



Office of the Washington State Auditor
Pat McCarthy

Financial Statements and Federal Single Audit Report

Olympic Educational Service District No. 114

Kitsap County

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

Published May 24, 2018

Report No. 1021437





Office of the Washington State Auditor

Pat McCarthy

May 24, 2018

Board of Directors
Olympic Educational Service District No. 114
Bremerton, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on Olympic Educational Service District No. 114's financial statements and compliance with federal laws and regulations.

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

Sincerely,

A handwritten signature in cursive script that reads "Pat McCarthy".

Pat McCarthy
State Auditor
Olympia, WA

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Olympic Educational Service District No. 114
Kitsap County
September 1, 2016 through August 31, 2017

SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of Olympic Educational Service District No. 114 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 unmodified opinions for each of the other major funds and 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 its major federal program.

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 program was selected as a major program in our audit of compliance in accordance with the Uniform Guidance.

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
93.600	Head Start

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

The District qualified 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

Olympic Educational Service District No. 114

Kitsap County

September 1, 2016 through August 31, 2017

- 2017-001 The District did not report liabilities related to its other post-employment 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 liabilities related to its post-employment benefits, other than pensions, 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

The District analyzed GASB 45 for fiscal year 2012 when it started to report financial statements in accordance with Generally Accepted Accounting Principles (GAAP) and did not believe it met the qualifications that would require it to report other post-employment benefits..

Effect of Condition

The District did not obtain an actuarial study to determine the amount of liabilities related to its other post-employment 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 post-employment benefit liabilities on its financial statements
- Establish a more formalized process for technical review of the financial statements to ensure accurate preparation and reporting of the District's financial statements in accordance with generally accepted accounting principles and reporting requirements.

District's Response

ESD 114 respectfully disagrees with the State Auditor's Office finding related to the application of Government Accounting Standards Board Statement No. 45 (GASB 45) – Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions, to the ESD 114 financial statements. The District agrees with the State Auditor's Office finding that the District did not obtain an actuarial study to determine postemployment benefit liabilities.

The District's review and analysis of the underlying accounting pronouncements resulted in recording activity for post-retirement benefits for employees offered through the Health Care Authority (HCA) as a cost-sharing plan under an arrangement equivalent to a trust. The District does not make any direct payments to HCA for retiree healthcare and was unaware that funds paid could be used for such a purpose.

As recommended in the finding, management had taken appropriate steps to have our financial statements reviewed by "a person who understands generally accepted accounting principles and the related reporting requirements". In 2010, the State Auditor's Office required the nine Educational Service District's in the State of Washington to change our method of financial reporting to GAAP financial reporting. The nine ESDs hired a consultant to prepare the ESD Accounting Manual which also included sample GAAP financial statements. When the project was completed, the manual and the sample financial statements were submitted to the State Auditor's Office for review. No mention of non-compliance with GASB 45 was mentioned from this review, so the ESDs implemented use of this manual. Annually each of the nine ESDs pay for a professional audit of our financial statements from the State Auditor's Office. No mention of non-compliance with GASB 45 has appeared in any financial statement reviews until this year. It is unclear why an issue that is so transparent that management neglected to "periodically evaluate the related liability" could also be completely overlooked by the auditing professionals we hired for the last 7 years. It is clear that GASB 45 must have had other interpretations as it was not even easily recognizable to the only auditing entity in the state that was privy to both the diversionary activities of

the Health Care Authority and also their own internal GASB 45 interpretation. We consider this recommendation implemented.

It is clear that the conditions of this finding are not accurate. GASB 45 was released in June of 2004. ESD 114 has never previously received a qualified opinion or finding on this issue; nor have the other 100 entities in the state also affected this year. It wasn't until the State Auditor's Office used their internal knowledge of the inner workings of the Health Care Authority and applied it to all of these other entities audits that this issue arose. ESD 114 would not have received this finding if the Washington State Auditor's Office did not also audit the Washington State Health Care Authority. They too would not have been privy to this diversionary activity.

During the District's 2016-17 annual audit, the State Auditor's Office communicated to the District that they would receive a finding for not reporting a GASB 45 liability. The State Auditor's Office did not accept the research and position of the nine ESDs in the application of GASB 45. Further communication indicated that even if the District procured services for an actuarial study for GASB 45 liabilities that the District would still receive a finding, but would receive a clean audit opinion.

The District evaluated the options and decided the fiscally responsible solution was to avoid spending in excess of \$13,000 for an actuarial study, plus additional costs related to time for the State Auditor's Office to audit the study, in order to make adjustments to our 2016-17 financial statements for an expiring GASB statement. The District's position is to focus time and resources on the implementation of GASB statements that are applicable effective with the 2017-18 fiscal year. Management's belief is that the 2016-17 financial statements, as reported, fairly reflect the financial position of the District, and accurately provides information needed to make financial decisions, consistent with the last six years. Unfortunately, this decision resulted in this audit finding as well as a qualified opinion on the financial statements.

In response to the State Auditor's Office recommendations, the District will implement GASB 75 and ensure postemployment benefit liabilities are reported on the financial statements, as appropriate. In addition, the District will implement a more formalized technical review of the financial statements in accordance with generally accepted accounting principles and reporting requirements, and document the review for the State Auditor's Office.

The District appreciates the opportunity to respond to the State Auditor's Office finding.

Auditor's Remarks

We appreciate the District's communication throughout the audit process. We reassert that District management is responsible for designing and following internal controls that provide reasonable assurance regarding the reliability of financial reporting, including compliance with Generally Accepted Accounting Principles (GAAP).

We look forward to working with the District again and reviewing the implementation of GASB 75 Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions during the next audit.

Applicable Laws and Regulations

Governmental Accounting Standards Board Statement No. 45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

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.

**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**

**Olympic Educational Service District No. 114
Kitsap County
September 1, 2016 through August 31, 2017**

Board of Directors
Olympic Educational Service District No. 114
Bremerton, 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 Olympic Educational Service District No. 114, Kitsap 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 17, 2018.

The District did not report liabilities 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 required to be a part of the basic financial statements. Our opinion on the basic financial statements is not affected by the missing information.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Audit Findings and Responses as Finding 2017-001 that we consider 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.

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Pat McCarthy
State Auditor
Olympia, WA

May 17, 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**

**Olympic Educational Service District No. 114
Kitsap County
September 1, 2016 through August 31, 2017**

Board of Directors
Olympic Educational Service District No. 114
Bremerton, Washington

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

We have audited the compliance of Olympic Educational Service District No. 114, Kitsap 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.

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Pat McCarthy
State Auditor
Olympia, WA

May 17, 2018

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Olympic Educational Service District No. 114 Kitsap County September 1, 2016 through August 31, 2017

Board of Directors
Olympic Educational Service District No. 114
Bremerton, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of each major fund and the aggregate remaining fund information of Olympic Educational Service District No. 114, Kitsap 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 \$8,079,175 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 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.

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 basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the GASB who considers it an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinions 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 17, 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.

