASB/GAAP standards, and hiring external professional assistance where applicable.</i> <i>For further information please refer to the "District's Response" section in the Schedule of Audit Findings and Responses portion of the financial audit report.</i>	
Anticipated date to complete the corrective action: Already Completed	

ABOUT THE STATE AUDITOR'S OFFICE

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

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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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