

**Washington State Auditor's Office**  
**Financial Statements and Federal Single Audit Report**

---

**Northwest Educational Service District**  
**No. 189**  
**Skagit County**

Audit Period  
**September 1, 2012 through August 31, 2013**

**Report No. 1011913**

Issue Date  
**May 22, 2014**



**Washington State Auditor**  
**Troy Kelley**

Independence • Respect • Integrity



## Washington State Auditor Troy Kelley

May 22, 2014

Board of Directors  
Northwest Educational Service District No. 189  
Anacortes, Washington

### ***Report on Financial Statements and Federal Single Audit***

Please find attached our report on Northwest Educational Service District No. 189'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 "Troy X. Kelley".

**TROY KELLEY**  
STATE AUDITOR

# Table of Contents

**Northwest Educational Service District No. 189  
Skagit County  
September 1, 2012 through August 31, 2013**

Federal Summary .....	1
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 <i>Government Auditing Standards</i> .....	3
Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.....	5
Independent Auditor's Report on Financial Statements .....	8
Financial Section.....	11

# Federal Summary

## Northwest Educational Service District No. 189 Skagit County September 1, 2012 through August 31, 2013

The results of our audit of Northwest Educational Service District No. 189 are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

### ***FINANCIAL STATEMENTS***

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

#### ***Internal Control Over Financial Reporting:***

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

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

### ***FEDERAL AWARDS***

#### ***Internal Control Over Major Programs:***

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

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

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

***Identification of Major Programs:***

The following were major programs during the period under audit:

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

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

The District qualified as a low-risk auditee under OMB Circular A-133.

# **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***

**Northwest Educational Service District No. 189  
Skagit County  
September 1, 2012 through August 31, 2013**

Board of Directors  
Northwest Educational Service District No. 189  
Anacortes, 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 Northwest Educational Service District No. 189, Skagit County, Washington, as of and for the year ended August 31, 2013, 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 13, 2014. The District has omitted the management's discussion and analysis information that accounting principles generally accepted in the United State of America has determined 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 the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

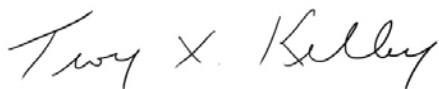
## ***COMPLIANCE AND OTHER MATTERS***

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

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

## ***PURPOSE OF THIS REPORT***

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



**TROY KELLEY**  
STATE AUDITOR

May 13, 2014

# **Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance in Accordance with OMB Circular A-133**

**Northwest Educational Service District No. 189  
Skagit County  
September 1, 2012 through August 31, 2013**

Board of Directors  
Northwest Educational Service District No. 189  
Anacortes, Washington

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

We have audited the compliance of Northwest Educational Service District No. 189, Skagit County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2013. The District's major federal programs are identified in the accompanying Federal Summary.

### ***Management's Responsibility***

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

### ***Auditor's Responsibility***

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

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



### ***Opinion on Each Major Federal Program***

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2013.

### ***REPORT ON INTERNAL CONTROL OVER COMPLIANCE***

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

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

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

### ***PURPOSE OF THIS REPORT***

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It

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

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive, flowing style.

**TROY KELLEY**  
STATE AUDITOR

May 13, 2014

# **Independent Auditor's Report on Financial Statements**

## **Northwest Educational Service District No. 189 Skagit County September 1, 2012 through August 31, 2013**

Board of Directors  
Northwest Educational Service District No. 189  
Anacortes, Washington

### ***REPORT ON THE FINANCIAL STATEMENTS***

We have audited the accompanying financial statements of each major fund and the aggregate remaining fund information of Northwest Educational Service District No. 189, Skagit County, Washington, as of and for the year ended August 31, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, as listed on page 11.

#### ***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 account estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund and the aggregate remaining fund information of Educational Service District No. 189, as of August 31, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

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

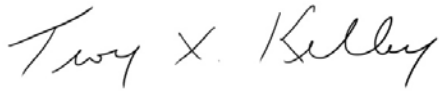
#### ***Supplementary and Other Information***

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. This schedule is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements, and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 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 13, 2014 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Troy X. Kelley".

**TROY KELLEY**  
STATE AUDITOR

May 13, 2014

## **Financial Section**

**Northwest Educational Service District No. 189  
Skagit County  
September 1, 2012 through August 31, 2013**

### ***FINANCIAL STATEMENTS***

Statement of Net Position – 2013  
Statement of Revenues, Expenses and Changes in Net Position – 2013  
Statement of Cash Flows – 2013  
Statement of Fiduciary Net Position – 2013  
Statement of Changes in Fiduciary Net Position – 2013  
Notes to Financial Statements – 2013

### ***SUPPLEMENTARY AND OTHER INFORMATION***

Schedule of Expenditures of Federal Awards – 2013  
Notes to the Schedule of Expenditures of Federal Awards – 2013

NORTHWEST EDUCATIONAL SERVICE DISTRICT NO. 189  
STATEMENT OF NET POSITION - ALL FUNDS  
AUGUST 31, 2013

	NOTE REF	OPERATING	WORKERS COMPENSATION FUND	UNEMPLOYMENT FUND	TOTAL ALL FUNDS
<b>ASSETS</b>					
<b>CURRENT ASSETS</b>					
Cash and Cash Equivalents	Note 1	252,745.79	10,104.74	19,410.46	282,260.99
Investments	Note 2	7,691,900.00	802,700.00	3,799,940.00	12,294,540.00
Accounts Receivable (net of uncollectible allowance)	Note 1	1,653,277.83		56,220.43	1,709,498.26
Other Receivables	Note 8				-
Member Assessments/Contributions					-
Prepays	Note 1	7,116.22			7,116.22
Net Cash/Investments Held for Compensated Absences	Note 1	215,651.45			215,651.45
Other Current Assets	Note 1		79.70	370.94	450.64
<b>TOTAL CURRENT ASSETS</b>		<b>9,820,691.29</b>	<b>812,884.44</b>	<b>3,875,941.83</b>	<b>14,509,517.56</b>
<b>NONCURRENT ASSETS</b>					
Investments	Note 2	1,511,727.07	110,000.00	3,334,335.25	4,956,062.32
Capital Assets	Note 3				
Land		909,421.00			909,421.00
Building		5,713,711.32			5,713,711.32
Equipment		851,093.92			851,093.92
Less: Accumulated Depreciation		(3,110,478.59)			(3,110,478.59)
Net Capital Assets		4,363,747.65	-	-	4,363,747.65
Other Noncurrent Assets					
Investment in Joint Venture	Note 12	610,847.78			610,847.78
<b>TOTAL NONCURRENT ASSETS</b>		<b>6,486,322.50</b>	<b>110,000.00</b>	<b>3,334,335.25</b>	<b>9,930,657.75</b>
<b>TOTAL ASSETS</b>		<b>16,307,013.79</b>	<b>922,884.44</b>	<b>7,210,277.08</b>	<b>24,440,175.31</b>
<b>LIABILITIES</b>					
<b>CURRENT LIABILITIES</b>					
Accounts Payable	Note 1	383,307.87	9,363.23	1,776.83	394,447.93
Payroll, Deductions & Taxes Payable	Note 1	7,355.25			7,355.25
Compensated Absences	Note 1	417,697.63			417,697.63
Capital Leases & Other Debt Payable - Current	Note 5	69,705.67			69,705.67
Unearned Revenue	Note 1	307,887.58			307,887.58
Claim Reserves	Note 8				
IBNR			84,000.00	1,172,666.00	1,256,666.00
Open Claims				146,186.00	146,186.00
Unallocated Loss Adjustment Expenses			29,011.20	45,000.00	74,011.20
<b>TOTAL CURRENT LIABILITIES</b>		<b>1,185,954.00</b>	<b>122,374.43</b>	<b>1,365,628.83</b>	<b>2,673,957.26</b>
<b>NONCURRENT LIABILITIES</b>					
Claim Reserves	Note 8				
IBNR			334,270.93	293,166.00	627,436.93
Future L&I Assessments			115,882.61	45,000.00	160,882.61
Capital Leases & Other Debt Payable	Note 5	233,044.34			233,044.34
<b>TOTAL NONCURRENT LIABILITIES</b>		<b>233,044.34</b>	<b>450,153.54</b>	<b>338,166.00</b>	<b>1,021,363.88</b>
<b>TOTAL LIABILITIES</b>		<b>1,418,998.34</b>	<b>572,527.97</b>	<b>1,703,794.83</b>	<b>3,695,321.14</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	Note 1	1,645.06			1,645.06
<b>NET POSITION</b>					
Invested in Capital Assets, Net of Related Debt		4,183,308.67	-	-	4,183,308.67
Restricted for Support Programs	Note 10	6,174,784.59	-	-	6,174,784.59
Restricted for Risk Pool Net Position	Note 10		350,356.47	5,506,482.25	5,856,838.72
Restricted for Other Items	Note 10	768,640.58			768,640.58
Restricted for Joint Venture	Note 12	610,847.78	-	-	610,847.78
Unrestricted		3,148,788.77	-	-	3,148,788.77
<b>TOTAL NET POSITION</b>		<b>14,886,370.39</b>	<b>350,356.47</b>	<b>5,506,482.25</b>	<b>20,743,209.11</b>

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

NORTHWEST EDUCATIONAL SERVICE DISTRICT NO. 189  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION  
FOR THE YEAR ENDED AUGUST 31, 2013

	OPERATING	WORKERS COMPENSATION FUND	UNEMPLOYMENT FUND	TOTAL ALL FUNDS
<b>OPERATING REVENUES</b>				
Local Sources	1,525,622.25			1,525,622.25
State Sources	1,853,281.94			1,853,281.94
Allotment	495,553.74			495,553.74
Federal Sources	1,569,982.77			1,569,982.77
Cooperative Programs	13,197,190.08			13,197,190.08
Other Programs	1,276,008.09			1,276,008.09
Member Assessments/Contributions			1,494,544.59	1,494,544.59
<b>TOTAL OPERATING REVENUE</b>	<b>19,917,638.87</b>	<b>-</b>	<b>1,494,544.59</b>	<b>21,412,183.46</b>
<b>OPERATING EXPENSES</b>				
General Operations and Administration	1,505,771.85		20,000.00	1,525,771.85
Instructional Support Programs	9,083,505.12			9,083,505.12
Non Instructional Support Programs	8,810,816.13			8,810,816.13
Incurred Loss/Loss Adjustment Expenses				
Paid on Current Losses			876,218.74	876,218.74
Change in Loss Reserves		6,549.97		6,549.97
Unallocated Loss Adjustment Expenses				
Change in Unallocated Loss Reserves		15,985.85		15,985.85
Professional Fees			25,509.85	25,509.85
Labor & Industries Assessments		24,258.86		24,258.86
Depreciation/Depletion	302,635.68			302,635.68
<b>TOTAL OPERATING EXPENSES</b>	<b>19,702,728.78</b>	<b>46,794.68</b>	<b>921,728.59</b>	<b>20,671,252.05</b>
<b>OPERATING INCOME (LOSS)</b>	<b>214,910.09</b>	<b>(46,794.68)</b>	<b>572,816.00</b>	<b>740,931.41</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Interest and Investment Income	29,736.05	2,934.84	13,124.29	45,795.18
Interest Expense and Related Charges	(30,456.21)			(30,456.21)
Change in Joint Venture	4,348.89			4,348.89
Other Nonoperating Revenues	42,234.02			42,234.02
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<b>45,862.75</b>	<b>2,934.84</b>	<b>13,124.29</b>	<b>61,921.88</b>
<b>INCREASE (DECREASE) IN NET POSITION</b>	<b>260,772.84</b>	<b>(43,859.84)</b>	<b>585,940.29</b>	<b>802,853.29</b>
<b>NET POSITION - BEGINNING BALANCE</b>	<b>14,625,597.55</b>	<b>394,216.31</b>	<b>4,920,541.96</b>	<b>19,940,355.82</b>
<b>NET POSITION - ENDING BALANCE</b>	<b>14,886,370.39</b>	<b>350,356.47</b>	<b>5,506,482.25</b>	<b>20,743,209.11</b>

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



NORTHWEST EDUCATIONAL SERVICE DISTRICT NO. 189  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED AUGUST 31, 2013

	OPERATING	WORKERS COMPENSATION FUND	UNEMPLOYMENT FUND	TOTAL ALL FUNDS
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>				
Cash Received from Customers	16,615,761.04			16,615,761.04
Cash Received from State and Federal Sources	3,083,076.91			3,083,076.91
Cash Received from Members			1,486,342.14	1,486,342.14
Payments to Suppliers for Goods and Services	(7,209,266.88)	(17,390.48)	(45,509.85)	(7,272,167.21)
Payments to Employees for Services	(12,465,392.50)			(12,465,392.50)
Cash Paid for Benefits/Claims		(6,390.95)	(872,998.52)	(879,389.47)
Cash Paid for Labor and Industries Assessments		(832.18)		(832.18)
Other Receipts (Payments)		(15,832.96)	8,657.36	(7,175.60)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>24,178.57</b>	<b>(40,446.57)</b>	<b>576,491.13</b>	<b>560,223.13</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Other Noncapital Activities	(2,797.35)			(2,797.35)
<b>NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES</b>	<b>(2,797.35)</b>	<b>-</b>	<b>-</b>	<b>(2,797.35)</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Purchase of Capital Assets	(106,414.95)			(106,414.95)
Principal and Interest Paid on Capital Debt	(100,539.28)			(100,539.28)
<b>NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>(206,954.23)</b>	<b>-</b>	<b>-</b>	<b>(206,954.23)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Net Proceeds from Sales and Maturities of Investment	7,245,290.29	750,000.00	2,529,864.77	10,525,155.06
Purchase of Investments	(1,511,727.07)			(1,511,727.07)
Interest and Dividends Received	29,726.26	2,864.19	12,949.18	45,539.63
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>	<b>5,763,289.48</b>	<b>752,864.19</b>	<b>2,542,813.95</b>	<b>9,058,967.62</b>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>5,577,716.47</b>	<b>712,417.62</b>	<b>3,119,305.08</b>	<b>9,409,439.17</b>
<b>CASH AND CASH EQUIVALENTS - BEGINNING</b>	<b>2,366,929.32</b>	<b>100,387.12</b>	<b>700,045.38</b>	<b>3,167,361.82</b>
<b>CASH AND CASH EQUIVALENTS - ENDING</b>	<b>7,944,645.79</b>	<b>812,804.74</b>	<b>3,819,350.46</b>	<b>12,576,800.99</b>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>				
<b>OPERATING NET INCOME</b>	<b>214,910.09</b>	<b>(46,794.68)</b>	<b>572,816.00</b>	<b>740,931.41</b>
Adjustment to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities				
Depreciation Expense	302,635.68			302,635.68
Change in Assets and Liabilities				-
Receivables, Net	(165,343.32)		454.91	(164,888.41)
Prepays	24,131.40			24,131.40
Cash/Investments Held for Compensated Absences	(215,651.45)			(215,651.45)
Accounts and Other Payables	(69,011.79)	8,310.11		(60,701.68)
Accrued Expenses	141,359.78			141,359.78
Unearned Revenue	(208,851.82)			(208,851.82)
Other Changes				
Provision for Unallocated Loss Adjustment		(1,962.00)		(1,962.00)
Claim Reserves			3,220.22	3,220.22
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>24,178.57</b>	<b>(40,446.57)</b>	<b>576,491.13</b>	<b>560,223.13</b>

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

NORTHWEST EDUCATIONAL SERVICE DISTRICT NO.189  
STATEMENT OF FIDUCIARY NET POSITION  
AUGUST 31, 2013

	<u>COMPENSATED ABSENCES</u>
<b>ASSETS</b>	
Cash and Cash Equivalents	22,677.42
Investments	1,353,935.18
Accounts Receivable	17,664.23
<b>TOTAL ASSETS</b>	<u><u>1,394,276.83</u></u>
<b>LIABILITIES</b>	
Accounts Payable	2,596.49
Program Refunds Payable to Members	227,059.75
<b>TOTAL LIABILITIES</b>	<u><u>229,656.24</u></u>
<b>NET POSITION</b>	
Held in Trust for Benefits and Other Purposes	1,164,620.59
<b>TOTAL NET POSITION</b>	<u><u>1,164,620.59</u></u>

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

NORTHWEST EDUCATIONAL SERVICE DISTRICT NO.189  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FOR THE YEAR ENDED AUGUST 31, 2013

	<u>COMPENSATED ABSENCES</u>
<b>ADDITIONS</b>	
Contributions by Members	340,140.81
Investment Earnings	3,677.04
<b>TOTAL ADDITIONS</b>	<u>343,817.85</u>
<b>DEDUCTIONS</b>	
Distribution to Pool Participants	227,059.75
Administrative Expenses	3,177.20
<b>TOTAL DEDUCTIONS</b>	<u>230,236.95</u>
<b>CHANGE IN NET POSITION</b>	<u>113,580.90</u>
<b>NET POSITION - BEGINNING</b>	1,051,039.69
<b>NET POSITION - ENDING</b>	<u>1,164,620.59</u>

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

# **NORTHWEST EDUCATIONAL SERVICE DISTRICT NO. 189**

## **NOTES TO THE FINANCIAL STATEMENTS**

### **FOR FISCAL YEAR ENDING AUGUST 31, 2013**

#### **Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of Northwest Educational Service District No. 189 ("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***

Northwest Educational Service District No. 189 is one of nine regional quasi-state agencies 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 the District. The District is a separate legal entity and is fiscally independent from all other units of government.

The District serves 35 school districts in Island, San Juan, Skagit, Snohomish and Whatcom 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 nine 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.

#### ***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 *Operating* fund is the District's primary fund. It accounts for all financial resources of the District 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 was created to account for workers' compensation payroll taxes collected from members, and the payment of associated claims, assessments and expenses; however, the fund discontinued offering coverage for its members on June 30, 1994. The fund is in the process of being liquidated. The liquidation may take many years as numerous claims are still open, and all claimants have the right to reopen any closed claim within seven years of closing said claim.

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 principal 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.

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

The *Compensated Absences Pool Agency 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. For fiscal year 2013, there are eight members in the Fund including seven 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 has prepared an annual program report to OSPI in a format issued separately. These reports require specific information and are not prepared on the basis of generally accepted accounting principles.

### ***Assets, Liabilities, and Equity***

#### **Cash and Cash Equivalents**

The Skagit 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, 2013, the treasurer was holding \$13,904,740 in short-term residual investments of surplus cash for all funds. This amount is classified on the statement of net position as current investments and considered part of 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 fiduciary funds, the amounts represent balances due from member districts within thirty days of payroll dates.

Because the bulk of accounts receivable are due from other governmental entities and, as a result, have proven to be highly collectible, the District does not recognize an allowance for uncollectible accounts.

#### Interfund Receivables and Payables

Any interfund receivables or payables due between proprietary funds at the end of the year are for interfund services provided and used. These transactions are presented in the financial statements as revenues/expenses and receivables/payables.

#### Inventory

The District does not maintain material amounts of inventory.

#### 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

#### Investment in Joint Venture – See Note 11

#### Accounts Payable

This account reflects amounts owed to vendors for goods or services received but not yet paid as of August 31, 2013.

#### Payroll, Deductions and Taxes Payable

These accounts consist of accrued wages and accrued employee benefits.

#### 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 District accumulates dedicated funds for liabilities relating to sick leave and vacation leave cash outs. As of August 31, 2013, the amount accumulated for the benefit of the District's compensated absences was \$215,652.

#### Capital Leases and Other Debt Payable – Current

The principal of capital leases and other contracts payable that is due within the year is recorded as a current liability. See Note 5 for the non-current amounts.

#### Unearned Revenue

Payments received prior to the year end for goods or services that the District will be provide in the following fiscal year.

#### 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, 2013, the District had the following investments:

Investment	Maturity	Fair Value
Local Government Investment Pool	\$13,904,740	\$13,904,740
Certificate of Deposit	1,000,000	1,000,000
Government Agency	3,021,062	3,024,529
General Obligation Bonds	935,000	923,373
Total Investments	\$18,860,802	\$18,852,642

#### ***Credit Risk***

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

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

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

### **Interest Rate Risk**

As a means of limiting its exposure to rising interest rates, securities purchased in the pool must have a final maturity, or weighted average life, no longer than five years. While the pool's market value is calculated on a monthly basis, unrealized gains and losses are not distributed to participants. The pool distributes earnings monthly using an amortized cost methodology.

### **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, 2013, was as follows:

	Beginning Balance 9/1/2012	Increases	Decreases	Ending Balance 8/31/2013
Capital assets not being depreciated:				
Land	\$909,421	\$0	\$0	\$909,421
Total capital assets not being depreciated	\$909,421	\$0	\$0	\$909,421
Depreciable capital assets:				
Buildings	\$5,607,296	\$106,415	\$0	\$5,713,711
Equipment	1,059,144	0	208,050	851,094
Total depreciable capital assets	\$6,666,440	\$106,415	\$208,050	\$6,564,805
Less accumulated depreciation for:				
Buildings	(\$2,217,003)	(\$201,845)	\$0	(\$2,418,848)
Equipment	(798,890)	(100,790)	208,050	(691,630)
Total accumulated depreciation	(\$3,015,893)	(\$302,635)	\$208,050	(\$3,110,478)
Total depreciable assets, net	\$3,650,547	(\$196,220)	\$0	\$3,454,327
Total assets, net	\$4,559,968	(\$196,220)	\$0	\$4,363,748



#### **Note 4: SHORT-TERM DEBT**

The District did not issue any short term debt in the fiscal year ended August 31, 2013.

#### **Note 5: LONG-TERM DEBT, LIABILITIES AND LEASES**

##### ***Long-Term Debt***

The District did not have any general obligation bonds outstanding in the fiscal year ending August 31, 2013.

##### ***Operating Lease(s)***

The District is committed under various leases for space. 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, 2013, totaled \$216,631. Future minimum rental commitments for these leases are as follows:

Fiscal Year Ending August 31,	Amount
2014	\$241,585
2015	222,428
2016	225,524

##### ***Capital Lease(s)***

The District has entered into lease agreements for financing copiers and production printers. The lease agreements qualify as capital leases for accounting purposes; therefore, they have been recorded at the present value of their future minimum lease payments as of the inception date.

Assets acquired through capital leases are as follows:

Asset	Amount
Xerox Nuvera 120 DPSC/Bourg	\$242,934
X700 Color Digital Press	77,795
Less accumulated depreciation	(161,265)
Total	\$159,464

The future minimum lease obligation and the net present value of these minimum lease payments as of August 31, 2013, were as follows:

Fiscal Year Ending August 31, 2013	Amount
2014	\$56,966
2015	47,162
2016	47,162
2017	47,162
2018	19,654
Total minimum lease payments	\$218,106
Less: Interest	(37,667)
Present Value of Minimum Lease Payments	\$180,439

### ***Changes in Long-Term Liabilities***

During the fiscal year ended August 31, 2013, the following changes occurred in long-term liabilities:

	Beginning Balance 9/1/2012	Additions	Reductions	Ending Balance 8/31/2013	Due Within One Year
Capital Leases	\$180,439	\$0	\$42,560	\$137,879	\$42,560
Other Long Term Debt	122,311		27,146	95,165	27,146
Total Long-Term Liabilities	\$302,750	\$0	\$69,706	\$233,044	\$69,706

### ***Defeasance of 2003 Bond Issue***

The 2003 bond issue was fully defeased in 2005 using \$2,295,000 held in the District's Reserve for Debt Service and \$2,493,000 in proceeds from the 2005 Refunding Bond issue. On August 31, 2012, the Escrow Agent held \$3,227,556 in trust for the remaining redemptions of the defeased 2003 bonds as they come due. The remaining bonds were called for redemption on December 1, 2012, and the Escrow Agent liquidated the investments held to make payments as the bonds were turned in for redemption.

### **Note 6: PENSION PLANS**

Substantially all of the District's full-time and qualifying part-time employees participate in one of the following three contributory, multi-employer, cost-sharing statewide retirement systems managed by the State of Washington Department of Retirement Systems (DRS).

The Teachers' Retirement System (TRS) includes certificated staff of 295 public school district employers and other public employers. As of June 30, 2012, it includes 117,820 active, inactive and retired members.

The Public Employees' Retirement System (PERS) includes non-certificated staff of state, county, local government, and 295 public school district employers. As of June 30, 2012, it includes 263,347 active, inactive and retired members.

The School Employees' Retirement System (SERS) was established effective September 1, 2000, and includes non-certificated staff of 295 public school district employers. In addition, effective September 1, 2000, all members of PERS Plan 2 were switched to SERS Plan 2 and a new SERS Plan 3 was established. PERS Plan 1 members remained in PERS. As of June 30, 2012, SERS includes 70,129 active, inactive and retired members.

The employee and employer contribution rates for Plans 1 and 2 (for PERS, TRS, and SERS) are established each biennium by the Legislature. The employee contribution rate for Plan 2 is also determined by the Legislature. However, the employee contribution rate for Plan 1 is set by statute at 6 percent and does not vary from year to year. The employer and employee contribution rates for Plan 2 are developed by the state actuary to fully fund these plans. The employer rates for Plan 1 are not necessarily adequate to fully fund the level established by the Legislature. The methods used to determine the contribution requirements are established under Chapters 41.40 and 41.32 RCW for PERS and TRS, respectively.

Plan 3 (for TRS and SERS) is a combination defined benefit, defined contribution plan. Employer contribution rates are established each biennium by the Legislature. The state actuary calculates the rates, the economic revenue forecast council adopts the rates, and the Legislature enacts the rates for the defined benefit portion of the plan. Employee rates are established each biennium by the Legislature as well. These rates fund the defined contribution portion of the plan.

Employee contribution rates have been set at rates reflective of amounts that have been appropriated by the state Legislature.

The District contribution represents its full liability under both systems, except that future rates may be adjusted to meet the system needs.

### ***General System Information by Internal Benefit Plans***

Certificated public employees are members of TRS. Non-certificated public employees are members of either PERS or SERS.

Plan 1 (employment on or before September 30, 1977) members of TRS and PERS are eligible to retire with full benefits after 5 years of credited service and attainment of age 60 or after 25 years of credited service and attainment of age 55 or after 30 years of credited service.

Plan 2 (employment on or after October 1, 1977) members of TRS and SERS are eligible to retire with full benefits after 5 years of credited service and attainment of age 65 or after 20 years of credited service and attainment of age 55 with the benefit actuarially reduced from age 65.

Plan 3 (employment on or after July 1, 1996) members of TRS and Plan 3 (employment on or after September 1, 2000) members of SERS are eligible to retire with full benefits after 10 years of credited service and attainment of age 65 or after 10 years of credited service and attainment of age 55 with benefits actuarially reduced from age 65.

Average final compensation (AFC) of Plan 1 TRS and PERS members is the annual average of the greatest compensation earnable during any consecutive two-year period of service credit months for which service credit is allowed. For Plan 2 TRS and SERS members, it is the average compensation earnable of the highest consecutive sixty months of service credit months.

The retirement allowance of Plan 1 TRS and PERS members is the AFC multiplied by two percent per year of service capped at sixty percent. For Plan 2 TRS and SERS members it is the AFC multiplied by two percent per year of service with provision for a cost-of-living adjustment capped at three percent per year. For the defined benefit portion of Plan 3 TRS and SERS it is the AFC multiplied by one percent per year of service with provision for a cost-of-living adjustment.

### ***Contributions***

Employee contribution rates effective September 1, 2012 through August 31, 2013:

Plan 1 TRS	6.00%	Plan 1 PERS	6.00%
Plan 2 TRS	4.69%	Plan 2 SERS	4.09%
Plan 3 TRS and SERS	5.00% (minimum),	15.00% (maximum)	

For Plan 3 TRS and SERS, rates adjusted based upon age may be chosen. The optional rates range begins at 5 percent and increase to a maximum of 15 percent.

Employer contribution rates effective September 1, 2012 through August 31, 2013:

	9/1/12-8/31/13		9/1/12-6/30/13	7/1/13-8/31/13
Plan 1 TRS	8.05%	Plan 1 PERS	7.21%	9.19%
Plan 2 TRS	8.05%	Plan 2 SERS	7.59%	7.59%
Plan 3 TRS	8.05%	Plan 3 SERS	7.59%	7.59%

Under current law the employer must contribute 100 percent of the employer-required contribution. Employer required contributions in dollars (Participant information for all plans is as of August 31):

Plan 1 TRS	\$ 15,217	Plan 1 PERS	\$ 14,026
Plan 2 TRS	57,765	Plan 2 SERS	332,279
Plan 3 TRS	95,550	Plan 3 SERS	154,930

Historical trend information, showing TRS, PERS and SERS progress in accumulating sufficient assets to pay benefits when due, is presented in the State of Washington's June 30, 2013, comprehensive annual financial report. Refer to said report for detailed trend information. It is available from:

State of Washington  
Office of Financial Management  
300 Insurance Building  
P.O. Box 43113  
Olympia, WA 98504-3113

## **Note 7: OTHER POST EMPLOYMENT BENEFIT PLANS**

### ***457 Plan – Deferred Compensation Plan***

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

The Washington State Department of Retirement Systems offers audited financial statements which provide more detailed information regarding the plan description, significant accounting policies and other information concerning the state's deferred compensation plan. The report may be obtained at <http://www.drs.wa.gov/administration/annual-report/cafr/>.

### ***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 districts to have written plans to include participating investment companies, types of investments, loans, transfers, and various requirements. The plan is administered by CPI, (a third party administrator).

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

## **Note 8: SHARED RISK POOL DISCLOSURES**

### ***Workers' Compensation Insurance Trust***

The Workers' Compensation Trust was organized pursuant to Title 51.14 RCW for the purpose of managing workers' compensation payroll taxes, employee claims, and safety programs. Membership was established by execution of an agreement between the District and each participating school district. The District is also a member of the Trust. Effective June 30, 1994, the Trust ceased coverage for claims coverage after that date. The Trust is operating in runoff mode since that date.

The Trust provides industrial injury accident insurance coverage for its membership for coverable events that occurred prior to June 30, 1994. Full funding was provided by its member participants' prior contributions. Responsibility is retained for the payment of claims within specified self-insured retention limits prior to the application of coverage provided by its excess insurance contracts. Insurance was acquired from unrelated underwriters. The Trust's per-occurrence retention limit ranges from \$100,000 for occurrences in 1984 to \$200,000 for occurrences thru June 30, 1994 and the annual aggregate retention ranges from \$764,607 to \$2,228,870 between 1984 and 1994. Since the Trust is a cooperative program, there is a joint liability among participating members.

For fiscal year 2013, there are 31 members in the pool including 30 participating school districts. A Board comprised of one designated representative from each participating member governs the Trust while a nine member Executive Board advises the Trust. The Executive Board includes the District Superintendent and eight members elected by the member Board. The District is responsible for conducting the business affairs of the Trust. At August 31, 2013, the amount of liabilities totaled \$563,164.74. This liability is the District's best estimate based on available information. Changes in the reported liability since August 31, 2012, resulted in the following:

	Beginning Balance 9/1/2012	Current Year Claims and Changes in Estimates	Ending Balance 8/31/2013
Incurred but not Reported	\$418,271	\$	\$418,271
Future L&I Assessments	39,234		39,234
Estimated Unallocated Loss Adjustment	107,622	(1,962)	105,660

Required Supplemental Information (RSI) is not pertinent to the Workers Compensation Trust as it has been inactive since 1994.

### ***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 2013, there are 29 members in the pool including 27 participating school districts. The pool is governed by a Cooperative Board, which is comprised of one designated representative from each participating member and a nine member Executive Board. Eight members elected by the Cooperative Board and the District Superintendent comprise the Executive Board. At August 31, 2013, the amount of liabilities totaled \$1,702,018. This liability is the District's best estimate based on available information. Changes in the reported liability since August 31, 2013, resulted in the following:

	Beginning Balance 9/1/2012	Current Year Claims and Changes in Estimates	Ending Balance 8/31/2013
Claims Reserves	\$1,698,798	\$3,220	\$1,702,018

## **Note 9: RISK MANAGEMENT**

The District is a member of the Washington School Risk Management Pool. This Pool provides property and casualty insurance coverage for its membership as authorized by Chapter 48.62 RCW. 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 on August 30, 1986 to pool their self-insured losses and jointly purchase insurance and administrative services.

The Pool purchases excess insurance coverage and provides related services, such as administration, risk management, and claims administration. All coverage is on an occurrence basis. The Pool provides the following forms of group purchased insurance coverage for its members: Property, including owned buildings, automobiles and equipment, Equipment Breakdown, Commercial Crime, General Liability, Errors and Omissions Liability, and Employment Practices Liability. Members are responsible for the first \$1,000 of all property claims and the Pool is responsible for the next \$500,000,000. There is no member deductible for liability claims. Excess insurance covers insured losses over \$1,000,000 up to the limits of each policy.

The Pool also purchases additional excess crime coverage as well as required Public Official Bonds. The Commercial Crime coverage is subject to a per-occurrence deductible of \$1,000.

Pool members contract to automatically renew from year to year unless the member gives written notice of its election to terminate at least 180 days prior to August 31 of any year. Termination occurs on August 31 of the subsequent third fiscal year. 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 interlocal governmental agreement. 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. A ten member executive committee is responsible for conducting the business affairs of the Pool. Financial statements and disclosures for the Pool can be obtained from the following address:

Washington Schools Risk Management Pool  
P.O. Box 88700  
Tukwila, WA 98138-2700

## Note 10: NET POSITION, RESTRICTED

The District's statement of net position reports \$6,174,785 of restricted assets for Support Programs. The following lists the programs restricted by the Board of Directors:

Support Program	Amount
Instructional Resources	\$63,242
Special Education	1,999,761
Staff Development	1,153,748
Safe and Drug-Free Schools	27,828
Traffic Safety	173,430
Math & Science	368,215
Communication, Reading and Writing	8,923
Highly Capable	1,137
Early Childhood	114,600
State Institutions	7,111
Data Processing	1,859,198
Risk Management	147,608
Public Communication	10,402
Nursing Services	5,273
Fiscal Agent Services	69,624
Group Purchasing	25,433
Other Non-Instructional Support Programs	139,252
Total Restricted for Support Programs	\$6,174,785

## Note 11: INVESTMENT IN JOINT VENTURE

### *Washington State Information Processing Cooperative*

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

Condensed financial information of the joint venture for the fiscal year ended August 31, 2013, is as follows:

Condensed Financial Statements	Amount
Assets	
Current Assets	\$4,176,337
Non-Current Assets	2,248,125
Other Assets	0
Total Assets	\$6,424,462
Liabilities and Joint Venture Capital	
Current Liabilities	\$926,833
Investment in Joint Venture	5,497,629
Total Liabilities and Joint Venture Capital	\$6,424,462
Operating Revenues	\$18,365,419
Plus/Minus Other Income/Expenses(Net)	-8,178
Less Operating Expenses	-18,318,101
Net Income	\$39,140

The District's share of the total Investment in the Joint Venture is \$610,848. The District contributed \$0 and \$0 to the Joint Venture during fiscal years 2012 and 2013, respectively. There were no distributions in fiscal years 2012 and 2013.

## **Note 12: CONTINGENT LIABILITIES AND LITIGATIONS**

The District has no known contingent liabilities or litigation of a significant nature.

## **Note 13: OTHER DISCLOSURES**

### ***Stewardship, Compliance, and Accountability***

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

### ***Accounting and Reporting Changes - WSIPC Fees***

Starting in 2006, as a courtesy to our Northwest Regional Data Center cooperative members, along with the District fees, the District included the members' Washington Information Processing Cooperative (WSIPC) fees on the member invoices. The District then received and remitted the additional fees to WSIPC on the members' behalf. Prior to the fiscal year ending August 31, 2013, the District did not report the fees collected for and remitted to WSIPC as they netted to zero dollars since none of WSIPC proceeds were retained by the District. Starting with the fiscal year ending August 31, 2013, the District joined the other Educational Service Districts in recognizing the fees collected and remitted to WSIPC as revenues and expenditures. Total fees collected and remitted in this manner totaled \$3,277,906 for the fiscal year.



**NORTHWEST EDUCATIONAL SERVICE DISTRICT # 189  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED AUGUST 31, 2013**

1	2	3	4	5	6	7	8	9
Federal Agency Name	Pass Through Agency	Federal Program Title	CFDA Number	Other Identification Number	From Direct Awards	From Pass Through Awards	Total	Footnote
<b>US Department of Labor, Employment and Training</b>								
	Workforce Development Council	WIA Youth Activities	17.259A	7601 / 12-NWESD-X-133-WOSY		48,849		
					-	48,849	48,849	
<b>Subtotal US Department of Labor, Employment and Training</b>								
<b>US Department of Education</b>								
	WA OSPI	Title I Grants to Local Education Agencies	84.010A	1697 / 27735		90,402		
	WA OSPI	Title I Grants to Local Education Agencies	84.010A	5925 / 222617		131,404		
	WA OSPI	Title I State Agency Program for Neglected and Delinquent Children and Youth	84.013A	5913 / 3002		30,000		
	WA OSPI	Special Education Grants to States	84.027A	1270 / 320207		246,480.71		7
	WA OSPI	Special Education Grants to States	84.027A	1233 / 327355		215,562.75		6
	WA OSPI	Special Education Preschool Grants	84.173A	1271 / 380257		17,117.04		
	WA OSPI	Special Education Preschool Grants	84.173A	1234 / 387355		20,947.62		
	ESD 112	Special Education-Grants for Infants and Families	84.181A	1275 / FRC-#7003400040		3,999		
	WA Dept of Early Learning	Special Education-Grants for Infants and Families	84.181A	1235 / ITEIP-12-1279		16,224		5
	WA OSPI	Mathematics and Science Partnerships	84.366B	2415 / 555359		77,577		
	WA OSPI	Improving Teacher Quality State Grants	84.367A	1699 / 539029		81,977		
	WA OSPI	ARRA-Title I Grants to Local Education Agencies-ARRA	84.389A	5923 / 260016		1,771		2
	WA OSPI	Race to the Top-Early Learning Challenge	84.412A	3454 / 619907		23,761		
	Thrive by Five	Race to the Top-Early Learning Challenge	84.412A	3485 / 2013-CM-9		10,000		4
				<b>Subtotal US Department of Education</b>	-	967,222	967,222	
<b>US Department of Health and Human Services</b>								
	Washington State University	Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	5960 / 1U79SM061131-01		2,360		
	WA Dept of Early Learning	Child Care and Development Block Grant	93.575 A	3445 / 12-1120		185,776		
	Thrive by Five	Child Care and Development Block Grant	93.575A	3485 / 2012-CMG-004		14,107		4
	WA OSPI	Block Grants for Prevention and Treatment of Substance Abuse	93.959A	2080 / 998146 &		383,461		3
	Thrive by Five	ARRA Head Start	93.708	3485 / 2013-CM-9		36,000		4,8
				<b>Subtotal US Department of Health and Human Services</b>	-	621,705	621,705	
				<b>TOTAL FEDERAL AWARDS EXPENDED</b>	-	<b>1,637,776</b>	<b>1,637,776</b>	

The accompanying notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

**NORTHWEST EDUCATIONAL SERVICE DISTRICT NO. 189**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR FISCAL YEAR ENDING AUGUST 31, 2013**

**NOTE 1—BASIS OF ACCOUNTING**

The Schedule of Expenditures of Federal Awards is prepared on the same basis of accounting as the Northwest Educational Service District's (District) financial statements. The District uses the accrual basis of accounting. Expenditures represent only the federally funded portions of the program. District records should be consulted to determine amounts expended or matched from non-federal sources.

**NOTE 2—AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA) of 2009**

Of the amount shown for this program, \$1,771 was paid from ARRA funds.

**NOTE 3—MATCHING CONTRIBUTIONS**

The amounts shown as current year expenses represent only the *federal* grant portion of the program costs. Entire program costs, including the District's portion, may be more than shown.

**NOTE 4—PROGRAM COSTS/MATCHING CONTRIBUTIONS**

The amounts shown as current year expenses represent only the federal grant portion of the program costs. Entire program costs, including the private funding portion, may be more than shown.

**NOTE 5—PROGRAM COSTS**

The amount shown as expenditures includes program income of \$2,280 that was earned and spent.

**NOTE 6—PROGRAM COSTS**

The amount shown as expenditures includes program income of \$62,390 that was earned and spent.

**NOTE 7—PROGRAM COSTS**

The amount shown as expenditures includes program income of \$2,480 that was earned and spent.

**NOTE 8—AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA) of 2009**

Of the amount shown for this program, \$36,000 was paid from ARRA funds.



## **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 as an advocate for government accountability. 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.

The State Auditor's Office employees are located around the state to deliver services effectively and efficiently.

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 and fraud, whistleblower and citizen hotline investigations.

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

We take our role as partners in accountability seriously. We provide training and technical assistance to governments and have an extensive quality assurance program.

**State Auditor**  
**Chief of Staff**  
**Director of Performance and State Audit**  
**Director of Local Audit**  
**Deputy Director of State Audit**  
**Deputy Director of Local Audit**  
**Deputy Director of Local Audit**  
**Deputy Director of Performance Audit**  
**Deputy Director of Quality Assurance**  
**Deputy Director of Communications**  
**Local Government Liaison**  
**Public Records Officer**  
**Main number**  
**Toll-free Citizen Hotline**

**Troy Kelley**  
**Doug Cochran**  
**Chuck Pfeil, CPA**  
**Kelly Collins, CPA**  
**Jan M. Jutte, CPA, CGFM**  
**Sadie Armijo**  
**Mark Rapozo, CPA**  
**Lou Adams, CPA**  
**Barb Hinton**  
**Thomas Shapley**  
**Mike Murphy**  
**Mary Leider**  
**(360) 902-0370**  
**(866) 902-3900**

**Website**  
**Subscription Service**

**[www.sao.wa.gov](http://www.sao.wa.gov)**  
**[portal.sao.wa.gov/saoportal/Login.aspx](http://portal.sao.wa.gov/saoportal/Login.aspx)**