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Pat McCarthy
State Auditor
Olympia, WA

May 17, 2018

FINANCIAL SECTION

Olympic Educational Service District No. 114 Kitsap County September 1, 2016 through August 31, 2017

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2017
Statement of Revenues, Expenses and Changes in Fund Net Position – 2017
Statement of Cash Flows – 2017
Statement of Fiduciary Net Position – 2017
Statement of Changes in Fiduciary Net Position – 2017
Notes to Financial Statements – 2017

REQUIRED SUPPLEMENTARY INFORMATION

Ten Year Claims Development Information – Worker’s Compensation Pool – 2017
Reconciliation of Claims Liabilities by Type of Contract – Worker’s Compensation Pool – 2017
Schedule of the ESD’s Proportionate Share of the Net Pension Liability Pension – PERS 1, SERS 2/3 -2017
Schedule of the ESD’s Proportionate Share of the Net Pension Liability Pension – TRS 1, TRS 2/3 – 2017
Schedule of ESD’s Contributions – PERS 1, SERS 2/3, TRS 1, – TRS 2/3 - 2017

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards and Notes– 2017

Educational Service District 114
STATEMENT OF NET POSITION - ALL FUNDS
31-Aug-17

	NOTE REF	OPERATING	WORKERS COMPENSATION FUND	UNEMPLOYMENT FUND	TOTAL ALL FUNDS
ASSETS					
CURRENT ASSETS					
Cash and Cash Equivalents	Note 1	\$ 74,736	\$ 91,070	\$ 2,836	\$ 168,641
Net Assets for Pool Participants					
Investments	Note 2	\$ 3,409,774	\$ 12,936,964	\$ 4,618,125	\$ 20,964,864
Accounts Receivable (net of uncollectible allowance)	Note 1	\$ 1,936,600	\$ 129,373	\$ 11,210	\$ 2,077,183
Other Receivables	Note 8				\$ -
Member Assessments/Contributions					\$ -
Accrued Deductibles/Co-pays					\$ -
Excess/Reinsurance Recoverable					\$ -
Due from Other Governments	Note 1				\$ -
Inventory	Note 1				\$ -
Prepays	Note 1	\$ 53,100	\$ 6,431		\$ 59,531
Restricted Assets	Note 1				\$ -
Other Current Assets	Note 1				\$ -
TOTAL CURRENT ASSETS		\$ 5,474,211	\$ 13,163,838	\$ 4,632,170	\$ 23,270,220
NONCURRENT ASSETS					
Investments_	Note 2				\$ -
Capital Assets	Note 3				
Land		\$ 357,962			\$ 357,962
Construction in Progress					\$ -
Building		\$ 5,720,046			\$ 5,720,046
Equipment		\$ 447,887			\$ 447,887
Less: Accumulated Depreciation		\$ (2,224,812)			\$ (2,224,812)
Net Capital Assets		\$ 4,301,083	\$ -	\$ -	\$ 4,301,083
Net Cash/Investments Held for Compensated Absences					\$ -
Net Cash/Investments Held for Unemployment					\$ -
Investment in Joint Venture	Note 12	\$ 196,106			\$ 196,106
Contracts Receivable	Note 1				\$ -
TOTAL NONCURRENT ASSETS		\$ 4,497,189	\$ -	\$ -	\$ 4,497,189

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

Educational Service District 114
STATEMENT OF NET POSITION - ALL FUNDS
31-Aug-17

	NOTE REF	OPERATING	WORKERS COMPENSATION FUND	UNEMPLOYMENT FUND	TOTAL ALL FUNDS
TOTAL ASSETS		\$ 9,971,399	\$ 13,163,838	\$ 4,632,170	\$ 27,767,408
DEFERRED OUTFLOWS OF RESOURCES					
Deferred OutFlows – Refunded Bonds					\$ -
Deferred OutFlows – Pension Plans		\$ 551,134			\$ 551,134
TOTAL DEFERRED OUTFLOWS OF RESOURCES	Note 1	\$ 551,134	\$ -	\$ -	\$ 551,134
LIABILITIES					
CURRENT LIABILITIES					
Accounts Payable	Note 1	\$ 400,233	\$ 93,504	\$ 8,101	\$ 501,838
Amount Due to Pool Participants					\$ -
Notes Payable	Note 5				\$ -
Accrued Interest Payable	Note 5				\$ -
Accrued Salaries	Note 1	\$ 33,334			\$ 33,334
Payroll Deductions & Taxes Payable	Note 1	\$ 10,720			\$ 10,720
Public Employees' Retirement System					\$ -
Deferred Compensation					\$ -
Compensated Absences	Note 1				\$ -
Bonds Payable	Note 5	\$ 234,000			\$ 234,000
Capital Leases Payable	Note 5				\$ -
Claim Reserves	Note 8				\$ -
IBNR			\$ 598,091		\$ 598,091
Open Claims			\$ 306,564	\$ 41,197	\$ 347,761
Unallocated Loss Adjustment Expenses			\$ 199,000		\$ 199,000
Future L&I Assessments			\$ 690,805		\$ 690,805
Deposits	Note 1				\$ -
Unearned Revenue	Note 1	\$ 53,658			\$ 53,658
Unearned Member Assessments/Contributions	Note 8				\$ -
Other Liabilities and Credits	Note 1				\$ -
TOTAL CURRENT LIABILITIES		\$ 731,946	\$ 1,887,964	\$ 49,298	\$ 2,669,208
NONCURRENT LIABILITIES					
Compensated Absences_	Note 1	\$ 303,985			\$ 303,985
Unemployment					\$ -

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

Educational Service District 114
STATEMENT OF NET POSITION - ALL FUNDS
31-Aug-17

	NOTE REF	OPERATING	WORKERS COMPENSATION FUND	UNEMPLOYMENT FUND	TOTAL ALL FUNDS
Notes Payable_	Note 5			\$	-
Claim Reserves_	Note 8				
IBNR_					
Open Claims_			\$ 1,391,492		\$ 1,391,492
Unallocated Loss Adjustment Expenses_			\$ 569,564	\$ 1,503	\$ 571,067
Future L&I Assessments_					-
Net Pension Liability		\$ 5,205,244			\$ -
Bonds Payable_	Note 5	\$ 1,838,000			\$ 5,205,244
Capital Leases Payable_	Note 5				\$ 1,838,000
TOTAL NONCURRENT LIABILITIES		\$ 7,347,229	\$ 1,961,056	\$ 1,503	\$ 9,309,788
TOTAL LIABILITIES		\$ 8,079,175	\$ 3,849,020	\$ 50,801	\$ 11,978,996
DEFERRED INFLOWS OF RESOURCES					
Deferred InFlows – Refunded Bonds				\$	\$ -
Deferred InFlows – Pension Plans		\$ 688,474			\$ 688,474
TOTAL DEFERRED INFLOWS OF RESOURCES	Note 1	\$ 688,474	\$ -	\$ -	\$ 688,474
NET POSITION					
Net Investment in Capital Assets		\$ 2,229,083	\$ -	\$ -	\$ 2,229,083
Restricted for Debt Service		\$ 288,545			\$ 288,545
Restricted for Self-Insurance		\$ -			\$ -
Restricted for Support Programs	Note 10	\$ 2,514,881			\$ 2,514,881
Restricted for Risk Pool Net Position					\$ -
Restricted for Other Items					\$ -
Restricted for Joint Venture	Note 12	\$ 196,106	\$ -	\$ -	\$ 196,106
Unrestricted		\$ (3,473,729)	\$ 9,314,818	\$ 4,581,369	\$ 10,422,459
TOTAL NET POSITION		\$ 1,754,885	\$ 9,314,818	\$ 4,581,369	\$ 15,651,072

