Washington State Auditor's Office

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Financial Statements and Federal Single Audit Report

Educational Service District No. 105

Yakima County

For the period September 1, 2014 through August 31, 2015

Published May 26, 2016

Report No. 1016759

Washington State Auditor's Office

May 26, 2016

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,

Troy X. Kelley

TROY KELLEY

STATE AUDITOR

OLYMPIA, WA

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Educational Service District No. 105
Yakima County
September 1, 2014 through August 31, 2015

SECTION I – SUMMARY OF AUDITOR'S RESULTS

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

We issued an unmodified opinion on the fair presentation of the financial statements of each major fund in accordance with accounting principles generally accepted in the United States of America (GAAP).

Internal Control over Financial Reporting:

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

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

Federal Awards

Internal Control over Major Programs:

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

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

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

Identification of Major Federal Programs:

The following programs were selected as major programs in our audit of compliance in accordance with OMB Circular A-133.

CFDA No.	Program or Cluster Title
84.405	ARRA-Teacher Quality Partnership
93.600	Head Start
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 did not qualify as a low-risk auditee under OMB Circular A-133.

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Educational Service District No. 105
Yakima County
September 1, 2014 through August 31, 2015

This schedule presents the status of federal findings reported in prior audit periods. The status listed below is the representation of the Educational Service District No. 105. The State Auditor's Office has reviewed the status as presented by the District.

<table>
<tr><td>Audit Period:
9/1/13 – 8/31/14</td><td>Report Ref. No.:
1014362</td><td>Finding Ref.
No.: 2014-001</td><td>CFDA Number(s):
95.001</td></tr>
<tr><td colspan="2">Federal Program Name and Granting Agency:
High Intensity Drug Trafficking Areas Program
U.S. Office of National Drug Control Policy</td><td colspan="2">Pass-Through Agency Name:

NA</td></tr>
<tr><td colspan="4">Finding Caption:
The District's internal controls were not adequate to ensure compliance with Federal Funding Accountability and Transparency Act (FFATA) reporting requirements.</td></tr>
<tr><td colspan="4">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.

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.</td></tr>
<tr><td colspan="4">Status of Corrective Action:
X Fully Corrected   ☐ Partially Corrected   ☐ No Corrective Action Taken   ☐ Finding is considered no longer valid</td></tr>
</table>

Corrective Action Taken:
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 unware 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.* *ESD105 has since reported the eighteen sub-awards on the FFATA sub-award reporting system and is in compliance with the reporting requirements. This finding has been fully corrected and resolved.*

Audit Period: 9/1/13 – 8/31/14	**Report Ref. No.:** 1014362	**Finding Ref. No.:** 2014-002	**CFDA Number(s):** 84.412
Federal Program Name and Granting Agency: Race To The Top – Early Learning Challenge U.S. Department of Education		**Pass-Through Agency Name:** NA	
Finding Caption: The District did not comply with cash management and reporting requirements for its Federal Race to the Top grant.			
Background: 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.
Status of Corrective Action: X Fully Corrected ☐ Partially Corrected ☐ No Corrective Action Taken ☐ Finding is considered no longer valid
Corrective Action Taken: *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 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. This finding has been fully corrected and resolved.*

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, 2014 through August 31, 2015

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, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated May 18, 2016. 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 basis financial statements is not affected by this missing information. As discussed in Note 1 to the financial statements, during the year ended August 31, 2015, the District implemented Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited.

It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Troy X. Kelley

TROY KELLEY

STATE AUDITOR

OLYMPIA, WA

May 18, 2016

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

Educational Service District No. 105
Yakima County
September 1, 2014 through August 31, 2015

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 the District's major federal programs for the year ended August 31, 2015. The District's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of 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, 2015.

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.

TROY KELLEY

STATE AUDITOR

OLYMPIA, WA

May 18, 2016

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Educational Service District No. 105
Yakima County
September 1, 2014 through August 31, 2015

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, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 19.

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, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 1 to the financial statements, in 2015, the District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the risk pools information on pages 44 through 45 and the pension plan 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 18, 2016 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Troy X. Kelley

TROY KELLEY

STATE AUDITOR

OLYMPIA, WA

May 18, 2016

FINANCIAL SECTION

Educational Service District No. 105
Yakima County
September 1, 2014 through August 31, 2015

BASIC FINANCIAL STATEMENTS

REQUIRED SUPPLEMENTARY INFORMATION

SUPPLEMENTARY AND OTHER INFORMATION

Educational Service District 105
STATEMENT OF NET POSITION - ALL FUNDS
August 31, 2015

	NOTE REF	OPERATING	WORKERS COMPENSATION FUND	UNEMPLOYMENT FUND	PROPERTY CASUALTY INSURANCE FUND	TOTAL ALL FUNDS
ASSETS						
CURRENT ASSETS						
Cash and Cash Equivalents	Note 1	$ 298,919.28	$ 155,446.94		$ 98.84	$ 454,465.06
Net Assets for Pool Participants				$ 2,171,658.54		$ 2,171,658.54
Investments	Note 2	$ 2,670,000.00	$ 11,310,000.00		$ 91,900.00	$ 14,071,900.00
Accounts Receivable (net of uncollectible allowance)	Note 1	$ 1,988,583.52	$ 6,678.83		$ 54.09	$ 1,995,316.44
Other Receivables	Note 8					$ -
Member Assessments/Contributions			$ 218,198.83			$ 218,198.83
Accrued Deductibles/Co-pays						$ -
Excess/Reinsurance Recoverable						$ -
Due from Other Governments	Note 1					$ -
Inventory	Note 1					$ -
Prepaids	Note 1	$ 51,379.63				$ 51,379.63
Restricted Assets	Note 1					$ -
Other Current Assets	Note 1					$ -
TOTAL CURRENT ASSETS		$ 5,008,882.43	$ 11,690,324.60	$ 2,171,658.54	$ 92,052.93	$ 18,962,918.50
NONCURRENT ASSETS						
Investments	Note 2					$ -
Capital Assets	Note 3					
Land		$ 1,161,826.17				$ 1,161,826.17
Construction in Progress		$ -				
Building		$ 11,493,208.00				$ 11,493,208.00
Equipment		$ 197,747.00				$ 197,747.00
Less: Accumulated Depreciation		$ (2,011,457.00)				$ (2,011,457.00)
Net Capital Assets		$ 10,841,324.17	$ -	$ -	$ -	$ 10,841,324.17
Other Noncurrent Assets						
Net Cash/Investments Held for Compensated Absences		$ 31,261.41				$ 31,261.41
Net Cash/Investments Held for Unemployment		$ 83,377.83				$ 83,377.83
Investment in Joint Venture	Note 12	$ (42,571.89)				$ (42,571.89)
Contracts Receivable	Note 1					$ -
TOTAL NONCURRENT ASSETS		$ 10,913,391.52	$ -	$ -	$ -	$ 10,913,391.52
TOTAL ASSETS		$ 15,922,273.95	$ 11,690,324.60	$ 2,171,658.54	$ 92,052.93	$ 29,876,310.02
DEFERRED OUTFLOWS OF RESOURCES						
Deferred OutFlows of Resources - Other						$ -

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

Educational Service District 105
STATEMENT OF NET POSITION - ALL FUNDS
August 31, 2015

	NOTE REF	OPERATING	WORKERS COMPENSATION FUND	UNEMPLOYMENT FUND	PROPERTY CASUALTY INSURANCE FUND	TOTAL ALL FUNDS
Deferred OutFlows of Resources - Pension Investment Earnings						$ -
Deferred OutFlows of Resources - Pension Experience Differences		$ 139,679.00				$ 139,679.00
Deferred OutFlows of Resources - Pension Assumption Changes		$ 1,050.00				$ 1,050.00
Deferred OutFlows of Resources - Pension Changes in Proportion						$ -
Deferred OutFlows of Resources - Pension Plan Contributions		$ 88,416.00				$ 88,416.00
TOTAL DEFERRED OUTFLOWS OF RESOURCES	Note 1	$ 229,145.00	$ -	$ -	$ -	$ 229,145.00
LIABILITIES						
CURRENT LIABILITIES						
Accounts Payable	Note 1	$ 414,405.74	$ 278,965.22			$ 693,370.96
Amount Due to Pool Participants				$ 2,171,658.54		$ 2,171,658.54
Notes Payable - Current	Note 5					$ -
Accrued Interest Payable	Note 5					$ -
Accrued Salaries	Note 1					$ -
Payroll Deductions & Taxes Payable	Note 1	$ 24,537.58				$ 24,537.58
Public Employees' Retirement System						$ -
Deferred Compensation						$ -
Compensated Absences - Current	Note 1					$ -
Bonds Payable - Current	Note 5	$ 210,000.00				$ 210,000.00
Capital Leases Payable - Current	Note 5					$ -
Claim Reserves - Current	Note 8					$ -
IBNR - Current			$ 612,112.00			$ 612,112.00
Open Claims - Current			$ 384,127.00			$ 384,127.00
Unallocated Loss Adjustment Expenses - Current			$ 249,653.00			$ 249,653.00
Future L&I Assessments - Current			$ 117,556.00			$ 117,556.00
Deposits	Note 1					$ -
Unearned Revenue	Note 1					$ -
Unearned Member Assessments/Contributions	Note 8					$ -
Other Liabilities and Credits - Current	Note 1					$ -
TOTAL CURRENT LIABILITIES		$ 648,943.32	$ 1,642,413.22	$ 2,171,658.54	$ -	$ 4,463,015.08
NONCURRENT LIABILITIES						
Compensated Absences	Note 1	$ 507,562.63				$ 507,562.63
Unemployment		$ 5,347.87				$ 5,347.87

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

Educational Service District 105
STATEMENT OF NET POSITION - ALL FUNDS
August 31, 2015

	NOTE REF	OPERATING	WORKERS COMPENSATION FUND	UNEMPLOYMENT FUND	PROPERTY CASUALTY INSURANCE FUND	TOTAL ALL FUNDS
Notes Payable	Note 5					$ -
Claim Reserves	Note 8	$ -				$ -
IBNR			$ 1,184,261.00		$ 46,000.00	$ 1,230,261.00
Open Claims			$ 333,342.00			$ 333,342.00
Unallocated Loss Adjustment Expenses - noncurrent			$ 375,540.00			$ 375,540.00
Future L&I Assessments - noncurrent			$ 179,597.00			$ 179,597.00
Net Pension Liability		$ 4,105,839.00				$ 4,105,839.00
Bonds Payable	Note 5	$ 3,585,000.00				$ 3,585,000.00
Capital Leases Payable	Note 5					$ -
TOTAL NONCURRENT LIABILITIES		$ 8,203,749.50	$ 2,072,740.00	$ -	$ 46,000.00	$ 10,322,489.50
TOTAL LIABILITIES		$ 8,852,692.82	$ 3,715,153.22	$ 2,171,658.54	$ 46,000.00	$ 14,785,504.58
DEFERRED INFLOWS OF RESOURCES						
Deferred InFlows of Resources - Other		$ 71,769.63				$ 71,769.63
Deferred InFlows of Resources - Pension Investment Earnings		$ 551,953.00				$ 551,953.00
Deferred InFlows of Resources - Pension Experience Differences						$ -
Deferred InFlows of Resources - Pension Assumption Changes						$ -
Deferred InFlows of Resources - Pension Changes in Proportion		$ 38,320.00				$ 38,320.00
TOTAL DEFERRED INFLOWS OF RESOURCES	Note 1	$ 662,042.63	$ -	$ -	$ -	$ 662,042.63
NET POSITION						
Net Investment in Capital Assets		$ 7,046,324.17	$ -	$ -	$ -	$ 7,046,324.17
Restricted for Debt Service		$ -				$ -
Restricted for Self-Insurance		$ -				$ -
Restricted for Support Programs	Note 10	$ 2,727,069.47				$ 2,727,069.47
Restricted for Risk Pool Net Position			$ 7,975,171.38		$ 46,052.93	$ 8,021,224.31
Restricted for Other Items						$ -
Restricted for Joint Venture	Note 12	$ (42,571.89)	$ -	$ -	$ -	$ (42,571.89)
Unrestricted		$ (3,094,138.25)	$ -	$ -	$ -	$ (3,094,138.25)
TOTAL NET POSITION		$ 6,636,683.50	$ 7,975,171.38	$ -	$ 46,052.93	$ 14,657,907.81

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

Educational Service District 105
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED AUGUST 31, 2015

	OPERATING	WORKERS COMPENSATION FUND	UNEMPLOYMENT FUND	PROPERTY CASUALTY INSURANCE FUND	TOTAL ALL FUNDS
OPERATING REVENUES					
Local Sources	$ 1,506,830.90				$ 1,506,830.90
State Sources	$ 2,273,077.96				$ 2,273,077.96
Allotment	$ 508,097.88				$ 508,097.88
Federal Sources	$ 2,824,831.22				$ 2,824,831.22
Cooperative Programs	$ 5,938,325.44				$ 5,938,325.44
Other Programs	$ 730,656.56				$ 730,656.56
Member Assessments/Contributions		$ 3,720,479.45	$ 39,914.38	$ 3.13	$ 3,760,396.96
Supplemental Member Assessments					$ -
Other Operating Revenue		$ 15,665.79			$ 15,665.79
TOTAL OPERATING REVENUE	$ 13,781,819.96	$ 3,736,145.24	$ 39,914.38	$ 3.13	$ 17,557,882.71
OPERATING EXPENSES					
General Operations and Administration	$ 3,135,809.13	$ 635,237.04	$ 11,998.38		$ 3,783,044.55
Instructional Support Programs	$ 6,626,724.38				$ 6,626,724.38
Non Instructional Support Programs	$ 4,550,742.53				$ 4,550,742.53
Incurred Loss/Loss Adjustment Expenses					$ -
Paid on Current Losses		$ 1,188,340.72			$ 1,188,340.72
Change in Loss Reserves		$ (415,685.00)			$ (415,685.00)
Unallocated Loss Adjustment Expenses					$ -
Paid Unallocated Loss Adjustment Expenses					$ -
Change in Unallocated Loss Reserves		$ 150,255.00			$ 150,255.00
Excess/Reinsurance Premiums		$ 114,979.00			$ 114,979.00
Professional Fees		$ 48,925.00	$ 27,916.00		$ 76,841.00
Labor & Industries Assessments		$ 1,204,798.14			$ 1,204,798.14
Depreciation/Depletion	$ 209,541.00				$ 209,541.00
Other Operating Expenses					$ -
TOTAL OPERATING EXPENSES	$ 14,522,817.04	$ 2,926,849.90	$ 39,914.38	$ -	$ 17,489,581.32
OPERATING INCOME (LOSS)	$ (740,997.08)	$ 809,295.34	$ -	$ 3.13	$ 68,301.39
NONOPERATING REVENUES (EXPENSES)					
Interest and Investment Income	$ 24,575.28	$ 77,742.53		$ 642.72	$ 102,960.53
Interest Expense and Related Charges	$ (245,076.50)				$ (245,076.50)
Lease Income					$ -
Gains (Losses) on Capital Asset Disposition					$ -
Change in Joint Venture	$ (132,573.44)				$ (132,573.44)
Change in Compensated Absences	$ (59,649.73)				$ (59,649.73)
Other Financing Uses					$ -
Other Nonoperating Revenues					$ -
Other Nonoperating Expenses	$ 78,029.96				$ 78,029.96
TOTAL NONOPERATING REVENUES (EXPE	$ (334,694.43)	$ 77,742.53	$ -	$ 642.72	$ (256,309.18)
INCOME (LOSS) BEFORE OTHER ITEMS	$ (1,075,691.51)	$ 887,037.87	$ -	$ 645.85	$ (188,007.79)
Extraordinary Items	$ 5,826,185.00				$ 5,826,185.00
Special Items					$ -
INCREASE (DECREASE) IN NET POSITION	$ 4,750,493.49	$ 887,037.87	$ -	$ 645.85	$ 5,638,177.21
NET POSITION - BEGINNING BALANCE	$ 6,063,040.57	$ 7,088,133.51		$ 45,407.08	$ 13,196,581.16
CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE	$ (4,176,850.56)				$ (4,176,850.56)
NET POSITION - ENDING BALANCE	$ 6,636,683.50	$ 7,975,171.38	$ -	$ 46,052.93	$ 14,657,907.81

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

Educational Service District 105
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED AUGUST 31, 20XX

	OPERATING	WORKERS COMPENSATION FUND	UNEMPLOYMENT FUND	PROPERTY CASUALTY INSURANCE FUND	TOTAL ALL FUNDS
CASH FLOW FROM OPERATING ACTIVITIES					
Cash Received from Customers	$ 2,956,693.64				$ 2,956,693.64
Cash Received from State and Federal Sou	$ 5,220,785.85				$ 5,220,785.85
Cash Received from Members	$ 5,241,736.36	$ 3,720,029.13	$ 39,914.38	$ 3.13	$ 9,001,683.00
Payments to Suppliers for Goods and Servi	$ (6,483,488.95)	$ (694,908.88)	$ (11,998.38)		$ (7,190,396.21)
Payments to Employees for Services	$ (7,427,213.65)				$ (7,427,213.65)
Cash Paid for Benefits/Claims		$ (1,215,903.83)			$ (1,215,903.83)
Internal Activity - Payments to Other Funds					$ -
Cash Paid for Reinsurance		$ (11,854.00)			$ (11,854.00)
Cash Paid for Labor and Industries Assessments		$ (1,193,732.15)			$ (1,193,732.15)
Cash Paid for Professional Services			$ (27,916.00)		$ (27,916.00)
Cash Paid for Other Operating Expense					$ -
Other Receipts (Payments)		$ 15,665.79			$ 15,665.79
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	$ (491,486.75)	$ 619,296.06	$ -	$ 3.13	$ 127,812.44
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	$ (450,076.50)				$ (450,076.50)
Capital Contributions					$ -
Lease Income					
Other Receipts (Payments)					$ -
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	$ (450,076.50)	$ -	$ -	$ -	$ (450,076.50)
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from Sales and Maturities of Investments					$ -
Lease Income					$ -
Purchase of Investments					$ -
Interest and Dividends Received	$ 24,904.65	$ 76,646.09		$ 635.16	$ 102,185.90
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	$ 24,904.65	$ 76,646.09	$ -	$ 635.16	$ 102,185.90
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	$ (916,658.60)	$ 695,942.15	$ -	$ 638.29	$ (220,078.16)
CASH AND CASH EQUIVALENTS - BEGINNI	$ 3,885,577.88	$ 10,769,504.79		$ 91,360.55	$ 14,746,443.22
PRIOR PERIOD ADJUSTMENT					$ -
CASH AND CASH EQUIVALENTS - ENDING	$ 2,968,919.28	$ 11,465,446.94	$ -	$ 91,998.84	$ 14,526,365.06
CHECK (should be zero)	$ -	$ -	$ -	$ -	$ -
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES					
OPERATING NET INCOME	$ (740,997.08)	$ 809,295.34	$ -	$ 3.13	$ 68,301.39
Adjustment to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities					
Depreciation Expense	$ 209,541.00				$ 209,541.00
Change in Assets and Liabilities					$ -
Receivables, Net	$ (434,373.74)	$ (450.32)			$ (434,824.06)
Prepaids	$ (46,701.49)				$ (46,701.49)
Inventories					$ -
Accounts and Other Payables	$ (8,673.60)	$ 75,881.04			$ 67,207.44
Accrued Expenses	$ 457,948.53				$ 457,948.53
Unearned Revenue	$ 71,769.63				$ 71,769.63
Other Changes					$ -
Claims Reserve-Current		$ (355,795.00)			$ (355,795.00)
Claims Reserve-Prior Year		$ (35,658.00)			$ (35,658.00)
IBNR-Current		$ 56,129.00			$ 56,129.00
IBNR-Prior Year		$ (80,361.00)			$ (80,361.00)
Future L&I Assessments		$ (24,938.00)			$ (24,938.00)
Provision for Unallocated Loss Adjustment		$ 175,193.00			$ 175,193.00
Unearned Member Assessments					$ -
Insurance Recoverables					$ -
Claim Reserves					$ -
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	$ (491,486.75)	$ 619,296.06	$ -	$ 3.13	$ 127,812.44

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

EDUCATIONAL SERVICE DISTRICT 105

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2015

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, 2015, the treasurer was holding $14,071,900 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.

The District also remits funds to the ESD 105 Unemployment Pool for payment of the district's unemployment compensation benefits which are a liability of the District. ESD 105 is the trustee of a risk sharing unemployment compensation pool formed in 1988. Twenty school districts participate in the pool which is governed by a cooperative pool agreement. According to the cooperative pool agreement, only upon dissolution of the pool would the district be entitled to it's equitable share of the assets remaining in the pool after all liabilities of each district have been paid. The Investments/Cash held by Trustee represents the district's share of assets currently held by the ESD105 Unemployment Pool on behalf of the district before all liabilities of the pool have been paid. The funds held by the ESD105 Unemployment Pool are not considered readily available to the district.

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 Outflows and Deferred Inflows
The District has adopted GASB 68 for the year ended August 31, 2015. GASB 68 requires the District to recognize as deferred outflows or inflows on the Statement of Net Position their proportionate share of the State Department of Retirement System's deferred income or expenses items that will be recognized over a number of years. These items are presented on the Statement of Net Position and will impact the future calculations of the retirement system's pension funding status.

Deferred Inflows of Resources - Other 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, 2015, the District had the following investments:

Investment	Maturity	Fair Value
Yakima County Treasurer Investment Pool	$14,071,900	$14,071,900
Total Investments	$14,071,900	$14,071,900

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, 2015, was as follows:

	Beginning Balance 9/1/2014	Increases	Decreases	Ending Balance 8/31/2015
Capital assets not being depreciated:				
Land	$233,931	$927,895	$	$1,161,826
Construction in Progress				
Total capital assets not being depreciated	$233,931	$927,895		$1,161,826
Depreciable capital assets:				
Buildings	$6,200,711	$5,098,160		$11,298,871
Improvements other than buildings	$178,237	$16,100		$194,337
Equipment	$61,322	$136,425		$197,747
Other				
Total depreciable capital assets	$6,440,270	$5,250,685		$11,690,955
Less accumulated depreciation for:				
Buildings	$1,658,763	$196,314		$1,855,077
Improvements other than buildings	$83,176	$11,882		$95,058
Equipment	$59,977	$1,345		$61,322
Other				
Total accumulated depreciation	$1,801,916	$209,541		$2,011,457
Total depreciable assets, net	$4,638,354	$5,041,144		$9,679,498
Total assets, net	$4,872,285	$5,969,039		$10,841,324

Note 4: SHORT-TERM DEBT

Short-term debt for the fiscal year ended August 31, 2015, were as follows:

Debt	Beginning Balance 9/1/2014	Increases	Decreases	Ending Balance 8/31/2015
Accounts Payable	$626,164	$67,207		$693,371

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, 2015:

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
2016	$210,000	$153,423
2017	$220,000	$146,858
2018	$225,000	$139,393
2019	$235,000	$131,423
2020 - 2029	$2,905,000	$737,887

Changes in Long-Term Liabilities

During the fiscal year ended August 31, 2015, the following changes occurred in long-term liabilities:

	Beginning Balance 9/1/2014	Additions	Reductions	Ending Balance 8/31/2015	Due Within One Year
Bonds Payable	$4,000,000	$	$205,000	$3,795,000	$210,000
Compensated Absences	$486,501	$21,062		$507,563	
Total Long-Term Liabilities	$4,486,501	$21,062	$205,000	$4,302,563	$210,000

Note 6: ANNUAL PENSION COST AND NET PENSION OBLIGATION

The District is required to provide retirement benefits for substantially all of qualifying employees through the State of Washington State Department of Retirement System (DRS) plans.

For the year ended August 31, 2015 the District has implemented Governmental Accounting Standards Board Pronouncement 68 (GASB 68). GASB 68 requires, among other provisions, that the District recognize its proportionate share of the DRS plans underfunded status. Within these financial statements the District recognizes a charge against its August 31, 2014 Unrestricted Fund Balance of $4,176,851. This amount decreased to $4,105,839 as of August 31, 2015.

The District has no independent ability to fund or satisfy this pension liability outside of Washington State’s legislatively adopted contribution rates, as they currently exist, or may be adopted in the future. Assessments now and in the future are made based upon the annual qualified worker compensation and are paid by both the District, as the employer, and its employees.

General Information

The Washington State Department of Retirement Systems (DRS), a department within the primary government of the state of Washington, prepares a stand-alone comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each pension plan. The pension plan’s basic financial statement is accounted for using the accrual basis of accounting. The measurement date of the pension plans is June 30. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

For the purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of pension plans administered by DRS and additions to/deductions from the plans’ net position have been determined on the same basis as they are reported by the plans.

Detailed information about the pension plans' fiduciary net position is available in the separately issued DRS CAFR. Copies of the report may be obtained by contacting the Washington State Department of Retirement Systems, P.O. Box 48380, Olympia, WA 98504-8380; or online at http://www.drs.wa.gov./administrations/annual-report.

Membership Participation

Substantially all of the ESD full-time and qualifying part-time employees participate in one of the following three contributory, multi-employer, cost-sharing statewide retirement systems managed by DRS: Teachers' Retirement System (TRS), Public Employees' Retirement System (PERS) and School Employees' Retirement System (SERS).

Membership participation by retirement plan as of June 30, 2015, was as follows:

Plan	Active Members	Inactive Vested Members	Retired Members
PERS 1	4,782	1,178	51,070
SERS 2	22,950	5,357	5,796
SERS 3	30,832	6,963	4,825
TRS 1	1,824	323	35,639
TRS 2	13,632	2,357	3,894
TRS 3	51,837	7,655	6,094

The latest actuarial valuation date for all plans was June 30, 2014.
Source: Washington State Office of the State Actuary

Membership & Plan Benefits

Certificated employees are members of TRS. Classified 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. TRS 1 and PERS 1 are closed to new entrants.

TRS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component. TRS eligibility for membership requires service as a certificated public school employee working in an instructional, administrative or supervisory capacity.

TRS is comprised of three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

TRS Plan 1 provides retirement, disability and death benefits. TRS 1 members were vested after the completion of five years of eligible service. Retirement benefits are determined as two percent of the average final compensation (AFC), for each year of service credit, up to a maximum of 60 percent, divided by twelve. The AFC is the total earnable compensation for the two consecutive highest-paid fiscal years, divided by two. Members are eligible for retirement at any age after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. Other benefits include temporary and permanent disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries.

TRS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the average final compensation (AFC) per year of service for Plan 2 members and one percent of AFC for Plan 3 members. The AFC is the monthly average of the 60 consecutive highest-paid service credit months. There is no cap on years of service credit. Members are eligible for normal retirement at the age of 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. TRS Plan 2/3 members, who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a reduced benefit.

The benefit is reduced by a factor that varies according to age, for each year before age 65. TRS Plan 2/3 members who have 30 or more years of service credit, were hired prior to May 1, 2013, and are at least 55 years old, can retire under one of two provisions: With a benefit that is reduced by three percent for each year before age 65; or with a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

TRS Plan 2/3 members hired on or after May 1, 2013, have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service. TRS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit.

Other benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the Consumer Price Index), capped at three percent annually and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS Plan 1 provides retirement, disability and death benefits. PERS 1 members were vested after the completion of five years of eligible service. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service.

Members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits. PERS Plan 1 retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries.

SERS is a cost-sharing multiple-employer retirement system comprised of two separate plans for membership purposes. SERS Plan 2 is a defined benefit plan and SERS Plan 3 is a defined benefit plan with a defined contribution component. SERS members include classified employees of school districts and educational service districts.

SERS is reported as two separate plans for accounting purposes: Plan 2/3 and Plan 3. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members.

Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

SERS provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and one percent of AFC for Plan 3. The AFC is the monthly average of the member's 60 highest-paid consecutive service months before retirement, termination or death. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. SERS members, who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a reduced benefit.

The benefit is reduced by a factor that varies according to age, for each year before age 65. SERS members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions, if hired prior to May 2, 2013: With a benefit that is reduced by three percent for each year before age 65; or with a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

SERS members hired on or after May 1, 2013, have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service. SERS retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, a cost- of-living allowance (based on the Consumer Price Index), capped at three percent annually and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries.

Plan Contributions

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 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. Employers do not contribute to the defined contribution portions of TRS Plan 3 or SERS Plan 3. Under current law the employer must contribute 100 percent of the employer-required contribution. The employee contribution rate for Plan 1 in PERS and TRS is set by statute at six percent and does not vary from year to year.

The Employer and employee contribution rates for the PERS plan are effective as of July 1. SERS and TRS contribution rates are effective as of September 1. The pension plan contribution rates (expressed as a percentage of covered payroll) for 2014 and 2015 are listed below:

Pension Rates			
	7/1/15 Rate	**7/1/14 Rate**	
PERS 1			
Member Contribution Rate	6.00%	6.00%	
Employer Contribution Rate	11.18%	9.21%	
Pension Rates			
	9/1/15 Rate	**9/1/14 Rate**	
TRS 1			
Member Contribution Rate	6.00%	6.00%	
Employer Contribution Rate	13.13%	10.39%	
TRS 2			
Member Contribution Rate	5.95%	4.96%	
Employer Contribution Rate	13.13%	10.39%	
TRS 3			
Member Contribution Rate	varies*	varies*	
Employer Contribution Rate	13.13%	10.39%	**
SERS 2			
Member Contribution Rate	5.63%	4.64%	
Employer Contribution Rate	11.58%	9.82%	
SERS 3			
Member Contribution Rate	varies*	varies*	
Employer Contribution Rate	11.58%	9.82%	**
Note: The DRS administrative rate of .0018 is included in the employer rate.			
*** = Variable from 5% to 15% based on rate selected by the member.**			
**** = Defined benefit portion only.**			

The Collective Net Pension Liability

The collective net pension liabilities for the pension plans the ESDs participated in are reported in the following tables.

The Net Pension Liability as of June 30, 2015:				
Dollars in Thousands	PERS 1	SERS 2/3	TRS 1	TRS 2/3
Total Pension Liability	$12,789,242	$4,473,428	$9,237,730	$11,220,833
Plan fiduciary net position	($7,558,312)	($4,067,277)	($6,069,588)	($10,377,031)
Participating employers' net pension liability	$5,230,930	$406,151	$3,168,142	$843,802
Plan fiduciary net position as a percentage of the total pension liability	59.10%	90.92%	65.70%	92.48%

The ESD's Proportionate Share of the Net Pension Liability (NPL)

At June 30, 2015, the ESD reported a total liability of $4,105,839 for its proportionate shares of the individual plans' collective net pension liability. The district's proportionate share of the collective net pension liability is based on annual contributions for each of the employers participating in the DRS administered plans. At June 30, 2015, the district's proportionate share of each plan's net pension liability is reported below:

June 30, 2015	PERS 1	SERS 2/3	TRS 1	TRS 2/3
District's Annual Contributions	$140,792	$154,475	$104,037	$121,305
Proportionate Share of the Net Pension Liability	$1,602,430	$645,332	$1,472,909	$385,169

At June 30, 2015, the ESD' percentage of the proportionate share of the collective net pension liability was as follows and the change in the allocation percentage from the prior year is illustrated below:

Allocation Percentages	PERS 1	SERS 2/3	TRS 1	TRS 2/3
Current year proportionate share of the Net Pension Liability	0.030634%	0.158890%	0.046491%	0.045647%
Prior year proportionate share of the Net Pension Liability	0.031538%	0.176781%	0.054835%	0.049488%
Net difference percentage	0.000904%	0.017891%	0.008344%	0.003841%

Actuarial Assumptions

Capital Market Assumptions (CMAs) and expected rates of return by asset class provided by the Washington State Investment Board. The Office of the State Actuary relied on the CMAs in the selection of the long-term expected rate of return for reporting purposes.

The total pension liabilities for TRS 1, TRS 2/3, PERS 1 and SERS 2/3 were determined by actuarial valuation as of June 30, 2014, with the results rolled forward to June 30, 2015, using the following actuarial assumptions, applied to all prior periods included in the measurement:

Inflation	3.0% total economic inflation, 3.75% salary inflation
Salary increases	In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
Investment rate of return	7.50%

Mortality Rates

Mortality rates used in the plans were based on the RP-2000 Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries. The Office of the State Actuary applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year, throughout their lifetime. The actuarial assumptions used in the June 30, 2014, valuation were based on the results of the 2007–2012 Experience Study. Additional assumptions for subsequent events and law changes are current as of the 2014 actuarial valuation report.

Long-term Expected Rate of Return

The long-term expected rate of return on pension plan investments was determined using a building-block method in which a best-estimate of expected future rates of return (expected returns, net of pension plan investment expense, but including inflation) are developed for each major asset class by the Washington State Investment Board (WSIB). Those expected returns make up one component of WSIB's CMAs. The CMAs contain three pieces of information for each class of assets the WSIB currently invest in:

- Expected annual return
- Standard deviation of the annual return
- Correlations between the annual returns of each asset class with every other asset class

WSIB uses the CMAs and their target asset allocation to simulate future investment returns over various time horizons.

The long-term expected rate of return of 7.50% percent approximately equals the median of the simulated investment returns over a fifty-year time horizon, increased slightly to remove WSIB's implicit and small short-term downward adjustment due to assumed mean reversion. WSIB's implicit short-term adjustment, while small and appropriate over a ten to fifteen-year period, becomes amplified over a fifty-year measurement period.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plans' target asset allocation as of June 30, 2015, are summarized in the following table:

TRS1, TRS 2/3, PERS 1, and SERS 2/3		
Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Fixed Income	20.00%	1.70%
Tangible Assets	5.00%	4.40%
Real Estate	15.00%	5.80%
Global Equity	37.00%	6.60%
Private Equity	23.00%	9.60%

The inflation component used to create the above table is 2.20 percent, and represents WSIB's most recent long-term estimate of broad economic inflation.

Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent. To determine the discount rate, an asset sufficiency test was completed to test whether the pension plan's fiduciary net position was sufficient to make all projected future benefit payments of current plan members. Consistent with current law, the completed asset sufficiency test included an assumed 7.70 percent long-term discount rate to determine funding liabilities for calculating future contributions rate requirements. Consistent with the long-term expected rate of return, a 7.50 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue to be made at contractually required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

Therefore, the long-term expected rate of return of 7.50 percent on pension plan investments was applied to determine the total pension liability.

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The Pension Plans reported collective Deferred Outflows of Resources and collective Deferred Inflows of Resources related to the individual plans. At August 31, 2015, the ESD reported Deferred Outflows of Resources and Deferred Inflows of Resources related to pensions from the following sources:

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experiences	$	$
Net difference between projected and actual earnings on pension plan investments	$	($87,670)
Changes in assumptions or other inputs	$	$
Changes in proportion and differences between contributions and proportionate share of contributions	$	$
Contributions subsequent to the measurement date	$5,646	$
TOTAL	$5,646	($87,670)

SERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experiences	$78,709	$
Net difference between projected and actual earnings on pension plan investments	$	($205,830)
Changes in assumptions or other inputs	$715	$
Changes in proportion and differences between contributions and proportionate share of contributions	$	($28,168)
Contributions subsequent to the measurement date	$45,365	$
TOTAL	$124,789	($233,998)

TRS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experiences	$	$
Net difference between projected and actual earnings on pension plan investments	$	($109,019)
Changes in assumptions or other inputs	$	$
Changes in proportion and differences between contributions and proportionate share of contributions	$	$
Contributions subsequent to the measurement date	$1,338	$
TOTAL	$1,338	($109,019)

TRS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experiences	$60,970	$
Net difference between projected and actual earnings on pension plan investments	$	($149,434)
Changes in assumptions or other inputs	$335	$
Changes in proportion and differences between contributions and proportionate share of contributions	$	($10,151)
Contributions subsequent to the measurement date	$36,067	$
TOTAL	$97,372	($159,585)

$88,416 reported as Deferred Outflows of Resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended August 31, 2016.

Other amounts reported as Deferred Outflows of Resources and Deferred Inflows of Resources related to pensions will be recognized in pension expense as follows:

Year ended August 31	PERS 1	SERS 2/3	TRS 1	TRS 2/3
2016	($33,978)	($63,429)	($42,283)	($47,137)
2017	($33,978)	($63,429)	($42,283)	($47,137)
2018	($33,978)	($63,429)	($42,283)	($47,137)
2019	$14,264	$35,714	$17,830	$37,446
2020				$5,684
Thereafter				

Pension Expense

The ESD recognizes a pension expense for its proportionate share of the collective pension expense. This is determined by using the district's proportionate share of the collective net pension liability. For the year ending August 31, 2015, the ESD recognized a total pension expense as follows:

	Pension Expense
PERS 1	$97,408
SERS 2/3	$50,306
TRS 1	$319,407
TRS 2/3	$18,199
TOTAL	$485,320

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The table below presents the ESD's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50%) or one percentage point higher (8.50%) than the current rate. Amounts are calculated by plan using the ESD's allocation percentage.

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
PERS1 NPL	$6,368,671,000	$5,230,930,000	$4,252,577,000
Allocation Percentage	0.030634%	0.030634%	0.030634%
Proportionate Share of Collective NPL	$1,950,962	$1,602,430	$1,302,724
SERS2/3 NPL	$1,282,039,000	$406,151,000	($273,474,000)
Allocation Percentage	0.158890%	0.158890%	0.158890%
Proportionate Share of Collective NPL	$2,037,027	$645,332	($434,522)
TRS1 NPL	$3,982,571,000	$3,168,142,000	$2,467,801,000
Allocation Percentage	0.046491%	0.046491%	0.046491%
Proportionate Share of Collective NPL	$1,851,547	$1,472,909	$1,147,311
TRS2/3 NPL	$3,570,229,000	$843,802,000	($1,183,066,000)
Allocation Percentage	0.045647%	0.045647%	0.045647%
Proportionate Share of Collective NPL	$1,629,695	$385,169	($540,032)

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 $450,000 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 2015, 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, 2015, the amount of liabilities totaled $3,436,188. This liability is based upon an actuarial study performed by PricewaterhouseCoopers. Changes in the reported liability since August 31, 2014, are reported below:

	Beginning Balance 9/1/2014	Current Year Claims and Changes in Estimates	Ending Balance 8/31/2015
Incurred but not Reported	$1,820,605	($24,232)	$1,796,373
Reserves for Open Claims	$1,108,922	($391,453)	$717,469
Future L&I Assessments	$322,091	($24,938)	$297,153
Estimated Unallocated Loss Adjustment	$450,000	$175,193	$625,193

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 the Cooperative Risk Management Pool Account Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. Over 90 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 Cooperative Risk Management Pool Account 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 Cooperative Risk Management Pool Account 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, 2015, the District's total compensated absences balance in the pool was $31,261.

Changes for the fiscal year are summarized below.

		Balance at 8/31/2015
Beginning Long-term Liability		$486,501
Beginning Pool Balance	$15,744	
Payments to Pool	$142,547	
Withdrawals from Pool	($127,030)	
Less Ending Pool Balance		$31,261
Increase (Decrease) to Estimates of Long-term Liability		$21,062
Ending Unfunded Liability		$476,302

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, 2015, is as follows:

Condensed Financial Statements	Amount
Assets	
Current Assets	4,669,097
Non-Current Assets	2,172,280
Other Assets	418,573
Total Assets	7,259,951
Liabilities and Joint Venture Capital	
Current and Noncurrent Liabilities	7,643,098
Investment in Joint Venture	(383,147)
Total Liabilities and Joint Venture Capital	7,259,951
Operating Revenues Plus/ Minus Other Income/ Expenses (Net)	20,925,538 4,995
Less Operating Expenses	22,123,694
Net Income	(1,193,161)
Prior Period Adjustment	(4,755,146)

The District's share of the total Investment in the Joint Venture is ($42,572). There were no additions or distributions in 2015.

Note 12: OTHER DISCLOSURES

Stewardship, Compliance, and Accountability

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

Cumulative Effect of a Change in Accounting Principle

The District made changes to reflect pension liabilities of $4,176,851 that existed as of August 31, 2014 to conform to the new GASB 68 accounting standards.

Extraordinary/Special Items

The District was awarded two Federal Head Start grants as of July 1, 2015. As part of the grant $5,826,185 of real property and equipment was transferred to the District.

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

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
1 Net earned required contribution and investment revenues	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	3,813,888
2 Unallocated expenses	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	2,154,194
3 Estimated incurred claims and expense, end of fiscal year	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	1,600,000
4 Paid (cumulative) as of:										
End of Policy Year	577,186	509,926	535,035	485,917	566,527	620,891	596,870	598,940	519,095	603,761
One year later	1,034,893	886,826	1,104,744	1,003,982	1,044,077	1,398,271	977,907	892,355	860,804	
Two years later	1,233,218	1,082,673	1,288,363	1,219,877	1,221,560	1,663,112	1,052,604	1,034,400		
Three years later	1,339,108	1,126,534	1,377,299	1,257,515	1,278,799	1,686,930	1,110,621			
Four years later	1,524,456	1,157,123	1,390,088	1,308,267	1,353,115	1,639,773				
Five years later	1,596,406	1,170,896	1,390,316	1,316,952	1,394,771					
Six years later	1,613,209	1,197,421	1,413,631	1,349,896						
Seven years later	1,652,216	1,226,740	1,391,715							
Eight years later	1,731,555	1,225,821								
Nine years later	1,732,314									
5 Reestimated incurred claims and expense:										
End of Policy Year	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	1,600,000
One year later	1,750,000	1,425,000	1,675,000	1,560,000	1,575,000	2,050,000	1,375,000	1,385,000	1,305,000	
Two years later	1,610,000	1,375,000	1,625,000	1,500,000	1,535,000	1,955,000	1,345,000	1,315,000		
Three years later	1,600,000	1,400,000	1,595,000	1,470,000	1,490,000	1,880,000	1,300,000			
Four years later	1,700,000	1,360,000	1,510,000	1,450,000	1,510,000	1,775,000				
Five years later	1,700,000	1,275,000	1,490,000	1,465,000	1,520,000					
Six years later	1,695,000	1,280,000	1,495,000	1,431,000						
Seven years later	1,770,000	1,275,000	1,440,000							
Eight years later	1,770,000	1,260,000								
Nine years later	1,755,000									
6 Increase (decrease) in estimated incurred claims and expense from end of fiscal year	55,000	(415,000)	(285,000)	(19,000)	(230,000)	45,000	(375,000)	(235,000)	(510,000)	

Educational Service District 105

REQUIRED SUPPLEMENTAL INFORMATION

SCHEDULES OF EMPLOYER CONTRIBUTIONS

AS OF AUGUST 31, 2015

Last 10 Fiscal Years **

PERS 1		**2015**
Contractually required contribution	$	140,792
Contributions in relation to the contractually required contributions	$	140,792
Contribution deficiency (excess)	$	-
District’s covered-employee payroll	$	350,391
Contribution as a percentage of covered-employee payroll		40.18%

SERS 2/3		**2015**
Contractually required contribution	$	154,475
Contributions in relation to the contractually required contributions	$	154,475
Contribution deficiency (excess)	$	-
District’s covered-employee payroll	$	2,735,928
Contribution as a percentage of covered-employee payroll		5.65%

TRS 1		**2015**
Contractually required contribution	$	104,037
Contributions in relation to the contractually required contributions	$	104,037
Contribution deficiency (excess)	$	-
District’s covered-employee payroll	$	71,721
Contribution as a percentage of covered-employee payroll		145.06%

TRS 2/3		**2015**
Contractually required contribution	$	121,305
Contributions in relation to the contractually required contributions	$	121,305
Contribution deficiency (excess)	$	-
District’s covered-employee payroll	$	2,134,039
Contribution as a percentage of covered-employee payroll		5.68%

Notes to Schedules:

* Schedules are based on the District's financial reporting date, fiscal year ending August 31 in each period reported.

** Schedules will be built prospectively until 10 years of data has been compiled

Note 6 to the financial statements includes information regarding factors that may affect trends in the amounts reported in these schedules.

Educational Service District 105

REQUIRED SUPPLEMENTAL INFORMATION

SCHEDULES OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
AS OF AUGUST 31, 2015
Last 10 Fiscal Years **

PERS 1	**2015**
District’s proportion of the net pension liability (percentage)	0.030634%
District’s proportionate share of the net pension liability (amount)	$ 1,602,430
District’s covered-employee payroll	$ 350,391
District’s proportionate share of the net pension liability (amount) as a percentage of its covered payroll	457.33%
Plan fiduciary net position as a percentage of the total pension liability	59.10%

SERS 2/3	**2015**
District’s proportion of the net pension liability (percentage)	0.158890%
District’s proportionate share of the net pension liability (amount)	$ 645,332
District’s covered-employee payroll	$ 2,735,928
District’s proportionate share of the net pension liability (amount) as a percentage of its covered payroll	23.59%
Plan fiduciary net position as a percentage of the total pension liability	90.92%

TRS 1	**2015**
District’s proportion of the net pension liability (percentage)	0.046491%
District’s proportionate share of the net pension liability (amount)	$ 1,472,909
District’s covered-employee payroll	$ 71,721
District’s proportionate share of the net pension liability (amount) as a percentage of its covered payroll	2053.66%
Plan fiduciary net position as a percentage of the total pension liability	65.70%

TRS 2/3	**2015**
District’s proportion of the net pension liability (percentage)	0.045647%
District’s proportionate share of the net pension liability (amount)	$ 358,169
District’s covered-employee payroll	$ 2,134,039
District’s proportionate share of the net pension liability (amount) as a percentage of its covered payroll	16.78%
Plan fiduciary net position as a percentage of the total pension liability	92.48%

Notes to Schedules:

* Schedules are based on the Department of Retirement Systems plans' measurement date of June 30 in each year reported

** Schedules will be built prospectively until 10 years of data has been compiled

Note 6 to the financial statements includes information regarding factors that may affect trends in the amounts reported in these schedules.

EDUCATIONAL SERVICE DISTRICT 105
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended August 31, 2015

Federal Agency Name	CFDA Number	Federal Program Title	Pass Through Agency	Other Identification Number	*Direct*	*Pass Through A*	*Total*	*Footnotes*
Dept of Education	84.010	Title I - Grants to LEAs	WA OSPI	222469		56,630.71	56,630.71	4a
				222633		170,692.84	170,692.84	4a
				227755		118,000.00	118,000.00	4a
				260051		8,294.15	8,294.15	4a
	84.013	Title I State Agency Program for Neglected and Delinquent Children and Youth	WA OSPI	223033		66,645.74	66,645.74	4a
	84.027	Special Education - Grants to States	WA OSPI	320222		143,312.00	143,312.00	4a
	84.173	Special Education Preschool Grants	WA OSPI	380272		17,590.08	17,590.08	4a
	84.181	Special Education - Grants for Infants and Families	ESD 112	N/A		1,189.52	1,189.52	4a
	84.184	Safe and Drug-Free Schools and Communities National Programs	WA OSPI	820002		1,490.85	1,490.85	4a
	84.305	Education Research, Development and Dissemination	WA State University	120053_G003370		48,470.71	48,470.71	4f,5a
	84.365	English Language Acquisition State Grants	WA OSPI	402106		29,606.00	29,606.00	4a
	84.367	Improving Teacher Quality State Grants	WA OSPI	539052		37,757.68	37,757.68	4a
			WA Student Achievement Council	15-IA036		109,274.40	109,274.40	4a,5b
	84.405	ARRA - Teacher Quality Partnerships	Heritage University	U405A100020		280,680.45	280,680.45	2,4c
	84.411	Investing in Innovation (i3) Fund	NBPTS	1303007		10,000.00	10,000.00	4b
	84.412	Race To The Top - Early Learning Challenge	WA OSPI	619912		23,833.56	23,833.56	4a,5c
				619922		2,367.15	2,367.15	4a
			Thrive by Five Washington	162		695.28	695.28	4e
Dept of Education Total						1,126,531.12	1,126,531.12	
Dept of Health and Human Services	93.243	Substance Abuse and Mental Health Services - Projects of Regional and National Significance	ESD 112	N/A		5,488.92	5,488.92	4a
			WA State University	119528_G003136		1,618.13	1,618.13	4a
	93.276	Drug-Free Communities Support Program Grants		5H79SP018248-03	7,191.46		7,191.46	3,4b
				5H79SP018248-05	113,671.82		113,671.82	3,4b,5d
	93.505	Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	Thrive by Five Washington	162		1,048.77	1,048.77	4e
	93.575	Child Care and Development Block Grant	Thrive by Five Washington	162		4,472.78	4,472.78	4e
	93.600	Head Start		10CH10124-01-01	3,643,949.45		3,643,949.45	3,4f,5e
				90CM9817-01-01	2,389,580.43		2,389,580.43	3,4f,5f
	93.959	Block Grants for Prevention and Treatment of Substance Abuse	WA OSPI	998164		202,014.27	202,014.27	4a,5g
				998171		9,071.31	9,071.31	4a
Dept of Health and Human Services Total					6,154,393.16	223,714.18	6,378,107.34	
Office of National Drug Control Policy	95.001	High Intensity Drug Trafficking Areas Program		G11NW0003A	6,015.33		6,015.33	4d,5h
				G12NW0003A	29,263.97		29,263.97	4d,5i
				G13NW0003A	177,539.63		177,539.63	4d,5j
				G14NW0003A	576,143.13		576,143.13	4d,5k
				G15NW0003A	277,900.64		277,900.64	4d,5l
Office of National Drug Control Policy Total					1,066,862.70		1,066,862.70	
Grand Total					7,221,255.86	1,350,245.30	8,571,501.16	

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 un*restricted* 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.

4f. The ESD used the federal *restricted* rate of 11% for this program.

NOTE 5—AMOUNTS PASSED THROUGH TO SUBRECIPIENTS

5a. Of the amount shown for this program, $11,416.40 was passed-through to subrecipients.

5b. Of the amount shown for this program, $64,479.07 was passed-through to subrecipients.

5c. Of the amount shown for this program, $20,769.41 was passed-through to subrecipients.

5d. Of the amount shown for this program, $31,500.00 was passed-through to subrecipients.

5e. Of the amount shown for this program, $105,737.92 was passed-through to subrecipients.

5f. Of the amount shown for this program, $36,561.98 was passed-through to subrecipients.

5g. Of the amount shown for this program, $123,265.00 was passed-through to subrecipients.

5h. Of the amount shown for this program, $5,728.89 was passed-through to subrecipients.

5i. Of the amount shown for this program, $27,871.33 was passed-through to subrecipients.

5j. Of the amount shown for this program, $169,085.36 was passed-through to subrecipients.

5k. Of the amount shown for this program, $548,707.74 was passed-through to subrecipients.

5l. Of the amount shown for this program, $264,667.28 was passed-through to subrecipients.

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

The results of our work are widely distributed through a variety of reports, which are available on our website and through our free, electronic subscription service.

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	
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov