Washington State Auditor's Office

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Financial Statements and Federal Single Audit Report

North Central Educational Service District No. 171

Chelan County

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

Published May 26, 2016

Report No. 1016826

Washington State Auditor's Office

May 26, 2016

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

Report on Financial Statements and Federal Single Audit

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

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

Sincerely,

Troy X. Kelley

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

North Central Educational Service District No. 171
Chelan County
September 1, 2014 through August 31, 2015

SECTION I – SUMMARY OF AUDITOR'S RESULTS

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

Financial Statements

We issued an unmodified opinion on the fair presentation of the financial statements of each major fund and the aggregate remaining fund information 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
84.027	Special Education Cluster (IDEA) – Special Education Grants to States
84.173	Special Education Cluster (IDEA) – Special Education Preschool Grants
84.326	Special Education Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities

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

North Central Educational Service District No. 171
Chelan 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 North Central Educational Service District No. 171. The State Auditor's Office has reviewed the status as presented by the District.

Audit Period: September 1, 2013 through August 31, 2014	**Report Ref. No:** 1014424	**Finding Ref. No:** 2014-001	**CFDA Number(s):** **N/A**
Finding Caption: The District's internal controls over financial statement preparation are inadequate to ensure accurate financial reporting.			
Background: Our audit identified deficiencies in internal controls that, when taken together, represent a material weakness: • Staff responsible for preparation of the financial statements lacked sufficient knowledge of Generally Accepted Accounting Principles (GAAP) and Governmental Accounting Standards Board (GASB) reporting. • Although the District has a process for reviewing the prepared financial statements, this review was not effective in ensuring the financial statements were accurate in all respects. The District did not dedicate the necessary time and resources to ensure the financial statements were accurately presented. In addition, the District did not perform an effective review to ensure the financial statements were accurately prepared and presented. As a result, we identified the following errors during our audit of the District's financial statements: • The District materially misreported its Statement of Fiduciary Net Position - Agency Funds. It reported over $4 million as Net Position, rather than a liability. • The Investments balance on the Statement of Fiduciary Net Position – Agency Funds was overstated by $125,537. • In the Worker's Compensation Fund, the District misclassified $111,133 in Restricted Net Position as Unrestricted Net Position.			

- The District over-reported its Schedule of Expenditure of Federal Awards by $49,836 related to amounts received in the ESD's capacity as a vendor, not as a sub recipient of grant funds.

We also identified less significant errors during the course of our audit which were communicated to District management.

Status of Corrective Action:

☐ Fully Corrected ☒ Partially Corrected ☐ Not Corrected ☐ Finding is considered no longer valid

Corrective Action Taken:

Prior to the publication of the audited financial statements, the District had already undertaken all necessary measures to correct the technical errors the Washington State Auditor's Office identified which led to the finding described above. These measures have included informing the appropriate staff of the issues, adjusting existing processes to be more comprehensive, conforming internal guidance to the noted GASB/GAAP standards, and hiring external professional assistance where applicable.

For further information please refer to the "District's Response" section in the Schedule of Audit Findings and Responses portion of the financial audit report.

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

North Central Educational Service District No. 171
Chelan County
September 1, 2014 through August 31, 2015

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of each major fund and the aggregate remaining fund information of North Central Educational Service District No. 171, Chelan County, Washington, as of and for the year ended August 31, 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 9, 2016. 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*. The District has omitted the management's discussion and analysis information that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements. Our opinion on the basic financial statements is not affected by this missing information.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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.

In addition, we noted certain matters that we will report to the management of the District in a separate letter dated May 17, 2016.

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 9, 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

North Central Educational Service District No. 171
Chelan County
September 1, 2014 through August 31, 2015

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

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of North Central Educational Service District No. 171, Chelan County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of 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 X. Kelley

TROY KELLEY

STATE AUDITOR

OLYMPIA, WA

May 9, 2016

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

North Central Educational Service District No. 171
Chelan County
September 1, 2014 through August 31, 2015

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

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of each major fund and the aggregate remaining fund information of North Central Educational Service District No. 171, Chelan County, Washington, as of and for the year ended August 31, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 18.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund and the aggregate remaining fund information of North Central Educational Service District No. 171, as of August 31, 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 45 through 46 and pension plan information on pages 47 through 49 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management's discussion and analysis information that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by GASB who considers it to be an essential part of the financial reporting for placing the financial statements in an appropriate operational, economic or historical context. Our 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 9, 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 9, 2016

FINANCIAL SECTION

North Central Educational Service District No. 171
Chelan County
September 1, 2014 through August 31, 2015

BASIC FINANCIAL STATEMENTS

REQUIRED SUPPLEMENTARY INFORMATION

SUPPLEMENTARY AND OTHER INFORMATION

Educational Service District #171
STATEMENT OF NET POSITION - ALL FUNDS
31-Aug-15

	NOTE REF	OPERATING	WORKERS COMPENSATION FUND	UNEMPLOYMENT FUND	TOTAL ALL FUNDS
ASSETS					
CURRENT ASSETS					
Cash and Cash Equivalents	Note 1	$ 20,642.78	$ 573,608.46		$ 594,251.24
Net Assets for Pool Participants				$ 1,113,750.09	$ 1,113,750.09
Investments	Note 2	$ 4,188,081.92	$ 6,961,921.33		$ 11,150,003.25
Accounts Receivable	Note 1	$ 1,582,340.43			$ 1,582,340.43
Other Receivables	Note 7				$ -
Member Assessments/Contributions			$ 179,053.13		$ 179,053.13
Accrued Deductibles/Co-pays					$ -
Excess/Reinsurance Recoverable					$ -
Due from Other Governments	Note 1				$ -
Inventory	Note 1				$ -
Prepaids	Note 1	$ 95,197.52			$ 95,197.52
Restricted Assets	Note 1				$ -
Other Current Assets	Note 1				$ -
TOTAL CURRENT ASSETS		$ 5,886,262.65	$ 7,714,582.92	$ 1,113,750.09	$ 14,714,595.66
NONCURRENT ASSETS					
Investments	Note 2				$ -
Capital Assets	Note 3				
Land		$ 1,277,756.00			$ 1,277,756.00
Construction in Progress					
Building		$ 3,978,840.00			$ 3,978,840.00
Equipment		$ -			$ -
Less: Accumulated Depreciation		$ (1,725,281.00)			$ (1,725,281.00)
Net Capital Assets		$ 3,531,315.00	$ -	$ -	$ 3,531,315.00
Other Noncurrent Assets					
Net Cash/Investments Held for Compensated Absences		$ 181,818.59			$ 181,818.59
Net Cash/Investments Held for Unemployment		$ 15,145.35			$ 15,145.35
Investment in Joint Venture	Note 11	$ (42,572.00)			$ (42,572.00)
Contracts Receivable	Note 1				$ -
TOTAL NONCURRENT ASSETS		$ 3,685,706.94	$ -	$ -	$ 3,685,706.94
TOTAL ASSETS		$ 9,571,969.59	$ 7,714,582.92	$ 1,113,750.09	$ 18,400,302.60
DEFERRED OUTFLOWS OF RESOURCES					
Deferred OutFlows of Resources - Other					$ -
Deferred OutFlows of Resources - Pension Investment Earnings					$ -
Deferred OutFlows of Resources - Pension Experience Differences		$ 173,820.00			$ 173,820.00
Deferred OutFlows of Resources - Pension Assumption Changes		$ 1,383.00			$ 1,383.00
Deferred OutFlows of Resources - Pension Changes in Proportion		$ 78,168.00			$ 78,168.00
Deferred OutFlows of Resources - Pension Plan Contributions		$ 107,106.00			$ 107,106.00
TOTAL DEFERRED OUTFLOWS OF RESOURCES	Note 1	$ 360,477.00	$ -	$ -	$ 360,477.00
LIABILITIES					
CURRENT LIABILITIES					
Accounts Payable	Note 1	$ 449,369.17	$ 226,273.62		$ 675,642.79
Amount Due to Pool Participants				$ 1,113,750.09	$ 1,113,750.09
Notes Payable - Current	Note 4				$ -
Accrued Interest Payable	Note 4	$ 130,838.30			$ 130,838.30
Accrued Salaries	Note 1	$ 21,590.96			$ 21,590.96

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

Educational Service District #171
STATEMENT OF NET POSITION - ALL FUNDS
31-Aug-15

	NOTE REF	OPERATING	WORKERS COMPENSATION FUND	UNEMPLOYMENT FUND	TOTAL ALL FUNDS
Payroll Deductions & Taxes Payable	Note 1	$ 2,706.33			$ 2,706.33
Public Employees' Retirement System					$ -
Deferred Compensation					$ -
Compensated Absences - Current	Note 1	$ 136,801.00			$ 136,801.00
Bonds Payable - Current	Note 4	$ 204,905.31			$ 204,905.31
Capital Leases Payable - Current	Note 4				$ -
Claim Reserves - Current	Note 7		$ 337,734.00		$ 337,734.00
IBNR - Current			$ 588,804.00		$ 588,804.00
Open Claims - Current					$ -
Unallocated Loss Adjustment Expenses - Current			$ 161,000.00		$ 161,000.00
Future L&I Assessments - Current					$ -
Deposits	Note 1				$ -
Unearned Revenue	Note 1	$ 650.89			$ 650.89
Unearned Member Assessments/Contributions	Note 7				$ -
Other Liabilities and Credits - Current	Note 1				$ -
TOTAL CURRENT LIABILITIES		$ 946,861.96	$ 1,313,811.62	$ 1,113,750.09	$ 3,374,423.67
NONCURRENT LIABILITIES					
Compensated Absences	Note 1	$ 328,380.00			$ 328,380.00
Unemployment					$ -
Notes Payable	Note 4				$ -
Claim Reserves	Note 7	$ -	$ 293,934.00		$ 293,934.00
IBNR			$ 1,176,195.00		$ 1,176,195.00
Open Claims			$ -		$ -
Unallocated Loss Adjustment Expenses - noncurrent					$ -
Future L&I Assessments - noncurrent			$ 274,287.00		$ 274,287.00
Net Pension Liability		$ 4,449,362.00			$ 4,449,362.00
Bonds Payable	Note 4	$ 3,519,387.24			$ 3,519,387.24
Capital Leases Payable	Note 4				$ -
TOTAL NONCURRENT LIABILITIES		$ 8,297,129.24	$ 1,744,416.00	$ -	$ 10,041,545.24
TOTAL LIABILITIES		$ 9,243,991.20	$ 3,058,227.62	$ 1,113,750.09	$ 13,415,968.91
DEFERRED INFLOWS OF RESOURCES					
Deferred InFlows of Resources - Other		$ 2,029.50			$ 2,029.50
Deferred InFlows of Resources - Pension Investment Earnings		$ 640,683.00			$ 640,683.00
Deferred InFlows of Resources - Pension Experience Differences					$ -
Deferred InFlows of Resources - Pension Assumption Changes					$ -
Deferred InFlows of Resources - Pension Changes in Proportion					$ -
TOTAL DEFERRED INFLOWS OF RESOURCES	Note 1	$ 642,712.50	$ -	$ -	$ 642,712.50
NET POSITION					
Net Investment in Capital Assets		$ (192,979.00)	$ -	$ -	$ (192,979.00)
Restricted for Debt Service		$ -			$ -
Restricted for Self-Insurance		$ 15,145.35			$ 15,145.35
Restricted for Support Programs	Note 9	$ -			$ -
Restricted for Risk Pool Net Position			$ 4,656,355.30		$ 4,656,355.30
Restricted for Other Items					$ -
Restricted for Joint Venture	Note 11		$ -	$ -	$ -
Unrestricted		$ 223,576.54	$ -	$ -	$ 223,576.54
TOTAL NET POSITION		$ 45,742.89	$ 4,656,355.30	$ -	$ 4,702,098.19

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

Educational Service District #171
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED AUGUST 31, 2015

	OPERATING	WORKERS COMPENSATION FUND	UNEMPLOYMENT FUND	TOTAL ALL FUNDS
OPERATING REVENUES				
Local Sources	$ 753,094.25			$ 753,094.25
State Sources	$ 1,230,895.47			$ 1,230,895.47
Allotment	$ 508,097.88			$ 508,097.88
Federal Sources	$ 2,621,743.96			$ 2,621,743.96
Cooperative Programs	$ 2,057,445.05			$ 2,057,445.05
Other Programs	$ 5,953,266.03			$ 5,953,266.03
Member Assessments/Contributions	$ -	$ 3,929,397.10	$ 97,944.62	$ 4,027,341.72
Supplemental Member Assessments	$ -			$ -
Other Operating Revenue	$ 20,229.02			$ 20,229.02
TOTAL OPERATING REVENUE	$ 13,144,771.66	$ 3,929,397.10	$ 97,944.62	$ 17,172,113.38
OPERATING EXPENSES				
General Operations and Administration	$ 1,616,777.21			$ 1,616,777.21
Instructional Support Programs	$ 8,214,409.56			$ 8,214,409.56
Non Instructional Support Programs	$ 3,479,143.35			$ 3,479,143.35
Incurred Loss/Loss Adjustment Expenses				$ -
Paid on Current Losses		$ 1,240,252.98		$ 1,240,252.98
Change in Loss Reserves		$ (103,330.00)		$ (103,330.00)
Unallocated Loss Adjustment Expenses				$ -
Paid Unallocated Loss Adjustment Expenses				$ -
Change in Unallocated Loss Reserves		$ (6,000.00)		$ (6,000.00)
Excess/Reinsurance Premiums		$ 125,895.00		$ 125,895.00
Professional Fees		$ 155,471.79	$ 31,376.52	$ 186,848.31
Labor & Industries Assessments		$ 906,953.82		$ 906,953.82
Depreciation/Depletion	$ 196,272.00			$ 196,272.00
Other Operating Expenses		$ 332,674.50	$ 66,568.10	$ 399,242.60
TOTAL OPERATING EXPENSES	$ 13,506,602.12	$ 2,651,918.09	$ 97,944.62	$ 16,256,464.83
OPERATING INCOME (LOSS)	$ (361,830.46)	$ 1,277,479.01	$ -	$ 915,648.55
NONOPERATING REVENUES (EXPENSES)				
Interest and Investment Income	$ 8,620.32	$ 7,574.95		$ 16,195.27
Interest Expense and Related Charges	$ (221,988.22)			$ (221,988.22)
Lease Income	$ 14,547.50			$ 14,547.50
Gains (Losses) on Capital Asset Disposition				$ -
Change in Joint Venture	$ (660,916.00)			$ (660,916.00)
Change in Compensated Absences	$ -			$ -
Other Financing Uses				$ -
Other Nonoperating Revenues				$ -
Other Nonoperating Expenses	$ (492,026.36)			$ (492,026.36)
TOTAL NONOPERATING REVENUES (EXPENSES)	$ (1,351,762.76)	$ 7,574.95	$ -	$ (1,344,187.81)
INCOME (LOSS) BEFORE OTHER ITEMS	$ (1,713,593.22)	$ 1,285,053.96	$ -	$ (428,539.26)
Extraordinary Items				$ -
Special Items				$ -
INCREASE (DECREASE) IN NET POSITION	$ (1,713,593.22)	$ 1,285,053.96	$ -	$ (428,539.26)
NET POSITION - BEGINNING BALANCE	$ 6,066,145.45	$ 3,371,301.34		$ 9,437,446.79
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	$ (4,515,572.00)			$ (4,515,572.00)
PRIOR PERIOD ADJUSTMENT	$ 208,762.66			$ 208,762.66
				$ -
NET POSITION - ENDING BALANCE	$ 45,742.89	$ 4,656,355.30	$ -	$ 4,702,098.19

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

Educational Service District #171
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED AUGUST 31, 2015

	OPERATING	WORKERS COMPENSATION FUND	UNEMPLOYMENT FUND	TOTAL ALL FUNDS
CASH FLOW FROM OPERATING ACTIVITIES				
Cash Received from Customers	$ 9,065,188.54			$ 9,065,188.54
Cash Received from State and Federal Sources	$ 4,454,526.49			$ 4,454,526.49
Cash Received from Members		$ 3,919,471.66	$ 97,944.62	$ 4,017,416.28
Payments to Suppliers for Goods and Services	$ (4,633,572.88)			$ (4,633,572.88)
Payments to Employees for Services	$ (4,577,868.83)			$ (4,577,868.83)
Cash Paid for Benefits/Claims	$ (4,149,092.28)	$ (1,316,062.51)		$ (5,465,154.79)
Internal Activity - Payments to Other Funds				$ -
Cash Paid for Reinsurance		$ (7,144.00)		$ (7,144.00)
Cash Paid for Labor and Industries Assessments		$ (891,314.22)		$ (891,314.22)
Cash Paid for Professional Services		$ (155,471.79)	$ (31,376.52)	$ (186,848.31)
Cash Paid for Other Operating Expense		$ (261,030.47)	$ (66,568.10)	$ (327,598.57)
Other Receipts (Payments)				$ -
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	$ 159,181.04	$ 1,288,448.67	$ -	$ 1,447,629.71
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	$ (306,818.17)			$ (306,818.17)
Capital Contributions				$ -
Lease Income	$ 14,547.50			$ 14,547.50
Other Receipts (Payments)				$ -
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	$ (292,270.67)	$ -	$ -	$ (292,270.67)
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from Sales and Maturities of Investments				$ -
Lease Income				$ -
Purchase of Investments				$ -
Interest and Dividends Received	$ 8,288.83	$ 7,574.95		$ 15,863.78
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	$ 8,288.83	$ 7,574.95	$ -	$ 15,863.78
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	$ (124,800.80)	$ 1,296,023.62	$ -	$ 1,171,222.82
CASH AND CASH EQUIVALENTS - BEGINNING	$ 4,333,525.50	$ 6,239,506.17		$ 10,573,031.67
PRIOR PERIOD ADJUSTMENT				$ -
CASH AND CASH EQUIVALENTS - ENDING	$ 4,208,724.70	$ 7,535,529.79	$ -	$ 11,744,254.49
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
OPERATING NET INCOME	$ (361,830.46)	$ 1,277,479.01	$ -	$ 915,648.55

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

Educational Service District #171
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED AUGUST 31, 2015

	OPERATING	WORKERS COMPENSATION FUND	UNEMPLOYMENT FUND	TOTAL ALL FUNDS
Adjustment to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities				
Depreciation Expense	$ 196,272.00			$ 196,272.00
Change in Assets and Liabilities				$ -
Receivables, Net	$ 220,307.90	$ (11,920.44)		$ 208,387.46
Prepaids	$ 67,047.27	$ 118,751.00		$ 185,798.27
Inventories				$ -
Accounts and Other Payables	$ (6,933.00)	$ 13,469.10		$ 6,536.10
Accrued Expenses	$ 49,832.89			$ 49,832.89
Unearned Revenue	$ (5,515.56)			$ (5,515.56)
Other Changes				$ -
Claims Reserve-Current		$ (245,887.00)		$ (245,887.00)
Claims Reserve-Prior Year		$ 112,396.00		$ 112,396.00
IBNR-Current		$ 143,242.00		$ 143,242.00
IBNR-Prior Year		$ (102,400.00)		$ (102,400.00)
Future L&I Assessments		$ (10,681.00)		$ (10,681.00)
Provision for Unallocated Loss Adjustment		$ (6,000.00)		$ (6,000.00)
Unearned Member Assessments				$ -
Insurance Recoverables				$ -
Claim Reserves				$ -
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	$ 159,181.04	$ 1,288,448.67	$ -	$ 1,447,629.71
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:	$ (660,916.00)			

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

Educational Service District #171

STATEMENT OF FIDUCIARY NET POSITION - AGENCY FUNDS

31-Aug-15

		COMPENSATED ABSENCES
ASSETS		
Cash and Cash Equivalents	$	6,333.74
Investments	$	3,512,797.19
Accounts Receivable	$	30,731.65
Assets Used in Operations	$	-
TOTAL ASSETS	$	3,549,862.58
LIABILITIES		
Accounts Payable	$	388,050.98
Program Refunds Payable to JV Participants	$	-
Deposits (from school districts)	$	3,161,811.60
TOTAL LIABILITIES	$	3,549,862.58

The accompanying notes are an integral part of these statements.

NOTES TO THE FINANCIAL STATEMENTS

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

Educational Service District No. 171 is one of nine municipal corporations of the State of Washington organized pursuant to Title 28A *Revised Code of Washington* (RCW) for the purpose of (1) providing cooperative and informational services to local school districts; (2) assisting the state superintendent of public instruction and the state board of education in the performance of their respective statutory or constitutional duties; and (3) providing services to school districts to assure equal educational opportunities.

As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. Based on the standards set by Governmental Accounting Standards Board (GASB) Statement 14, there were no component units of ESD 171. The District is a separate legal entity and is fiscally independent from all other units of government.

The District serves 29 school districts in Chelan, Douglas, Grant and Okanogan counties. Oversight responsibility for the District's operations is vested with the Board of Directors who are elected by the school directors of the educational service district, one from each of seven educational service district board-member districts. Management of the District is appointed by and accountable to the Board of Directors. Fiscal responsibility, including budget authority, the power to operate cooperatives, set fees for services and issue debt consistent with the provisions of state statutes, rests with the Board. For financial reporting purposes, the District’s financial statements include all fund entities that are controlled by the District's Board of Directors and managed by the administrative staff, unless noted hereafter.

Basis of Accounting and Reporting

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

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

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

The *Unemployment Compensation* fund accounts for the collection of premium from members of the fund and the related payment of associated claims and expenses.

The *Workers' Compensation* fund accounts for workers' compensation payroll taxes collected from members, and the payment of associated claims, assessments and expenses.

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

In addition, the District reports the following fund types:

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

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

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

Assets, Liabilities, and Equity

Cash and Cash Equivalents

The Chelan County Treasurer is the ex-officio treasurer for the District. In this capacity, the county treasurer receives daily deposits and transacts investments on behalf of the District. On August 31, 2015, the treasurer was holding $602,906 in short-term residual investments of surplus cash. This amount is classified on the statement of net position as cash and cash equivalents (plus an additional $2,321 not shown on the F-185).

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

Deposits and Investments – See Note 2

Receivables

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

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

Inventory
The District does not maintain material amounts of inventory.

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.

See Note 10 for additional information regarding Compensated Absences Liability Pool.

Other Accrued Liabilities
These accounts consist of accrued wages and accrued employee benefits.

Long Term Debt – See Note 4

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.

Summary of Significant Accounting Policies Changes for 2014–15

Pensions – For 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 all state sponsored pension plans and additions to/deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems. For this purpose, 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.

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
WA Investment Pool		$15,818,835
Total Investments		$15,818,835

Credit Risk

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

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

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

Note 3: CAPITAL ASSETS

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

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

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

Capital assets activity for the fiscal year ended August 31, 2015, was as follows:

	Beginning Balance 9/1/2014	Increases	Decreases	Ending Balance 8/31/2015
Capital assets not being depreciated:				
Land	$434,000	$843,756		$1,277,756
Construction in Progress				
Total capital assets not being depreciated	$434,000	$843,756		$1,277,756
Depreciable capital assets:				
Buildings	$3,872,055	$106,785		$3,978,840
Improvements other than buildings				
Equipment				
Other				
Total depreciable capital assets	$3,872,055	$106,785		$3,978,840
Less accumulated depreciation for:	$1,529,009	$196,272		$1,725,281
Buildings				
Improvements other than buildings				
Equipment				
Other				
Total accumulated depreciation	$1,529,009	$196,272		$1,725,281
Total depreciable assets, net	$2,343,046	$-89,487		$2,253,559
Total assets, net	$2,777,046	$754,269		$3,531,315

Note 4: LONG-TERM DEBT, LIABILITIES AND LEASES

Long-Term Debt

The District issued general obligation bonds to finance the purchase of 430 Olds Station Rd in June 2006. In February 2015 the District refinanced the original general obligation bonds to include the land purchase at 150 Isenhart Rd. 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	Amount of Installments
Facility Purchase	20 year	5.25	$4,000,000	$87,121

Purpose	Maturity Range	Interest Rate	Original Amount	Amount of Installments
Facility Refinance	15 year	3.55	$3,827,340	$103,047

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

Fiscal Year Ending August 31	Principal	Interest
2016	$204,905	$130,383
2017	$207,365	$123,130
2018	$214,792	$115,704
2019	$222,486	$108,012
2020 – 2029	$2,874,744	$594,113

Operating Lease(s)

The District is committed under various leases for space and equipment. All leases are considered operating leases for accounting purposes because the District does not acquire interests in the property. Lease expenses for the year ended August 31, 2015, totaled $51,021. Future minimum rental commitments for these leases are as follows:

Fiscal Year Ending August 31	Amount
2016	$24,094
2017	$24,094
2018	$24,094
2019	$24,094

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	$2,862,256	2,167,798	$1,305,762	$3,724,292	$204,905
Compensated Absences (unfunded portion)	$395,695		$112,333	$283,362	
Unemployment Compensation	$91,451		$91,451		
Total Long-Term Liabilities	$3,349,402	$2,167,798	$1,509,546	$4,007,654	$204,905

Note 5: PENSION PLANS

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 as described in Note 6.

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 ($4,515,572). This amount was increased to ($5,090,046) at 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 for both by the District, as the employer, and its employees.

The District has revised the F-185 to incorporate the revisions to the GASB 68 implementation reporting tool.

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 $4,449,362 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	$165,457	$234,112	$87,845	$108,500
Proportionate Share of the Net Pension Liability	$1,883,155	$978,022	$1,243,676	$344,509

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	0.036000%	0.240803%	0.039256%	0.040828%
Prior year proportionate share of the Net Pension Liability	0.031503%	0.230750%	0.036998%	0.036202%
Net difference percentage	0.004497%	0.010053%	0.002258%	0.004626%

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:

PERS1	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	$	$103,029
Changes in assumptions or other inputs	$	$
Changes in proportion and differences between contributions and proportionate share of contributions	$	$
Contributions subsequent to the measurement date	$27,965	$
TOTAL	$27,965	$103,029

SERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experiences	$119,286	$
Net difference between projected and actual earnings on pension plan investments	$	$311,943
Changes in assumptions or other inputs	$1,084	$
Changes in proportion and differences between contributions and proportionate share of contributions	$37,887	$
Contributions subsequent to the measurement date	$39,430	$
TOTAL	$197,688	$311,943

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	$	$92,052
Changes in assumptions or other inputs	$	$
Changes in proportion and differences between contributions and proportionate share of contributions	$	$
Contributions subsequent to the measurement date	$17,425	$
TOTAL	$17,425	$92,052

TRS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experiences	$54,534	$
Net difference between projected and actual earnings on pension plan investments	$	$133,659
Changes in assumptions or other inputs	$299	$
Changes in proportion and differences between contributions and proportionate share of contributions	$40,280	$
Contributions subsequent to the measurement date	$22,286	$
TOTAL	$117,400	$133,659

$107,106 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	(39,931)	(69,270)	(35,703)	(31,192)
2017	(39,931)	(69, 270)	(35,703)	(31,192)
2018	(39,931)	(69,270)	(35,702)	(31,192)
2019	16,763	54,125	15,055	44,462
2020	0	0	0	10,568
Thereafter	0	0	0	0

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	$199,097
SERS 2/3	($29,949)
TRS 1	$51,513
TRS 2/3	($6,663)
TOTAL	$213,998

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	0.036000%	0.036000%	0.036000%
Proportionate Share of Collective NPL	$ 2,292,746	$ 1,883,155	$ 1,530,944
SERS2/3 NPL	$1,282,039,000	$406,151,000	($273,474,000)
Allocation Percentage	0.240803%	0.240803%	0.240803%
Proportionate Share of Collective NPL	$ 3,087,182	$ 978,022	$ (658,532)
TRS1 NPL	$3,982,571,000	$3,168,142,000	$2,467,801,000
Allocation Percentage	0.039256%	0.039256%	0.039256%
Proportionate Share of Collective NPL	$ 1,563,386	$ 1,243,676	$ 968,752
TRS2/3 NPL	$3,570,229,000	$843,802,000	($1,183,066,000)
Allocation Percentage	0.040828%	0.040828%	0.040828%
Proportionate Share of Collective NPL	$ 1,457,660	$ 344,509	$ (483,025)

Note 6: OTHER POST EMPLOYMENT BENEFIT PLANS

457 Plan – Deferred Compensation Plan

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

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

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

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

Note 7: SHARED RISK POOL DISCLOSURES

Workers' Compensation Insurance Trust

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

The Trust provides industrial injury accident insurance coverage for its membership. The Trust is fully funded by its member participants. Member contributions are calculated based on the members' hours worked. The Trust retains responsibility for the payment of claims within specified self-insured retention limits prior to the application of coverage provided by its excess insurance contracts. The Trust acquires insurance from unrelated underwriters. The Trust's per-occurrence retention limit is $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 2014-15, there are 30 members in the pool including 29 participating school districts. A Board comprised of one designated representative from each participating member and a six member Executive Board governs the Trust. The Executive Board has five members elected by the Board and the District Superintendent. The District is responsible for conducting the business affairs of the Trust. At August 31, 2015, the amount of liabilities totaled $3,058,228. This liability is the Districts best estimate based on available information. Changes in the reported liability since August 31, 2014, resulted in the following:

	Beginning Balance 9/1/2014	Current Year Claims and Changes in Estimates	Ending Balance 8/31/2015
Incurred but not Reported	$1,724,157	$40,842	$1,764,999
Future L&I Assessments	$284,968	($10,681)	$274,287
Estimated Unallocated Loss Adjustment	$167,000	($6,000)	$161,000

Unemployment Compensation Insurance Fund

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

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

For fiscal year 2015, there are 27 members in the pool including 26 participating school districts. The pool is governed by a Cooperative Board, which is comprised of one designated representative from each participating member and a six member Executive Board. Five members elected by the Cooperative Board and the District Superintendent comprise the Executive Board. At August 31, 2015, the amount of liabilities totaled $32,062. This liability is the Districts best estimate based on available information. Changes in the reported liability since August 31, 2014, resulted in the following:

	Beginning Balance 9/1/2014	Current Year Claims and Changes in Estimates	Ending Balance 8/31/2015
Claims Reserves	$37,650	($22,650)	$15,000

Note 8: RISK MANAGEMENT

The North Central ESD is a member of United Schools Insurance Program. Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The program was formed on September 1, 1985, when 29 school districts in the state of Washington joined together by signing a Joint Purchasing Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. Current membership includes 156 school districts.

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

Liability insurance is subject to a self-insured retention of $100,000. Members are responsible for a $1,000 deductible for each claim (member deductibles may vary), while the program is responsible for the $100,000 self-insured retention (SIR). Insurance carriers cover insured losses over $101,000 to the limits of each policy. Since the program is a cooperative program, there is a joint liability among the participating members towards the sharing of the $100,000 SIR. The program also purchases a stop loss policy with an attachment point of $974,286, as an additional layer of protection for its members.

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

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

Members contract to remain in the program for a minimum of one year, and must give notice before August 31 to terminate participation the following September 1. The Interlocal Agreement is renewed automatically each year. Even after termination, a member is still responsible for contributions to the program for any unresolved, unreported, and in-process claims for the period they were a signatory to the Joint Purchasing Agreement.

The program is fully funded by its member participants. Claims are filed by members with Clear Risk Solutions, formerly Canfield, which has been contracted to perform program administration, claims adjustment, and loss prevention for the program. Fees paid to the third party administrator under this arrangement for the year ending August 31, 2015, were $1,678,247.63.

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

Note 9: NET POSITION, RESTRICTED

The District's statement of net position reports $15,145 of restricted assets. The following lists the programs restricted by the Board of Directors:

Program	Amount
Unemployment Cooperative	$15,145
Total Restricted Assets	$15,145

Note 10: JOINT VENTURE WITH UNDIVIDED INTEREST

Compensated Absences Liability Fund

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

For fiscal year 2015, there are 28 members in the Fund including 26 participating school districts. The Fund allows members to accumulate dedicated funds for payment of leave related to sick leave and vacation leave buy out at retirement and certain other instances. Payroll contributions are made to the Fund at the time leave is earned to reserve assets for expenditures. Coverage is on an "occurrence" basis. Expenditures of leave taken during employment continue to be recorded when paid.

The District contributes to the Compensated Absences Liability Pool for liabilities relating to sick leave and vacation leave cash outs. As of August 31, 2015, the District's total compensated absences balance in the pool was $181,819.

Changes for the fiscal year are summarized below.

		Balance at 8/31/2015
Beginning Unfunded Liability		$270,158
Beginning Pool Balance	$125,538	
Payments to Pool	$163,685	
Interest	$224	
Withdrawals from Pool	($107,628)	
Less Ending Pool Balance		$181,819
Increase (Decrease) to Estimates of Long-term Liability		$195,023
Ending Unfunded Liability		$283,362

Note 11: INVESTMENT IN JOINT VENTURE

Washington School Information Processing Cooperative

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

Condensed financial information of the joint venture for the fiscal year ended August 31, 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). The District contributed $820,217 and $830,800 to the Joint Venture during 2014 and 2015, respectively. There were no distributions in 2015.

Note 12: OTHER DISCLOSURES

Other

The NCESD Foundation was formed in November 2008. The Foundation is separate from the North Central Educational Service District, although its primary purpose is to support and assist the educational and certification training activities of the four counties which comprise North Central ESD. As of August 31, 2015 the Foundation has a balance of $20,692. These funds are assets of the NCESD Foundation and are therefore not reflected in these financial statements.

NORTH CENTRAL WASHINGTON WORKERS COMPENSATION TRUST
TEN-YEAR CLAIMS DETAIL INFORMATION
FISCAL AND POLICY YEAR ENDED AUGUST 31, 2015 (IN THOUSANDS)

		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
1	Net earned required contribution and investment revenues										
	Earned	2,535	2,761	2,824	2,664	2,705	2,982	3,206	3,438	3,731	3,937
	Ceded	97	105	107	93	111	103	99	99	118	126
	Net Earned	2,438	2,656	2,717	2,571	2,594	2,879	3,107	3,339	3,613	3,811
2	Unallocated Expenses	1,005	1,045	1,259	1,454	1,423	1,242	1,687	1,436	1,319	1,515
3	Estimated Incurred Claims and Expense, End of Policy Year										
	Incurred	1,036	1,003	1,183	1,184	1,163	1,136	1,276	1,178	1,029	927
	Ceded	97	105	107	93	111	103	99	99	118	126
	Net Incurred	939	898	1,076	1,091	1,052	1,033	1,177	1,079	911	801
4	Paid (Cumulative) as of:										
	End of Policy Year	363	322	692	566	482	463	577	947	420	473
	One Year Later	867	694	1,302	1,008	967	879	973	1,411	1,073	
	Two Years Later	1,101	879	1,548	1,223	1,382	1,167	1,024	1,506		
	Three Years Later	1,273	991	1,717	1,298	1,539	1,198	1,035			
	Four Years Later	1,354	1,100	1,841	1,296	1,612	1,186				
	Five Years Later	1,389	1,117	1,847	1,296	1,631					
	Six Years Later	1,407	1,108	1,863	1,296						
	Seven Years Later	1,429	1,108	1,865							
	Eight Years Later	1,429	1,108								
	Nine Years Later	1,430									
5	Reestimated Incurred Claims and Expense:										
	End of Policy Year	1,400	1,325	1,875	1,750	1,645	1,600	1,850	2,125	1,450	1,400
	One Year Later	1,525	1,295	2,000	1,600	1,625	1,600	1,550	1,925	1,635	
	Two Years Later	1,465	1,275	1,925	1,600	1,875	1,525	1,300	1,800		
	Three Years Later	1,500	1,260	1,950	1,515	1,825	1,390	1,200			
	Four Years Later	1,505	1,250	2,025	1,425	1,735	1,300				
	Five Years Later	1,510	1,205	1,940	1,385	1,710					
	Six Years Later	1,487	1,165	1,935	1,350						
	Seven Years Later	1,475	1,155	1,910							
	Eight Years Later	1,460	1,140								
	Nine Years Later	1,455									
6	Increase(Decrease) in Estimated Incurred Claims and Expense from End of Policy Year.	419	137	727	166	547	164	(76)	622	606	473

NORTH CENTRAL WASHINGTON WORKERS COMPENSATION TRUST
CHANGES IN CLAIMS LIABILITY

	2013-14	2014-15
Unpaid claims and claim adjustment expenses at beginning of year	2,859,044	2,489,316
Incurred claims and claim adjustment expenses: Provision for insured events of the current year	1,450,000	1,400,000
Increase (decrease) in provision for insured events of prior years	(645,000)	(231,000)
Total incurred claims and claim adjustment	3,664,044	3,658,316
Payments:		
Claims and claim adjustment expenses attributable to insured events of the current year	(420,817)	(473,462)
Claims and claim adjustment expenses attributable to insured event of prior years	(753,911)	(788,187)
Total unpaid claims and claim adjustment expenses at end of the year	2,489,316	2,396,667

Schedules of Required Supplementary Information

The required supplementary information identified below is presented separately for each plan the ESD participates in. The amounts reported in the Schedules of the Districts Proportionate Share of the Net Pension Liability are determined as of the June 30 measurement date of the collective net pension liability.

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY		
PERS1		
Last 10 Fiscal Years* (Dollar amounts in thousands)		
		2015*
District's proportion of the net pension liability (percentage)		0.036000%
District's proportionate share of the net pension liability (amount)	$	1,883,155
District's covered-employee payroll	$	-
District's proportionate share of the net pension liability (amount) as a percentage of its covered payroll		0%
Plan fiduciary net position as a percentage of the total pension liability		59.10%

*This schedule is to be built prospectively until it contains ten years of data.

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY		
SERS2/3		
Last 10 Fiscal Years* (Dollar amounts in thousands)		
		2015*
District's proportion of the net pension liability (percentage)		0.240803%
District's proportionate share of the net pension liability (amount)	$	978,022
District's covered-employee payroll	$	4,144,905
District's proportionate share of the net pension liability (amount) as a percentage of its covered payroll		23.60%
Plan fiduciary net position as a percentage of the total pension liability		90.92%

*This schedule is to be built prospectively until it contains ten years of data.

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY		
TRS1		
Last 10 Fiscal Years* (Dollar amounts in thousands)		
		2015*
District's proportion of the net pension liability (percentage)		0.039256%
District's proportionate share of the net pension liability (amount)	$	1,243,676
District's covered-employee payroll	$	13,047
District's proportionate share of the net pension liability (amount) as a percentage of its covered payroll		9531.98%
Plan fiduciary net position as a percentage of the total pension liability		65.70%

*This schedule is to be built prospectively until it contains ten years of data.

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY	
TRS2/3	
Last 10 Fiscal Years* (Dollar amounts in thousands)	
	2015*
District's proportion of the net pension liability (percentage)	0.040828%
District's proportionate share of the net pension liability (amount)	$ 344,509
District's covered-employee payroll	$ 1,909,804
District's proportionate share of the net pension liability (amount) as a percentage of its covered payroll	18.04%
Plan fiduciary net position as a percentage of the total pension liability	92.48%

*This schedule is to be built prospectively until it contains ten years of data.

The information identified below is the Schedule of District Contributions, by Plan. The amounts reported in the Schedules of District Contributions are determined as of the district's fiscal year ending August 31.

SCHEDULE OF DISTRICT CONTRIBUTIONS	
PERS1	
Last 10 Fiscal Years* (Dollar amounts in thousands)	
	2015*
Contractually required contribution	$ 165,457
Contributions in relation to the contractually required contributions	$ 165,457
Contribution deficiency (excess)	$ -
District's covered-employee payroll	$ -
Contribution as a percentage of covered-employee payroll	0%

*This schedule is to be built prospectively until it contains ten years of data.

SCHEDULE OF DISTRICT CONTRIBUTIONS	
SERS2/3	
Last 10 Fiscal Years* (Dollar amounts in thousands)	
	2015*
Contractually required contribution	$ 234,112
Contributions in relation to the contractually required contributions	$ 234,112
Contribution deficiency (excess)	$ -
District's covered-employee payroll	$ 4,144,905
Contribution as a percentage of covered-employee payroll	5.65%

*This schedule is to be built prospectively until it contains ten years of data.

SCHEDULE OF DISTRICT CONTRIBUTIONS		
TRS1		
Last 10 Fiscal Years* (Dollar amounts in thousands)		
	2015*	
Contractually required contribution	$	87,845
Contributions in relation to the contractually required contributions	$	87,845
Contribution deficiency (excess)	$	-
District's covered-employee payroll	$	13,047
Contribution as a percentage of covered-employee payroll		673.28%

*This schedule is to be built prospectively until it contains ten years of data.

SCHEDULE OF DISTRICT CONTRIBUTIONS		
TRS2/3		
Last 10 Fiscal Years* (Dollar amounts in thousands)		
	2015*	
Contractually required contribution	$	108,500
Contributions in relation to the contractually required contributions	$	108,500
Contribution deficiency (excess)	$	-
District's covered-employee payroll	$	1,909,804
Contribution as a percentage of covered-employee payroll		5.68%

*This schedule is to be built prospectively until it contains ten years of data.

NORTH CENTRAL EDUCATIONAL SERVICE DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ending August 31, 2015

1	2	3	4	5	6	7	8	9
					Expenditures			
Federal Agency Name	Pass-Through Agency	Federal Program Title	CFDA Number	Other Identification Number	From Direct Awards	From Pass-Through Awards	Total	Footnote
Dept of Education	WA OSPI	Title 1 Grants to Local Educational Agencies	84.010			$ 293,631	$ 293,631	1,3
Dept of Education	WA OSPI	Special Education - Grants to States	84.027			$ 865,322	$ 865,322	1,2,3
Dept of Education	WA OSPI	Special Education - Preschool Grants	84.173			$ 114,441	$ 114,441	1,2,3
Dept of Education	Department of Early Learning	Special Education - Grants for Infants and Families	84.181			$ 178,692	$ 178,692	1,2,3
Dept of Education	WA OSPI	Safe and Drug-Free Schools and Communities - National Programs	84.184			$ 3,185	$ 3,185	1,3
Dept of Education	WA OSPI	Special Education - Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	84.326			$ 183,609	$ 183,609	1,2,3
Dept of Education	WA OSPI	Improving Teacher Quality State Grants	84.367			$ 40,000	$ 40,000	1,3
Dept of Education	WA OSPI	Race to the Top - Early Learning Challenge	84.412			$ 26,528	$ 26,528	1,3
Dept of Education	University of WA	Other Federal Assistance - DOE	84.999			$ 8,000	$ 8,000	1
		Subtotal US Department of Education				**$1,713,408**	**$1,713,408**	
Dept of Health & Human Services	WA State University	Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243			$ 5,787	$ 5,787	1,3
Dept of Health & Human Services	WA OSPI	Block Grants for Prevention and Treatment of Substance Abuse	93.959			$ 279,286	$ 279,286	1,3
		Subtotal Department of Health and Human Services				**$ 285,074**	**$ 285,074**	
		Total Federal Awards Expended					**$1,998,481**	

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

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Include the following notes to the schedule either as an attachment to the schedule or on the face of the schedule (if space permits). The notes should disclose the basis of accounting, definitions of abbreviations, and any other information that might be needed by the reader. Each district should prepare notes that describe their particular programs and circumstances.

The following notes are considered examples only:

NOTE 1—BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal Awards is prepared on the same basis of accounting as the North Central Educational Service District's financial statements. The North Central Educational Service District 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 - SUBRECIPIENTS

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

NOTE 3—FEDERAL INDIRECT RATE

The North Central Educational Service District used the federal unrestricted rate of 9%.

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	
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