



Office of the Washington State Auditor
Pat McCarthy

**Financial Statements and Federal Single Audit
Report**

Educational Service District No. 112

Clark County

For the period September 1, 2015 through August 31, 2016

Published April 20, 2017

Report No. 1018934





Office of the Washington State Auditor
Pat McCarthy

April 20, 2017

Board of Directors
Educational Service District No. 112
Vancouver, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on Educational Service District No. 112's financial statements and compliance with federal laws and regulations.

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

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Educational Service District No. 112
Clark County
September 1, 2015 through August 31, 2016

SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of Educational Service District No. 112 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 an unmodified opinion on the fair presentation of the financial statements of each major fund and the aggregate remaining fund information in accordance with accounting principles generally accepted in the United States of America (GAAP).

Internal Control over Financial Reporting:

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

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

Federal Awards

Internal Control over Major Programs:

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

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

We reported no findings that are required to be disclosed in accordance with 2 CFR 200.516(a).

Identification of Major Federal Programs:

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

| <u>CFDA No.</u> | <u>Program or Cluster Title</u> |
|-----------------|--|
| 84.027 | Special Education Cluster – Special Education Grants to States |
| 84.173 | Special Education Cluster – Special Education Preschool Grants |

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

The District qualified as a low-risk auditee under the Uniform Guidance.

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

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

**Educational Service District No. 112
Clark County
September 1, 2015 through August 31, 2016**

Board of Directors
Educational Service District No. 112
Vancouver, 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 Educational Service District No. 112, Clark County, Washington, as of and for the year ended August 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated April 10, 2017. The District has omitted the management's discussion and analysis information that governmental accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements. Our opinion on the basic financial statements is not affected by this missing information.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable

possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

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.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is fluid and cursive, with the first name "Pat" and last name "McCarthy" clearly distinguishable.

Pat McCarthy

State Auditor

Olympia, WA

April 10, 2017

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

**Educational Service District No. 112
Clark County
September 1, 2015 through August 31, 2016**

Board of Directors
Educational Service District No. 112
Vancouver, Washington

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

We have audited the compliance of Educational Service District No. 112, Clark 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, 2016. 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, 2016.

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.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy

State Auditor

Olympia, WA

April 10, 2017

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Educational Service District No. 112 Clark County September 1, 2015 through August 31, 2016

Board of Directors
Educational Service District No. 112
Vancouver, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of each major fund and the aggregate remaining fund information of Educational Service District No. 112, Clark County, Washington, as of and for the year ended August 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 16.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor

considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund and the aggregate remaining fund information of Educational Service District No. 112, as of August 31, 2016, 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 pension plan information on pages 51 through 52 and risk pools information on pages 53 through 58 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

basic financial statements in appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by 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.

The additional risk pools information and schedule presenting effect of GASB 68 implementation on pages 61 through 70 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated April 10, 2017 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.

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

Pat McCarthy

State Auditor

Olympia, WA

April 10, 2017

FINANCIAL SECTION

Educational Service District No. 112 Clark County September 1, 2015 through August 31, 2016

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2016
Statement of Revenues, Expenses and Changes in Net Position – 2016
Statement of Cash Flows – 2016
Statement of Fiduciary Net Position – 2016
Statement of Changes in Fiduciary Net Position – 2016
Notes to Financial Statements – 2016

REQUIRED SUPPLEMENTARY INFORMATION

Schedules of Proportionate Share of the Net Pension Liability – 2016
Schedules of Employer Contributions – 2016
SW WA Workers' Compensation Trust – Claims Development Information – 2016
Notes to the SW WA Workers' Compensation Trust – Claims Development Information – 2016
SW WA Risk Management Cooperative – Claims Development Information – 2016
Notes to the SW WA Risk Management Cooperative – Claims Development Information – 2016
SW WA Workers' Compensation Trust Reconciliation of Claims Liabilities – 2016
SW WA Risk Management Cooperative Reconciliation of Claims Liabilities – 2016

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards and Notes – 2016
SW WA Unemployment Compensation Pool – Claims Development Information – 2016
Notes to the SW WA Unemployment Compensation Pool – Claims Development Information – 2016
SW WA Unemployment Compensation Pool – Reconciliation of Claims Liabilities – 2016
SW WA Workers' Compensation Trust – Public Entity Risk Pool List of Participating Members – 2016
DES Schedule of Expenses – SW WA Workers' Compensation Trust – 2016

SW WA Risk Management Cooperative – Public Entity Risk Pool List of Participating Members – 2016

DES Schedule of Expenses – SW WA Risk Management Cooperative – 2016

SW WA Unemployment Compensation Pool – Public Entity Risk Pool List of Participating Members – 2016

DES Schedule of Expenses – SW WA Unemployment Compensation Pool – 2016

Schedule Presenting Effect of GASB 68 Implementation for Share of Washington State DRS Net Pension Liability – 2016

Educational Service District #112
STATEMENT OF NET POSITION - ALL FUNDS
AUGUST 31, 2016

| | NOTE REF | OPERATING | WORKERS COMPENSATION FUND | UNEMPLOYMENT FUND | RISK MANAGEMENT FUND | CHILDCARE FUND | TOTAL ALL FUNDS |
|---|------------|-------------------|---------------------------------|----------------------|----------------------------|------------------|-------------------|
| ASSETS | | | | | | | |
| CURRENT ASSETS | | | | | | | |
| Cash and Cash Equivalents | Note 1 | 426,702 | 204,519 | 45,146 | 312 | 65,959 | 742,638 |
| Investments | Note 1,2 | 5,593,595 | 8,534,576 | 4,034,494 | 6,925,006 | 1,091,858 | 26,179,529 |
| Accounts Receivable (net of uncollectible allowance) | Note 1 | 7,304,137 | 193,691 | 28,578 | | 198,254 | 7,724,660 |
| Inventory | Note 1 | 57,480 | | | | | 57,480 |
| Prepays | Note 1 | 25,669 | | | | | 25,669 |
| Restricted Assets - Held in Investments | Note 1,2,4 | 635,949 | | | | | 635,949 |
| TOTAL CURRENT ASSETS | | 14,043,532 | 8,932,786 | 4,108,218 | 6,925,318 | 1,356,071 | 35,365,925 |
| NONCURRENT ASSETS | | | | | | | |
| Land & Land Improvements | | 6,618,749 | | | | | 6,618,749 |
| Construction in Progress | | 1,621,144 | | | | | 1,621,144 |
| Building | | 16,160,509 | | | | | 16,160,509 |
| Equipment | | 4,453,195 | | | | | 4,453,195 |
| Less: Accumulated Depreciation | | (4,305,148) | | | | | (4,305,148) |
| Net Capital Assets | Note 3 | 24,548,449 | - | - | - | - | 24,548,449 |
| Investment in Joint Venture | Note 10 | (19,056) | | | | | (19,056) |
| TOTAL NONCURRENT ASSETS | | 24,529,393 | - | - | - | - | 24,529,393 |
| TOTAL ASSETS | | 38,572,925 | 8,932,786 | 4,108,218 | 6,925,318 | 1,356,071 | 59,895,318 |
| DEFERRED OUTFLOWS OF RESOURCES | | | | | | | |
| Deferred OutFlows of Resources - Pension Investment Earnings | | 1,392,345 | 28,559 | 6,746 | 15,261 | 6,792 | 1,449,703 |
| Deferred OutFlows of Resources - Pension Experience Differences | | 560,071 | 12,112 | 2,919 | 6,535 | 2,320 | 583,957 |
| Deferred OutFlows of Resources - Pension Assumption Changes | | 89,621 | 2,114 | 500 | 1,130 | 495 | 93,860 |
| Deferred OutFlows of Resources - Pension Changes in Proportion | | 127,708 | 3,457 | 817 | 1,848 | 802 | 134,632 |
| Deferred OutFlows of Resources - Pension Plan Contributions | | 430,873 | 8,255 | 1,979 | 4,443 | 1,712 | 447,262 |
| TOTAL DEFERRED OUTFLOWS OF RESOURCES | Note 1,5 | 2,600,618 | 54,497 | 12,961 | 29,217 | 12,121 | 2,709,414 |

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

Educational Service District #112
STATEMENT OF NET POSITION - ALL FUNDS
AUGUST 31, 2016

| | NOTE REF | OPERATING | WORKERS COMPENSATION FUND | UNEMPLOYMENT FUND | RISK MANAGEMENT FUND | CHILDCARE FUND | TOTAL ALL FUNDS |
|--|-----------------|-------------------|---------------------------------|----------------------|----------------------------|----------------|-------------------|
| LIABILITIES | | | | | | | |
| CURRENT LIABILITIES | | | | | | | |
| Accounts Payable | Note 1 | 1,924,789 | 438,863 | 80,571 | 176,713 | 458,017 | 3,078,953 |
| Accrued Interest Payable | Note 4 | 445,049 | | | | | 445,049 |
| Accrued Salaries | Note 1 | 187,307 | | | | | 187,307 |
| Payroll Deductions & Taxes Payable | Note 1 | 517,009 | | | | | 517,009 |
| Compensated Absences - Current | Note 1 | 104,000 | | | | | 104,000 |
| Bonds Payable - Current | Note 4 | 893,000 | | | | | 893,000 |
| Claim Reserves - Current | Note 7 | | 1,264,721 | 41,941 | 117,868 | | 1,424,530 |
| IBNR - Current | Note 7 | | 660,181 | | 150,139 | | 810,320 |
| Unallocated Loss Adjustment Expenses - Current | Note 7 | | 328,000 | 253,916 | 67,000 | | 648,916 |
| Future L&I Assessments - Current | Note 7 | 42,496 | | | | | - |
| Deposits | Note 1 | 177,016 | | | | | 42,496 |
| Unearned Revenue | Note 1 | | | | | | 177,016 |
| TOTAL CURRENT LIABILITIES | | 4,290,666 | 2,691,765 | 376,428 | 511,720 | 458,017 | 8,328,596 |
| NONCURRENT LIABILITIES | | | | | | | |
| Compensated Absences | Note 1 | 979,507 | 44,445 | 14,958 | 24,915 | | 1,063,825 |
| Claim Reserves | Note 7 | - | 1,951,680 | 29,788 | 527,887 | | 2,509,355 |
| IBNR | Note 7 | | 1,018,000 | | 209,182 | | 1,227,182 |
| Future L&I Assessments - noncurrent | | | 547,214 | | | | 547,214 |
| Net Pension Liability | Note 5 | 19,463,052 | 381,005 | 91,391 | 205,105 | 78,834 | 20,219,387 |
| Bonds Payable | Note 4 | 22,542,000 | | | | | 22,542,000 |
| TOTAL NONCURRENT LIABILITIES | | 42,984,559 | 3,942,344 | 136,137 | 967,089 | 78,834 | 48,108,963 |
| TOTAL LIABILITIES | | 47,275,225 | 6,634,109 | 512,565 | 1,478,809 | 536,851 | 56,437,559 |
| DEFERRED INFLOWS OF RESOURCES | | | | | | | |
| Deferred InFlows of Resources - Pension Investment Earnings | | 4,459 | (1,588) | (173) | (631) | (2,067) | 0 |
| Deferred InFlows of Resources - Pension Experience Differences | | 81,472 | | | | 94 | 81,566 |
| Deferred InFlows of Resources - Pension Changes in Proportion | | 106,575 | | | | 123 | 106,698 |
| TOTAL DEFERRED INFLOWS OF RESOURCES | Note 1,5 | 192,506 | (1,588) | (173) | (631) | (1,850) | 188,264 |

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

Educational Service District #112
STATEMENT OF NET POSITION - ALL FUNDS
AUGUST 31, 2016

| | NOTE REF | OPERATING | WORKERS COMPENSATION FUND | UNEMPLOYMENT FUND | RISK MANAGEMENT FUND | CHILDCARE FUND | TOTAL ALL FUNDS |
|--|-----------|--------------------|---------------------------------|----------------------|----------------------------|----------------|------------------|
| NET POSITION | | | | | | | |
| Net Investment in Capital Assets | | 1,749,398 | - | - | - | - | 1,749,398 |
| Restricted for Self-Insurance | Note 9 | 80,000 | | | | | 80,000 |
| Restricted for Support Programs | Note 9 | 2,537,225 | | | | | 2,537,225 |
| Restricted for Purpose of Debt Funding | Note 4, 9 | 635,949 | | | | | 635,949 |
| Unrestricted | | (11,296,760) | 2,354,762 | 3,608,787 | 5,476,357 | 833,191 | 976,337 |
| TOTAL NET POSITION | | (6,294,188) | 2,354,762 | 3,608,787 | 5,476,357 | 833,191 | 5,978,909 |

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

Educational Service District #112
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED AUGUST 31, 2016

| | NOTE REF | OPERATING | WORKERS COMPENSATION FUND | UNEMPLOYMENT FUND | RISK MANAGEMENT FUND | CHILDCARE FUND | TOTAL ALL FUNDS |
|--|----------|-------------|---------------------------------|----------------------|-------------------------|----------------|-----------------|
| OPERATING REVENUES | | | | | | | |
| Local Sources | | 1,667,848 | | | | 4,863,687 | 6,531,535 |
| State Sources | | 23,759,031 | | | | 1,023,532 | 24,782,563 |
| Allotment | | 514,706 | | | | | 514,706 |
| Federal Sources | | 8,047,402 | | | | 155,843 | 8,203,245 |
| Cooperative Programs | | 6,885,557 | | | | 6,885,557 | 13,771,114 |
| Other Programs | | 15,415,523 | | | | | 15,415,523 |
| Member Assessments/Contributions | | | 6,202,446 | 838,584 | 2,767,473 | 67,919 | 15,483,442 |
| Other Operating Revenue | | | 1 | 2 | | | 9,808,503 |
| TOTAL OPERATING REVENUE | Note 1 | 56,290,067 | 6,202,447 | 838,586 | 2,767,473 | 6,110,981 | 72,209,554 |
| OPERATING EXPENSES | | | | | | | |
| General Operations and Administration | | 3,560,062 | 878,925 | 216,669 | 588,343 | | 5,243,999 |
| Instructional Support Programs | | 32,969,883 | | | | 6,280,886 | 39,250,769 |
| Non Instructional Support Programs | | 16,652,537 | | | | | 16,652,537 |
| Incurred Loss/Loss Adjustment Expenses | | | | | | | |
| Paid on Current Losses | Note 7 | | 2,963,234 | 206,466 | 384,477 | | 3,554,177 |
| Change in Loss Reserves | Note 7 | | 347,292 | (3,895) | 410,607 | | 754,004 |
| Excess/Reinsurance Premiums | Note 7 | | 136,677 | | 1,074,516 | | 1,211,193 |
| Professional Fees | | 565,872 | 10,568 | | | 15,351 | 591,791 |
| Labor & Industries Assessments | Note 7 | | 1,739,953 | | | | 1,739,953 |
| Depreciation/Depletion | Note 3 | 1,193,583 | | | 214,718 | | 1,193,583 |
| Other Operating Expenses | | (237,550) | 75,609 | 196 | 2,571 | | 290,523 |
| Pension Expense from change in Net Pension Liability | Note 5 | 54,704,387 | 4,811 | 1,137 | | 1,138 | (227,893) |
| TOTAL OPERATING EXPENSES | | 54,704,387 | 6,157,069 | 420,573 | 2,675,232 | 6,297,375 | 70,254,636 |
| OPERATING INCOME (LOSS) | | 1,585,680 | 45,378 | 418,013 | 92,241 | (186,394) | 1,954,918 |
| NONOPERATING REVENUES (EXPENSES) | | | | | | | |
| Interest and Investment Income | Note 2 | 34,117 | 52,777 | 24,165 | 46,070 | 9,691 | 166,820 |
| Interest Expense and Related Charges | Note 4 | (940,926) | | | | | (940,926) |
| Lease Income | Note 3 | 660,752 | | | | | 660,752 |
| Change in Joint Venture | Note 10 | 29,460 | | | | | 29,460 |
| Other Nonoperating Revenues | Note 10 | 166,417 | | | | (200,000) | 166,417 |
| Other Nonoperating -Capital Purchase Funding | Note 3 | 285,300 | | | | | 85,300 |
| TOTAL NONOPERATING REVENUES (EXPENSES) | | 235,120 | 52,777 | 24,165 | 46,070 | (190,309) | 167,823 |
| INCREASE (DECREASE) IN NET POSITION | | 1,820,800 | 98,155 | 442,178 | 138,311 | (376,703) | 2,122,741 |
| NET POSITION - BEGINNING BALANCE | | (8,114,988) | 2,256,607 | 3,166,609 | 5,338,046 | 1,209,894 | 3,856,168 |
| Cumulative Effect of Change in Accounting Principle | | | | | | | - |
| PRIOR PERIOD ADJUSTMENT | | | | | | | - |
| NET POSITION - ENDING BALANCE | | (6,294,188) | 2,354,762 | 3,608,787 | 5,476,357 | 833,191 | 5,978,909 |

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

Washington State Auditor's Office

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

Educational Service District #112
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED AUGUST 31, 2016

| | OPERATING | WORKERS COMPENSATION FUND | UNEMPLOYMENT FUND | RISK MANAGEMENT FUND | CHILDCARE FUND | TOTAL ALL FUNDS |
|--|-------------|---------------------------------|----------------------|-------------------------|----------------|-----------------|
| RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | | | | | | |
| OPERATING NET INCOME | 1,585,680 | 45,378 | 418,013 | 92,241 | (186,394) | 1,954,918 |
| Adjustment to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities | | | | | | |
| Depreciation Expense | 1,193,583 | | | | | 1,193,583 |
| Change in Assets and Liabilities | | | | | | |
| Receivables, Net | (1,845,134) | 197,829 | 39,362 | 55,581 | (43,908) | (1,596,270) |
| Prepays | (126) | | | | | (126) |
| Inventories | (57,480) | | | | | (57,480) |
| Accounts and Other Payables | 598,166 | 235,671 | 50,822 | 172,097 | 178,174 | 1,234,930 |
| Unearned Revenue | (21,448) | | | | | (21,448) |
| Pension Expense from change in Net Pension Liability- Other Changes | (237,550) | 4,811 | 1,137 | 2,571 | 1,138 | (227,893) |
| Claims Reserve-Current | | 347,695 | (7,182) | (47,228) | | 293,285 |
| Claims Reserve-Prior Year | | (230,909) | (5,643) | 403,927 | | 167,375 |
| IBNR-Current | | (90,202) | | 17,713 | | (72,489) |
| IBNR-Prior Year | | 353,757 | | 11,195 | | 364,952 |
| Future L&I Assessments | | (59,049) | | | | (59,049) |
| Provision for Unallocated Loss Adjustment | | 26,000 | 8,930 | 25,000 | | 59,930 |
| NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | 1,215,691 | 830,981 | 505,439 | 733,097 | (50,990) | 3,234,218 |
| NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES: | | | | | | |
| Donated Property | 85,300 | | | | | 85,300 |

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

Educational Service District #112
STATEMENT OF FIDUCIARY NET POSITION - FIDUCIARY FUNDS
AUGUST 31, 2016

| | DEFERRED COMPENSATION |
|---|--------------------------|
| ASSETS | |
| Cash and Cash Equivalents | 18,137 |
| TOTAL ASSETS | 18,137 |
| LIABILITIES | |
| TOTAL LIABILITIES | - |
| NET POSITION | |
| Held in Trust for Benefits and Other Purposes | 18,137 |
| TOTAL NET POSITION | 18,137 |

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

Educational Service District #112
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION - FIDUCIARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2016

| | <u>DEFERRED COMPENSATION</u> |
|--|----------------------------------|
| ADDITIONS | |
| Contributions | |
| Employer | - |
| Members | |
| Total Contributions | <u>-</u> |
| Investment Earnings | |
| Interest | 269 |
| Net Increase (Decrease) in the Fair Value of Investments | |
| Total Investment Earnings | <u>269</u> |
| Other Additions | |
| TOTAL ADDITIONS | <u><u>269</u></u> |
| DEDUCTIONS | |
| Distribution to Pool Participants | |
| Refunds of Contributions | |
| Administrative Expenses | |
| Other Payments in Accordance with Trust Agreement | |
| TOTAL DEDUCTIONS | <u><u>-</u></u> |
| CHANGE IN NET POSITION | <u>269</u> |
| NET POSITION - BEGINNING | 17,868 |
| PRIOR PERIOD ADJUSTMENT | |
| NET POSITION - ENDING | <u><u>18,137</u></u> |

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

Educational Service District No. 112
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 1, 2015 THROUGH AUGUST 31, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Educational Service District 112 (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

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

The District serves 30 school districts in Clark, Cowlitz, Klickitat, Pacific, Skamania and Wahkiakum 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, rest 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 District's primary fund. It accounts for all financial resources of the District that are not reported in the following funds.

The *Workers' Compensation Insurance* fund accounts for workers' compensation payroll taxes collected from members, and the payment of associated claims, assessments and expenses. The SW Washington Workers' Compensation Trust is an enterprise fund established in 1983 for the purpose of providing group insurance and claims control for workers' compensation to the member school districts and ESDs.

The *Unemployment Insurance* fund accounts for the collection of premium from members of the fund and the related payment of associated claims and expenses. The SW Washington Unemployment Compensation Pool is an enterprise fund established in 1978 for the purpose of providing group insurance and claims control for unemployment compensation to the member districts and such other agencies as the members of the cooperative shall deem appropriate.

The *Property and Casualty Risk Management Insurance* fund accounts for premiums collected from members and set aside for the payment of deductibles on member property/casualty insurance claims. The SW Washington Risk Management / Insurance Cooperative is an enterprise fund established in 1986 for the purpose of providing group self-funding, claims control, and risk management for property / casualty liabilities to member school districts and ESDs.

The *Child Care Fund* is an enterprise fund established in 1991 for the purpose of providing child care services to local school districts, through the collection of parent fees. The District provides administrative support to the cooperative; the cooperative contracts with a non-profit, Children Northwest, for its employees.

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.

Fiduciary funds are used to account for assets held by the district in a trustee or agency capacity. The District at one time provided a deferred compensation program for its employees. This account is no longer accessible to employees and will close when the final depositor receives their funds.

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, Deposits & Investments – see Note 2

The Clark 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, 2016 the treasurer was holding cash and short-term residual investments of surplus cash as follows:

Educational Service District No. 112
NOTES TO 2015-2016 FINANCIAL STATEMENTS

| | Fair Value (see Note 2) |
|--|----------------------------|
| Cash & Cash Equivalents | \$ 742,638 |
| Investments | 26,179,529 |
| Restricted Assets – Investments (see Note 4) | 635,949 |
| Subtotal, Investments of surplus cash | 26,815,478 |
| Total Cash, Cash Equivalents & Short-Term Investments | \$ 27,558,116 |

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.

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 uncollectible balances. Uncollectible accounts are written off on an annual basis.

Prepaid Items & Inventory

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

The District does not maintain material amounts of inventory. Inventory balances represent program supplies purchased for activities, and funded by contracts, in future fiscal periods.

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, 2016, represents the aggregate amount of vacation and sick leave payable for all eligible employees of the District. Changes in estimated liabilities for sick and vacation leave balances for employees working in the Insurance and Child Care Funds are charged as current expense to those funds.

Other Accrued Liabilities

These accounts consist of accrued wages and accrued employee benefits.

Deposits

Deposits consist of tenant deposits and advance lease payments.

Long Term Debt – See Note 4

Unearned Revenue

Unearned revenue consists of balances acquired by the District from award funders in advance of meeting eligibility requirements and subject to meeting those eligibility requirements as of fiscal year end. Eligibility requirements are expected to be met within 12-18 months.

Deferred Outflows & Inflows

The District has implemented changes in accounting principles for pensions under GASB Statement No. 68 (see Note 5) beginning with the year ended August 31, 2015. GASB No. 68 requires the District to recognize deferred inflows and outflows on the Statement of Net Position related to the proportionate share of the Washington State Department of Retirement System's deferred income or expense items, to be recognized over a number of years, for changes in experience, assumptions, proportion, contributions and investment earnings.

Operating and Nonoperating Revenues and Expenses

In conformance with the *Accounting Manual for Educational Service Districts*, Operating Revenues are defined as revenues generated directly from program activity including:

- Revenue from those who purchase, use or directly benefit from the goods or services of the program;
- Revenue from other governments, entities and individuals, if such revenue is restricted to a specific program or programs; and
- Earnings on permanent fund investments if restricted to a program specifically identified in the agreement.
- Current year pension liability expense from changes in net pension liability (see Note 5).

Under these guidelines, program-specific operating grants and contributions are presented as operating revenue.

Nonoperating revenues and expenditures include interest earnings on investments not restricted to program benefit, interest expense on debt, other asset and financing activities, lease income from rental of excess space, and changes from investments in joint ventures.

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. The District participates in the Clark County Investment Pool which is managed and operated by the Office of the Clark County Treasurer.

As of August 31, 2016, the District had the following investments:

| Investment | Maturity | Fair Value |
|------------------------------|--------------------------------|---------------|
| Clark County Investment Pool | Average Maturity of 9.6 months | \$ 26,815,478 |

Credit Risk

The Clark County Investment Pool is managed and operated by the Office of the Clark County Treasurer and 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 reduces credit risk by purchasing securities rated at the highest quality by credit rating organizations at the time of purchase. The pool does not contain any structured investment vehicles or collateralized debt obligations.

As of the most recent report date, fair value of the pool equaled amortized cost. It is the policy of the pool to permit participants to withdraw their investments on a daily basis; therefore the District's investment balance in the pool is equal to fair value. Fair value is measured using quoted prices in active markets for identical assets that the pool can access at the measurement date (Level 1 Inputs). Observable markets include exchange markets, dealer markets, brokered markets and principal-to-principal markets.

The pool has a strong degree of asset diversification to minimize risk and maintain adequate rates of return. As of August 31, 2016, the distribution of investments of the pool was as follows:

| Investment Type | % of Pool based on Fair Value |
|---|-------------------------------|
| Federal Agencies Semi-Annual Coupon | 57.9 % |
| Treasury Coupons | 26.6 % |
| Washington State Local Government Investment Pool | 13.9 % |
| Commercial Paper | 1.6 % |

*Source: Clark County Treasurer Investment Pool,
August 2016 Monthly Report*

The pool is not insured or guaranteed by any government; therefore, maintenance of principal is not fully insured. The County Investment Pool does not have a credit rating. As of the most recent report date, NAV per share was \$1.000321.

District's participation in the County's Investment Pool is voluntary and the pool is not rated by a nationally recognized statistical rating organization (NRSRO). The County Treasurer publishes an annual report, available on the Treasurer's web site (<https://treasury.clark.wa.gov>).

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a failure of the counterparty to an investment transaction, the District would not be able to recover the value of the investment or collateral securities. Of the District's total cash and investment position of \$27,558,116, no balances are exposed to custodial credit risk. The District does not have a policy for custodial credit risk.

Concentration of Credit Risk

The District does not have investments in any one issuer that represents five percent or more of total investments.

Interest Rate Risk

As of August 31, 2016, the Clark County Investment Pool's average maturity is 9.6 months (291 days). 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 \$15,000 and has an expected useful life of more than five years. Prior to September 1, 2015, the capitalization threshold was established by Board policy at \$50,000. Property, facilities, and large equipment that are purchased using Federal money are subject to inventory reporting 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, based on the month placed in service:

| 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, 2016 was as follows:

| | Beginning Balance 9/1/2015 | Increases | Decreases | Ending Balance 8/31/2016 |
|---|----------------------------------|---------------------|---------------------|--------------------------------|
| Capital assets not depreciated: | | | | |
| Land | \$ 2,013,446 | \$ 4,556,476 | - | \$ 6,569,922 |
| Construction in progress | 93,726 | 1,937,120 | (409,702) | 1,621,144 |
| Total capital assets not depreciated | 2,107,172 | 6,493,596 | (409,702) | 8,191,066 |
| Depreciable capital assets: | | | | |
| Buildings | 1,913,695 | 14,246,814 | - | 16,160,509 |
| Improvements / FFE | 2,500,000 | 111,062 | - | 2,611,062 |
| Transportation Equipment | 1,655,320 | 186,813 | - | 1,842,133 |
| Land Improvements | - | 48,827 | - | 48,827 |
| Total depreciable capital assets | 6,069,015 | 14,593,516 | - | 20,662,531 |
| Less accumulated depreciation for: | | | | |
| Buildings | - | (768,242) | - | (768,242) |
| Improvements / FFE | (2,291,667) | (167,567) | - | (2,459,234) |
| Transportation Equipment | (819,898) | (256,726) | - | (1,076,624) |
| Land Improvements | - | (1,048) | - | (1,048) |
| Total accumulated depreciation | (3,111,565) | (1,193,583) | - | (4,305,148) |
| Total depreciable assets, net | 2,957,450 | 13,399,933 | - | 16,357,383 |
| Total assets, net | \$ 5,064,622 | \$19,893,529 | \$ (409,702) | \$24,548,449 |

Land assets include \$1,863,121 for the October 2013 purchase of land for planned construction of a new facility. This transaction and future disposition of the land is discussed further in Note 4.

On September 1, 2015, the District purchased the business park it occupied under previous long term lease agreement for \$18,068,543; the purchase was for land and five buildings totaling 214,211 square feet. Borrowings for the purchase included funds for remodel of space occupied by the District during the 18-month period pursuant to the purchase (see Note 4). The District currently occupies 39% of the square footage; the remainder is under lease occupancy agreements that were transferred from the seller. Four tenant leases and one ground lease were transferred to the District, ranging from twenty-two months to ten years remaining, before options. A schedule of lease income commitments is provided below, without consideration of options to extend:

| Fiscal Year Ending August 31, | Occupancy Lease Agreements for Ogden Business Park |
|-------------------------------|--|
| 2017 | \$ 677,099 |
| 2018 | 653,392 |
| 2019 | 630,785 |
| 2020 | 627,691 |
| 2021 | 406,668 |
| 2022 & thereafter | 655,105 |

On 12/6/16, an amendment was executed extending an expiring lease agreement for two additional years, July 1 2017 to June 30, 2019. This amendment adds lease agreement commitments of \$15,060 in FY17, \$92,167 in FY18 and \$16,867 in FY19.

On March 1, 2016, the District purchased a building (11,890 square feet) & land in Cowlitz County for \$701,175 for a therapeutic program to be operated as a school district consortium in Cowlitz County. Borrowings for the purchase included funds for remodel of the building (see Note 4). The program opened in the remodeled space November 2016.

On August 1, 2016, the District purchased a building (4,300 square feet) and land in Clark County for \$550,996 that is was leasing under a lease/buy option for early learning programs. Purchase and remodel was funded by District funds and in-kind donation of \$85,300 from the seller. Remodel of the building was completed for occupancy in September 2016.

Construction Commitments

The District has active construction projects as of August 31, 2016. The projects include:

- (1) Improvements to the buildings purchased as of September 1, 2015 for occupancy of the primary business offices of the District;
- (2) Improvements to a building purchased as of March 1, 2016 for a program initiating in the fiscal year beginning September 1, 2016 serving schools in Cowlitz County for students with behavioral challenges requiring therapeutic programs;
- (3) Improvements to a building purchased as of August 1, 2016 for early learning programs in Clark County; improvements to a building leased as of August 1, 2016 for early learning programs in Clark County.

| Project | Spent as of August 31, 2016 | Remaining Commitment |
|--|-----------------------------|----------------------|
| ESD business office park, improvements | \$ 315,006 | \$ 175,249 |
| Cowlitz County behavioral program facility | 812,415 | 1,020,221 |
| Clark County early learning facilities | 493,723 | 27,572 |
| TOTAL Construction in Progress | \$ 1,621,144 | \$ 1,223,042 |

The entire committed balance above has been raised by existing debt issuances (see Note 4) or internal funds. No future financing is required.

NOTE 4: LONG-TERM DEBT, LIABILITIES AND LEASES

Long-Term Debt

The District issues general obligation bonds and other debt instruments to finance capital facility improvements, construction and land acquisition for purposes described in the table below. The following is a summary of long-term debt instruments of the District for the fiscal year ended August 31, 2016:

| Purpose | Maturity Range | Interest Rate | Original Amount | Amount of Annual Installments |
|---|---------------------|---|-----------------|---|
| Leasehold Improvements | 6/1/2002-12/1/2016 | 5.55% | \$2,500,000 | \$115,000-\$230,000 |
| Land Purchase – NE 1 st Street, Vancouver WA | 12/1/13-12/1/23 | 2.55% to 12/1/17; Variable from 2.79% thereafter | \$1,880,000 | No principle debt service scheduled until rate evaluation 12/2017 |
| Remodel of Hough Early Learning Center- 1801 Esther Street, Vancouver WA | 3/1/15-9/1/34 | 3.87% | \$1,000,000 | \$30,000-\$70,000 |
| Business Park Purchase & remodel for main business facility Bond A - 2500 NE 65 th Avenue, Vancouver WA | 9/1/2016 – 9/1/2027 | 4.25% | \$9,250,000 | \$605,000-\$960,000 |
| Business Park Purchase & remodel for main business facility Bond B - 2500 NE 65 th Avenue, Vancouver WA | 9/1/2028-9/1/2035 | 4.25% | \$9,750,000 | \$1,050,000-\$1,405,000 |
| Land/Building Purchase for Cowlitz County Therapeutic Program-1946 8 th Avenue, Longview WA | 12/1/2016-6/1/2026 | 2.50% | \$1,485,000 | \$133,000-\$165,000 |

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

| Fiscal Year Ending August 31 | Principal | Interest |
|------------------------------|------------|------------|
| 2017, Current Portion | \$ 893,000 | \$ 918,592 |
| 2018 | 1,056,000 | 883,045 |
| 2019 | 1,089,000 | 845,847 |
| 2020 | 1,138,000 | 805,024 |
| 2021 | 1,177,000 | 762,530 |
| 2022 and thereafter | 18,082,000 | 5,885,696 |

In September 2013 the District's Board of Directors entered into a purchase and sale agreement to obtain land on which to construct a building in the future. The District had less than four years remaining on its current lease and intended to build a new facility to coincide with the ending of

the lease. On October 18, 2013 the District closed on 5.2 acres of land at NE 1st Street, Vancouver WA 98661, financed through sale of a 10 year Limited General Obligation Bond to Columbia Bank in the amount of \$1,880,000. On September 1, 2015, the District's Board of Directors entered into a purchase and sale agreement to obtain the land and buildings for the business park currently occupied by the District. As a result of this purchase, the District has initiated activity for sale of the 2013-acquired land in accordance with its authorizations. If sold, the related debt will be retired in full. The District continues to explore the potential for holding this land for future construction to meet program expansion needs.

Net Assets Restricted for Purpose of Debt Funding

Borrowings for purchase & remodel of the business park and the Cowlitz County therapeutic program detailed in the table above, included amounts to be applied towards remodel of the buildings purchased. As of August 31, 2016, the following balances are held in surplus cash investments until expenditure related to the purpose of the debt funding is executed. Expenditure of the funds is anticipated to be completed during the next twelve-month period and are classified as current assets.

| Restricted Assets Held as Investments | |
|---|--------------------------|
| Purpose of Debt Funding | As of August 31, 2016 |
| Business park building remodel for main business facility | \$ 284,450 |
| Building remodel for Cowlitz County therapeutic program | 351,499 |
| Total, Restricted Assets-Held in Investments | \$ 635,949 |

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 and leases are subject to cancellation at any time during the lease for changes in funding availability.

Lease expenses for the year ended August 31, 2016, totaled \$276,284. Future minimum rental commitments for operating leases are presented in the table below.

| Fiscal Year Ending August 31, | Amount Committed as of 8/31/16 |
|-------------------------------|-----------------------------------|
| 2017 | \$ 254,921 |
| 2018 | 230,994 |
| 2019 | 202,527 |
| 2020 | 166,556 |
| 2021 | 134,087 |
| 2022 thereafter | 103,482 |

Changes in Long-Term Liabilities

During the fiscal year ended August 31, 2016, the following changes occurred in long-term liabilities:

| | Beginning Balance 9/1/15 | Additions | Reductions | Ending Balance 8/31/16 | Due Within One Year |
|--|--------------------------------|--------------|--------------|------------------------------|------------------------|
| Bonds Payable | \$3,210,000 | \$20,485,000 | \$ (260,000) | \$23,435,000 | \$ 893,000 |
| Compensated Absences (unfunded portion) (Note 1) | 1,013,161 | 154,664 | - | 1,167,825 | 104,000 |
| Claims Reserves (Note 7) | 3,473,225 | 460,660 | | 3,933,885 | 1,424,530 |
| IBNR (Note 7) | 1,745,039 | 292,463 | | 2,037,502 | 810,320 |
| Net Pension Liability (NPL) (Note 5)- | | | | | |
| NPL TRS 1 | 4,395,869 | 43,731 | | 4,439,600 | |
| NPL TRS 2/3 | 1,236,052 | 602,200 | | 1,838,252 | |
| NPL SERS 2/3 | 3,712,623 | 2,512,877 | | 6,225,500 | |
| NPL PERS 1 | 7,209,842 | 506,193 | | 7,716,035 | |
| Total Long Term Liabilities | \$25,995,811 | \$25,057,788 | \$ (260,000) | \$50,793,599 | \$3,231,850 |

NOTE 5: PENSION PLANS

The District is required to provide retirement benefits for substantially all qualifying employees through the Washington State Department of Retirement Systems (DRS), a department within the primary government of the state of Washington. Beginning for the year ended August 31, 2015, the District has implemented Governmental Accounting Standards Board Statement No. 68 Accounting and Financial Reporting for Pensions (see Note 12). GASB No. 68 requires, among other provisions, that the District recognize its proportionate share of the DRS plan's underfunded (or overfunded) status. The District has no independent ability to fund or satisfy pension liabilities outside of Washington state's legislatively adopted contribution rates. Assessments now and in the future are made based on the legislatively-mandated rates and are paid by the District on salaries and wages, as earned, in future years.

General Information

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

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

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

Membership Participation

Substantially all of the 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 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, 2016, was as follows:

| Plan | Active Members | Inactive Vested Members | Retired Members |
|--------|----------------|-------------------------|-----------------|
| PERS 1 | 49,417 | 827 | 3,230 |
| SERS 2 | 7,391 | 5,704 | 26,127 |
| SERS 3 | 6,715 | 7,899 | 32,409 |
| TRS 1 | 34,859 | 223 | 962 |
| TRS 2 | 4,700 | 2,443 | 17,612 |
| TRS 3 | 8,866 | 8,373 | 53,417 |

The latest actuarial valuation date for all plans was June 30, 2015.

Source: Washington State Office of the State Actuary

Membership & Plan Benefits

Certificated employees are members of TRS. Classified employees are members of PERS (if Plan 1) or SERS. Plan 1 under the TRS and PERS programs are defined benefit pension plans whose members joined the system on or before September 30, 1977. TRS 1 and PERS 1 are closed to new entrants.

TRS Plan Information

TRS was established in 1938, and its retirement provisions are contained in RCW Chapters 41.34 and 41.32. 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 Information

PERS was established in 1947, and its retirement benefit provisions are contained in RCW Chapters 41.34 and 41.40. PERS is a cost-sharing, multi-employer retirement system. 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 Plan Information

SERS was established by the legislature in 1998, and the plan became effective in 2000. SERS retirement benefit provisions are established in RCW Chapters 41.34 and 41.35. SERS is a cost-sharing multiple-employer retirement system comprised of two separate plans for membership purposes. SERS Plan 2 is a defined benefit plan and SERS Plan 3 is a defined benefit plan with a defined contribution component. SERS members include classified employees of school districts and educational service districts. SERS is reported as two separate plans for accounting purposes: Plan 2/3 and Plan 3. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

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

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

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

Plan Contributions

The employer contribution rates for PERS, TRS, and SERS (Plans 1, 2, and 3) and the TRS and SERS Plan 2 employee contribution rates are established by the Pension Funding Council based upon the rates set by the Legislature. The methods used to determine the contribution requirements are established under chapters 41.40, 41.32, and 41.35 RCW for PERS, TRS and SERS respectively. Employers do not contribute to the defined contribution portions of TRS Plan 3 or SERS Plan 3. Under current law the employer must contribute 100 percent of the employer-required contribution. The employee contribution rate for Plan 1 in PERS and TRS is set by statute at six percent and does not vary from year to year.

The employer and employee contribution rates for the PERS plan are effective as of July 1. SERS and TRS contribution rates are effective as of September 1. The pension plan contribution rates (expressed as a percentage of covered payroll) for 2015 and 2016 are listed below:

| Pension Rates | | | |
|----------------------------|-------------|-------------|--|
| | 7/1/16 Rate | 7/1/15 Rate | |
| PERS 1 | | | |
| Member Contribution Rate | 6.00% | 6.00% | |
| Employer Contribution Rate | 11.18% | 11.18% | |
| Pension Rates | | | |
| | 9/1/16 Rate | 9/1/15 Rate | |
| TRS 1 | | | |
| Member Contribution Rate | 6.00% | 6.00% | |
| Employer Contribution Rate | 13.13% | 13.13% | |
| TRS 2 | | | |
| Member Contribution Rate | 5.95% | 5.95% | |
| Employer Contribution Rate | 13.13% | 13.13% | |

| Pension Rates (continued) | | | |
|---|-------------|-------------|----|
| | 9/1/16 Rate | 9/1/15 Rate | |
| TRS 3 | | | |
| Member Contribution Rate | varies* | varies* | |
| Employer Contribution Rate | 13.13% | 13.13% | ** |
| SERS 2 | | | |
| Member Contribution Rate | 5.63% | 5.63% | |
| Employer Contribution Rate | 11.58% | 11.58% | |
| SERS 3 | | | |
| Member Contribution Rate | varies* | varies* | |
| Employer Contribution Rate | 11.58% | 11.58% | ** |
| Note: The DRS administrative rate of .0018 is included in the employer rate. | | | |
| * = Variable from 5% to 15% based on rate selected by the member. | | | |
| ** = Defined benefit portion only. | | | |

The Collective Net Pension Liability

The collective net pension liabilities for the pension plans the District participated in are reported in the following tables:

| Net Pension Liability as of June 30, 2016: | | | | |
|--|----------------|----------------|----------------|-----------------|
| Dollars in Thousands | PERS 1 | SERS 2/3 | TRS 1 | TRS 2/3 |
| Total Pension Liability | \$ 12,496,872 | \$ 4,870,806 | \$ 9,001,257 | \$ 12,172,222 |
| Plan fiduciary net position | \$ (7,126,401) | \$ (4,214,039) | \$ (5,587,020) | \$ (10,798,925) |
| Participating employers' net pension liability | \$ 5,370,471 | \$ 656,767 | \$ 3,414,237 | \$ 1,373,297 |
| Plan fiduciary net position as a percentage of the total pension liability | 57.03% | 86.52% | 62.07% | 88.72% |

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

At June 30, 2016, the ESD reported a total liability of \$20,219,387 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, 2016, the district's proportionate share of each plan's net pension liability is reported below:

| June 30, 2016 | PERS 1 | SERS 2/3 | TRS 1 | TRS 2/3 |
|---------------------------------|------------|--------------|------------|------------|
| District's Annual Contributions | \$ 814,778 | \$ 1,134,015 | \$ 395,188 | \$ 436,913 |
| Proportionate Share of NPL | 7,716,035 | 6,225,500 | 4,439,600 | 1,838,252 |

Changes to net pension liability from the prior period are displayed in the Schedule of Changes in Long Term Liabilities, Note 4

At June 30, 2016, the District's percentage of the proportionate share of the collective net pension liability and the change in the allocation percentage from the prior year is illustrated below:

| Changes in Proportionate Shares | PERS 1 | SERS 2/3 | TRS 1 | TRS 2/3 |
|---|------------|------------|-------------|-------------|
| Current year proportionate share of NPL | 0.143675 % | 0.947901% | 0.130032 % | 0.133857 % |
| Prior year proportionate share of NPL | 0.137831 % | 0.914099 % | 0.138752 % | 0.146486 % |
| Net difference percentage | 0.005844 % | 0.033802 % | (0.008720)% | (0.012629)% |

Actuarial Assumptions

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

The total pension liabilities for TRS 1, TRS 2/3, PERS 1 and SERS 2/3 were determined by actuarial valuation as of June 30, 2015, with the results rolled forward to June 30, 2016, 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, 2015, valuation were based on the results of the 2007–2012 Experience Study. Additional assumptions for subsequent events and law changes are current as of the 2015 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% 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, 2016, are summarized in the following table:

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

The inflation component used to create the above table is 2.20%, 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%. 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% 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% 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% 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, 2016, 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 | 194,278 | - |
| Changes in assumptions or other inputs | - | - |
| Changes in proportion and differences between contributions and proportionate share of contributions | - | - |
| Contributions subsequent to the measurement date | 126,052 | - |
| TOTAL | \$ 320,330 | \$ - |

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| SERS 2/3 | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|--------------------------------|-------------------------------|
| Difference between expected and actual experiences | \$ 444,897 | \$ - |
| Net difference between projected and actual earnings on pension plan investments | 818,768 | - |
| Changes in assumptions or other inputs | 75,140 | - |
| Changes in proportion and differences between contributions and proportionate share of contributions | 127,182 | - |
| Contributions subsequent to the measurement date | 175,205 | - |
| TOTAL | \$ 1,641,192 | \$ - |
| 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 | 140,745 | - |
| Changes in assumptions or other inputs | - | - |
| Changes in proportion and differences between contributions and proportionate share of contributions | - | - |
| Contributions subsequent to the measurement date | 70,235 | - |
| TOTAL | \$ 210,980 | \$ - |
| TRS 2/3 | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Difference between expected and actual experiences | \$ 139,060 | \$ (81,566) |
| Net difference between projected and actual earnings on pension plan investments | 295,912 | - |
| Changes in assumptions or other inputs | 18,720 | - |
| Changes in proportion and differences between contributions and proportionate share of contributions | 7,449 | (106,698) |
| Contributions subsequent to the measurement date | 75,770 | - |
| TOTAL | \$ 536,911 | \$ (188,264) |

\$447,262 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, 2017.

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 |
|--------------------------|-------------|------------|-------------|-------------|
| 2017 | \$ (47,835) | \$ 184,245 | \$ (36,377) | \$ (27,549) |
| 2018 | (47,835) | 184,245 | (36,377) | (27,549) |
| 2019 | 178,423 | 705,901 | 131,671 | 220,486 |
| 2020 | 111,525 | 391,597 | 81,827 | 122,972 |
| 2021 | - | - | - | (15,482) |
| Thereafter | - | - | - | - |

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 proportionate share of the collective net pension liability. For the year ending August 31, 2016, the District recognized a total pension expense from change in the net pension liability as follows:

| Pension Expense from change in NPL | |
|------------------------------------|---------------------|
| PERS 1 | \$ (114,169) |
| SERS 2/3 | 284,787 |
| TRS 1 | (442,684) |
| TRS 2/3 | 44,173 |
| TOTAL | \$ (227,893) |

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

The table below presents the District'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%) |
|--|------------------------|----------------------------------|------------------------|
| PERS1 NPL | \$ 6,476,248,000 | \$ 5,370,471,000 | \$ 4,418,882,000 |
| Allocation Percentage | 0.143675 % | 0.143675 % | 0.143675 % |
| Proportionate Share of Collective NPL | \$ 9,304,762 | \$ 7,716,035 | \$ 6,348,837 |
| SERS2/3 NPL | \$ 1,600,655,000 | \$ 656,767,000 | \$ (75,324,000) |
| Allocation Percentage | 0.947901 % | 0.947901 % | 0.947901 % |
| Proportionate Share of Collective NPL | \$ 15,172,719 | \$ 6,225,501 | \$ (713,997) |
| TRS1 NPL | \$ 4,197,137,000 | \$ 3,414,237,000 | \$ 2,739,882,000 |
| Allocation Percentage | 0.130032 % | 0.130032 % | 0.130032 % |
| Proportionate Share of Collective NPL | \$ 5,547,621 | \$ 4,439,601 | \$ 3,562,723 |
| TRS2/3 NPL | \$ 3,107,958,000 | \$ 1,373,297,000 | \$ (1,595,357,000) |
| Allocation Percentage | 0.133857 % | 0.133857 % | 0.133857 % |
| Proportionate Share of Collective NPL | \$ 4,160,215 | \$ 1,838,252 | \$ (2,135,495) |

Schedules of Required Supplementary Information

Required supplementary information is presented in the required supplementary schedules for each plan the District participates in.

NOTE 6: POST EMPLOYMENT BENEFIT PLANS OTHER THAN PENSION PLANS

457 Plan – Deferred Compensation Plan

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

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

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

The plan assets are assets of the District's employees, not the District, and are therefore not reflected on these financial statements.

NOTE 7: SHARED RISK POOL DISCLOSURES

Property and Liability Risk Management Pool

The District operates a group self-funding, claims control and risk management fund for property and casualty liabilities to member school districts and ESDs.

Unpaid Claims Liabilities

The pool establishes claims liabilities based on estimates of the ultimate cost of claims including future claim adjustment expenses, that have been reported but not settled, and claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved. Estimated amounts of salvage, subrogation, and reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claims liabilities does not necessarily result in an exact amount, particularly for coverages such as general liability. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made.

Reinsurance

The pool uses reinsurance agreements to reduce its exposure to large losses on all types of insured events. Reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the pool as direct insurer of the risks reinsured. The

pool does not report reinsured risks as liabilities unless it is probable that those risks will not be covered by reinsurers. The amount deducted from claims liabilities as of August 31, 2016, for reinsurance was \$0. Premiums ceded to reinsurers during 2016 were \$1,074,516.

Member Assessments and Unearned Member Assessments

Member assessments are collected and recognized as revenue in the period for which insurance protection is provided. The assessment is calculated based on exposure data, (student FTE, vehicle count, property values).

Unpaid Claims

Claims are charged to income as incurred. Claim reserves represent the accumulation of estimates for reported, unpaid claims, and a provision for claims incurred, but not reported. These estimates are continually reviewed and updated, and any resulting adjustments are reflected in current earnings.

Reserve for Unallocated Loss Adjustment Expenses

The reserve for unallocated loss adjustment expenses represents the estimated cost to be incurred with respect to the settlement of claims in process and claims incurred but not reported. An actuarial firm estimates this liability at the end of each year. The change in the liability each year is reflected in current earnings.

Exemption from Federal and State Taxes

Pursuant to revenue ruling number 90-74, income of Municipal Risk Pools is excluded from gross income under IRC Section 115(1). Chapter 48.62 RCW exempts the pool from insurance premium taxes, and business and occupation taxes imposed pursuant to Chapter 82.04 RCW.

Risk Financing Limits

The following table reflects the risk financing limits on coverage policies issued and retained by the pool at August 31, 2016:

| Type of Coverage | Member Deductibles | Self-Insured Retention | Excess Limits |
|-----------------------------|--------------------|----------------------------|-------------------|
| Property | \$ 1,000 | \$ 250,000 | \$ 500,000,000 |
| Equipment Breakdown | \$ 1,000 | \$ 25,000 | \$ 500,000,000 |
| Liability | \$ 0 | \$ 250,000 | \$ 20,000,000 |
| Crime | \$ 1,000 | \$ 250,000 | \$ 1,000,000 |
| Commercial Crime | \$ 1,000 | \$ 5,000 | \$ 1,000,000 |
| Public Official Bonds | \$ 0 | \$ 0 | \$5,000 /\$50,000 |
| Privacy & Network Liability | \$ 1,000 | \$10,000/\$25,000/\$50,000 | \$ 1,000,000 |
| Terrorism - Property | \$ 0 | \$ 0 | \$ 100,000,000 |
| Terrorism - NCBB | \$ 0 | \$ 0 | \$ 25,000,000 |

Excess Insurance Contracts/Reinsurance

The pool maintains excess insurance contracts with several insurance carriers, which provide various limits of coverage over the pool's self-insured retention limits. The limits provided by these excess insurance contracts are as follows:

| Excess Insurance Contracts | FY 2016 |
|----------------------------|----------------|
| WSRMP – Property | \$ 500,000,000 |
| WSRMP - :Liability | \$ 20,000,000 |

Per-occurrence coverage limits provided by the pool, including the excess insurance limits combined with the pool's self-insured retention limits, are as follows:

| Excess Insurance Contracts | FY 2016 |
|----------------------------|----------------|
| WSRMP – Property | \$ 500,000,000 |
| WSRMP – Liability | \$ 20,250,000 |

Members' Supplemental Assessments and Credits

The interlocal governmental agreement provides for supplemental assessments to members based on actual claim experience. (During fiscal year 2016, the pool did not make a supplemental assessment).

Unpaid Claims Liabilities

As discussed above, the pool establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses, both allocated and unallocated. The following represents changes in those aggregate liabilities for the pool during the past two years:

| | 2016 | 2015 |
|---|--------------|--------------|
| Unpaid claims and claim adjustment expenses, beginning of year | \$ 661,469 | \$ 1,311,704 |
| Incurred claims and claim adjustment expenses: | | |
| Provision for insured events of current year | 498,287 | 679,142 |
| Increases in provision for insured events of prior years | 296,797 | (170,980) |
| Total Incurred | 795,084 | 508,162 |
| Payments: | | |
| Claims and claim adjustment expenses attributable to insured events of current year | (230,280) | (381,620) |
| Claims and claim adjustment expenses attributable to insured events of prior years | (154,197) | (776,777) |
| Total Payments | (384,477) | (1,158,397) |
| Total unpaid claims and claim adjustment expenses, end of year | \$ 1,072,076 | \$ 661,469 |

At yearend August 31, 2016, \$1,072,076 of unpaid claims and claim adjustment expenses are presented at their net present value.

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 \$5,000,368. Since the Trust is a cooperative program, there is a joint liability among participating members.

For fiscal year 2016, there are 30 members in the pool including 29 participating school districts. A Board comprised of one designated representative from each participating member and a five member Executive Board governs the Trust. The Executive Board has five members elected by the Board. The District is responsible for conducting the business affairs of the Trust. At August 31, 2016, the amount of liabilities totaled \$5,769,796. This liability is the District's best estimate based on available information. Changes in the reported liability from the prior year's ending balance, resulted in the following:

| | Beginning Balance 9/1/2015 | Current Year Claims and Changes in Estimates | Ending Balance 8/31/2016 |
|--|-------------------------------|--|-----------------------------|
| Incurred but not Reported | \$ 1,414,626 | \$ 263,555 | \$ 1,678,181 |
| Future L&I Assessments | \$ 606,263 | \$ (59,049) | \$ 547,214 |
| Estimated Unallocated Loss Adjustment | \$ 302,000 | \$ 26,000 | \$ 328,000 |
| Claim Reserves | \$ 3,099,615 | \$ 116,786 | \$ 3,216,401 |

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 2016, there are 29 members in the pool including 28 participating school districts. The pool is governed by a Cooperative Board, which is comprised of one designated representative from each participating member and a five member Executive Board. Five members elected by the Cooperative Board and the District Superintendent comprise the Executive Board. At August 31, 2016, the amount of liabilities totaled \$325,645. This liability is the District's best estimate based on available information. Changes in the reported liability since August 31, 2016, resulted in the following:

| | Beginning Balance 9/1/2015 | Current Year Claims and Changes in Estimates | Ending Balance 8/31/2016 |
|--------------------------|-------------------------------|--|-----------------------------|
| Claims Reserves and ULAE | \$ 329,540 | \$ (3,895) | \$ 325,645 |

NOTE 8: RISK MANAGEMENT

The District is a member of the Southwest Washington Risk Management Insurance Cooperative. 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 September 1, 1985 to pool their self-insured losses and jointly purchase insurance and administrative services. The District joined the Pool effective September 1, 1985.

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 and Public Official Bonds, General Liability, Errors and Omissions Liability, and Employment Practices Liability and Privacy and Network Liability. Members are responsible for the first \$1,000 of all property claims and the Pool is responsible for the next \$500 million. There is no member deductible for liability claims. The Pool purchases \$20 million of excess liability insurance. The Pool is a member of Washington Schools Risk Management Pool to obtain this excess insurance.

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 \$5,000. Members are responsible for \$1,000 of that deductible amount for each claim.

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. 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 five 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: 2500 NE 65th Avenue, Vancouver WA 98661.

Solvency

Washington Administrative Code (WAC) 200-100 requires Pools to maintain certain levels of primary and secondary assets to meet solvency standards. As defined in WAC 200-100-03001 total primary assets, cash and cash equivalents less non-claim liabilities, must be at least equal to the unpaid claims estimate at the expected level as determined by the actuary. Additionally, total primary and secondary assets must be at least equal to the unpaid claims estimate at the 80 percent confidence level as determined by the actuary. Secondary assets are defined as insurance receivables, real estate or other assets (less any non-claim liabilities) the value of which can be independently verified by the state risk manager.

| Solvency Tests for Risk Management | Primary Asset Test | Secondary Asset Test |
|---|--------------------|----------------------|
| Cash & cash equivalents | \$ 312 | \$ 312 |
| Investments | 6,925,005 | 6,925,005 |
| Receivables | n.a. | - |
| Prepaid expenses | n.a. | - |
| Total | 6,925,317 | 6,925,317 |
| Less: Non-claims liabilities | (406,732) | (406,732) |
| Less: Unearned member contributions | - | n.a. |
| Total primary assets | \$ 6,518,585 | |
| Total secondary assets | | \$ 6,518,585 |
| Compared to: | | |
| Claim liabilities at expected level per actuary (sum of all claims liabilities) | \$ 1,072,076 | |
| Claim liabilities at 80% confidence level per actuary | | \$ 2,684,000 |
| Solvency test results | MET | MET |

NOTE 9: NET POSITION, RESTRICTED

The District's statement of net position reports \$2,537,225 of net assets restricted for support programs as follows:

| Support Program | Amount |
|---|---------------|
| Restricted for Transportation Equipment | \$ 473,578 |
| Restricted for Instructional Programs | 1,876,754 |
| Restricted for Non-Instructional Programs | 186,893 |

In fiscal year ending August 31, 2012, the District began to self-insure for dental benefits. As regulated by RCW 48.62, the District has been required to establish a reserve to cover up to three months' worth of dental expenses for the agency. During the past fiscal year, monthly costs averaged \$21,000 per month, with a monthly range of \$15,000 - \$27,000. As of August 31, 2016, the reserve maintains a restricted reserve balance of \$80,000.

During the fiscal year ending August 31, 2016, bonds were issued to the District for purchase and remodel of land and buildings (see Note 4). As of August 31, 2016, \$635,949 of the borrowed funds were held as restricted assets in the current investment pool, to be expended for purposes of the borrowed funds (see Note 2).

NOTE 10: INVESTMENT IN JOINT VENTURE

Washington State Information Processing Cooperative

The District is a member of the Washington Information Processing Cooperative (WSIPC). The WSIPC Board of Directors consists of a member of each of the nine educational service districts in the state, sharing equally in the joint venture. 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, 2016, is as follows:

| Condensed Financial Statements <i>Unaudited</i> | Amount |
|--|----------------------|
| Assets & Deferred Outflows | |
| Current Assets | \$ 4,643,291 |
| Non-Current Assets | 2,021,116 |
| Deferred Outflows of Pensions | 865,007 |
| Total Assets & Deferred Outflows | \$ 7,529,414 |
| Liabilities, Deferred Inflows and Joint Venture Capital | |
| Current and Noncurrent Liabilities | \$ 7,306,189 |
| Deferred Inflows | 394,727 |
| Investment in Joint Venture | (171,502) |
| Total Liabilities, Deferred Inflows and Joint Venture Capital | \$ 7,529,414 |
| Operating Revenues | \$ 21,659,785 |
| Plus/ Minus: Other Income/ Expenses (Net) | 14,246 |
| Less: Operating Expenses | (21,408,891) |
| Net Income | \$ 265,140 |

WSIPC employees participate in the Washington state retirement system; the Cooperative was required to record the effects of the change in accounting for pensions under Government Accounting Standards Board Statement No. 68 Accounting and Financial Reporting for Pensions beginning with the fiscal year ended August 31, 2015. General disclosures regarding the Washington state retirement system and pension accounting can be found in Note 5.

The District's share of the total Investment in the Joint Venture is a negative net position of \$(19,056), including the District's share of the net pension liability under implementation of GASB No 68. The District contributed \$0 to the Joint Venture during 2016 and 2015. There were no distributions in 2016 and 2015. The Net Investment in Joint venture balance in the Statement of Net Position is an unrestricted net position.

NOTE 11: CONTINGENT LIABILITIES AND LITIGATIONS

The District has no known legal obligations that would materially impact the financial position of the District.

NOTE 12: OTHER DISCLOSURES

The District has no known subsequent events that would materially impact the financial position of the District.

Educational Service District No. 112
REQUIRED SUPPLEMENTAL INFORMATION
SCHEDULES OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
AS OF JUNE 30, *
Last 10 Fiscal Years **

| PERS 1 | 2015 | 2016 |
|---|--------------|--------------|
| District's proportion of the net pension liability (percentage) | 0.137831% | 0.143675% |
| District's proportionate share of the net pension liability (amount) | \$ 7,209,842 | \$ 7,716,035 |
| District's covered-employee payroll | \$ 58,816 | \$ 3,677 |
| District's proportionate share of the net pension liability (amount) as a percentage of its covered payroll | 12258.35% | 209834.51% |
| Plan fiduciary net position as a percentage of the total pension liability | 59.10% | 57.03% |

| SERS 2/3 | 2015 | 2016 |
|---|---------------|---------------|
| District's proportion of the net pension liability (percentage) | 0.914099% | 0.947901% |
| District's proportionate share of the net pension liability (amount) | \$ 3,712,623 | \$ 6,225,500 |
| District's covered-employee payroll | \$ 15,735,528 | \$ 17,466,143 |
| District's proportionate share of the net pension liability (amount) as a percentage of its covered payroll | 23.59% | 35.64% |
| Plan fiduciary net position as a percentage of the total pension liability | 90.92% | 86.52% |

| TRS 1 | 2015 | 2016 |
|---|--------------|--------------|
| District's proportion of the net pension liability (percentage) | 0.138752% | 0.130032% |
| District's proportionate share of the net pension liability (amount) | \$ 4,395,869 | \$ 4,439,600 |
| District's covered-employee payroll | \$ - | \$ - |
| District's proportionate share of the net pension liability (amount) as a percentage of its covered payroll | n/a | n/a |
| Plan fiduciary net position as a percentage of the total pension liability | 65.70% | 62.07% |

| TRS 2/3 | 2015 | 2016 |
|---|--------------|--------------|
| District's proportion of the net pension liability (percentage) | 0.146486% | 0.133857% |
| District's proportionate share of the net pension liability (amount) | \$ 1,236,052 | \$ 1,838,252 |
| District's covered-employee payroll | \$ 6,853,854 | \$ 6,670,513 |
| District's proportionate share of the net pension liability (amount) as a percentage of its covered payroll | 18.03% | 27.56% |
| Plan fiduciary net position as a percentage of the total pension liability | 92.48% | 88.72% |

Notes to Schedules:

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

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

Note 5 to the financial statements includes information regarding factors that may affect trends in the amounts reported in these schedules.

Educational Service District No. 112
REQUIRED SUPPLEMENTAL INFORMATION
SCHEDULES OF EMPLOYER CONTRIBUTIONS
AS OF AUGUST 31, *
Last 10 Fiscal Years **

| PERS 1 | 2015 | 2016 |
|--|-------------|-------------|
| Contractually required contribution | \$ 640,661 | \$ 846,405 |
| Contributions in relation to the contractually required contribution | \$ 640,661 | \$ 846,405 |
| Contribution deficiency (excess) | \$ - | \$ - |
| District's covered-employee payroll | \$ 55,226 | \$ - |
| Contribution as a percentage of covered-employee payroll | 1160.07% | n/a |

| SERS 2/3 | 2015 | 2016 |
|--|---------------|---------------|
| Contractually required contribution | \$ 898,415 | \$ 1,176,549 |
| Contributions in relation to the contractually required contribution | \$ 898,415 | \$ 1,176,549 |
| Contribution deficiency (excess) | \$ - | \$ - |
| District's covered-employee payroll | \$ 15,914,253 | \$ 17,756,527 |
| Contribution as a percentage of covered-employee payroll | 5.65% | 6.63% |

| TERS 1 | 2015 | 2016 |
|--|-------------|-------------|
| Contractually required contribution | \$ 311,276 | \$ 415,493 |
| Contributions in relation to the contractually required contribution | \$ 311,276 | \$ 415,493 |
| Contribution deficiency (excess) | \$ - | \$ - |
| District's covered-employee payroll | \$ - | \$ - |
| Contribution as a percentage of covered-employee payroll | n/a | n/a |

| TERS 2/3 | 2015 | 2016 |
|--|--------------|--------------|
| Contractually required contribution | \$ 392,745 | \$ 448,822 |
| Contributions in relation to the contractually required contribution | \$ 392,745 | \$ 448,822 |
| Contribution deficiency (excess) | \$ - | \$ - |
| District's covered-employee payroll | \$ 6,895,412 | \$ 6,683,711 |
| Contribution as a percentage of covered-employee payroll | 5.70% | 6.72% |

Notes to Schedules:

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

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

Note 5 to the financial statements includes information regarding factors that may affect trends in the amounts reported in these schedules.

Educational Service District No. 112
REQUIRED SUPPLEMENTAL INFORMATION
SW WA WORKERS' COMPENSATION TRUST
CLAIMS DEVELOPMENT INFORMATION
AS OF THE YEAR ENDING AUGUST 31, 2016

| | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 |
|--|-----------------|--------------------|------------------|------------------|-----------------|--------------------|-----------------|----------------|------------------|-----------|
| 1. Required contribution & investment revenue: | | | | | | | | | | |
| Earned | 3,927,799 | 4,097,833 | 4,395,463 | 4,712,507 | 5,204,861 | 5,344,051 | 5,093,041 | 5,381,049 | 5,783,666 | 6,255,224 |
| Ceded | 161,412 | 150,310 | 140,807 | 148,682 | 120,478 | 116,336 | 113,521 | 130,143 | 134,132 | 136,677 |
| Net Earned | 3,766,387 | 3,947,523 | 4,254,656 | 4,563,825 | 5,084,383 | 5,227,715 | 4,979,520 | 5,250,906 | 5,649,534 | 6,118,547 |
| 2. Unallocated expenses (ESD Admin) | 629,550 | 733,729 | 783,957 | 754,130 | 870,972 | 846,578 | 914,935 | 829,238 | 816,878 | 878,925 |
| 3. Estimated claims & expenses end of policy Year: | | | | | | | | | | |
| Incurred | 2,200,000 | 2,700,000 | 2,000,000 | 2,308,606 | 2,229,893 | 2,017,754 | 2,328,488 | 2,944,880 | 2,468,081 | 3,357,773 |
| Ceded * | 0 | 0 | 0 | 58,606 | 54,893 | 67,754 | 53,488 | 44,880 | 43,081 | 107,773 |
| Net incurred | 2,200,000 | 2,700,000 | 2,000,000 | 2,250,000 | 2,175,000 | 1,950,000 | 2,275,000 | 2,900,000 | 2,425,000 | 3,250,000 |
| 4. Net paid (cumulative) as of: | | | | | | | | | | |
| End of policy year | 776,502 | 704,034 | 692,809 | 1,004,208 | 800,166 | 633,705 | 768,778 | 936,029 | 757,591 | 1,325,098 |
| One year later | 1,595,885 | 1,576,599 | 1,401,324 | 1,659,516 | 1,559,369 | 1,243,751 | 1,466,810 | 1,842,625 | 1,630,224 | |
| Two years later | 2,014,313 | 1,931,233 | 1,784,880 | 1,858,712 | 1,876,863 | 1,405,642 | 1,773,789 | 2,416,492 | | |
| Three years later | 2,142,790 | 2,114,935 | 1,964,198 | 1,907,531 | 2,071,794 | 1,438,620 | 1,640,063 | | | |
| Four years later | 2,204,859 | 2,220,819 | 2,165,642 | 1,975,414 | 2,126,577 | 1,466,662 | | | | |
| Five years later | 2,214,568 | 2,270,318 | 2,308,854 | 2,030,644 | 2,168,543 | | | | | |
| Six years later | 2,252,379 | 2,278,940 | 2,351,016 | 2,056,295 | | | | | | |
| Seven years later | 2,260,213 | 2,296,251 | 2,411,480 | | | | | | | |
| Eight years later | 2,273,939 | 2,331,430 | | | | | | | | |
| Nine years later | 2,293,166 | | | | | | | | | |
| 5. Reestimated net ceded claims and expenses * | 28,330 | 167,290 | 225,065 | 29,165 | 32,925 | 36,605 | 275,181 | 52,384 | 64,179 | 107,773 |
| 6. Reestimated net incurred claims & expenses: | | | | | | | | | | |
| End of policy year | 2,200,000 | 2,200,000 | 2,000,000 | 2,250,000 | 2,175,000 | 1,950,000 | 2,275,000 | 2,900,000 | 2,425,000 | 3,250,000 |
| One year later | 2,500,000 | 2,400,000 | 2,025,000 | 2,250,000 | 2,225,000 | 1,800,000 | 2,450,000 | 2,950,000 | 2,375,000 | |
| Two years later | 2,340,000 | 2,325,000 | 2,125,000 | 2,150,000 | 2,300,000 | 1,675,000 | 2,300,000 | 2,950,000 | | |
| Three years later | 2,335,000 | 2,385,000 | 2,225,000 | 2,115,000 | 2,360,000 | 1,600,000 | 2,425,000 | | | |
| Four years later | 2,370,000 | 2,475,000 | 2,380,000 | 2,150,000 | 2,360,000 | 1,600,000 | | | | |
| Five years later | 2,325,000 | 2,445,000 | 2,415,000 | 2,160,000 | 2,295,000 | | | | | |
| Six years later | 2,330,000 | 2,520,000 | 2,475,000 | 2,205,000 | | | | | | |
| Seven years later | 2,320,000 | 2,520,000 | 2,490,000 | | | | | | | |
| Eight years later | 2,392,000 | | | | | | | | | |
| Nine years later | 2,392,000 | | | | | | | | | |
| 7. Increase (decrease) in estimated net incurred claims & expenses from end of policy year | 192,000 8.7% | -300,000 -11.1% | 490,000 24.5% | -45,000 -2.0% | 120,000 5.5% | -350,000 -17.9% | 150,000 6.6% | 50,000 1.7% | -50,000 -2.1% | - |

* Estimates were not done for years prior to 2009-10

Educational Service District No. 112
REQUIRED SUPPLEMENTARY INFORMATION

TEN YEARS CLAIMS DEVELOPMENT INFORMATION
SW WA WORKERS' COMPENSATION TRUST
(THE TRUST)
SEPTEMBER 1, 2015 THROUGH AUGUST 31, 2016

This required supplementary information is an integral part of the accompanying financial statements. The accompanying table of claims development illustrates how the Trust's earned revenues (net of reinsurance) and investment income compare to related costs of loss (net of loss assumed by re-insurers) and other expenses assumed by the Trust as of the end of each of the last ten years. The row sections of the accompanying table are defined as follows:

- 1) Reports the total of each fiscal year's earned contribution revenues and investment revenues, contribution revenue ceded to reinsurers, and net earned contribution revenue and reported investment revenue.
- 2) Reports each fiscal year's operating costs of the Trust including overhead and claims expenses not allocable to individual claims.
- 3) Reports the Trust's 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) Reports the cumulative net amounts paid as of the end of successive years for each policy year over a ten year development period.
- 5) Reports the latest re-estimated amount of claims assumed by reinsurers as of the end of the current year for each accident year.
- 6) Reports how each policy year's incurred claims increased or decreased as of the end of successive years over a ten year development period. 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) Compares the latest re-estimated incurred claims amount to the amount originally established (Section 3 of the schedule) and shows whether this latest estimate of 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 incurred claims currently recognized in less mature policy years.

Educational Service District No. 112
REQUIRED SUPPLEMENTAL INFORMATION
SW WA RISK MANAGEMENT COOPERATIVE
CLAIMS DEVELOPMENT INFORMATION
AS OF THE YEAR ENDING AUGUST 31, 2016

| | <u>2006-07</u> | <u>2007-08</u> | <u>2008-09</u> | <u>2009-10</u> | <u>2010-11</u> | <u>2011-12</u> | <u>2012-13</u> | <u>2013-14</u> | <u>2014-15</u> | <u>2015-16</u> |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| 1. Required contribution & investment revenue: | | | | | | | | | | |
| Earned | 3,043,314 | 3,175,375 | 3,184,350 | 3,260,088 | 3,322,027 | 3,260,959 | 2,976,838 | 2,949,353 | 2,845,370 | 2,813,543 |
| Ceded | 1,555,211 | 1,489,622 | 1,358,576 | 1,435,897 | 1,861,825 | 1,628,803 | 1,281,592 | 1,378,879 | 1,011,515 | 1,074,516 |
| Net Earned | 1,488,103 | 1,685,753 | 1,825,774 | 1,824,191 | 1,460,202 | 1,632,156 | 1,695,246 | 1,570,474 | 1,833,855 | 1,739,027 |
| 2. Unallocated expenses | 390,200 | 353,785 | 396,339 | 357,809 | 358,608 | 365,257 | 343,608 | 464,949 | 445,016 | 588,343 |
| 3. Estimated claims & expenses end of policy Year: | | | | | | | | | | |
| Incurred | 471,496 | 633,019 | 958,100 | 1,251,483 | 1,701,304 | 1,660,057 | 1,011,221 | 1,049,257 | 861,535 | 679,850 |
| Ceded * | 0 | 0 | 0 | 391,144 | 802,721 | 589,604 | 412,823 | 283,604 | 182,393 | 181,563 |
| Net incurred | 471,496 | 633,019 | 958,100 | 860,339 | 898,583 | 1,070,453 | 598,398 | 765,653 | 679,142 | 498,287 |
| 4. Net paid (cumulative) as of: | | | | | | | | | | |
| End of policy year | 127,157 | 331,685 | 314,939 | 386,235 | 312,911 | 390,972 | 181,780 | 290,204 | 381,620 | 230,280 |
| One year later | 167,816 | 395,572 | 761,004 | 893,404 | 622,000 | 709,917 | 274,480 | 539,519 | 466,872 | |
| Two years later | 162,510 | 483,837 | 843,632 | 904,033 | 648,377 | 1,051,953 | 516,638 | 604,991 | | |
| Three years later | 173,620 | 623,956 | 887,723 | 915,982 | 608,635 | 1,224,014 | 516,159 | | | |
| Four years later | 188,990 | 642,861 | 948,479 | 937,935 | 716,020 | 1,228,073 | | | | |
| Five years later | 189,054 | 856,582 | 1,076,246 | 937,935 | 716,020 | | | | | |
| Six years later | 166,750 | 856,582 | 1,076,246 | 937,935 | | | | | | |
| Seven years later | 166,750 | 856,582 | 1,076,246 | | | | | | | |
| Eight years later | 172,750 | 856,582 | | | | | | | | |
| Nine years later | 172,750 | | | | | | | | | |
| 5. Reestimated net ceded claims and expenses * | 115,070 | 140,648 | 850,348 | 72,613 | 238,837 | 1,085,835 | 74,252 | 550,698 | 191,786 | 181,563 |
| 6. Reestimated net incurred claims & expenses: | | | | | | | | | | |
| End of policy year | 471,496 | 633,019 | 958,100 | 860,339 | 898,583 | 1,070,453 | 598,398 | 765,653 | 679,142 | 498,287 |
| One year later | 284,816 | 617,107 | 985,601 | 1,067,690 | 763,596 | 1,291,492 | 653,224 | 647,336 | 729,833 | |
| Two years later | 243,816 | 637,107 | 958,446 | 982,690 | 722,150 | 1,302,684 | 595,101 | 894,072 | | |
| Three years later | 214,816 | 697,044 | 1,071,854 | 972,690 | 672,325 | 1,309,162 | 578,101 | | | |
| Four years later | 206,209 | 779,044 | 1,134,818 | 948,677 | 725,357 | 1,306,182 | | | | |
| Five years later | 195,209 | 865,044 | 1,085,818 | 945,677 | 723,357 | | | | | |
| Six years later | 179,209 | 863,044 | 1,083,818 | 944,677 | | | | | | |
| Seven years later | 177,709 | 861,044 | 1,081,818 | | | | | | | |
| Eight years later | 176,209 | 860,044 | | | | | | | | |
| Nine years later | 175,209 | | | | | | | | | |

7. Increase (decrease) in estimated net incurred claims & expenses from end of policy year

| | | | | | | | | | | |
|--|----------|----------|----------|---------|----------|----------|---------|----------|---------|------|
| | -296,287 | 227,025 | 123,718 | 84,338 | -175,226 | 235,729 | -20,297 | 128,419 | 50,691 | 0 |
| | -62.8% | 35.9% | 12.9% | 9.8% | -19.5% | 22.0% | -3.4% | 16.8% | 7.5% | 0.0% |
| * Estimates were not done for years prior to 2009-10 | 296,287 | -227,025 | -123,718 | -84,338 | 175,226 | -235,729 | 20,297 | -128,419 | -50,691 | 0 |
| | -62.8% | 35.9% | 12.9% | 9.8% | -19.5% | 22.0% | -3.4% | 16.8% | 7.5% | 0.0% |

Educational Service District No. 112
REQUIRED SUPPLEMENTARY INFORMATION

TEN YEARS CLAIMS DEVELOPMENT INFORMATION
SW WA RISK MANAGEMENT COOPERATIVE
(THE RISK COOPERATIVE)
SEPTEMBER 1, 2015 THROUGH AUGUST 31, 2016

This required supplementary information is an integral part of the accompanying financial statements. The accompanying table of claims development illustrates how the Risk Cooperative'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 Risk Cooperative as of the end of each of the last ten years. The row sections of the accompanying table are defined as follows:

- 1) Reports the total of each fiscal year's earned contribution revenues and investment revenues, contribution revenue ceded to reinsurers, and net earned contribution revenue and reported investment revenue.
- 2) Reports each fiscal year's operating costs of the Risk Cooperative including overhead and claims expenses not allocable to individual claims.
- 3) Reports the Risk Cooperative's 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) Reports the cumulative net amounts paid as of the end of successive years for each policy year over a ten year development period.
- 5) Reports the latest re-estimated amount of claims assumed by reinsurers as of the end of the current year for each accident year.
- 6) Reports how each policy year's incurred claims increased or decreased as of the end of successive years over a ten year development period. 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) Compares the latest re-estimated incurred claims amount to the amount originally established (Section 3 of the schedule) and shows whether this latest estimate of 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 incurred claims currently recognized in less mature policy years.

Educational Service District No. 112
REQUIRED SUPPLEMENTARY INFORMATION

SW WA WORKERS' COMPENSATION TRUST
RECONCILIATION OF CLAIMS LIABILITIES
FOR THE YEARS ENDED AUGUST 31, 2016 AND 2015

| | For the Years Ending August 31, 2016 | 2015 |
|--|---|-----------|
| Unpaid Claims and Claim Adjustment Expenses at Beginning of the Fiscal Year | 5,422,504 | 5,137,804 |
| <u>Add Incurred Claims and Claim Adjustment Expenses:</u> | | |
| Provision for Insured Events of the Current Fiscal Year | 3,250,000 | 2,425,000 |
| Provision for Insured Events of the Current Fiscal Year - L&I Assessments | 1,680,904 | 1,470,562 |
| Increases (Decreases) in Provision for Insured Events of Prior Years | 82,000 | 124,600 |
| Changes in Provision for ULAE | 26,000 | 19,000 |
| Total Incurred Claims and Claim Adjustment Expenses | 5,038,904 | 4,039,162 |
| <u>Less Payments:</u> | | |
| Claim Expenses Attributable to Insured Events of the Current Year | 1,325,098 | 757,591 |
| Claim Expenses Attributable to Insured Events of Prior Years | 1,626,561 | 1,503,011 |
| Washington State L&I Assessment Payments | 1,739,953 | 1,493,860 |
| Total Payments | 4,691,612 | 3,754,462 |
| Total Unpaid Claims and Claim Adjustment Expenses at the End of the Year | 5,769,796 | 5,422,504 |
| <u>Components:</u> | | |
| Reserve for Open Claims | 3,216,401 | 3,099,615 |
| Claims Incurred But Not Reported (IBNR) | 1,678,181 | 1,414,626 |
| Unallocated Loss Adjustment Exp (ULAE) | 328,000 | 302,000 |
| Washington State L&I Assessment (L&I) | 547,214 | 606,263 |
| Total Claims Liabilities | 5,769,796 | 5,422,504 |

Educational Service District No. 112
REQUIRED SUPPLEMENTARY INFORMATION

SW WA RISK MANAGEMENT COOPERATIVE
RECONCILIATION OF CLAIMS LIABILITIES
FOR THE YEARS ENDED AUGUST 31, 2016 AND 2015

| | For the Years Ending August 31, 2016 | 2015 |
|---|---|-----------|
| Unpaid Claims and Claim Adjustment Expenses at Beginning of the Fiscal Year | 661,469 | 1,311,704 |
| <u>Add Incurred Claims and Claim Adjustment Expenses:</u> | | |
| Provision for Insured Events of the Current Fiscal Year | 498,287 | 679,142 |
| Increases (Decreases) in Provision for Insured Events of Prior Years | 271,797 | (127,980) |
| Changes in Provision for ULAE | 25,000 | (43,000) |
| Total Incurred Claims and Claim Adjustment Expenses | 795,084 | 508,162 |
| <u>Less Payments:</u> | | |
| Claim Expenses Attributable to Insured Events of the Current Year | 230,280 | 381,620 |
| Claim Expenses Attributable to Insured Events of Prior Years | 154,197 | 776,777 |
| Total Payments | 384,477 | 1,158,397 |
| Total Unpaid Claims and Claim Adjustment Expenses at the End of the Year | 1,072,076 | 661,469 |
| <u>Components:</u> | | |
| Reserve for Open Claims | 645,755 | 289,056 |
| Claims Incurred But Not Reported (IBNR) | 359,321 | 330,413 |
| Unallocated Loss Adjustment Exp (ULAE) | 67,000 | 42,000 |
| Total Claims Liabilities | 1,072,076 | 661,469 |

**ESD 112 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDING AUGUST 31, 2016**

| Grantor/Pass through Agency | Program Name | CFDA No. | Award Number | EXPENDITURES | | | Passed Through to Subrecipients | Note Reference |
|---|--|----------|---|---------------|-----------------|--------------|---------------------------------|----------------|
| | | | | Direct Awards | Indirect Awards | Total | | |
| US DEPARTMENT OF AGRICULTURE | | | | | | | | |
| WA OSPI | Child and Adult Care Food Program (CACFP) | 10.558 | 06159257, OSPI 15.16 6188 Home Sponsor CACFP, 6010333 | \$ | 881,649 \$ | 881,649 \$ | - | 2.5 |
| Total US Department of Agriculture | | | | | | | | |
| US DEPARTMENT OF LABOR | | | | | | | | |
| WIA Cluster | | | | | | | | |
| WA DOL through Workforce Southwest Washington | WIAWIOA Youth Activities | 17.259 | WDC 15-07 WDC 16-05 | \$ | 924,068 \$ | 924,068 \$ | - | 2 |
| Total WIA Cluster | | | | | | | | |
| Total US Department of Labor | | | | | | | | |
| US DEPARTMENT OF EDUCATION | | | | | | | | |
| Special Education Cluster (IDEA) | | | | | | | | |
| WA OSPI | Special Education - Grants to States | 84.027 | 0320233, 0305485, 0305784, 0337889 | \$ | 2,965,353 \$ | 2,965,353 \$ | 17,228 | 2.4 |
| WA OSPI | Special Education - Preschool Grants | 84.173 | 0380283, 0363478, 0363779, 0385389 | \$ | 126,062 \$ | 126,062 \$ | - | 2 |
| Total Special Education Cluster (IDEA) | | | | | | | | |
| WA OSPI | Title I Grants to Local Educational Agencies | 84.010 | 0260056, 0260060, 0222494, 0222516, 0222645, 0222656 | \$ | 363,129 \$ | 363,129 \$ | - | 2 |
| WA OSPI | Title I State Agency Program for Neglected and Delinquent Children & Youth | 84.013 | 0223049, 0223064 | \$ | 71,191 \$ | 71,191 \$ | - | 2 |
| WA OSPI | School Safety - National Activities (formerly, Safe and Drug-Free Schools and Communities-National Programs) | 84.184 | 0820003 | \$ | 31,911 \$ | 31,911 \$ | - | 2 |
| WA OSPI | Twenty-First Century Community Learning Centers | 84.287 | 0991201 | \$ | 292,986 \$ | 292,986 \$ | - | 2 |
| WA OSPI | Mathematics and Science Partnerships | 84.366 | 0555371, 0555391 | \$ | 145,147 \$ | 145,147 \$ | 5,479 | 2.4 |
| Washington Student Achievement Council | Improving Teacher Quality State Grants | 84.367 | 17-1A086 | \$ | 17,847 \$ | 17,847 \$ | - | 2 |
| WA OSPI | ARRA - Race to the Top-Early Learning Challenge | 84.412 | 0-10-201116-61, 0-0619933 | \$ | 14,606 \$ | 14,606 \$ | - | 2.6 |
| WA DEL / Childcare Aware of Washington | ARRA - Race to the Top-Early Learning Challenge | 84.412 | 110-20117-61, 0-710-20116-0955-26-61 | \$ | 149,502 \$ | 149,502 \$ | - | 2.5,6 |
| Total US Department of Education | | | | | | | | |
| US DEPARTMENT OF HEALTH & HUMAN SERVICES | | | | | | | | |
| CCDF Cluster | | | | | | | | |
| WA Dept of Early Learning / Childcare Aware of Washington | Child Care and Development Block Grant (CCDBG) | 93.575 | 01-110-201116-61, 01-110-20117-61, 16-1143, 16-1143-02, 0-710-201116-0955-26-61 | \$ | 357,489 \$ | 357,489 \$ | - | 2.5 |
| Total CCDF Cluster | | | | | | | | |
| WA OSPI | Substance Abuse & Mental Health Services-Projects of Regional and National Significance (PRNS) | 93.243 | 0590011, 0590012 1645LS-65 | \$ | 228,081 \$ | 228,081 \$ | 58,073 | 2.4 |
| WA DSHS | Substance Abuse & Mental Health Services-Projects of Regional and National Significance (PRNS) | 93.243 | 1565-42506 13SP20118A, 12SP14467A, 15SP21091A | \$ | 51,528 \$ | 51,528 \$ | | 2 |
| N/A | Drug-Free Communities Support Program Grants | 93.276 | 12SP14467A, 15SP21091A N20851-2/ M78710250, | \$ | 212,180 | \$ | 212,180 | 2.3 |
| WA Dept of Health | | | | | | | | |
| N/A | National State Based Tobacco Control Programs | 93.305 | N-20851-3.4.5/ M78710260 | \$ | 38,776 \$ | 38,776 \$ | - | 2.3 |
| N/A | Head Start | 93.600 | 10CHO182-03, 10CHO225-01102 | \$ | 584,387 | \$ | 584,387 | 2.3 |

**ESD 112 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDING AUGUST 31, 2016**

| Grantor/Pass through Agency | Program Name | CFDA No. | Award Number N20851-2, N20851-3 to 5/M78710252 & MI 78710262 | EXPENDITURES | | | Note Reference |
|--|---|----------|---|---------------|---------------------------------|--------------|-------------------|
| | | | | Direct Awards | Pass Through Indirect Awards | Total | |
| WA Dept of Health | Preventive Health & Health Services Block Grant funded solely with Public Health Funds (PPHF) | 93.758 | 1469-28922 | \$ | 46,615 \$ | 46,615 \$ | 7,000 2,4 |
| WA DSHS | Block Grants for Community Mental Health Services | 93.958 | 1469-28922 | \$ | 18,828 \$ | 18,828 \$ | - 2 |
| WA OSPI | Block Grants for Community Mental Health Services | 93.958 | 0997002 | \$ | 146,400 \$ | 146,400 \$ | - 2 |
| WA OSPI | Block Grants for Prevention and Treatment of Substance Abuse | 93.959 | 0998172, 0998183 1645LS-657 | \$ | 492,764 \$ | 492,764 \$ | - 2 |
| WA DSHS | Block Grants for Prevention and Treatment of Substance Abuse | 93.959 | 1565-42506 | \$ | 32,402 \$ | 32,402 \$ | 65,073 2 |
| Total US Department of Health & Human Services | | | | \$ 796,567 | \$ 1,412,884 | \$ 2,209,451 | |
| TOTAL FEDERAL FINANCIAL ASSISTANCE | | | | \$ 796,567 | \$ 7,396,334 | \$ 8,192,901 | \$ 87,779 |

NOTE 1 - BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal Awards is prepared on the same basis of accounting as the Educational Service District's 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 - FEDERAL INDIRECT COST RATE

The District used the Federal restricted rate approved by its cognizant agency of 9% for grants awarded prior to July 1, 2016 and 8% for grants awarded after that date. Total indirect costs: \$ 574,725.71

NOTE 3 - PROGRAM COSTS / MATCHING CONTRIBUTIONS

The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, including the District's local matching share, may be more than shown. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 4 - AMOUNTS AWARDED TO SUBRECIPIENTS

Included in the total amount expended for this program are awards that were passed through to a subrecipient that administered its own project.

NOTE 5 - PERFORMANCE BASED CONTRACTS

Revenues received based on performance standards. Revenues are allowed to be carried forward for expenditure in the following fiscal year. Cash management rules apply.

NOTE 6 - AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA)

Funding for this program was provided by the American Recovery & Reinvestment Act of 2009 (ARRA).

Educational Service District No. 112
SUPPLEMENTAL INFORMATION
SW WA UNEMPLOYMENT COMPENSATION POOL
CLAIMS DEVELOPMENT INFORMATION
AS OF THE YEAR ENDING AUGUST 31, 2016

| | <u>2006-07</u> | <u>2007-08</u> | <u>2008-09</u> | <u>2009-10</u> | <u>2010-11</u> | <u>2011-12</u> | <u>2012-13</u> | <u>2013-14</u> | <u>2014-15</u> | <u>2015-16</u> |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| 1. Required Contribution & Investment Revenue: | | | | | | | | | | |
| Earned | 641,412 | 691,224 | 725,377 | 706,927 | 2,140,056 | 2,110,945 | 1,664,882 | 1,504,011 | 781,179 | 839,515 |
| Investment Income | 102,852 | 103,416 | 61,675 | 25,813 | 13,346 | 12,365 | 14,187 | 19,110 | 19,156 | 24,165 |
| Ceded | - | - | - | - | - | - | - | - | - | - |
| Net Earned | 744,264 | 794,640 | 787,052 | 732,740 | 2,153,402 | 2,123,310 | 1,679,069 | 1,523,121 | 800,334 | 863,681 |
| 2. Unallocated Expenses (ESD Admin) | 148,884 | 150,312 | 171,788 | 179,746 | 181,165 | 193,309 | 187,197 | 180,533 | 193,391 | 216,669 |
| 3. Estimated Claims & Expenses End of Policy Year: | | | | | | | | | | |
| Incurred | - | - | - | 1,146,801 | 1,066,790 | 961,583 | 532,497 | 463,435 | 290,847 | 257,217 |
| Ceded | - | - | - | - | - | - | - | - | - | - |
| Net Incurred | - | - | - | 1,146,801 | 1,066,790 | 961,583 | 532,497 | 463,435 | 290,847 | 257,217 |
| 4. Net Paid (Cumulative) as of: | | | | | | | | | | |
| End of policy year | | | | 869,759 | 685,044 | 757,283 | 403,320 | 368,929 | 210,430 | 188,761 |
| One year later | | | 1,003,259 | 1,060,491 | 956,730 | 912,571 | 485,595 | 432,028 | 219,813 | |
| Two years later | | | 1,024,217 | 1,072,607 | 959,832 | 921,460 | 485,926 | 429,732 | | |
| Three years later | | | 1,024,339 | 1,072,722 | 960,501 | 921,172 | 485,580 | | | |
| Four years later | | | 1,024,339 | 1,072,722 | 960,501 | 921,172 | | | | |
| Five years later | | | 1,024,339 | 1,072,722 | 960,501 | | | | | |
| Six years later | | | 1,024,339 | 1,072,722 | | | | | | |
| Seven years later | | | 1,024,339 | | | | | | | |
| 5. Reestimated Net Ceded Claims and Expenses | | | - | - | - | - | - | - | - | - |
| 6. Reestimated Net Incurred Claims and Expenses: | | | | | | | | | | |
| End of policy year | | | 1,146,801 | 1,066,790 | 961,583 | 532,497 | 463,435 | 290,847 | 257,217 | |
| One year later | | 1,016,389 | 1,070,214 | 969,074 | 919,339 | 489,770 | 435,597 | 222,610 | | |
| Two years later | | 1,024,339 | 1,072,722 | 960,377 | 921,969 | 486,493 | 430,209 | | | |
| Three years later | | 1,024,339 | 1,072,722 | 960,501 | 921,172 | 485,580 | | | | |
| Four years later | | 1,024,339 | 1,072,722 | 960,501 | 921,172 | | | | | |
| Five years later | | 1,024,339 | 1,072,722 | 960,501 | | | | | | |
| Six years later | | 1,024,339 | 1,072,722 | | | | | | | |
| Seven years later | | 1,024,339 | | | | | | | | |
| 7. Increase (Decrease) in Estimated Net Incurred Claims & Expenses from End of Policy Year | | | 74,079 | 106,289 | 40,411 | 46,917 | 33,226 | 68,237 | - | - |

* Estimates were not done for years prior to 2009-10

Educational Service District No. 112
SUPPLEMENTARY INFORMATION

EIGHT-YEAR CLAIMS DEVELOPMENT INFORMATION
SW WA UNEMPLOYMENT COMPENSATION POOL
(THE POOL)
SEPTEMBER 1, 2015 THROUGH AUGUST 31, 2016

This required supplementary information is an integral part of the accompanying financial statements. The accompanying table of claims development illustrates how the Pool's earned revenues (net of reinsurance) and investment income compare to related costs of loss (net of loss assumed by re-insurers) and other expenses assumed by the Pool as of the end of each of the last eight years. The row sections of the accompanying table are defined as follows:

- 1) Reports the total of each fiscal year's earned contribution revenues and investment revenues, contribution revenue ceded to reinsurers, and net earned contribution revenue and reported investment revenue.
- 2) Reports each fiscal year's operating costs of the Pool including overhead and claims expenses not allocable to individual claims.
- 3) Reports the Pool's 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) Reports the cumulative net amounts paid as of the end of successive years for each policy year over an eight year development period.
- 5) Reports the latest re-estimated amount of claims assumed by reinsurers as of the end of the current year for each accident year.
- 6) Reports how each policy year's incurred claims increased or decreased as of the end of successive years over an eight year development period. 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) Compares the latest re-estimated incurred claims amount to the amount originally established (Section 3 of the schedule) and shows whether this latest estimate of 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 incurred claims currently recognized in less mature policy years.

Educational Service District No. 112
SUPPLEMENTARY INFORMATION

SW WA UNEMPLOYMENT COMPENSATION POOL
RECONCILIATION OF CLAIMS LIABILITIES
FOR THE YEARS ENDED AUGUST 31, 2016 AND 2015

| | For the Years Ending August 31, 2016 | 2015 |
|---|---|----------|
| Unpaid Claims and Claim Adjustment Expenses at Beginning of the Fiscal Year | 329,539 | 331,283 |
| <i>Add Incurred Claims and Claim Adjustment Expenses:</i> | | |
| Provision for Insured Events of the Current Fiscal Year | 273,983 | 282,788 |
| Increases (Decreases) in Provision for Insured Events of Prior Years | (46,839) | (60,737) |
| Changes in Provision for ULAE | 8,930 | 12,893 |
| Total Incurred Claims and Claim Adjustment Expenses | 236,074 | 234,944 |
| <i>Less Payments:</i> | | |
| Claim Expenses Attributable to Insured Events of the Current Year | 205,527 | 202,371 |
| Claim Expenses Attributable to Insured Events of Prior Years | 34,441 | 34,317 |
| Total Payments | 239,968 | 236,688 |
| Total Unpaid Claims and Claim Adjustment Expenses at the End of the Year | 325,645 | 329,539 |

Educational Service District No. 112
SUPPLEMENTARY INFORMATION

SW WA WORKERS' COMPENSATION TRUST
PUBLIC ENTITY RISK POOL
LIST OF PARTICIPATING MEMBERS

AS OF AUGUST 31, 2016

Battle Ground School District No.119
Camas School District No.117
Castle Rock School District No.401
Centerville School District No.215
Educational Service District No.112
Evergreen School District No.114
Glenwood School District No.401
Green Mountain School District No.103
Hockinson School District No.8
Kalama School District No.402
Kelso School District No.458
Klickitat School District No.402
LaCenter School District No.101
Longview School District No.122
Lyle School District No.406
Mill A School District No.31
Mount Pleasant School District No.029-93
Naselle-Grays River School District No.155
Ocean Beach School District No.101
Ridgefield School District No.122
Roosevelt School District No.403
Skamania School District No.2
Stevenson-Carson School District No.303
Toutle Lake School District No.130
Trout Lake School District No.R-400
Wahkiakum School District No.200
Washougal School District No.112-6
White Salmon Valley School District No.405-17
Wishram School District No.94
Woodland School District No.404

Educational Service District No. 112
SUPPLEMENTARY INFORMATION

SW WA WORKERS' COMPENSATION TRUST
DES SCHEDULE OF EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2016

| | |
|---------------------------------------|-------------------------|
| Excess Insurance | 136,677 |
| Contracted Services: | |
| Third Party Administrator Fees | - |
| Actuarial | 34,662 |
| Audit Expenses | - |
| Brokerage Fees | 10,568 |
| Legal Fees | - |
| Other Consultant Fees | 3,066 |
| General Administrative Expenses: | |
| Payroll | 723,785 |
| Communication & Network | 35,364 |
| Supplies and Materials | 16,736 |
| Dues and Conferences | 2,495 |
| Retreat/Board Meetings | 486 |
| Training | 5,242 |
| Travel | 13,731 |
| Lease | 36,499 |
| Printing/Copier | 6,856 |
| Miscellaneous | 3 |
| Other: | |
| Claims Paid | 2,963,234 |
| Change in Claim Reserves | 347,292 |
| Labor & Industry Assessment | 1,739,953 |
| Right to Know | 18,296 |
| Safe Schools Online Training | 24,390 |
| Net Pension Expense | 4,812 |
| Return to Work-District Reimbursement | 23,882 |
| Miscellaneous | 9,040 |
| Total Operating Expenses | <u><u>6,157,069</u></u> |

Educational Service District No. 112
SUPPLEMENTARY INFORMATION

SW WA RISK MANAGEMENT COOPERATIVE
PUBLIC RISK POOL
LIST OF PARTICIPATING MEMBERS

AS OF AUGUST 31, 2016

Bickleton School District No.203
Camas School District No.117
Castle Rock School District No.401
Centerville School District No.215
East Valley (Yakima) School District No.90
Educational Service District No.112
Glenwood School District No.401
Green Mountain School District No.103
Kalama School District No.402
Kelso School District No.458
Klickitat School District No.402
KWRL Transportation
La Center School District No.101
Lyle School District No.406
Mabton School District No.120
Mill A School District No.31
Mount Pleasant School District No.029-93
Naselle-Grays River School District No.155
Ocean Beach School District No.101
Roosevelt School District No.403
Skamania School District No.2
Stevenson-Carson School District No.303
Toutle Lake School District No.130
Trout Lake School District No.R-400
Wahkiakum School District No.200
Washougal School District No.112-6
White Salmon Valley School District No.405-17
Wishram School District No.94
Woodland School District No.404
(WSIPC) Washington School Information Processing Cooperative
Southwest Washington Unemployment Compensation Pool
Southwest Washington Workers' Compensation Trust

Educational Service District No. 112
SUPPLEMENTARY INFORMATION

SW WA RISK MANAGEMENT COOPERATIVE
DES SCHEDULE OF EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2016

| | |
|--|------------------|
| Excess Insurance | 1,074,516 |
| Contracted Services: | |
| Third Party Administrator Fees | - |
| Actuarial | 91,778 |
| Audit Expenses | - |
| Brokerage Fees | - |
| Legal Fees | 5,229 |
| Other Consultant Fees | 4,810 |
| General Administrative Expenses: | |
| Payroll | 377,164 |
| Communication & Network | 41,369 |
| Supplies and Materials | 4,204 |
| Dues and Conferences | 6,827 |
| Retreat/Board Meetings | - |
| Training | 13,208 |
| Depreciation | - |
| Travel | 15,481 |
| Lease | 18,948 |
| Printing/Copier | 9,325 |
| Miscellaneous | - |
| Other: | |
| Claims Paid | 384,477 |
| Change in Claim Reserves | 410,607 |
| State Risk Manager Fee | 11,734 |
| Refund to Member Districts | - |
| Experienced Administrator Consultation | 19,276 |
| Pre-Loss Attorney Consultation | 3,503 |
| Other- Pension | 2,571 |
| Miscellaneous | 180,205 |
| Total Operating Expenses | <u>2,675,232</u> |

Educational Service District No. 112
SUPPLEMENTARY INFORMATION

SW WA UNEMPLOYMENT COMPENSATION POOL
PUBLIC ENTITY RISK POOL
LIST OF PARTICIPATING MEMBERS

AS OF AUGUST 31, 2016

Camas School District No.117
Castle Rock School District No.401
Centerville School District No.215
Educational Service District No.112
Evergreen School District No.114
Glenwood School District No.401
Green Mountain School District No.103
Hockinson School District No.98
Kalama School District No.402
Kelso School District No.458
Klickitat School District No.402
LaCenter School District No.101
Longview School District No.122
Lyle School District No.406
Mill A School District No.31
Mount Pleasant School District No.029-93
Naselle-Grays River School District No.155
Ocean Beach School District No.101
Ridgefield School District No.122
Roosevelt School District No.403
Skamania School District No.2
Stevenson-Carson School District No.303
Toutle Lake School District No.130
Trout Lake School District No.R-400
Wahkiakum School District No.200
Washougal School District No.112-6
White Salmon Valley School District No.405-17
Wishram School District No.94
Woodland School District No.404

Educational Service District No. 112
SUPPLEMENTARY INFORMATION

SW WA UNEMPLOYMENT COMPENSATION POOL
DES SCHEDULE OF EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2016

| | |
|----------------------------------|-------------|
| Excess Insurance | - |
| Contracted Services: | |
| Third Party Administrator Fees | |
| Actuarial | 20,274 |
| Audit Expenses | - |
| Brokerage Fees | - |
| Legal Fees | - |
| Other Consultant Fees | 3,906 |
| General Administrative Expenses: | |
| Payroll | 165,381 |
| Communication & Network | 4,722 |
| Supplies and Materials | 2,059 |
| Dues and Conferences | 218 |
| Retreat/Board Meetings | - |
| Training | 950 |
| Travel | 4,763 |
| Lease | 12,610 |
| Printing/Copier | 1,786 |
| Miscellaneous | |
| Other: | |
| Claims Paid | 206,466 |
| Change in Claim Reserves | (3,895) |
| Net Pension Expense | 1,137 |
| Miscellaneous | 196 |
| | <hr/> |
| Total Operating Expenses | 420,573 |
| | <hr/> <hr/> |

Educational Service District No. 112
SUPPLEMENTAL INFORMATION
PRESENTING EFFECT OF GASB 68 IMPLEMENTATION FOR SHARE OF WA STATE DRS NET PENSION LIABILITY (NPL)
AUGUST 31, 2016

This supplemental information is provided to illustrate the impact of implementation of GASB 68, recording the District's proportionate share of Washington State's DRS net pension liability. See Note 5 for detail information on the pension plan, net pension liability and current year expense. The District has no independent ability to fund or satisfy pension liabilities outside of Washington State's legislatively adopted contribution rates. Assessments now and in the future are made based on legislatively-mandated rates and are paid by the District on salaries and wages, as earned, in future years.

| | OPERATING | WORKERS COMPENSATION FUND | UNEMPLOYMENT FUND | RISK MANAGEMENT FUND | CHILDCARE FUND | TOTAL ALL FUNDS |
|--|--------------|---------------------------------|----------------------|----------------------------|-------------------|--------------------|
| SCHEDULE OF EFFECT OF GASB 68 IMPLEMENTATION ON COMPONENTS OF UNRESTRICTED NET POSITION | | | | | | |
| UNRESTRICTED NET POSITION | | | | | | |
| Unrestricted for Operations | 5,777,237 | 2,679,682 | 3,687,043 | 5,651,614 | 898,054 | 18,693,630 |
| Unrestricted for Joint Venture | 653,733 | | | | | 653,733 |
| Subtotal, Unrestricted Net Position before NPL | 6,430,970 | 2,679,682 | 3,687,043 | 5,651,614 | 898,054 | 19,347,363 |
| GASB 68 Share of NPL- | | | | | | |
| Unrestricted for Operations | (17,054,941) | (324,919) | (78,257) | (175,257) | (64,863) | (17,698,237) |
| Unrestricted for Joint Venture | (672,789) | | | | | (672,789) |
| NET UNRESTRICTED POSITION, per audited balances | (11,296,760) | 2,354,762 | 3,608,787 | 5,476,357 | 833,191 | 976,337 |

| | | | | | | |
|---|--------------|-----------|----------|-----------|----------|--------------|
| SCHEDULE OF EFFECT OF GASB 68 IMPLEMENTATION ON UNRESTRICTED NET POSITION, SHARE OF NPL FOR OPERATIONS | | | | | | |
| Cumulative Effect of Change in Accounting Principle in Prior Periods | (17,292,491) | (320,108) | (77,120) | (172,686) | (63,725) | (17,926,130) |
| Current Year Share of Change in WA State DRS NPL | 237,550 | (4,811) | (1,137) | (2,571) | (1,138) | 227,893 |
| Total, Unrestricted Net Position for Operations for Net Pension Liability | (17,054,941) | (324,919) | (78,257) | (175,257) | (64,863) | (17,698,237) |

| | | | | | | |
|---|-----------|---------|---------|---------|-----------|-----------|
| SCHEDULE OF EFFECT OF GASB 68 IMPLEMENTATION ON CHANGES IN NET POSITION | | | | | | |
| Increase (Decrease) in Net Position before implementation of GASB 68 | 1,530,417 | 102,966 | 443,315 | 140,882 | (375,565) | 1,842,015 |
| GASB 68 Implementation, Current Year Share of change in WA State DRS Net Pension Liability- | | | | | | |
| District Operations | 237,550 | (4,811) | (1,137) | (2,571) | (1,138) | 227,893 |
| Joint Venture | 52,833 | | | | | 52,833 |
| Increase (Decrease) in Net Position, per audited balances | 1,820,800 | 98,155 | 442,178 | 138,311 | (376,703) | 2,122,741 |

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

| Contact information for the State Auditor's Office | |
|--|--|
| Public Records requests | PublicRecords@sao.wa.gov |
| Main telephone | (360) 902-0370 |
| Toll-free Citizen Hotline | (866) 902-3900 |
| Website | www.sao.wa.gov |