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

Educational Service District 114
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	\$ 1,205,117		\$	1,205,117
State Sources	\$ 3,290,018		\$	3,290,018
Allotment	\$ 516,760		\$	516,760
Federal Sources	\$ 6,852,629		\$	6,852,629
Cooperative Programs	\$ 4,624,404		\$	4,624,404
Other Programs	\$ 1,693,521		\$	1,693,521
Member Assessments/Contributions		\$ 2,758,914	\$ 202,471	\$ 2,961,384
Supplemental Member Assessments			\$	-
Other Operating Revenue	\$ -		\$	-
TOTAL OPERATING REVENUE	\$ 18,182,448	\$ 2,758,914	\$ 202,471	\$ 21,143,833
OPERATING EXPENSES				
General Operations and Administration	\$ 1,459,959	\$ 500,335	\$ 44,673	\$ 2,004,967
Instructional Support Programs	\$ 12,168,621		\$	12,168,621
Non Instructional Support Programs	\$ 3,446,099		\$	3,446,099
Incurred Loss/Loss Adjustment Expenses				
Paid on Current Losses		\$ 1,364,521	\$ 143,428	\$ 1,507,949
Change in Loss Reserves		\$ (242,883)	\$ (35,348)	\$ (278,231)
Unallocated Loss Adjustment Expenses				
Paid Unallocated Loss Adjustment Expenses			\$	-
Change in Unallocated Loss Reserves		\$ 51,286	\$	51,286
Excess/Reinsurance Premiums		\$ 125,513	\$	125,513
Professional Fees		\$ 44,350	\$ 16,771	\$ 61,121
Labor & Industries Assessments		\$ 1,372,087	\$	1,372,087
Depreciation/Depletion	\$ 119,178		\$	119,178
Other Operating Expenses			\$ 257,410	\$ 257,410
Pension Expense from change in Net Pension Liability			\$	-
TOTAL OPERATING EXPENSES	\$ 17,193,858	\$ 3,215,210	\$ 426,933	\$ 20,836,001
OPERATING INCOME (LOSS)	\$ 988,591	\$ (456,296)	\$ (224,463)	\$ 307,832
NONOPERATING REVENUES (EXPENSES)				
Interest and Investment Income	\$ 29,920	\$ 117,207	\$ 41,016	\$ 188,143
Interest Expense and Related Charges	\$ (60,962)		\$	(60,962)
Lease Income	\$ 200		\$	200
Gains (Losses) on Capital Asset Disposition			\$	-
Change in Joint Venture	\$ 215,162		\$	215,162
Change in Compensated Absences	\$ 67,342		\$	67,342
Other Nonoperating Revenues			\$	-
Other Nonoperating Expenses			\$	-
TOTAL NONOPERATING REVENUES (EXPENSES)	\$ 251,662	\$ 117,207	\$ 41,016	\$ 409,885
INCOME (LOSS) BEFORE OTHER ITEMS	\$ 1,240,253	\$ (339,089)	\$ (183,447)	\$ 717,717
Extraordinary Items			\$	-
Special Items			\$	-
INCREASE (DECREASE) IN NET POSITION	\$ 1,240,253	\$ (339,089)	\$ (183,447)	\$ 717,717
NET POSITION - BEGINNING BALANCE	\$ 514,632	\$ 9,653,907	\$ 4,764,817	\$ 14,933,356
Cumulative Effect of Change in Accounting Principle			\$	-
PRIOR PERIOD ADJUSTMENT			\$	-
NET POSITION - ENDING BALANCE	\$ 1,754,885	\$ 9,314,818	\$ 4,581,369	\$ 15,651,073

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

Educational Service District 114
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	\$ 2,806,970			\$ 2,806,970
Cash Received from State and Federal Sources	\$ 10,391,298			\$ 10,391,298
Cash Received from Members	\$ 4,554,790	\$ 2,936,565	\$ 202,088	\$ 7,693,443
Payments to Suppliers for Goods and Services	\$ (5,750,001)	\$ (519,875)	\$ (39,110)	\$ (6,308,986)
Payments to Employees for Services	\$ (11,897,125)			\$ (11,897,125)
Cash Paid for Benefits/Claims		\$ (1,463,160)	\$ (143,428)	\$ (1,606,588)
Internal Activity - Payments to Other Funds				\$ -
Cash Paid for Reinsurance		\$ (125,387)		\$ (125,387)
Cash Paid for Labor and Industries Assessments		\$ (1,246,700)		\$ (1,246,700)
Cash Paid for Professional Services			\$ (274,181)	\$ (274,181)
Cash Paid for Other Operating Expense				\$ -
Other Receipts (Payments)				\$ -
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 105,932	\$ (418,556)	\$ (254,631)	\$ (567,255)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Operating Grants Received				\$ -
Transfer to (from) Other Funds				\$ -
Proceeds from Issuance of Notes				\$ -
Principal and Interest Payment on Notes				\$ -
Other Noncapital Activities				\$ -
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	\$ -	\$ -	\$ -	\$ -
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchase of Capital Assets				\$ -
Proceeds from Capital Debt				\$ -
Principal and Interest Paid on Capital Debt	\$ (286,962)			\$ (286,962)
Capital Contributions				\$ -
Lease Income				\$ -
Other Receipts (Payments)				\$ -
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	\$ (286,962)	\$ -	\$ -	\$ (286,962)
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from Sales and Maturities of Investments				\$ -
Lease Income	\$ 200			\$ 200
Purchase of Investments	\$ 29,920	\$ 117,207		\$ 147,128
Interest and Dividends Received			\$ 41,016	\$ 41,016
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	\$ 30,120	\$ 117,207	\$ 41,016	\$ 188,343
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ (150,909)	\$ (301,349)	\$ (213,615)	\$ (665,873)
CASH AND CASH EQUIVALENTS - BEGINNING PRIOR PERIOD ADJUSTMENT	\$ 3,635,419	\$ 13,329,383	\$ 4,834,576	\$ 21,799,378
CASH AND CASH EQUIVALENTS - ENDING	\$ 3,484,510	\$ 13,028,034	\$ 4,620,961	\$ 21,133,505
CHECK (should be zero)	\$ -	\$ -	\$ -	\$ -
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
OPERATING NET INCOME	\$ 988,591	\$ (456,296)	\$ (224,463)	\$ 307,832
Adjustment to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities				
Depreciation Expense	\$ 119,178			\$ 119,178
Change in Assets and Liabilities				\$ -
Receivables, Net	\$ (343,220)	\$ 177,652	\$ (382)	\$ (165,951)
Prepays	\$ (29,428)	\$ (130)		\$ (29,558)
Inventories				\$ -
Accounts and Other Payables	\$ (297,330)	\$ 51,815	\$ 5,562	\$ (239,953)
Accrued Expenses				\$ -
Unearned Revenue	\$ (86,170)			\$ (86,170)
Pension Expense from change in Net Pension Liability- Other Changes	\$ (245,688)			\$ (245,688)
Change in Deferred Outflows				\$ -
Change in Deferred Inflows				\$ -
Change in Net Pension Liability				\$ -
Claims Reserve-Current		\$ (192,086)	\$ (12,397)	\$ (204,483)
Claims Reserve-Prior Year		\$ 19,066	\$ (22,951)	\$ (3,885)
IBNR-Current		\$ 143,694		\$ 143,694
IBNR-Prior Year		\$ (122,557)		\$ (122,557)
Future L&I Assessments		\$ 61,286		\$ 61,286
Provision for Unallocated Loss Adjustment		\$ (10,000)		\$ (10,000)
Unearned Member Assessments				\$ -
Insurance Recoverables				\$ -
Claim Reserves				\$ -
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 105,932	\$ (327,556)	\$ (254,631)	\$ (476,255)
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:				
{Insert Description if Applicable}				\$ -

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

Educational Service District 114
STATEMENT OF FIDUCIARY NET POSITION - FIDUCIARY FUNDS
31-Aug-17

	COMPENSATED ABSENCES
ASSETS	
Cash and Cash Equivalents	\$ 11,803
Investments	\$ 663,022
Accounts Receivable	\$ 13,278
Assets Used in Operations	
TOTAL ASSETS	\$ 688,103
LIABILITIES	
Accounts Payable	\$ 227,049
Program Refunds Payable to JV Participants	
Deposits (from school districts)	
TOTAL LIABILITIES	\$ 227,049
NET POSITION	
Held in Trust for Benefits and Other Purposes	\$ 461,054
TOTAL NET POSITION	\$ 461,054

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

Educational Service District 114
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION - FIDUCIARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2017

	COMPENSATED ABSENCES
ADDITIONS	
Contributions	
Employer	-
Members	308,137
Total Contributions	308,137
Investment Earnings	
Interest	4,748
Net Increase (Decrease) in the Fair Value of Investments	
Total Investment Earnings	4,748
Other Additions	
TOTAL ADDITIONS	312,885
DEDUCTIONS	
Distribution to Pool Participants	226,849
Refunds of Contributions	
Administrative Expenses	800
Other Payments in Accordance with Trust Agreement	
TOTAL DEDUCTIONS	227,649
CHANGE IN NET POSITION	85,237
NET POSITION - BEGINNING	375,818
PRIOR PERIOD ADJUSTMENT	
NET POSITION - ENDING	461,055

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. 114 ("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. 114 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 114. The District is a separate legal entity and is fiscally independent from all other units of government.

The District serves 15 school districts in Clallam, Jefferson, and parts of Kitsap and Mason counties. Oversight responsibility for the District's operations is vested with the Board of Directors who are elected by the school directors of the educational service district, one from each of seven educational service district board-member districts. Management of the District is appointed by and accountable to the Board of Directors. Fiscal responsibility, including budget authority, the power to operate cooperatives, set fees for services and issue debt consistent with the provisions of state statutes, rests with the Board. For financial reporting purposes, the District's financial statements include all fund entities that are controlled by the District's Board of Directors and managed by the administrative staff, unless noted hereafter.

Basis of Accounting and Reporting

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

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

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

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

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

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

In addition, the District reports the following fund types:

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

Assets, Liabilities, and Equity

Cash and Cash Equivalents

The Kitsap 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 \$180,444 in short-term residual investments of surplus cash. This amount is classified on the statement of net position as cash and cash equivalents.

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

Deposits and Investments – See Note 2

Receivables

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

All receivables are shown net of an allowance for uncollectibles. Uncollectible accounts are written off on an annual basis.

Prepaid Items

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

Capital Assets and Depreciation – See Note 3

Compensated Absences

Employees earn vacation leave at varying rates in accordance with District policy. Vacation is payable upon termination.

Employees earn sick leave at a rate of 12 days per year and may accumulate an unlimited sick leave balance. Under the provisions of Chapter 28A.400.210 RCW, sick leave accumulated by District employees is reimbursed at death or retirement at the rate of 1 day for each 4 days of accrued leave, limited to 180 accrued days. This chapter also provides for an annual buy-back of an amount up to the maximum annual accumulations of 12 days. For buy-back purposes, employees may accumulate such leave to a maximum of 192 days, including annual accumulation, as of December 31 of each year.

The balance reported in the statement of net position as of August 31, 2017, represents the balance of the liabilities that are not fully funded by the Compensated Absences Liability Pool.

Other Accrued Liabilities

These accounts consist of accrued wages and accrued employee benefits.

Long Term Debt – See Note 5

Note 2: DEPOSITS AND INVESTMENTS

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

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

As of August 31, 2017, the District had the following investments:

Investment	Maturity	Fair Value
Local Government Investment Pool		
County Investment Pool	21,627,885	21,633,732
Certificate of Deposit		
Money Market Account		
Total Investments	21,627,885	21,633,732

The district's participation in the Kitsap County Investment Pool is voluntary and the pool is not rated by a nationally recognized statistical rating organization (NRSRO). The fair value of the district's investment in the pool is measured using a net asset value (NAV) as determined by the pool. The pool maintains a (duration/weighted average maturity) of 357/1.1300

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	\$ 357,962	\$	\$	\$ 357,962
Construction in Progress				
Total capital assets not being depreciated	\$ 357,962			\$ 357,962
Depreciable capital assets:				
Buildings	\$ 5,720,046			\$ 5,720,046
Improvements other than buildings				
Equipment	\$ 447,886			\$ 447,886
Other				
Total depreciable capital assets	\$ 6,167,932			\$ 6,167,932
Less accumulated depreciation for:				
Buildings	\$ 1,673,671	\$113,870		\$ 1,787,541
Improvements other than buildings				
Equipment	\$ 431,963	\$ 5,308		\$ 437,271
Other				
Total accumulated depreciation	\$ 2,105,634	\$119,178		\$ 2,224,812
Total depreciable assets, net	\$ 4,062,298		\$119,177	\$ 3,943,121
Total assets, net	\$ 4,420,260	\$		\$ 4,301,082

Note 4: LONG-TERM DEBT, LIABILITIES AND LEASES

Long-Term Debt

The District refunded its original bond debt on April 16, 2015. The amount of the refunded bond is \$2,543,000. 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
Purchase of land and building addition	10 years	2.79	2,543,000	From
				12,171 to
				291,004

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

Fiscal Year Ending August 31	Principal	Interest
2018	\$ 234,000.00	\$ 54,545
2019	\$ 242,000.00	\$ 47,904
2020	\$ 249,000.00	\$ 41,055
2021	\$ 251,000.00	\$ 34,080
2022 – 2024	\$1,096,000.00	\$ 55,045

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 \$10,332.00. The lease terminated on November 30, 2017 and no future commitments remain.

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	\$2,298,000	\$	\$ 226,000	\$2,072,000	\$ 234,000
Capital Leases					
Compensated Absences (unfunded portion)	\$ 371,327	\$	\$ 67,342	\$ 303,985	\$
Net Pension Liability TRS 1	\$1,203,450	\$	\$ 85,837	\$ 1,117 613	\$
Net Pension Liability TRS 2/3	\$ 503,927	\$	\$ 169,883	\$ 334,044	\$
Net Pension Liability SERS 2/3	\$1,939,582	\$	\$ 491,850	\$ 1,447,732	\$
Net Pension Liability PERS 1	\$2,667,751	\$	\$ 361,896	\$ 2,305,855	\$
Total Long-Term Liabilities	\$8,984,036	\$	\$ 1,402,808	\$ 7,581,228	\$ 234,000

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 school 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%	**
<i>Note: The DRS administrative rate of .0018 is included in the employer rate.</i>			
* = 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 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 ESD's Proportionate Share of the Net Pension Liability (NPL)

At June 30, 2017, the ESD reported a total liability of \$5,205,244 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	292,309	397,368	129,361	133,354
Proportionate Share of the Net Pension Liability	2,305,855	1,447,732	1,117,613	334,044

At June 30, 2017, the ESD'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	.048585%	.293375%	.036967%	.036193%
Prior year proportionate share of the Net Pension Liability	.049674%	.295323%	.035248%	.036695%
Net difference percentage	-.001080%	-.001948%	.001719%	-.000501%

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	\$	\$
Net difference between projected and actual earnings on pension plan investments	\$	\$ (86,048)
Changes in assumptions or other inputs	\$	\$
Changes in proportion and differences between contributions and proportionate share of contributions	\$	\$
Contributions subsequent to the measurement date	\$ 707	\$
TOTAL	\$ 707	\$ (86,048)
SERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources

Difference between expected and actual experiences	\$ 288,273	\$
Net difference between projected and actual earnings on pension plan investments	\$	\$ (376,189)
Changes in assumptions or other inputs	\$ 15,112	\$
Changes in proportion and differences between contributions and proportionate share of contributions	\$	\$ (31,827)
Contributions subsequent to the measurement date	\$ 115,409	\$
TOTAL	\$ 418,794	\$ (408,016)

TRS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experiences	\$	\$
Net difference between projected and actual earnings on pension plan investments	\$	\$ (47,348)
Changes in assumptions or other inputs	\$	\$
Changes in proportion and differences between contributions and proportionate share of contributions	\$	\$
Contributions subsequent to the measurement date	\$ 1,637	\$
TOTAL	\$ 1,637	\$ (47,348)

TRS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experiences	\$ 83,299	\$ (17,042)
Net difference between projected and actual earnings on pension plan investments	\$	\$ (120,890)
Changes in assumptions or other inputs	\$ 3,936	\$
Changes in proportion and differences between contributions and proportionate share of contributions	\$ 382	\$ (9,129)
Contributions subsequent to the measurement date	\$ 42,377	\$
TOTAL	\$ 129,994	\$ (147,061)

\$ 160,131 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	(58,163)	(95,723)	(34,778)	(49,492)
2019	18,363	69,580	13,020	17,573
2020	(4,264)	(5,172)	(1,157)	(7,666)
2021	(41,984)	(126,371)	(24,432)	(47,976)
2022		39,465		5,858
Thereafter		13,590		22,260

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	\$ (202,315)
SERS 2/3	\$ 677,230
TRS 1	\$ 5,442
TRS 2/3	\$ 243,175
TOTAL	\$ 723,532

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

The table below presents the ESD's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50%) or one percentage point higher (8.50%) than the current rate. Amounts are calculated by plan using the 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	0.048595%	0.048595%	0.048595%
Proportionate Share of Collective NPL	\$ 2,808,972	\$ 2,305,855	\$ 1,870,047
SERS 2/3 NPL	\$1,278,921,000	\$493,475,000	(\$153,665,000)
Allocation Percentage	0.293375%	0.293375%	0.293375%
Proportionate Share of Collective NPL	\$ 3,752,034	\$ 1,447,732	\$ (450,815)
TRS 1 NPL	\$3,759,368,000	\$3,023,268,000	\$2,386,123,000
Allocation Percentage	0.036967%	0.036967%	0.036967%
Proportionate Share of Collective NPL	\$ 1,389,728	\$ 1,117,613	\$ 882,079
TRS 2/3 NPL	\$3,134,647,000	\$922,943,000	(\$873,375,000)
Allocation Percentage	0.036193%	0.036193%	0.036193%
Proportionate Share of Collective NPL	\$ 1,134,534	\$ 334,044	\$ (316,104)

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 OMNI, (a third party administrator).

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

Note 7: SHARED RISK POOL DISCLOSURES

Workers' Compensation Insurance Trust

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

The Trust provides industrial injury accident insurance coverage for its membership. The Trust is fully funded by its member participants. Member contributions are calculated based on the members' hours worked. The Trust retains responsibility for the payment of claims within specified self-insured retention limits prior to the application of coverage provided by its excess insurance contracts. The Trust acquires insurance from unrelated underwriters. The Trust's per-occurrence retention limit is \$ 450,000 and the

annual aggregate retention is \$ 6,186,216. Since the Trust is a cooperative program, there is a joint liability among participating members.

For fiscal year 2017, there are 15 members in the pool including 14 participating school districts. A Board comprised of one designated representative from each participating member governs the Trust. The Board of Trustees has five members elected by the District Superintendent. The District is responsible for conducting the business affairs of the Trust. At August 31, 2017, the amount of liabilities totaled \$3,849,020.06. This liability is the Districts best estimate based on available information. Changes in the reported liability since August 31, 2017, resulted in the following:

		Beginning Balance 9/1/2016	Current Year Claims and Changes in Estimates	Ending Balance 8/31/2017
Incurring but not Reported		\$ 2,059,446	\$ (69,863)	\$ 1,989,583
Future L&I Assessments		\$ 629,519	\$ 61,286	\$ 690,805
Estimated Unallocated Loss Adjustment		\$ 209,000	\$ (10,000)	\$ 199,000

Unemployment Compensation Insurance Fund

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

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

For fiscal year 2017 there are 16 members in the pool including 15 participating school districts. The pool is governed by a Cooperative Board, which is comprised of one designated representative from each participating member. Three members elected by the Cooperative Board and the District Superintendents comprise the Advisory Committee. At August 31, 2017, the amount of liabilities totaled \$ 50,801.08. This liability is the Districts best estimate based on available information. Changes in the reported liability since August 31, 2017 resulted in the following:

	Beginning Balance 9/1/2016	Current Year Claims and Changes in Estimates	Ending Balance 8/31/2017
Claims Reserves	\$ 53,594	\$ (12,397)	\$ 41,197

Note 8: RISK MANAGEMENT

The District is a member of the Washington Risk Management Pool. Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The *Pool* was formed in 1986 when educational service districts and school districts in the state of Washington joined together by signing the Cooperative Risk Management Pool Account Agreement to pool their self-insured losses and jointly purchase insurance and administrative service. Over 90 school and educational service districts have joined the pool.

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

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

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

The Pool is fully funded by its member participants.

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

Note 9: NET POSITION, RESTRICTED

The District's statement of net position reports \$2,514,880 of restricted assets for Support Programs. The following lists the programs restricted by the Board of Directors:

Support Program	Amount
Instructional	\$ 1,589,625
Non-Instructional	\$ 925,255
Total Restricted for Support Programs	\$ 2,514,880

Note 10: JOINT VENTURE WITH UNDIVIDED INTEREST

Compensated Absences Liability Fund

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

For fiscal year 2017, there are 2 members in the Fund including 2 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 \$ 215,625.94. The District only reports the balance of the liabilities that are not fully funded by the pool in the statement of net position. Changes for the fiscal year are summarized below.

		Balance at 8/31/2017
Beginning Long-term Liability		\$ 371,327
Beginning Pool Balance	\$ 167,646	
Payments to Pool	\$ 149,516	
Interest	\$ 2,222	
Withdrawals from Pool	\$ (103,758)	
Less Ending Pool Balance		\$ (215,626)
Increase (Decrease) to Estimates of Long-term Liability		\$ 148,284
Ending Unfunded Liability		\$ 303,985

Note 11: 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	\$ 761,665
Noncurrent Assets	\$ 188,969
Deferred Outflows of Pensions	\$ 63,255
Total Assets & Deferred Outflows	\$1,013,899
Liabilities, Deferred Inflows & Joint Venture Capital	
Current Liabilities	\$ 72,179
Noncurrent Liabilities	\$ 629,364
Deferred Inflows of Pensions	\$ 116,241
Net Position - Investment in Joint Venture	\$ 196,105
Total Liabilities, Deferred Inflows & Joint Venture Investment	\$1,013,889
Statement of Revenues, Expenses and Changes in Net Position	
Operating Revenues	\$2,491,422
Non-Operating Revenues	\$ 3,898
Less Operating Expenses	\$2,280,159
Increase/(Decrease) in Net Position	\$ 215,161

The District's equal share of the total Investment in the Joint Venture is \$196,106. There were no contributions to, or distributions from, the Joint Venture in 2017.

REQUIRED SUPPLEMENTAL INFORMATION (RSI)

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

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

Part 1 – Ten-Year Claims Development Information

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

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

Fiscal and Policy Year Ended
(In Thousands)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
1. Required contribution and investment revenue:										
Earned	\$4,464	\$3,705	\$3,597	\$3,639	\$3,406	\$3,325	\$3,335	\$3,126	\$2,775	\$2,876
Ceded	<u>116</u>	<u>111</u>	<u>140</u>	<u>107</u>	<u>103</u>	<u>99</u>	<u>117</u>	<u>118</u>	<u>115</u>	<u>125</u>
Net earned	4,348	3,594	3,457	3,532	3,303	3,226	3,218	3,008	2,660	2,751
2. Unallocated expenses	1,250	1,072	1,387	1,440	1,398	1,492	1,233	1,053	1,299	1,241
3. Estimated claims and expenses end of policy year:										
Incurred	2,100	2,275	2,150	2,025	1,725	1,700	1,425	1,725	1,450	1,450
Ceded	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net incurred	2,100	2,275	2,150	2,025	1,725	1,700	1,425	1,725	1,450	1,450
4. Net paid (cumulative) as of:										
End of policy year	499	660	591	476	475	564	431	515	406	545
One year later	1,072	1,255	1,001	805	951	1,009	766	928	944	
Two years later	1,342	1,367	1,115	914	1,047	1,193	826	1,191		
Three years later	1,489	1,429	1,291	923	1,080	1,353	880			
Four years later	1,563	1,437	1,337	922	1,088	1,407				
Five years later	1,566	1,437	1,230	922	1,088					
Six years later	1,455	1,437	1,230	922						
Seven years later	1,566	1,438	1,230							
Eight years later	1,566	1,438								
Nine years later	1,569									
5. Re-estimated ceded claims and expenses	0	0	0	0	0	0	0	0	0	0
6. Re-estimated net incurred claims and expenses:										
End of policy year	2,100	2,275	2,150	2,025	1,725	1,700	1,425	1,725	1,450	1,450
One year later	3,075	2,175	1,850	1,575	1,615	1,625	1,250	1,575	1,430	
Two years later	1,975	1,975	1,625	1,325	1,450	1,600	1,150	1,595		
Three years later	1,950	1,800	1,625	1,200	1,360	1,615	1,075			
Four years later	1,875	1,650	1,590	1,120	1,285	1,645				
Five years later	1,750	1,625	1,415	1,040	1,200					
Six years later	1,725	1,590	1,340	1,010						
Seven years later	1,675	1,530	1,310							
Eight years later	1,645	1,500								
Nine years later	1,615									
7. Increase (decrease) in estimated net incurred claims and expenses from end of policy year	(485)	(775)	(840)	(1,015)	(825)	(80)	63	170	(295)	0

Part 2 – Reconciliation of Claims Liabilities by Type of Contract

The schedule below presents the changes in the Worker's Compensation Pool aggregate claims liabilities for the past two years. The Fund establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses.

	<u>2017</u> (In Thousands)	<u>2016</u> (In Thousands)
Unpaid claims and claim adjustment expenses at beginning of the fiscal year	\$3,108	\$3,350
Incurring claims and claim adjustment expenses:		
Provision for insured events of the current fiscal year	\$1,450	\$1,450
Increases in provision for insured events of prior fiscal years	\$1,715	\$1,344
Total incurred claims and claim adjustment expenses	<u>\$3,165</u>	<u>\$2,794</u>
Payments:		
Claims and claim adjustment expenses attributable to insured events of the current fiscal year	\$ 545	\$ 406
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	\$2,861	\$2,720
Total payments	<u>\$3,406</u>	<u>\$3,126</u>
Total unpaid claims and claim adjustment expenses at end of the fiscal year	<u>\$2,867</u>	<u>\$3,108</u>

PENSION PLANS
Schedules of Required Supplementary Information
September 1, 2016 through August 31, 2017

The required supplementary information identified below is presented separately for each plan the school district participates in. The amounts reported in the Schedules of the ESDs 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 ESDs Proportionate Share of the Net Pension Liability			
<i>PERS 1</i>			
Last 10 Fiscal Years* (Dollar amounts in thousands)			
	2017	2016	2015*
District's proportion of the net pension liability (percentage)	0.048595%	0.049674%	0.050805%
District's proportionate share of the net pension liability (amount)	\$ 2,305,855	\$ 2,667,751	\$ 2,657,596
District's covered-employee payroll	\$ 6,052,161	\$ 5,793,249	\$ 5,514,680
District's proportionate share of the net pension liability (amount) as a percentage of its covered payroll	3946.88%	1014.09%	993.37%
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 ESDs Proportionate Share of the Net Pension Liability			
<i>SERS 2/3</i>			
Last 10 Fiscal Years* (Dollar amounts in thousands)			
	2017	2016	2015*
District's proportion of the net pension liability (percentage)	0.293375%	0.295323%	0.304955%
District's proportionate share of the net pension liability (amount)	\$ 1,447,732	\$ 1,939,582	\$ 1,238,579
District's covered-employee payroll	\$ 5,993,739	\$ 5,530,180	\$ 5,247,148
District's proportionate share of the net pension liability (amount) as a percentage of its covered payroll	24.15%	35.07%	23.60%
Plan fiduciary net position as a percentage of the total pension liability	90.79%	86.52%	90.92%

Schedule of the ESDs 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)	0.036967%	0.035248%	0.034688%
District's proportionate share of the net pension liability (amount)	\$ 1,117,613	\$ 1,203,450	\$ 1,098,951
District's covered-employee payroll	\$ 2,028,692	\$1,851,643	\$1,713,835
District's proportionate share of the net pension liability (amount) as a percentage of its covered payroll	2525.74%	0%	0%
Plan fiduciary net position as a percentage of the total pension liability	65.58%	62.07%	65.70%

Schedule of the ESDs 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)	0.036193%	0.036695%	0.036636%
District's proportionate share of the net pension liability (amount)	\$ 334,044	\$ 503,927	\$ 309,137
District's covered-employee payroll	\$ 1,984,443	\$ 1,851,643	\$ 1,713,835
District's proportionate share of the net pension liability (amount) as a percentage of its covered payroll	16.83%	27.22%	18.04%
Plan fiduciary net position as a percentage of the total pension liability	93.14%	88.72%	92.48%

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

Schedule of ESDs Contributions			
PERS 1			
Last 10 Fiscal Years* (Dollar amounts in thousands)			
	2017	2016	2015*
Contractually required contribution	\$ 4,574	\$ 26,232	\$ 25,073
Contributions in relation to the contractually required contributions	\$ 4,574	\$ 26,232	\$ 25,073
Contribution deficiency (excess)			
District's covered-employee payroll	\$ 41,155	\$ 239,220	\$ 273,638
Contribution as a percentage of covered-employee payroll	11.11%	10.97%	9.16%

Schedule of ESDs Contributions			
SERS 2/3			
Last 10 Fiscal Years* (Dollar amounts in thousands)			
	2017	2016	2015*
Contractually required contribution	\$ 692,281	\$1,017,229	\$ 818,542
Contributions in relation to the contractually required contributions	\$ 692,281	\$1,017,229	\$ 818,542
Contribution deficiency (excess)			
District's covered-employee payroll	\$9,709,673	\$ 9,041,512	\$ 8,491,089
Contribution as a percentage of covered-employee payroll	11.40%	11.25%	9.64%

Schedule of ESDs Contributions			
TRS 1			
Last 10 Fiscal Years* (Dollar amounts in thousands)			
	2017	2016	2015*
Contractually required contribution	\$ 7,367	0	0
Contributions in relation to the contractually required contributions	\$ 7,367	0	0
Contribution deficiency (excess)			
District's covered-employee payroll	\$ 56,892	0	0
Contribution as a percentage of covered-employee payroll	12.95%	0	0

Schedule of ESDs Contributions			
TRS 2/3			
Last 10 Fiscal Years* (Dollar amounts in thousands)			
	2017	2016	2015*
Contractually required contribution	\$ 259,247	\$431,922	\$ 325,096
Contributions in relation to the contractually required contributions	\$ 259,247	\$431,922	\$ 325,096
Contribution deficiency (excess)			
District's covered-employee payroll	\$3,740,262	\$3,396,584	\$3,184,092
Contribution as a percentage of covered-employee payroll	13.17%	12.72%	10.21%

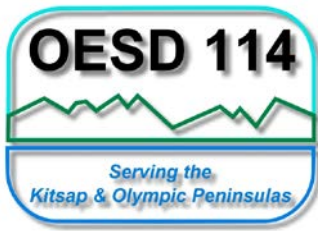
* This schedule is to be built prospectively until it contains ten years of data.

**OLYMPIC EDUCATIONAL SERVICE DISTRICT 114
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

For the Year Ending August 31, 2017

1	2	3	4	5	6	7	8	9	10
Federal Agency Name	Pass Through Agency	Federal Program Title	CFDA Number	Other Identification Number/Award Number	Expenditures	From Pass Through Awards	Total	Passed Through to Subrecipients	Foot note
NATIONAL AERONAUTICS & SPACE ADMINISTRATION	UNIVERSITY OF WA	SCIENCE	43.001	PO 0131		200,774.41	200,774.41		1,7c,7d
		SUBTOTAL - SCIENCE				200,774.41	200,774.41		
US DEPARTMENT OF AGRICULTURE	WA OSPI	CHILD & ADULT CARE FOOD PROGRAM	10.558	18070570		35,552.04	35,552.04		1,7c,7d
		SUBTOTAL - US DEPARTMENT OF AGRICULTURE				35,552.04	35,552.04		
US DEPARTMENT OF ED	SOUTH KITSAP SD	TITLE ONE GRANTS TO LOCAL EDUCATION AGENCIES	84.010	PO 8711600007		34,410.82	34,410.82		1,7a
	SOUTH KITSAP SD	TITLE ONE GRANTS TO LOCAL EDUCATION AGENCIES	84.010	PO 8711600008		19,910.59	19,910.59		1,7a
	WA OSPI	TITLE ONE GRANTS TO LOCAL EDUCATION AGENCIES	84.010	222860		87,167.38	87,167.38		1,7c,7d
	WA OSPI	TITLE ONE GRANTS TO LOCAL EDUCATION AGENCIES	84.010	260062		66,493.00	66,493.00		1,7c,7d
	WA OSPI	TITLE ONE GRANTS TO LOCAL EDUCATION AGENCIES	84.010	222861		68,369.25	68,369.25		1,7c,7d
	BREMERTON SD	CAREER AND TECH EDUCATION-BASIC GRANTS TO STATES	84.048	N/A		2,334.15	2,334.15		1,7b
	WA OSPI	SCHOOLS SAFETY NATIONAL ACTIVITIES	84.184	820008		2,328.97	2,328.97		1,7c,7d
	WA OSPI	21ST CENTURY COMMUNITY LEARNING CENTER	84.287	991014		385,380.69	385,380.69		1,7c,7d
	WA OSPI	MATHEMATICS & SCIENCE PARTNERSHIP	84.366	555403		215,639.46	215,639.46		1,7c,7d
		SUBTOTAL - US DEPARTMENT OF ED				882,034.31	882,034.31		
US DEPARTMENT OF EDUCATION		SPECIAL EDUCATION CLUSTER (IDEA)							
	WA OSPI	SPECIAL EDUCATION-GRANTS TO STATES	84.027	320248		190,311.03	190,311.03		1,7c,7d
	WA OSPI	SPECIAL EDUCATION-PRESCCHOOL GRANTS	84.173	380298		24,310.79	24,310.79		1,7c,7d
		SUBTOTAL - SPECIAL EDUCATION CLUSTER (IDEA)				214,621.82	214,621.82		
US DEPARTMENT OF EDUCATION	ESD 112	SPECIAL EDUCATION FOR INFANTS AND FAMILIES SERVICES	84.181	PO 7007000103		3,370.32	3,370.32		1,7c,7d
		SUBTOTAL - OFFICE OF SPECIAL EDUCATION & REHABILITATIVE SERVICES				3,370.32	3,370.32		
US DEPARTMENT OF HEALTH & HUMAN SVCS		CCDF CLUSTER							
	THRIVE WA	CHILD CARE & DEVELOPMENT BLOCK GRANT	93.575	2017 CM 527		17,807.89	17,807.89		1,7e
	DEL	CHILD CARE & DEVELOPMENT BLOCK GRANT	93.575	16-1142 02		177,533.21	177,533.21		1,7c,7d
		SUBTOTAL - CCDF CLUSTER				195,341.10	195,341.10		
US DEPARTMENT OF HEALTH & HUMAN SVCS	ESD 112	SUBSTANCE ABUSE & MENTAL HEALTH SERVICES	93.243	PO 7006000099/126		4,337.25	4,337.25		1,7c,7d
	KITSAP COUNTY	SUBSTANCE ABUSE & MENTAL HEALTH SERVICES	93.243	KC-426-16		1,633.65	1,633.65		1,7c,7d
		SUBTOTAL - US DEPARTMENT OF HEALTH & HUMAN SERVICES				5,970.90	5,970.90		
US DEPARTMENT OF HEALTH & HUMAN SVCS		TANF CLUSTER							
	WA DSHS	TEMPORARY ASSISTANTS FOR NEEDY FAMILIES	93.558	N/A		26,793.79	26,793.79		1,71,7g
		SUBTOTAL - TANF CLUSTER				26,793.79	26,793.79		
US DEPARTMENT OF HEALTH & HUMAN SVCS	THRIVE WA	AFFORDABLE CARE ACT MATERNAL, INFANT& EARLY CHILDHOOD HEAD START	93.505	2017- CM-527		14,679.45	14,679.45		1,7e
		HEAD START	93.600	10CHO10249/02		2,855,152.54	2,855,152.54		1,2,71,7g
		HEAD START	93.600	10CHO10249/01		661,007.45	661,007.45		1,2,71,7g
		HEAD START	93.600	10HP0010/01		874,600.69	874,600.69		1,2,7g
		ASSISTANCE PROGRAM FOR CHRONIC DISEASE PREVENTION & CONTROL	93.945	930225		46,599.56	46,599.56		1,7c,7d
	WA OSPI	BLOCK GRANT FOR PREV/TREATMT OF SUBSTANCE ABUSE	93.959	998175		283,471.58	283,471.58		1,7c,7d
		SUBTOTAL - US DEPARTMENT OF HEALTH & HUMAN SVCS				4,390,760.68	4,735,511.27		

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



Olympic Educational Service District 114
105 National Avenue North, Bremerton, WA 98312
(360) 479-0993 – FAX (360) 478-6869

**CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED UNDER
UNIFORM GUIDANCE**

Olympic Educational Service District No. 114
Kitsap 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 liabilities related to its other post-employment benefits in accordance with government accounting standards.
Name, address, and telephone of District contact person: Monica Hunsaker, Assistant Superintendent, Olympic Educational Service District No. 114 105 National Avenue N. Bremerton, WA 98312 (360) 478-6894	
<i>ESD 114 respectfully disagrees with the State Auditor's Office finding related to the application of Government Accounting Standards Board Statement No. 45 (GASB 45) – Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions, to the ESD 114 financial statements. The District agrees with the State Auditor's Office finding that the District did not obtain an actuarial study to determine postemployment benefit liabilities.</i>	
<i>The District's review and analysis of the underlying accounting pronouncements resulted in recording activity for post-retirement benefits for employees offered through the Health Care Authority (HCA) as a cost-sharing plan under an arrangement equivalent to a trust. The District does not make any direct payments to HCA for retiree healthcare and was unaware that funds paid could be used for such a purpose.</i>	
<i>As recommended in the finding, management had taken appropriate steps to have our financial statements reviewed by "a person who understands generally accepted accounting principles and the related reporting requirements". In 2010, the State Auditor's Office required the nine Educational Service District's in the State of Washington to change our method of financial reporting to GAAP financial reporting. The nine ESDs hired a consultant to prepare the ESD Accounting Manual which</i>	

also included sample GAAP financial statements. When the project was completed, the manual and the sample financial statements were submitted to the State Auditor's Office for review. No mention of non-compliance with GASB 45 was mentioned from this review, so the ESDs implemented use of this manual. Annually each of the nine ESDs pay for a professional audit of our financial statements from the State Auditor's Office. No mention of non-compliance with GASB 45 has appeared in any financial statement reviews until this year. It is unclear why an issue that is so transparent that management neglected to "periodically evaluate the related liability" could also be completely overlooked by the auditing professionals we hired for the last 7 years. It is clear that GASB 45 must have had other interpretations as it was not even easily recognizable to the only auditing entity in the state that was privy to both the diversionary activities of the Health Care Authority and also their own internal GASB 45 interpretation. We consider this recommendation implemented.

It is clear that the conditions of this finding are not accurate. GASB 45 was released in June of 2004. ESD 114 has never previously received a qualified opinion or finding on this issue; nor have the other 100 entities in the state also affected this year. It wasn't until the State Auditor's Office used their internal knowledge of the inner workings of the Health Care Authority and applied it to all of these other entities audits that this issue arose. ESD 114 would not have received this finding if the Washington State Auditor's Office did not also audit the Washington State Health Care Authority. They too would not have been privy to this diversionary activity.

During the District's 2016-17 annual audit, the State Auditor's Office communicated to the District that they would receive a finding for not reporting a GASB 45 liability. The State Auditor's Office did not accept the research and position of the nine ESDs in the application of GASB 45. Further communication indicated that even if the District procured services for an actuarial study for GASB 45 liabilities that the District would still receive a finding, but would receive a clean audit opinion.

The District evaluated the options and decided the fiscally responsible solution was to avoid spending in excess of \$13,000 for an actuarial study, plus additional costs related to time for the State Auditor's Office to audit the study, in order to make adjustments to our 2016-17 financial statements for an expiring GASB statement. The District's position is to focus time and resources on the implementation of GASB statements that are applicable effective with the 2017-18 fiscal year. Management's belief is that the 2016-17 financial statements, as reported, fairly reflect the financial position of the District, and accurately provides information needed to make financial decisions, consistent with the last six years. Unfortunately, this decision resulted in this audit finding as well as a qualified opinion on the financial statements.

In response to the State Auditor's Office recommendations, the District will implement GASB 75 and ensure postemployment benefit liabilities are reported on the financial statements, as appropriate. In addition, the District will implement a more formalized technical review of the financial statements in accordance with generally accepted accounting principles and reporting requirements, and document the review for the State Auditor's Office.

Anticipated date to complete the corrective action: December 31, 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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Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov