Office of the Washington State Auditor
Pat McCarthy

Financial Statements and Federal Single Audit Report

North Central Educational Service District No. 171

Chelan County

For the period September 1, 2016 through August 31, 2017

Published May 24, 2018

Report No. 1021435

Office of the Washington State Auditor

Pat McCarthy

May 24, 2018

Superintendent and 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,

Pat McCarthy

State Auditor

Olympia, WA

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North Central Educational Service District No. 171
Chelan County
September 1, 2016 through August 31, 2017

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 Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Financial Statements

We issued a qualified opinion on the fair presentation of the basic financial statements of the Operating Fund, and an unmodified opinions on each other 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 identified 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 in accordance with 2 CFR 200.516(a).

Identification of Major Federal Programs:

The following programs were selected as major programs in our audit of compliance in accordance with the Uniform Guidance.

CFDA No.	Program or Cluster Title
84.027	Special Education Cluster – Special Education Grants to States
84.173	Special Education Cluster – Special Education Preschool Grants

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by the Uniform Guidance, was $750,000.

The District did not qualify as a low-risk auditee under the Uniform Guidance.

SECTION II – FINANCIAL STATEMENT FINDINGS

See finding 2017-001.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

North Central Educational Service District No. 171
Chelan County
September 1, 2016 through August 31, 2017

2017-001 The District did not report the liabilities related to its other postemployment benefits in accordance with government accounting standards.

Background

District board members, state and federal agencies, and the public rely on the information included in the financial statements and report to make decisions. District management is responsible for designing and following internal controls that provide reasonable assurance regarding the reliability of financial reporting.

Our audit identified a significant deficiency in internal controls over financial reporting that hindered the District's ability to produce reliable financial statements.

Description of Condition

The District did not report the liabilities related to other post-employment benefits in accordance with Governmental Accounting Standards Board (GASB) Statement No. 45 - *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

Cause of Condition

Although current staff were not employed by the District when it converted to generally accepted accounting principles (GAAP), it's their understanding that the District evaluated GASB 45 at that time and determined it was not applicable. However, the District has not reevaluated its applicability in subsequent years. The District chose not to restate the financial statements to include other postemployment benefits for fiscal year 2017.

Effect of Condition

The District did not obtain an actuarial study to determine the amount of liabilities related to other postemployment benefits. Consequently, the District did not report this liability or present the note disclosures and other information required by GAAP.

Recommendations

We recommend the District:

- Perform necessary research and obtain needed actuarial studies to correctly report other postemployment benefit liabilities on its financial statements
- Establish a more formalized process for technical review of the financial statements by a person who understands generally accepted accounting principles and related reporting requirements to ensure accurate preparation and reporting of the District's financial statements

District's Response

The NCESD agrees with the State Auditors finding that it did not report the liability related to GASB Statement No. 45 in our annual financial statements. The NCESD also concurs with their comment that this liability had been historically assessed and was deemed immaterial by previous NCESD financial officers. The organization continues to consider this liability as immaterial to the true financial position of the District and deems the cost of conducting the actuarial study to identify the value of this single item, estimated at more than $10,000, as not the best use of NCESD funds.

This particular GASB began implementation in 2006 and has not been deemed noteworthy by our organization, the other 8 Educational Service Districts and many various governments throughout Washington State. Until the issuance of GASB Statement No. 75 even the State Auditors did not identify this value as a concern. In fact it was the issuance of GASB Statement No. 75 that brought the lack of reporting of GASB Statement No. 45 to the State Auditors attention.

Prior to this finding the NCESD had already initiated efforts to fully comply with GASB Statement No. 75 and by association GASB Statement No 45. These have included working with the other Educational Service Districts to form a cooperative to help minimize the costs associated with quantifying the liability and communicating the need for these expenditures to our stakeholders. Even with a coordinated effort we estimate that it will still cost each Educational Service District around $10,000 every two years to determine this one value. While we still feel very uncomfortable expending such significant public resources to generate the value of a single liability, we also believe it is the NCESD's role to follow best practices and set the standard for our regional school districts. Continuing to receive a finding on our annual statements would not serve this purpose.

Per the second State Auditor recommendation the NCESD believes it has a quality formalized process for analyzing, evaluating, and reporting to GASB standards. However, the District views on compliance and materiality differ on occasion from those of the State Auditor. Unfortunately drafting these responses are the only measure available to us to express our perspective.

Auditor's Remarks

Local governments reporting under the GAAP basis of accounting are responsible for proper appropriately evaluating and applying accounting standards. We appreciate the District's commitment to resolve this finding and thank the District for its cooperation and assistance during the audit. We will review the corrective action taken during our next regular audit.

Applicable Laws and Regulations

Governmental Accounting Standards Board Statement No. 45

Government Auditing Standards, December 2011 Revision, paragraph 4.23 establishes reporting requirements related to significant deficiencies or material weaknesses in internal control, instances of fraud or abuse, and noncompliance with provisions of law, regulations, contracts, or grant agreements.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its Codification of Statements on Auditing Standards, section 265, Communicating Internal Control Related Matters Identified in an Audit, paragraph 7.

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

North Central Educational Service District
Chelan County
September 1, 2016 through August 31, 2017

This schedule presents the status of findings reported in prior audit periods.

Audit Period: September 1, 2015 through August 31, 2016	**Report Ref. No.:** 1019185	**Finding Ref. No.:** 2016-001	
Finding Caption: The District's controls over financial statement preparation were inadequate to ensure accurate financial reporting.			
Background: Our audit identified a material weakness in controls over financial statement reporting. Although management has a process for reviewing the prepared financial statements, this review did not identify the omission of a liability in the Compensated Absences Fund. Management reported all assets for the Compensated Absences Fund but did not report an offsetting liability of $2,664,636. As a result, the Fund's financial statement did not balance. We recommend the District ensure designed internal controls are effectively and consistently applied to the financial statement preparation and review processes.			
Status of Corrective Action: (check one)			
☒ Fully Corrected	☐ Partially Corrected	☐ Not Corrected	☐ Finding is considered no longer valid
Corrective Action Taken: *The District corrected the omitted number identified above immediately upon receiving notification and refiled corrected financial statements with the Office of the Superintendent of Public Instruction. The issue had to do with data transfer from the District's financial accounting software to the hand-entered Excel spreadsheet we are required to use to file our year-end financial statements. Since this occurred measures have been implemented, including informing the appropriate staff of the issues and adjusting existing process by implementing additional levels of internal review and consulting external industry professionals to ensure such errors do not recur.* *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, 2016 through August 31, 2017

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, 2017, 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 3, 2018.

The District did not report a liability resulting from postemployment benefits as of August 31, 2017. Accordingly, our report was modified to reflect a qualified opinion on the fair presentation of the financial statements of the Operating Fund for this departure from accounting principles generally accepted in the United States of America.

The District has omitted the management's discussion and analysis information that governmental accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not be a required part of, the basic financial statements. Our opinion on the basic financial statements is not affected by this missing information.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Audit Findings and Responses as Finding 2017-001 to be significant deficiencies.

COMPLIANCE AND OTHER MATTERS

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

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

DISTRICT'S RESPONSE TO FINDINGS

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

PURPOSE OF THIS REPORT

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

Pat McCarthy

State Auditor

Olympia, WA

May 3, 2018

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE

North Central Educational Service District No. 171
Chelan County
September 1, 2016 through August 31, 2017

Superintendent and 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) 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, 2017. 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 Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Those standards and the Uniform Guidance 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, 2017.

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 the Uniform Guidance, 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 the Uniform Guidance. 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.

Pat McCarthy

State Auditor

Olympia, WA

May 3, 2018

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

North Central Educational Service District No. 171
Chelan County
September 1, 2016 through August 31, 2017

Superintendent and 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, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 20.

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.

Basis for Qualified Opinion on the Operating Fund

The District reported total liabilities of $12,737,510 on the Statement of Net Position as of August 31, 2017. The District did not report liabilities resulting from postemployment benefits provided to its employees in accordance with Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Presentation of, and disclosures for, such liabilities is required by accounting principles generally accepted in the United States of America.

We were unable to obtain sufficient appropriate audit evidence about the liabilities as of August 31, 2017, because the District has not performed an actuarial study to calculate its liabilities resulting from these postemployment benefits. Consequently, the amounts by which this departure would affect the liabilities and net position amounts have not been determined.

Qualified Opinion on the Operating Fund

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinion on the Operating Fund" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Operating Fund of the District as of August 31, 2017, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each of the other major funds and the aggregate remaining fund information of the District, as of August 31, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information listed on page 20 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 (GASB) 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 basic 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 are not affected by this missing information.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). 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 3, 2018 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.

Pat McCarthy

State Auditor

Olympia, WA

May 3, 2018

FINANCIAL SECTION

North Central Educational Service District No. 171
Chelan County
September 1, 2016 through August 31, 2017

BASIC FINANCIAL STATEMENTS

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Statement of Revenues, Expenses and Changes in Fund Net Position – 2017
Statement of Cash Flows – 2017
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Schedule of District Contributions – PERS 1, SERS 2/3, TRS1, TRS 2/3 – 2017
Worker's Compensation Fund – Ten-Year Claims Development Information – 2017
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SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2017
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Educational Service District #171
STATEMENT OF NET POSITION - ALL FUNDS
August 31, 2017

	NOTE REF	OPERATING	WORKERS COMPENSATION FUND	UNEMPLOYMENT FUND	TOTAL ALL FUNDS
ASSETS					
CURRENT ASSETS					
Cash and Cash Equivalents	Note 1	$ 216,391.35	$ 598,709.89	$ 20,512.93	$ 835,614.17
Investments	Note 2	$ 2,000,278.30	$ 9,381,973.19	$ 1,604,281.70	$ 12,986,533.19
Accounts Receivable (net of uncollectible allowance)	Note 1	$ 2,815,308.56			$ 2,815,308.56
Member Assessments/Contributions			$ 210,292.74	$ 32,593.88	$ 242,886.62
Prepaids	Note 1	$ 157,470.21	$ 1,400.00		$ 158,870.21
TOTAL CURRENT ASSETS		$ 5,189,448.42	$ 10,192,375.82	$ 1,657,388.51	$ 17,039,212.75
NONCURRENT ASSETS					
Capital Assets	Note 3				
Land		$ 1,277,756.00			$ 1,277,756.00
Building		$ 3,978,840.00			$ 3,978,840.00
Less: Accumulated Depreciation		$ (2,123,165.00)			$ (2,123,165.00)
Net Capital Assets		$ 3,133,431.00	$ -	$ -	$ 3,133,431.00
Net Cash/Investments Held for Compensated Absences		$ 236,844.36			$ 236,844.36
Investment in Joint Venture	Note 10	$ 196,106.00			$ 196,106.00
TOTAL NONCURRENT ASSETS		$ 3,566,381.36	$ -	$ -	$ 3,566,381.36
TOTAL ASSETS		$ 8,755,829.78	$ 10,192,375.82	$ 1,657,388.51	$ 20,605,594.11

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

Educational Service District #171
STATEMENT OF NET POSITION - ALL FUNDS
August 31, 2017

	NOTE REF	OPERATING	WORKERS COMPENSATION FUND	UNEMPLOYMENT FUND	TOTAL ALL FUNDS
DEFERRED OUTFLOWS OF RESOURCES					
Deferred OutFlows – Pension Plans		$ 569,027.00			$ 569,027.00
TOTAL DEFERRED OUTFLOWS OF RESOURCES	Note 1	$ 569,027.00	$ -	$ -	$ 569,027.00
LIABILITIES					
CURRENT LIABILITIES					
Accounts Payable	Note 1	$ 695,104.35	$ 492,654.23	$ 38,342.94	$ 1,226,101.52
Accrued Interest Payable	Note 4	$ 115,704.04			$ 115,704.04
Accrued Salaries	Note 1	$ 30,785.22			$ 30,785.22
Payroll Deductions & Taxes Payable	Note 1	$ 3,396.87			$ 3,396.87
Compensated Absences	Note 1	$ 98,882.81			$ 98,882.81
Bonds Payable	Note 4	$ 214,792.46			$ 214,792.46
Claim Reserves	Note 7				
IBNR			$ 491,694.00	$ 68,757.69	$ 560,451.69
Open Claims			$ 712,060.00		$ 712,060.00
Unallocated Loss Adjustment Expenses			$ 189,000.00		$ 189,000.00
Unearned Revenue	Note 1	$ 2,530.84			$ 2,530.84
TOTAL CURRENT LIABILITIES		$ 1,161,196.59	$ 1,885,408.23	$ 107,100.63	$ 3,153,705.45
NONCURRENT LIABILITIES					
Compensated Absences_	Note 1	$ 393,690.19			$ 393,690.19
Claim Reserves_	Note 7				
IBNR_			$ 1,080,719.00		$ 1,080,719.00
Open Claims_			$ 448,344.00		$ 448,344.00
Future L&I Assessments_			$ 332,558.00		$ 332,558.00
Net Pension Liability	Note 5	$ 4,231,264.00			$ 4,231,264.00
Bonds Payable_	Note 4	$ 3,097,229.70			$ 3,097,229.70
TOTAL NONCURRENT LIABILITIES		$ 7,722,183.89	$ 1,861,621.00	$ -	$ 9,583,804.89
TOTAL LIABILITIES		$ 8,883,380.48	$ 3,747,029.23	$ 107,100.63	$ 12,737,510.34

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

Educational Service District #171
STATEMENT OF NET POSITION - ALL FUNDS
August 31, 2017

	NOTE REF	OPERATING	WORKERS COMPENSATION FUND	UNEMPLOYMENT FUND	TOTAL ALL FUNDS
DEFERRED INFLOWS OF RESOURCES					
Deferred InFlows – Pension Plans		$ 810,392.00			$ 810,392.00
TOTAL DEFERRED INFLOWS OF RESOURCES	Note 1	$ 810,392.00	$ -	$ -	$ 810,392.00
NET POSITION					
Net Investment in Capital Assets		$ (178,591.00)	$ -	$ -	$ (178,591.00)
Restricted for Risk Pool Net Position	Note 7		$ 6,445,346.59	$ 1,550,287.88	$ 7,995,634.47
Restricted for Joint Venture	Note 10	$ 196,106.00		$ -	$ 196,106.00
Unrestricted		$ (386,430.70)	$ -	$ -	$ (386,430.70)
TOTAL NET POSITION		$ (368,915.70)	$ 6,445,346.59	$ 1,550,287.88	$ 7,626,718.77

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, 2017

	OPERATING	WORKERS COMPENSATION FUND	UNEMPLOYMENT FUND	TOTAL ALL FUNDS
OPERATING REVENUES				
Local Sources	$ 794,050.44			$ 794,050.44
State Sources	$ 1,926,676.95			$ 1,926,676.95
Allotment	$ 516,759.95			$ 516,759.95
Federal Sources	$ 1,987,925.37			$ 1,987,925.37
Cooperative Programs	$ 2,192,465.89			$ 2,192,465.89
Other Programs	$ 8,329,360.15			$ 8,329,360.15
Member Assessments/Contributions		$ 4,346,303.27	$ 433,280.58	$ 4,779,583.85
TOTAL OPERATING REVENUE	$ 15,747,238.75	$ 4,346,303.27	$ 433,280.58	$ 20,526,822.60
OPERATING EXPENSES				
General Operations and Administration	$ 1,620,101.34			$ 1,620,101.34
Instructional Support Programs	$ 10,355,199.54			$ 10,355,199.54
Non Instructional Support Programs	$ 3,889,365.45			$ 3,889,365.45
Incurred Loss/Loss Adjustment Expenses				
Paid on Current Losses		$ 1,667,451.36	$ 102,819.05	$ 1,770,270.41
Change in Loss Reserves		$ 55,853.00	$ (41,469.57)	$ 14,383.43
Unallocated Loss Adjustment Expenses				
Change in Unallocated Loss Reserves		$ 9,000.00		$ 9,000.00
Excess/Reinsurance Premiums		$ 135,943.00		$ 135,943.00
Professional Fees		$ 200,357.05	$ 40,791.42	$ 241,148.47
Labor & Industries Assessments		$ 1,081,003.57		$ 1,081,003.57
Depreciation/Depletion	$ 198,942.00			$ 198,942.00
Other Operating Expenses		$ 394,791.57	$ 73,829.31	$ 468,620.88
Pension Expense from change in Net Pension Liability	$ (583,200.00)			$ (583,200.00)
TOTAL OPERATING EXPENSES	$ 15,480,408.33	$ 3,544,399.55	$ 175,970.21	$ 19,200,778.09
OPERATING INCOME (LOSS)	$ 266,830.42	$ 801,903.72	$ 257,310.37	$ 1,326,044.51
NONOPERATING REVENUES (EXPENSES)				
Interest and Investment Income	$ 23,551.83	$ 59,476.99	$ 9,404.25	$ 92,433.07
Interest Expense and Related Charges	$ (115,704.04)			$ (115,704.04)
Lease Income	$ 21,010.56			$ 21,010.56
Change in Joint Venture	$ 215,162.00			$ 215,162.00
Other Nonoperating Expenses	$ 13,855.34			$ 13,855.34
TOTAL NONOPERATING REVENUES (EXPENSES)	$ 157,875.69	$ 59,476.99	$ 9,404.25	$ 226,756.93
INCOME (LOSS)	$ 424,706.11	$ 861,380.71	$ 266,714.62	$ 1,552,801.44
INCREASE (DECREASE) IN NET POSITION	$ 424,706.11	$ 861,380.71	$ 266,714.62	$ 1,552,801.44
NET POSITION - BEGINNING BALANCE	$ (793,621.81)	$ 5,583,965.88	$ 1,283,573.26	$ 6,073,917.33
NET POSITION - ENDING BALANCE	$ (368,915.70)	$ 6,445,346.59	$ 1,550,287.88	$ 7,626,718.77

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, 2017

	OPERATING	WORKERS COMPENSATION FUND	UNEMPLOYMENT FUND	TOTAL ALL FUNDS
CASH FLOW FROM OPERATING ACTIVITIES				
Cash Received from Customers	$ 10,941,380.53			$ 10,941,380.53
Cash Received from State and Federal Sources	$ 4,451,502.92			$ 4,451,502.92
Cash Received from Members		$ 4,527,804.80	$ 429,054.11	$ 4,956,858.91
Payments to Suppliers for Goods and Services	$ (5,314,110.52)			$ (5,314,110.52)
Payments to Employees for Services	$ (5,837,815.31)			$ (5,837,815.31)
Cash Paid for Benefits/Claims	$ (4,868,509.96)	$ (1,739,881.25)	$ (123,964.72)	$ (6,732,355.93)
Cash Paid for Reinsurance		$ (135,943.00)		$ (135,943.00)
Cash Paid for Labor and Industries Assessments		$ (1,081,648.23)		$ (1,081,648.23)
Cash Paid for Professional Services		$ (189,821.64)	$ (17,913.25)	$ (207,734.89)
Cash Paid for Other Operating Expense		$ (316,161.88)	$ (61,566.58)	$ (377,728.46)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	$ (627,552.34)	$ 1,064,348.80	$ 225,609.56	$ 662,406.02
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Principal and Interest Paid on Capital Debt	$ (330,495.35)			$ (330,495.35)
Lease Income	$ 21,010.56			
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	$ (309,484.79)	$ -	$ -	$ (330,495.35)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest and Dividends Received	$ 23,551.83	$ 59,476.99	$ 9,404.25	$ 92,433.07
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	$ 23,551.83	$ 59,476.99	$ 9,404.25	$ 92,433.07
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	$ (913,485.30)	$ 1,123,825.79	$ 235,013.81	$ 424,343.74
CASH AND CASH EQUIVALENTS - BEGINNING	$ 3,130,154.95	$ 8,856,857.29	$ 1,389,780.82	$ 13,376,793.06
CASH AND CASH EQUIVALENTS - ENDING	$ 2,216,669.65	$ 9,980,683.08	$ 1,624,794.63	$ 13,801,136.80
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
OPERATING NET INCOME	$ 266,830.42	$ 801,903.72	$ 257,310.37	$ 1,326,044.51
Adjustment to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities				
Depreciation Expense	$ 198,942.00			$ 198,942.00
Change in Assets and Liabilities				
Receivables, Net	$ (658,249.27)	$ (2,386.20)	$ (4,226.47)	$ (664,861.94)
Prepaids	$ (98,316.77)	$ 10,603.71		$ (87,713.06)
Accounts and Other Payables	$ 225,073.46	$ 189,374.57	$ 13,995.23	$ 428,443.26
Accrued Expenses	$ 22,624.00			$ 22,624.00
Unearned Revenue	$ (1,256.18)			$ (1,256.18)
Other Changes				
Change in Deferred Outflows	$ 349,563.00			$ 349,563.00
Change in Deferred Inflows	$ 781,253.00			$ 781,253.00
Change in Net Pension Liability	$ (1,714,016.00)			$ (1,714,016.00)
Claims Reserve-Current		$ (52,076.00)		$ (52,076.00)
Claims Reserve-Prior Year		$ 190,882.00		$ 190,882.00
IBNR-Current		$ 17,348.00	$ (41,469.57)	$ (24,121.57)
IBNR-Prior Year		$ (94,844.00)		$ (94,844.00)
Future L&I Assessments		$ (5,457.00)		$ (5,457.00)
Provision for Unallocated Loss Adjustment		$ 9,000.00		$ 9,000.00
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	$ (627,552.34)	$ 1,064,348.80	$ 225,609.56	$ 662,406.02
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:				
Joint Venture Change (WSIPC)	$ 215,162.00			$ 215,162.00

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

Educational Service District #171

STATEMENT OF FIDUCIARY NET POSITION - AGENCY FUNDS

August 31, 2017

		COMPENSATED ABSENCES
ASSETS		
Cash and Cash Equivalents	$	5,524.65
Investments	$	2,770,618.27
Accounts Receivable	$	35,639.89
TOTAL ASSETS	$	2,811,782.81
LIABILITIES		
Accounts Payable	$	588,604.25
Deposits (from school districts)	$	2,223,178.56
TOTAL LIABILITIES	$	2,811,782.81

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

NOTES TO THE FINANCIAL STATEMENTS

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

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

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

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

Basis of Accounting and Reporting

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

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

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

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

During the audit of the 2012-13 fiscal year the Washington State Auditor's Office provided a recommendation and guidance in the Unemployment Compensation fund financial reporting guidelines. From the 2012-13 fiscal year through the 2014-15 fiscal year, the Unemployment Compensation fund was reported on the Statement of Net Position reflecting only total fund assets and an offsetting liability. This reporting method was due to the Unemployment Compensation fund being operated as a banking model pool as opposed to a true risk pool. Also, the amount held in trust for the ESD was reported as an asset in the Operating Fund on the Statement of Net Position.

At the beginning of the 2015-16 fiscal year, the Unemployment Compensation fund was changed from a banking model to a true risk pool. This change in program structure resulted in a change in financial reporting. The Unemployment Compensation fund is now reported on the Statement of Net Position as a true risk pool and is following accounting and financial principles accordingly.

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, 2017, the treasurer was holding $835,614 in the Operating and other proprietary funds and $5,525 for the Agency fund in short-term residual investments of surplus cash. These amounts are classified on the statement of net position and the statement of fiduciary net position as cash and cash equivalents.

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

Deposits and Investments – See Note 2

Receivables

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

Prepaid Items

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

Inventory

The District does not maintain material amounts of inventory.

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 9 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 adopted GASB 68 in 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.

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, 2017, the District had the following investments:

Investment	Maturity	Fair Value
Local Government Investment Pool		$15,757,151
Total Investments		$15,757,151

Credit Risk

The Local Government Investment Pool (LGIP) is considered extremely low risk. The pool is operated in a manner generally 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, 2017, was as follows:

	Beginning Balance 9/1/2016	Increases	Decreases	Ending Balance 8/31/2017
Capital assets not being depreciated:				
Land	$1,277,756	$	$	$1,277,756
Construction in Progress				
Total capital assets not being depreciated	$1,277,756			$1,277,756
Depreciable capital assets:				
Buildings	$3,978,840			$3,978,840
Improvements other than buildings				
Equipment				
Other				
Total depreciable capital assets	$3,978,840			$3,978,840
Less accumulated depreciation for:				
Buildings	$1,924,223	$198,942		$2,123,165
Improvements other than buildings				
Equipment				
Other				
Total accumulated depreciation	$1,924,223	$198,942		$2,123,165

Total depreciable assets, net	$2,054,617			$1,855,675
Total assets, net	$3,332,373		$198,942	$3,133,431

Note 4: LONG-TERM DEBT, LIABILITIES AND LEASES

Long-Term Debt

The District issued general obligation bonds and other debt instruments to finance the purchase of ESD property. The following is a summary of long-term debt instruments of the District for the fiscal year ended August 31, 2017:

Purpose	Maturity Range	Interest Rate	Original Amount	Amount of Installments
ESD Property	15 Years	3.55%	3,827,340	207,365

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

Fiscal Year Ending August 31	Principal	Interest
2018	$214,792	$115,704
2019	$222,486	$108,012
2020	$230,455	$100,044
2021	$238,709	$91,791
2022 – 2029	$2,405,580	$402,277

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, 2017, totaled $116,557. Future minimum rental commitments for these leases are as follows:

Fiscal Year Ending August 31	Amount
2018	$120,113
2019	$77,850
2020	$36,248
2021	$0
2022	$0

Changes in Long-Term Liabilities

During the fiscal year ended August 31, 2017, the following changes occurred in long-term liabilities:

	Beginning Balance 9/1/2016	Additions	Reductions	Ending Balance 8/31/2017	Due Within One Year
Bonds Payable	$3,519,387	$0	$207,365	$3,312,022	$214,792
Compensated Absences	$468,219	$24,354		$492,573	$98,883
Net Pension Liability TRS 1	$1,578,083	$0	$218,000	$1,360,084	$0
Net Pension Liability TRS 2/3	$656,713	$0	$232,849	$423,864	$0
Net Pension Liability SERS 2/3	$1,658,284	$0	$701,435	$956,849	$0
Net Pension Liability PERS 1	$2,052,199	$0	$561,732	$1,490,467	$0
Total Long-Term Liabilities	$9,932,885	$24,354	$1,921,381	$8,035,859	$313,675

Note 5: PENSION PLANS

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 district full-time and qualifying part-time employees participate in one of the following three contributory, multi-employer, cost-sharing statewide retirement systems managed by 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, 2017, was as follows:

Plan	Retirees and Beneficiaries Receiving Benefits	Inactive Plan Members Entitled to but not yet Receiving Benefits	Active Plan Members
PERS 1	48,268	663	2,593
SERS 2	8,229	5,880	27,011
SERS 3	7,735	8,330	33,890
TRS 1	34,225	188	697
TRS 2	5,076	2,532	19,133
TRS 3	10,289	8,568	54,487

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 41.34 and 41.40 RCW for PERS, 41.34 and 41.35 RCW for SERS, and 41.32 and 41.34 RCW for TRS. 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 2016 were as follows:

Pension Rates			
	7/1/17Rate	7/1/16 Rate	
PERS 1			
Member Contribution Rate	6.00%	6.00%	
Employer Contribution Rate	12.70%	11.18%	
Pension Rates			
	9/1/17 Rate	9/1/16 Rate	
TRS 1			
Member Contribution Rate	6.00%	6.00%	
Employer Contribution Rate	15.20%	13.13%	
TRS 2			
Member Contribution Rate	7.06%	5.95%	
Employer Contribution Rate	15.20%	13.13%	
TRS 3			
Member Contribution Rate	varies*	varies*	
Employer Contribution Rate	15.20%	13.13%	**
SERS 2			
Member Contribution Rate	7.27%	5.63%	
Employer Contribution Rate	13.48%	11.58%	
SERS 3			
Member Contribution Rate	varies*	varies*	
Employer Contribution Rate	13.48%	11.58%	**
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 school districts and educational service districts participated in are reported in the following tables.

The Net Pension Liability as of June 30, 2017:				
Dollars in Thousands	PERS 1	SERS 2/3	TRS 1	TRS 2/3
Total Pension Liability	$12,241,998	$5,357,035	$8,782,761	$13,446,531
Plan fiduciary net position	($7,496,920)	($4,863,560)	($5,759,493)	($12,523,588)
Participating employers' net pension liability	$4,745,078	$493,475	$3,023,268	$922,943
Plan fiduciary net position as a percentage of the total pension liability	61.24%	90.79%	65.58%	93.14%

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

At June 30, 2017, the district reported a total liability of $4,231,264 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, 2017, the district's proportionate share of each plan's net pension liability is reported below:

June 30, 2017	PERS 1	SERS 2/3	TRS 1	TRS 2/3
District's Annual Contributions	$188,944	$262,632	$157,426	$169,212
Proportionate Share of the Net Pension Liability	$1,490,467	$956,849	$1,360,084	$423,864

At June 30, 2017, the district's percentage of the proportionate share of the collective net pension liability was as follows and the change in the allocation percentage from the prior period is illustrated below.

Allocation percentages	PERS 1	SERS 2/3	TRS 1	TRS 2/3
Current year proportionate share of the Net Pension Liability	0.031411%	0.193900%	0.044987%	0.045925%
Prior year proportionate share of the Net Pension Liability	0.038213%	0.252492%	0.046221%	0.047820%
Net difference percentage	-0.006802%	-0.058592%	-0.001233%	-0.001895%

Actuarial Assumptions

Capital Market Assumptions (CMAs) and expected rates of return by asset class are 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, 2016, with the results rolled forward to June 30, 2017, 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, 2016, valuation were based on the results of the *2007–2012 Experience Study Report and the 2015 Economic Experience Study*. Additional assumptions for subsequent events and law changes are current as of the 2016 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, 2017, are summarized in the following table:

TRS 1, 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%	4.90%
Real Estate	15.00%	5.80%
Global Equity	37.00%	6.30%
Private Equity	23.00%	9.30%

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, 2017, the District reported Deferred Outflows of Resources and Deferred Inflows of Resources related to pensions from the following sources:

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experiences	$0	$0
Net difference between projected and actual earnings on pension plan investments	$0	$55,620
Changes in assumptions or other inputs	$0	$0
Changes in proportion and differences between contributions and proportionate share of contributions	$0	$0
Contributions subsequent to the measurement date	$30,010	$0
TOTAL	$30,010	$55,620

SERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experiences	$190,528	$0
Net difference between projected and actual earnings on pension plan investments	$0	$248,634
Changes in assumptions or other inputs	$9,998	$0
Changes in proportion and differences between contributions and proportionate share of contributions	$40,289	$254,861
Contributions subsequent to the measurement date	$41,712	$0
TOTAL	$282,517	$503,495

TRS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experiences	$0	$0
Net difference between projected and actual earnings on pension plan investments	$0	$57,620
Changes in assumptions or other inputs	$0	$0
Changes in proportion and differences between contributions and proportionate share of contributions	$0	$0
Contributions subsequent to the measurement date	$37,441	$0
TOTAL	$37,441	$57,620

TRS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experiences	$105,698	$21,624
Net difference between projected and actual earnings on pension plan investments	$0	$153,396
Changes in assumptions or other inputs	$4,995	$0
Changes in proportion and differences between contributions and proportionate share of contributions	$68,025	$18,637
Contributions subsequent to the measurement date	$40,341	$0
TOTAL	$219,058	$193,657

$149,504 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, 2018.

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
2018	(37,596)	(73,939)	(42,324)	(39,842)
2019	11,870	20,066	15,844	45,257
2020	(2,756)	(49,578)	(1,409)	7,690
2021	(27,138)	(129,682)	(29,732)	(56,970)
2022	-	(21,113)	-	6,026
Thereafter	-	(8,445)	-	22,899

Pension Expense

The District recognizes a pension expense for its proportionate share of the collective pension expense. This is determined by using the district's proportion share of the collective net pension liability. For the year ending August 31, 2017, the district recognized a total pension expense as follows:

	Pension Expense
PERS 1	$449,567
SERS 2/3	$7,878
TRS 1	$120,397
TRS 2/3	$5,358
TOTAL	$583,200

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

The table below presents the North Central 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 district's allocation percentage.

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
PERS 1 NPL	$5,780,412,000	$4,745,078,000	$3,848,257,000
Allocation Percentage	0.031411%	0.031411%	0.031411%
Proportionate Share of Collective NPL	$ 1,815,674	$ 1,490,467	$ 1,208,769
SERS 2/3 NPL	$1,278,921,000	$493,475,000	($153,665,000)
Allocation Percentage	0.193900%	0.193900%	0.193900%
Proportionate Share of Collective NPL	$ 2,479,830	$ 956,849	$ (297,957)
TRS 1 NPL	$3,759,368,000	$3,023,268,000	$2,386,123,000
Allocation Percentage	0.044987%	0.044987%	0.044987%
Proportionate Share of Collective NPL	$ 1,691,234	$ 1,360,084	$ 1,073,450
TRS 2/3 NPL	$3,134,647,000	$922,943,000	($873,375,000)
Allocation Percentage	0.045925%	0.045925%	0.045925%
Proportionate Share of Collective NPL	$ 1,439,596	$ 423,864	$ (401,100)

Note 6: POST EMPLOYMENT BENEFIT PLANS OTHER THAN PENSION 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 Pool

The Workers' Compensation Pool 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 Pool.

The Pool provides industrial injury accident insurance coverage for its membership. The Pool is fully funded by its member participants. Member contributions are calculated based on the members' hours worked. The Pool 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 Pool acquires insurance from unrelated underwriters. The Pool's per-occurrence retention limit is $450,000 and the annual aggregate retention is $2,000,000. Since this is a true risk pool, there is a joint liability among participating members.

For fiscal year 2017, 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 Pool. 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 Pool. At August 31, 2017, the amount of liabilities totaled $3,747,029. This liability is the Districts best estimate based on available information. Changes in the reported liability since August 31, 2016, resulted in the following:

	Beginning Balance 9/1/2016	Current Year Claims and Changes in Estimates	Ending Balance 8/31/2017
Incurred but not Reported	$1,649,909	$(77,496)	$1,572,413
Future L&I Assessments	$338,015	$(5,457)	$332,558
Estimated Unallocated Loss Adjustment	$180,000	$9,000	$189,000
Claims Reserves	$1,021,598	$138,806	$1,160,404
Accounts Payable	$303,280	$189,374	$492,654

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 2017, 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, 2017, the amount of liabilities totaled $107,101. This liability is the Districts best estimate based on available information. Changes in the reported liability since August 31, 2016, resulted in the following:

	Beginning Balance 9/1/2016	Current Year Claims and Changes in Estimates	Ending Balance 8/31/2017
Claims Reserves	$110,227	$(41,469)	$68,758
Accounts Payable	$24,348	$13,995	$38,343

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 program 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 154 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 Acts 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 $994,680, 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 a $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, 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, 2017, were $1,675,950.37.

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. Settlements did not exceed insurance coverage in each of the past three years.

Note 9: JOINT VENTURES

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 2017, there are 21 members in the Fund including 19 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, 2017, the District's total compensated absences balance in the pool was $236,844. Per the Washington State Auditor's Office, the District reports the total liability on the statement of net position.

Changes for the fiscal year are summarized below.

		Balance at 8/31/2017
Beginning Unfunded Liability		$245,230
Beginning Pool Balance	$222,989	
Payments to Pool	$226,055	
Interest	$2,197	
Withdrawals from Pool	($214,397)	
Less Ending Pool Balance		$236,844
Increase (Decrease) to Estimates of Long-term Liability		$247,343
Ending Unfunded Liability		$255,729

Note 10: INVESTMENT IN JOINT VENTURE

Washington State Information Processing Cooperative

The District is a member of the Washington Information Processing Cooperative (WSIPC). The WSIPC Board of Directors consists of a member of each the nine Educational Service Districts in the state. ESD 123 is the Fiscal Agent of the Joint Venture and answers directly to the WSIPC Board of Directors in financial matters.

WSIPC adopted GASB 68 at the year ended August 31, 2015. GASB 68 requires WSIPC 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 expense 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.

Condensed financial information of the Joint Venture for the fiscal year ended August 31, 2017, is as follows:

Statement of Net Position	Amount
Assets & Deferred Outflows	
Current Assets	$6,854,993
Noncurrent Assets	1,700,721
Deferred Outflows of Pensions	569,301
Total Assets & Deferred Outflows	**$9,125,015**
Liabilities, Deferred Inflows & Joint Venture Capital	
Current Liabilities	$649,613
Noncurrent Liabilities	5,664,278
Deferred Inflows of Pensions	1,046,172
Net Position - Investment in Joint Venture	1,764,952
Total Liabilities, Deferred Inflows & Joint Venture Investment	**$9,125,015**
Statement of Revenues, Expenses and Changes in Net Position	
Operating Revenues Non-Operating Revenues	$22,422,799 35,090
Less Operating Expenses	20,521,436
Increase/(Decrease) in Net Position	**$1,936,453**

The District's equal share of the total Investment in the Joint Venture is $196,106. The District made no capital contributions to the Joint Venture during 2016 and 2017, respectively. There were no distributions in 2016 and 2017.

The District reported $215,162 on the Operating Fund Statement of Cash Flows as Noncash Investing, Capital, and Financing Activities to reflect the change in Joint Venture from the 2015-16 fiscal year to the 2016-17 fiscal year.

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

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

Schedules of Required Supplementary Information

The required supplementary information identified below is presented separately for each plan the district 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			
PERS 1			
Last 10 Fiscal Years* (Dollar amounts in thousands)			
	2017	2016	2015*
District's proportion of the net pension liability (percentage)	0.031411%	0.038213%	0.036000%
District's proportionate share of the net pension liability (amount)	$1,490,467	$2,052,199	$ 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%	0%	0%
Plan fiduciary net position as a percentage of the total pension liability	61.24%	57.03%	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			
SERS 2/3			
Last 10 Fiscal Years* (Dollar amounts in thousands)			
	2017	2016	2015*
District's proportion of the net pension liability (percentage)	0.193900%	0.252492%	0.240803%
District's proportionate share of the net pension liability (amount)	$956,849	$1,658,284	$978,022
District's covered-employee payroll	$3,961,100	$4,716,750	$4,144,905
District's proportionate share of the net pension liability (amount) as a percentage of its covered payroll	24.16%	35.16%	23.60%
Plan fiduciary net position as a percentage of the total pension liability	90.79%	86.52%	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			
TRS 1			
Last 10 Fiscal Years* (Dollar amounts in thousands)			
	2017	2016	2015*
District's proportion of the net pension liability (percentage)	0.044987%	0.046221%	0.039256%
District's proportionate share of the net pension liability (amount)	$1,360,084	$1,578,083	$1,243,676
District's covered-employee payroll	$0	$5,705	$13,047
District's proportionate share of the net pension liability (amount) as a percentage of its covered payroll	0%	27661.40%	9531.98%
Plan fiduciary net position as a percentage of the total pension liability	65.58%	62.07%	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			
TRS 2/3			
Last 10 Fiscal Years* (Dollar amounts in thousands)			
	2017	2016	2015*
District's proportion of the net pension liability (percentage)	0.045925%	0.047820%	0.040828%
District's proportionate share of the net pension liability (amount)	$423,864	$656,713	$344,509
District's covered-employee payroll	$2,511,343	$2,407,971	$1,909,804
District's proportionate share of the net pension liability (amount) as a percentage of its covered payroll	16.88%	27.27%	18.04%
Plan fiduciary net position as a percentage of the total pension liability	93.14%	88.72%	92.48%

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

Schedules of Required Supplementary Information

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			
PERS 1			
Last 10 Fiscal Years* (Dollar amounts in thousands)			
	2017	2016	2015*
Contractually required contribution	$200,854	$209,281	$168,185
Contributions in relation to the contractually required contributions	$200,854	$209,281	$168,185
Contribution deficiency (excess)	$ -	$ -	$ -
District's covered-employee payroll	$ -	$ -	$ -
Contribution as a percentage of covered-employee payroll	0%	0%	0%

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

Schedule of District Contributions			
SERS 2/3			
Last 10 Fiscal Years* (Dollar amounts in thousands)			
	2017	2016	2015*
Contractually required contribution	$279,186	$290,902	$237,554
Contributions in relation to the contractually required contributions	$279,186	$290,902	$237,554
Contribution deficiency (excess)	$ -	$ -	$ -
District's covered-employee payroll	$4,210,841	$4,390,371	$4,208,912
Contribution as a percentage of covered-employee payroll	6.63%	6.63%	5.64%

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

Schedule of District Contributions			
TRS 1			
Last 10 Fiscal Years* (Dollar amounts in thousands)			
	2017	2016	2015*
Contractually required contribution	$182,730	$142,918	$90,590
Contributions in relation to the contractually required contributions	$182,730	$142,918	$90,590
Contribution deficiency (excess)	$ -	$ -	$-
District's covered-employee payroll	$525	$5,705	$200
Contribution as a percentage of covered-employee payroll	34,805.79%	2,504.96%	45,295.01%

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

Schedule of District Contributions			
TRS 2/3			
Last 10 Fiscal Years* (Dollar amounts in thousands)			
	2017	2016	2015*
Contractually required contribution	$196,462	$153,726	$114,720
Contributions in relation to the contractually required contributions	$196,462	$153,726	$114,720
Contribution deficiency (excess)	$-	$-	$ -
District's covered-employee payroll	$2,916,840	$2,290,795	$2,010,679
Contribution as a percentage of covered-employee payroll	6.74%	6.71%	5.71%

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

REQUIRED SUPPLEMENTAL INFORMATION

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

Part 1 - Ten-Year Claims Development Information

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

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

NORTH CENTRAL WASHINGTON WORKERS COMPENSATION TRUST
TEN-YEAR CLAIMS DETAIL INFORMATION
FISCAL AND POLICY YEAR ENDED AUGUST 31, 2017 (IN THOUSANDS)

		2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
1	Required contribution and investment revenue:										
	Earned	$2,824	$2,664	$2,705	$2,982	$3,206	$3,438	$3,731	$3,937	$4,200	$4,406
	Ceded	107	93	111	103	99	99	118	126	132	136
	Net earned	2,717	2,571	2,594	2,879	3,107	3,339	3,613	3,811	4,068	4,270
2	Unallocated expenses	1,259	1,454	1,423	1,242	1,687	1,436	1,319	1,515	1,598	1,821
3	Estimated claims and expenses, end of policy year										
	Incurred	1,875	1,750	1,645	1,640	1,887	2,538	1,481	1,426	2,077	1,840
	Ceded*				40	37	413	31	26	62	65
	Net incurred	1,875	1,750	1,645	1,600	1,850	2,125	1,450	1,400	2,015	1,775
4	Net paid (cumulative as of:										
	End of policy year	692	566	482	463	577	947	420	473	777	571
	One year later	1,302	1,008	967	879	973	1,411	1,073	772	1,617	
	Two years later	1,548	1,223	1,382	1,167	1,024	1,506	1,249	878		
	Three years later	1,717	1,298	1,539	1,198	1,035	1,506	1,350			
	Four years later	1,841	1,296	1,612	1,186	1,036	1,511				
	Five years later	1,847	1,296	1,631	1,221	1,036					
	Six years later	1,863	1,296	1,633	1,231						
	Seven years later	1,865	1,296	1,633							
	Eight years later	1,865	1,306								
	Nine years later	1,871									
5	Reestimated ceded claims and expenses	14	15	16	18	21	449	30	38	62	65
6	Reestimated net incurred claims and expenses:										
	End of policy year	1,875	1,750	1,645	1,600	1,850	2,125	1,450	1,400	2,015	1,775
	One year later	2,000	1,600	1,625	1,600	1,550	1,925	1,635	1,250	2,165	
	Two years later	1,925	1,600	1,875	1,525	1,300	1,800	1,535	1,150		
	Three years later	1,950	1,515	1,825	1,390	1,200	1,675	1,530			
	Four years later	2,025	1,425	1,735	1,300	1,150	1,635				
	Five years later	1,940	1,385	1,710	1,314	1,110					
	Six years later	1,935	1,350	1,695	1,325						
	Seven years later	1,910	1,342	1,680							
	Eight years later	1,902	1,343								
	Nine years later	1,900									
7	Increase (decrease) in estimated net incurred claims and expenses from end of policy year	$25	($407)	$35	($275)	($740)	($490)	$80	($250)	$150	$0

*Estimates were not done for years prior to 2010-11

NORTH CENTRAL WASHINGTON WORKERS COMPENSATION TRUST
CHANGES IN CLAIMS LIABILITY

	2015-16	2016-17
Unpaid claims and claim adjustment expenses at beginning of year	2,396,667	2,671,507
Incurred claims and claim adjustment expenses: Provision for insured events of the current year	2,015,000	1,775,000
Increase (decrease) in provision for insured events of prior years	(431,400)	(47,000)
Total incurred claims and claim adjustment	3,980,267	4,399,507
Payments:		
Claims and claim adjustment expenses attributable to insured events of the current year	(776,518)	(571,246)
Claims and claim adjustment expenses attributable to insured event of prior years	(532,242)	(1,095,444)
Total unpaid claims and claim adjustment expenses at end of the year	2,671,507	2,732,817

NORTH CENTRAL EDUCATIONAL SERVICE DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ending August 31, 2017

1	2	3	4	5	6	7	8	9	10
					Expenditures				
Federal Agency Name	Pass-Through Agency	Federal Program Title	CFDA Number	Other Identification Number	From Direct Awards	From Pass-Through Awards	Total	Passed Through to Subrecipients	Foot note
Dept of Education	WA OSPI	Title I Grants to Local Educational Agencies	84.010	222519, 222658, 226035, 260065		$ 314,868	$ 314,868		1,3
		Special Education Cluster (IDEA)							
Dept of Education	WA OSPI	Special Education - Grants to States	84.027	320246, 327394		$ 873,138	$ 873,138	$ 517,204	1,2,3
Dept of Education	WA OSPI	Special Education - Preschool Grants	84.173	380296, 387394		$ 115,789	$ 115,789	$ 63,008	1,2,3
		Total Special Education Cluster (IDEA)				**$ 988,927**	**$ 988,927**	**$ 580,211**	
Dept of Education	ESD 112	Special Education - Grants for Infants and Families	84.181	7007000024		$ 4,116			1,3
Dept of Education	DEL	Special Education - Grants for Infants and Families	84.181	16-1012-02		$ 157,443			1,3
		Total CFDA 84.181					$ 161,558		
Dept of Education	WA OSPI	Javits Gifted and Talented Students Education	84.206	470015		$ 5,290	$ 5,290		1,3
Dept of Education	WA OSPI	Special Education - Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	84.326	355427		$ 207,215	$ 207,215	$ 205,314	1,2,3
Dept of Education	WA OSPI	Supporting Effective Instruction State Grant	84.367	17-IA085		$ 10,440	$ 10,440		1,3
		Subtotal US Department of Education				**$ 1,688,299**	**$ 1,688,299**		
Dept of Health & Human Services	WA OSPI	Block Grants for Prevention and Treatment of Substance Abuse	93.959	998185		$ 278,308	$ 278,308		1,3
		Subtotal Department of Health and Human Services				**$ 278,308**	**$ 278,308**		
Environmental Protection Agency	Pacific Education Institute	Environmental Education Grants	66.951	01J05101		$ 13,486	$ 13,486		1,3
		Subtotal Environmental Protection Agency				**$ 13,486**	**$ 13,486**		
National Aeronautics and Space Administration	University of WA	Education	43.008	UWSC8989		$ 7,833	$ 7,833		1
		Subtotal NASA				**$ 7,833**	**$ 7,833**		
		Total Federal Awards Expended				**$ 1,987,925**	**$ 1,987,925**	**$ 785,525**	

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

North Central Educational Service District No. 171
For the year ending August 31, 2017
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE 1—BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal Awards is prepared on the same basis of accounting as the 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 restricted rate of 8%. The district has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

North Central Educational Service District
430 Olds Station Road ~ Wenatchee, WA 98801
Phone 509.665.2610 ~ Fax 509.662.9027
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CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED UNDER UNIFORM GUIDANCE

North Central Educational Service District No. 171
Chelan County
September 1, 2016 through August 31, 2017

This schedule presents the corrective action planned by the District for findings reported in this report in accordance with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Finding ref number: 2017-001	**Finding caption:** The District did not report the liabilities related to its other post-employment benefits in accordance with government accounting standards.
Name, address, and telephone of District contact person: Jason Williams, Business Operations Specialist 430 Olds Station Road Wenatchee, WA 98801 (509) 665-2657	
Corrective action the auditee plans to take in response to the finding: *This finding was related to the NCESD's choice not to report liabilities associated with GASB Statement No. 45 which has now been replaced with GASB Statement No. 75. The NCESD has already started the process of identifying the liabilities associated with GASB Statement No. 75 and will have those values available to report on next year's annual financial statements.*	
Anticipated date to complete the corrective action: September 1, 2018	

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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