Office of the Washington State Auditor
Pat McCarthy

Financial Statements and Federal Single Audit Report

Educational Service District No. 123

Franklin County

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

Published May 31, 2018

Report No. 1021426

Office of the Washington State Auditor

Pat McCarthy

May 31, 2018

Board of Directors
Educational Service District No. 123
Pasco, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on Educational Service District No. 123'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. 123
Franklin County
September 1, 2016 through August 31, 2017

SECTION I – SUMMARY OF AUDITOR'S RESULTS

The results of our audit of Educational Service District No. 123 are summarized below in accordance with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Financial Statements

We issued a qualified opinion on the fair presentation of the basic financial statements of the Operating Fund, and unmodified opinions on each of the other major funds and the aggregate remaining fund information in accordance with accounting principles generally accepted in the United States of America (GAAP).

Internal Control over Financial Reporting:

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

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

Federal Awards

Internal Control over Major Programs:

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

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

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

Identification of Major Federal Programs:

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

CFDA No.	Program or Cluster Title
84.287	Twenty-First Century Community Learning Centers

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

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

SECTION II – FINANCIAL STATEMENT FINDINGS

See finding 2017-001.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

Educational Service District No. 123
Franklin County
September 1, 2016 through August 31, 2017

2017-001 The District did not obtain an actuarial study to determine its other post-employment benefit liabilities in accordance with government accounting standards.

Background

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

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

Description of Condition

The District did not research or consider the accounting and financial reporting related to its provision of other post-employment benefits in accordance with Government Accounting Standards Board (GASB) Statement No. 45.

Cause of Condition

The District evaluated GASB 45 during the District's conversion to generally accepted accounting principles (GAAP) and determined it was not applicable however, the District has not reevaluated its applicability in subsequent years. The District chose not to restate the financial statements to include other post-employment benefits for fiscal year 2017.

Effect of Condition

District did not obtain an actuarial study to determine the amount of liabilities related to other post-employment benefits. Consequently, the District did not report this liability or present the note disclosures and other information required by generally accepted accounting principles.

Recommendations

We recommend the District:

- Perform necessary research and obtain needed actuarial studies to correctly report other post-employment benefit liabilities on its financial statements
- Establish a process for technical review of the financial statements by a person who understands generally accepted accounting principles (GAAP) and reporting requirements to ensure the District's financial statements are accurately prepared and reported

District's Response

ESD 123 appreciates the opportunity to respond to the State Auditor's Office finding, however we respectfully disagrees with the State Auditor's Office (SAO) position related to the application of Government Accounting Standards Board Statement No. 45 (GASB 45) – Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions, and the impact to the August 31, 2017 financial statements. As indicated in the State Auditor's Office finding, it is accurate ESD 123 did not obtain an actuarial study to determine other postemployment benefit (OPEB) liabilities.

Review and analysis, by the nine ESDs, of the accounting pronouncements resulted in recording activity for post-retirement benefits for employees offered through the Health Care Authority (HCA) as a cost-sharing plan under an arrangement equivalent to a trust. ESD 123's current relationship with the HCA consists of monthly payments per, RCW 28A.400.410, for eligible active employees consistent with the State's operating budget and RCW 41.05.120. ESD 123 does not make any direct payments to HCA for retiree healthcare and RCW 41.05.120 refers to the payment as a contribution which will be combined with other revenue sources (dividends, refunds, and reserves) and deposited into the school employees' insurance account. There is no plan document, no written communication or any other agreement that would indicate the contribution is for any other purpose than sharing in the cost of the insurance account.

All nine Educational Service District's in the State of Washington changed from modified accrual financial reporting to full accrual financial reporting in accordance with generally accepted accounting principles (GAAP) in the 2011_2012 school year. The nine ESD's hired a consultant to prepare the ESD accounting manual which was significantly revised and included a thorough technical review of all GAAP and GASB technical guidance. GASB 45 was in effect at the time the revised manual was adopted. When the manual was completed it was reviewed by the State Auditor's Office and OSPI prior to its implementation.

The State Auditor's Office conducts an audit of ESD 123 on an annual basis. The implementation of GASB 45 has never been brought up as an issue during these annual audits, and ESD 123 has received a clean audit opinion every year since the initial year of financial reporting in accordance with GAAP.

In February of 2018, five months after yearend and after the current financial statement were completed and submitted to OSPI, the GASB 45 liability issue surfaced across the state. During the audit, the State Auditor's Office determined that ESDs would receive a finding for not reporting a GASB 45 liability as SAO did not accept the collaborative research and position of the nine ESD's in the application of GASB 45. Further communication indicated that even if the ESD 123 procured services for a professional actuarial study to calculate any GASB 45 liabilities that ESD 123 would still receive a finding, but would receive a clean audit opinion.

ESD 123 evaluated the options and decided the fiscally responsible solution was to avoid spending in excess of $13,000 for an actuarial study, plus additional costs related to time for the State Auditor's Office to audit the study, in order to make adjustments to our 2016-17 financial statements for an expiring GASB statement. GASB 45 will be replaced by Government Accounting Standards Board Statement No. 5 (GASB 75) – Accounting and Financial Reporting for Postemployment Benefits other than Pensions beginning with the 2017-2018 reporting year. ESD 123's position is to focus time and resources on the implementation of GASB statements that are applicable effective with the 2017-18 year. Management's belief is that the 2016-17 financial statements, as reported, fairly reflect the financial position of ESD 123, and accurately provides information needed to make financial decisions, consistent with the last six years. Unfortunately, this decision resulted in this audit finding as well as a qualified opinion on the financial statements.

Once more, ESD 123 appreciates the opportunity to respond to the State Auditor's Office's finding.

Auditor's Remarks

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

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

Applicable Laws and Regulations

Governmental Accounting Standards Board Statement No. 45

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

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

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

Educational Service District No. 123
Franklin County
September 1, 2016 through August 31, 2017

Board of Directors
Educational Service District No. 123
Pasco, 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. 123, Franklin County, Washington, as of and for the year ended August 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated May 24, 2018.

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

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

DISTRICT'S RESPONSE TO FINDINGS

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

PURPOSE OF THIS REPORT

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

Pat McCarthy

State Auditor

Olympia, WA

May 24, 2018

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

Educational Service District No. 123
Franklin County
September 1, 2016 through August 31, 2017

Board of Directors
Educational Service District No. 123
Pasco, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of Educational Service District No. 123, Franklin County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended August 31, 2017. The District's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2017.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

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

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

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Pat McCarthy

State Auditor

Olympia, WA

May 24, 2018

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Educational Service District No. 123
Franklin County
September 1, 2016 through August 31, 2017

Board of Directors
Educational Service District No. 123
Pasco, 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. 123, Franklin County, Washington, as of and for the year ended August 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 20.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Basis for Qualified Opinion on the Operating Fund

The District reported total liabilities of $15,779,991 on the Statement of Net Position as of August 31, 2017. The District did not report liabilities resulting from postemployment benefits provided to its employees in accordance with Governmental Accounting Standards Board Statement No. 45. *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Presentation of, and disclosures for, such liabilities is required by accounting principles generally accepted in the United States of America.

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

Qualified Opinion on the Operating Fund

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

Unmodified Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the risk pools information and pension plan information on page 20 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB) who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). This schedule is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated May 24, 2018 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Pat McCarthy

State Auditor

Olympia, WA

May 24, 2018

FINANCIAL SECTION

Educational Service District No. 123
Franklin County
September 1, 2016 through August 31, 2017

BASIC FINANCIAL STATEMENTS

REQUIRED SUPPLEMENTARY INFORMATION

SUPPLEMENTARY AND OTHER INFORMATION

Educational Service District #123
STATEMENT OF NET POSITION - ALL FUNDS
AUGUST 31, 2017

	NOTE REF	OPERATING	WORKERS COMPENSATION FUND	UNEMPLOYMENT FUND	TOTAL ALL FUNDS
ASSETS					
CURRENT ASSETS					
Cash and Cash Equivalents	Note 1	$ 32,343.06	$ 58,775.10		$ 91,118.16
Net Assets for Pool Participants				$ 2,783,007.15	$ 2,783,007.15
Investments	Note 2	$ 663,458.26	$ 10,900,336.48		$ 11,563,794.74
Accounts Receivable (net of uncollectible allowance)	Note 1	$ 1,507,823.61	$ 259,580.04		$ 1,767,403.65
Other Receivables	Note 8				$ -
Member Assessments/Contributions					$ -
Accrued Deductibles/Co-pays					$ -
Excess/Reinsurance Recoverable			$ 68,736.04		$ 68,736.04
Due from Other Governments	Note 1				$ -
Inventory	Note 1				$ -
Prepaids	Note 1	$ 1,450.96			$ 1,450.96
Restricted Assets	Note 1				$ -
Other Current Assets	Note 1				$ -
TOTAL CURRENT ASSETS		$ 2,205,075.89	$ 11,287,427.66	$ 2,783,007.15	$ 16,275,510.70
NONCURRENT ASSETS					
Investments_	Note 2				$ -
Capital Assets	Note 3				
Land		$ 242,500.00			$ 242,500.00
Construction in Progress					$ -
Building		$ 6,013,824.43			$ 6,013,824.43
Equipment		$ 187,808.88			$ 187,808.88
Less: Accumulated Depreciation		$ (1,547,400.14)			$ (1,547,400.14)
Net Capital Assets		$ 4,896,733.17	$ -	$ -	$ 4,896,733.17
Net Cash/Investments Held for Compensated Absences		$ 130,313.23			$ 130,313.23
Net Cash/Investments Held for Unemployment		$ 608,531.15			$ 608,531.15
Investment in Joint Venture	Note 12	$ 196,105.78			$ 196,105.78
Contracts Receivable	Note 1				$ -
TOTAL NONCURRENT ASSETS		$ 5,831,683.33	$ -	$ -	$ 5,831,683.33

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

Educational Service District #123
STATEMENT OF NET POSITION - ALL FUNDS
AUGUST 31, 2017

	NOTE REF	OPERATING	WORKERS COMPENSATION FUND	UNEMPLOYMENT FUND	TOTAL ALL FUNDS
TOTAL ASSETS		$ 8,036,759.22	$ 11,287,427.66	$ 2,783,007.15	$ 22,107,194.03
DEFERRED OUTFLOWS OF RESOURCES					
Deferred OutFlows – Refunded Bonds					$ -
Deferred OutFlows – Pension Plans		$ 472,852.00			$ 472,852.00
TOTAL DEFERRED OUTFLOWS OF RESOURCES	Note 1	$ 472,852.00	$ -	$ -	$ 472,852.00
LIABILITIES					
CURRENT LIABILITIES					
Accounts Payable	Note 1	$ 451,306.24	$ 315,756.31		$ 767,062.55
Amount Due to Pool Participants				$ 2,783,007.15	$ 2,783,007.15
Notes Payable	Note 5	$ 167,160.74			$ 167,160.74
Accrued Interest Payable	Note 5				$ -
Accrued Salaries	Note 1	$ 30,387.12			$ 30,387.12
Payroll Deductions & Taxes Payable	Note 1	$ 11,155.37			$ 11,155.37
Public Employees' Retirement System					$ -
Deferred Compensation					$ -
Compensated Absences	Note 1				$ -
Bonds Payable	Note 5				$ -
Capital Leases Payable	Note 5				$ -
Claim Reserves	Note 8				
IBNR			$ 727,157.00		$ 727,157.00
Open Claims			$ 543,619.00		$ 543,619.00
Unallocated Loss Adjustment Expenses			$ 87,938.00		$ 87,938.00
Future L&I Assessments			$ 209,853.00		$ 209,853.00
Deposits	Note 1				$ -
Unearned Revenue	Note 1	$ 7,827.74			$ 7,827.74
Unearned Member Assessments/Contributions	Note 8				$ -
Other Liabilities and Credits	Note 1				$ -
TOTAL CURRENT LIABILITIES		$ 667,837.21	$ 1,884,323.31	$ 2,783,007.15	$ 5,335,167.67
NONCURRENT LIABILITIES					
Compensated Absences_	Note 1	$ 237,244.36			$ 237,244.36
Unemployment					$ -

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

Educational Service District #123
STATEMENT OF NET POSITION - ALL FUNDS
AUGUST 31, 2017

	NOTE REF	OPERATING	WORKERS COMPENSATION FUND	UNEMPLOYMENT FUND	TOTAL ALL FUNDS
Notes Payable_	Note 5				$ -
Claim Reserves_	Note 8				
IBNR_			$ 1,455,843.00		$ 1,455,843.00
Open Claims_			$ 1,088,381.00		$ 1,088,381.00
Unallocated Loss Adjustment Expenses_			$ 176,062.00		$ 176,062.00
Future L&I Assessments_			$ 420,147.00		$ 420,147.00
Net Pension Liability		$ 3,467,146.00			$ 3,467,146.00
Bonds Payable_	Note 5	$ 3,600,000.00			$ 3,600,000.00
Capital Leases Payable_	Note 5				$ -
TOTAL NONCURRENT LIABILITIES		$ 7,304,390.36	$ 3,140,433.00	$ -	$ 10,444,823.36
TOTAL LIABILITIES		$ 7,972,227.57	$ 5,024,756.31	$ 2,783,007.15	$ 15,779,991.03
DEFERRED INFLOWS OF RESOURCES					
Deferred InFlows – Refunded Bonds					$ -
Deferred InFlows – Pension Plans		$ 487,093.00			$ 487,093.00
TOTAL DEFERRED INFLOWS OF RESOURCES	Note 1	$ 487,093.00	$ -	$ -	$ 487,093.00
NET POSITION					
Net Investment in Capital Assets		$ 1,273,092.12	$ -	$ -	$ 1,273,092.12
Restricted for Debt Service		$ -			$ -
Restricted for Self-Insurance		$ 608,531.15			$ 608,531.15
Restricted for Support Programs	Note 10	$ 522,911.31			$ 522,911.31
Restricted for Risk Pool Net Position			$ 6,262,671.35		$ 6,262,671.35
Restricted for Other Items					$ -
Restricted for Joint Venture	Note 12	$ 196,105.78	$ -	$ -	$ 196,105.78
Unrestricted		$ (2,550,349.71)	$ -	$ -	$ (2,550,349.71)
TOTAL NET POSITION		$ 50,290.65	$ 6,262,671.35	$ -	$ 6,312,962.00

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

Educational Service District #123
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED AUGUST 31, 2017

	OPERATING	WORKERS COMPENSATION FUND	UNEMPLOYMENT FUND	TOTAL ALL FUNDS
OPERATING REVENUES				
Local Sources	$ 828,520.70			$ 828,520.70
State Sources	$ 3,855,861.57			$ 3,855,861.57
Allotment	$ 552,919.66			$ 552,919.66
Federal Sources	$ 3,237,480.36			$ 3,237,480.36
Cooperative Programs	$ 2,398,899.54			$ 2,398,899.54
Other Programs	$ 1,668,671.71			$ 1,668,671.71
Member Assessments/Contributions		$ 4,010,753.48	$ 9,453.21	$ 4,020,206.69
Supplemental Member Assessments				$ -
Other Operating Revenue		$ 42,115.70		$ 42,115.70
TOTAL OPERATING REVENUE	$ 12,542,353.54	$ 4,052,869.18	$ 9,453.21	$ 16,604,675.93
OPERATING EXPENSES				
General Operations and Administration	$ 2,071,338.05	$ 770,452.27	$ 35,490.67	$ 2,877,280.99
Instructional Support Programs	$ 9,425,308.96			$ 9,425,308.96
Non Instructional Support Programs	$ 1,017,590.65			$ 1,017,590.65
Incurred Loss/Loss Adjustment Expenses				
Paid on Current Losses				$ -
Change in Loss Reserves		$ (121,000.00)		$ (121,000.00)
Unallocated Loss Adjustment Expenses				
Paid Unallocated Loss Adjustment Expenses				$ -
Change in Unallocated Loss Reserves		$ 36,000.00		$ 36,000.00
Excess/Reinsurance Premiums		$ 139,703.00		$ 139,703.00
Professional Fees		$ 50,709.00		$ 50,709.00
Labor & Industries Assessments		$ 401,700.84		$ 401,700.84
Depreciation/Depletion	$ 202,877.14			$ 202,877.14
Other Operating Expenses		$ 2,084,068.30		$ 2,084,068.30
Pension Expense from change in Net Pension Liability	$ (43,392.00)			$ (43,392.00)
TOTAL OPERATING EXPENSES	$ 12,673,722.80	$ 3,361,633.41	$ 35,490.67	$ 16,070,846.88
OPERATING INCOME (LOSS)	$ (131,369.26)	$ 691,235.77	$ (26,037.46)	$ 533,829.05
NONOPERATING REVENUES (EXPENSES)				
Interest and Investment Income	$ 9,208.42	$ 72,454.50	$ 26,037.46	$ 107,700.38
Interest Expense and Related Charges	$ (155,772.16)			$ (155,772.16)
Lease Income				$ -
Gains (Losses) on Capital Asset Disposition				$ -
Change in Joint Venture	$ 215,161.55			$ 215,161.55
Change in Compensated Absences				$ -
Other Nonoperating Revenues				$ -
Other Nonoperating Expenses				$ -
TOTAL NONOPERATING REVENUES (EXPENSES)	$ 68,597.81	$ 72,454.50	$ 26,037.46	$ 167,089.77
INCOME (LOSS) BEFORE OTHER ITEMS	$ (62,771.45)	$ 763,690.27	$ -	$ 700,918.82
Extraordinary Items				$ -
Special Items				$ -
INCREASE (DECREASE) IN NET POSITION	$ (62,771.45)	$ 763,690.27	$ -	$ 700,918.82
NET POSITION - BEGINNING BALANCE	$ 113,062.10	$ 5,498,981.08	$ -	$ 5,612,043.18
Cumulative Effect of Change in Accounting Principle				$ -
PRIOR PERIOD ADJUSTMENT				$ -
NET POSITION - ENDING BALANCE	$ 50,290.65	$ 6,262,671.35	$ -	$ 6,312,962.00

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

Educational Service District #123
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED AUGUST 31, 2017

	OPERATING	WORKERS COMPENSATION FUND	UNEMPLOYMENT FUND	TOTAL ALL FUNDS
CASH FLOW FROM OPERATING ACTIVITIES				
Cash Received from Customers	$ 5,287,981.85			$ 5,287,981.85
Cash Received from State and Federal Sources	$ 7,662,116.89			$ 7,662,116.89
Cash Received from Members		$ 3,962,243.65	$ 9,453.21	$ 3,971,696.86
Payments to Suppliers for Goods and Services	$ (4,088,225.42)			$ (4,088,225.42)
Payments to Employees for Services	$ (6,116,272.41)			$ (6,116,272.41)
Cash Paid for Benefits/Claims	$ (2,116,214.27)	$ (2,078,923.99)		$ (4,195,138.26)
Internal Activity - Payments to Other Funds		$ (774,508.82)	$ (35,490.67)	$ (809,999.49)
Cash Paid for Reinsurance		$ (139,703.00)		$ (139,703.00)
Cash Paid for Labor and Industries Assessments		$ (419,367.55)		$ (419,367.55)
Cash Paid for Professional Services		$ (50,709.00)		$ (50,709.00)
Cash Paid for Other Operating Expense				$ -
Other Receipts (Payments)		$ 51,595.76		$ 51,595.76
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	$ 629,386.64	$ 550,627.05	$ (26,037.46)	$ 1,153,976.23
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Operating Grants Received				$ -
Transfer to (from) Other Funds				$ -
Proceeds from Issuance of Notes				$ -
Principal and Interest Payment on Notes				$ -
Other Noncapital Activities				$ -
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	$ -	$ -	$ -	$ -
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchase of Capital Assets	$ (2,243,675.33)			$ (2,243,675.33)
Proceeds from Capital Debt				$ -
Principal and Interest Paid on Capital Debt	$ (330,059.16)			$ (330,059.16)
Capital Contributions				$ -
Lease Income				
Other Receipts (Payments)				$ -
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	$ (2,573,734.49)	$ -	$ -	$ (2,573,734.49)
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from Sales and Maturities of Investments				$ -
Lease Income				$ -
Purchase of Investments				$ -
Interest and Dividends Received	$ 9,208.42	$ 72,454.50	$ 26,037.46	$ 107,700.38
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	$ 9,208.42	$ 72,454.50	$ 26,037.46	$ 107,700.38
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	$ (1,935,139.43)	$ 623,081.55	$ -	$ (1,312,057.88)
CASH AND CASH EQUIVALENTS - BEGINNING	$ 2,630,940.75	$ 10,336,030.03	$ -	$ 12,966,970.78
PRIOR PERIOD ADJUSTMENT				$ -
CASH AND CASH EQUIVALENTS - ENDING	$ 695,801.32	$ 10,959,111.58	$ -	$ 11,654,912.90
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
OPERATING NET INCOME	$ (131,369.26)	$ 691,235.77	$ (26,037.46)	$ 533,829.05
Adjustment to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities				
Depreciation Expense	$ 202,877.14			$ 202,877.14
Change in Assets and Liabilities				$ -
Receivables, Net	$ 391,157.81	$ (52,170.42)		$ 338,987.39
Prepaids				$ -
Inventories				$ -
Accounts and Other Payables	$ 210,112.95	$ (16,578.95)		$ 193,534.00
Accrued Expenses				$ -
Unearned Revenue				$ -
Pension Expense from change in Net Pension Liability-				$ -
Other Changes				$ -
Change in Deferred Outflows	$ 246,201.00			$ 246,201.00
Change in Deferred Inflows	$ 469,087.00			$ 469,087.00
Change in Net Pension Liability	$ (758,680.00)			$ (758,680.00)
Claims Reserve-Current		$ 27,000.00		$ 27,000.00
Claims Reserve-Prior Year				$ -
IBNR-Current				$ -
IBNR-Prior Year				$ -
Future L&I Assessments		$ (21,719.80)		$ (21,719.80)
Provision for Unallocated Loss Adjustment		$ 57,719.80		$ 57,719.80
Unearned Member Assessments				$ -
Insurance Recoverables		$ 13,140.65		$ 13,140.65
Claim Reserves		$ (148,000.00)		$ (148,000.00)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	$ 629,386.64	$ 550,627.05	$ (26,037.46)	$ 1,153,976.23

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

Educational Service District #123
STATEMENT OF FIDUCIARY NET POSITION - FIDUCIARY FUNDS
AUGUST 31, 2017

		DELTA HIGH ASB
ASSETS		
Cash and Cash Equivalents	$	3,069.95
Investments	$	20,335.09
Accounts Receivable		
Assets Used in Operations		
TOTAL ASSETS	$	23,405.04
LIABILITIES		
Accounts Payable		
Program Refunds Payable to JV Participants		
Deposits (from school districts)		
TOTAL LIABILITIES	$	-
NET POSITION		
Held in Trust for Benefits and Other Purposes	$	23,405.04
TOTAL NET POSITION	$	23,405.04

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

Educational Service District #123
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION - FIDUCIARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2017

	DELTA HIGH ASB
ADDITIONS	
Contributions	
Employer	
Members	17,778.57
Total Contributions	17,778.57
Investment Earnings	
Interest	
Net Increase (Decrease) in the Fair Value of Investments	
Total Investment Earnings	-
Other Additions	
TOTAL ADDITIONS	17,778.57
DEDUCTIONS	
Distribution to Pool Participants	
Refunds of Contributions	
Administrative Expenses	
Other Payments in Accordance with Trust Agreement	13,338.55
TOTAL DEDUCTIONS	13,338.55
CHANGE IN NET POSITION	4,440.02
NET POSITION - BEGINNING	18,985.02
PRIOR PERIOD ADJUSTMENT	
NET POSITION - ENDING	23,425.04

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

NOTES TO THE FINANCIAL STATEMENTS

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Educational Service District No. 123 (“the District”) were developed under authority of the Office of Superintendent of Public Instruction. Except where noted as exceptions, the rules of generally accepted accounting principles (GAAP) are the basis for accounting and financial reporting in the District. The following summary of the more significant accounting policies is presented to assist the reader in interpreting the financial statements and other data in this report. These policies should be viewed as an integral part of the accompanying financial statements.

Reporting Entity

Educational Service District No. 123 is one of nine municipal corporations of the State of Washington organized pursuant to Title 28A *Revised Code of Washington* (RCW) for the purpose of (1) providing cooperative and informational services to local school districts; (2) assisting the state superintendent of public instruction and the state board of education in the performance of their respective statutory or constitutional duties; and (3) providing services to school districts to assure equal educational opportunities.

As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. Based on the standards set by Governmental Accounting Standards Board (GASB) Statement 14, there were no component units of ESD 123. The District is a separate legal entity and is fiscally independent from all other units of government.

The District serves 23 school districts in Adams, Asotin, Benton, Columbia, Franklin, Garfield and Walla Walla counties. Oversight responsibility for the District's operations is vested with the Board of Directors who are elected by the school directors of the educational service district, one from each of nine educational service district board-member districts. Management of the District is appointed by and accountable to the Board of Directors. Fiscal responsibility, including budget authority, the power to operate cooperatives, set fees for services and issue debt consistent with the provisions of state statutes, rests with the Board. For financial reporting purposes, the District’s financial statements include all fund entities that are controlled by the District's Board of Directors and managed by the administrative staff, 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 *Operating* fund is the ESD's primary fund. It accounts for all financial resources of the ESD that are not reported in the following funds.

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

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

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

In addition, the District reports the following fund types:

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

The *Washington Information Processing Cooperative Agency Fund* accounts for assets held by the district to operate the joint venture on behalf of the members of the cooperative.

The *Delta High School ASB Fund* was established to hold in trust those monies collected by the Delta High School Associated Student Body for their use. The Educational Service District #123 is the fiscal agent for Delta High School.

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

Assets, Liabilities, and Equity

<u>Cash and Cash Equivalents</u>
The Franklin County Treasurer is the ex-officio treasurer for the District. In this capacity, the county treasurer receives daily deposits and transacts investments on behalf of the District. On August 31, 2017, the treasurer was holding $151,803 in short-term residual investments of surplus cash. This amount is classified on the statement of net position as cash and cash equivalents.

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

Deposits and Investments – See Note 2

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

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

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

Inventory
The District does not maintain material amounts of inventory.

Capital Assets and Depreciation – See Note 3

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

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

The balance reported in the statement of net position as of August 31, 2017, represents the aggregate amount of vacation and sick leave payable for all eligible employees of the District.

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

Long Term Debt – See Note 5

Deferred Outflows and Inflows of Resources
The ESD has adopted GASB 68 for the year ended August 31, 2015. GASB 68 requires the ESD to recognize as deferred outflows or inflows on the Statement of Net Position their proportionate share of the State Department of Retirement System's deferred income or expenses items that will be recognized over a number of years. These items are presented on the Statement of Net Position and will impact the future calculations of the retirement system's pension funding status.

Note 2: DEPOSITS AND INVESTMENTS

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

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

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

Investment	Maturity	Fair Value
Local Government Investment Pool	Daily	15,696,925
County Investment Pool		
Certificate of Deposit		
Money Market Account		
Total Investments		15,696,925

Credit Risk

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

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

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

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 $15,848,728,

$15,848,728 is exposed to custodial credit risk because the investments held by the LGIP are not insured or guaranteed by any government. 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, 2017, the LGIP's average duration was less than one year. As a means of limiting its exposure to rising interest rates, securities purchased in the pool must have a final maturity, or weighted average life, no longer than five years. While the pool's market value is calculated on a monthly basis, unrealized gains and losses are not distributed to participants. The pool distributes earnings monthly using an amortized cost methodology.

Note 3: CAPITAL ASSETS

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

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

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

Capital assets activity for the fiscal year ended August 31, 2017, was as follows:

	Beginning Balance 9/1/2016	Increases	Decreases	Ending Balance 8/31/2017
Capital assets not being depreciated:				
Land	$ 242,500	$	$	$ 242,500
Construction in Progress	1,668,896		1,668,896	0
Total capital assets not being depreciated	1,911,396		1,668,896	242,500
Depreciable capital assets:				
Buildings	2,745,153	3,268,671		6,013,824
Improvements other than buildings				
Equipment		187,809		187,809

Other				
Total depreciable capital assets	2,745,153	3,456,480		6,201,633
Less accumulated depreciation for:				
Buildings	1,344,523	189,709		1,534,232
Improvements other than buildings				
Equipment		13,168		13,168
Other				
Total accumulated depreciation	1,344,523	202,877		1,547,400
Total depreciable assets, net				
Total assets, net	$3,312,026	$3,253,603	$1,668,896	$4,896,733

During fiscal year 2017, the District capitalized $ 0 of net interest costs for funds borrowed to finance the construction of capital assets.

Construction Commitments
The District has no active construction projects as of August 31, 2017. The projects include professional development center (PDC) building expansion. At fiscal year-end, the District's commitments with contractors were as follows:

Project	Spent to Date	Remaining Commitment

Of the total committed balance above, the District will be required to raise $ 0 in future financing.

Note 4: SHORT-TERM DEBT

Short-term activities for the fiscal year ended August 31, 2017, were as follows:

Debt	Beginning Balance 9/1/2016	Increases	Decreases	Ending Balance 8/31/2017
	$ 0.00	$	$	$ 0.00

Note 5: LONG-TERM DEBT, LIABILITIES AND LEASES

Long-Term Debt

The District issues general obligation bonds and other debt instruments to finance the purchase of main office building and acquisition and construction of the professional development center. The following is a summary of long-term debt instruments of the District for the fiscal year ended August 31, 2017:

Purpose	Maturity Range	Interest Rate	Original Amount	Amount of Installments
Purchase and Remodel Main Office Building	07/2016	5.11%	1,438,209.48	6,295 to 13,180

Construct Professional Developmental Building	07/2018	5.11%	500,000.00	675 to 15,197
Professional Development Building Expansion	12/2034	3.95%	3,600,000.00	53,000 to 292,000

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

Fiscal Year Ending August 31	Principal	Interest
2018	167,160.74	146,533.50
2019	53,000.00	141,153.25
2020	163,000.00	136,887.25
2021	170,000.00	130,310,50
2022 – 2035	3,214,000.00	968,421.50

Operating Leases

The District is committed under various leases for space and equipment. All leases are considered operating leases for accounting purposes because the District does not acquire interests in the property. Lease expenses for the year ended August 31, 2017, totaled $15,269. Future minimum rental commitments for these leases are as follows:

Fiscal Year Ending August 31	Amount
2017	7,892
2018	0
2019	0

Changes in Long-Term Liabilities

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

	Beginning Balance 9/1/2016	Additions	Reductions	Ending Balance 8/31/2017	Due Within One Year
Bonds Payable	$3,941,447.74	$0	$174,287.00	$3,767,160.74	$167,160.74
Capital Leases					
Compensated Absences (unfunded portion)	216,938.04	20,306.32		237,244.36	N/A
Claims and Judgments					
OPEB					
Net Pension Liability TRS 1	876,396		129,250	747,146	N/A
Net Pension Liability TRS 2/3	341,280		122,249	219,031	N/A

Net Pension Liability SERS 2/3	1,320,418		385,466	934,952	N/A
Net Pension Liability PERS 1	1,687,732		121,715	1,566,017	N/A
Total Long-Term Liabilities	$8,384,211.78	$20,306.32	$932,967.00	$7,471,551.10	$167,160.74

Note 6: PENSION PLANS

General Information

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

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

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

Membership Participation

Substantially all of the ESD full-time and qualifying part-time employees participate in one of the following three contributory, multi-employer, cost-sharing statewide retirement systems managed by DRS: Teachers' Retirement System (TRS), Public Employees' Retirement System (PERS) and School Employees' Retirement System (SERS).

Membership participation by retirement plan as of June 30, 2017, was as follows:

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

The latest actuarial valuation date for all plans was June 30, 2017
Source: Washington Office of the State Actuary

Membership & Plan Benefits

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

TRS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component. TRS eligibility for membership requires service as a certificated public school employee working in an instructional, administrative or supervisory capacity.

TRS is comprised of three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

TRS Plan 1 provides retirement, disability and death benefits. TRS 1 members were vested after the completion of five years of eligible service. Retirement benefits are determined as two percent of the average final compensation (AFC), for each year of service credit, up to a maximum of 60 percent, divided by twelve. The AFC is the total earnable compensation for the two consecutive highest-paid fiscal years, divided by two. Members are eligible for retirement at any age after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. Other benefits include temporary and permanent disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries.

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

The benefit is reduced by a factor that varies according to age, for each year before age 65. TRS Plan 2/3 members who have 30 or more years of service credit, were hired prior to May 1, 2013, and are at least 55 years old, can retire under one of two provisions: With a benefit that is reduced by three percent for each year before age 65; or with a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

TRS Plan 2/3 members hired on or after May 1, 2013, have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service. TRS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit.

Other benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the Consumer Price Index), capped at three percent annually and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS Plan 1 provides retirement, disability and death benefits. PERS 1 members were vested after the completion of five years of eligible service. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service.

Members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits. PERS Plan 1 retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries.

SERS is a cost-sharing multiple-employer retirement system comprised of two separate plans for membership purposes. SERS Plan 2 is a defined benefit plan and SERS Plan 3 is a defined benefit plan with a defined contribution component. SERS members include classified employees of school districts and educational service districts.

SERS is reported as two separate plans for accounting purposes: Plan 2/3 and Plan 3. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members.

Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

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

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

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

Plan Contributions

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

The Employer and employee contribution rates for the PERS plan are effective as of July 1. SERS and TRS contribution rates are effective as of September 1. The pension plan contribution rates (expressed as a percentage of covered payroll) for 2016 and 2017 are listed below:

Pension Rates			
	7/1/17 Rate	**7/1/16 Rate**	
PERS 1			
Member Contribution Rate	6.00%	6.00%	
Employer Contribution Rate	12.70%	11.18%	
Pension Rates			
	9/1/17 Rate	**9/1/16 Rate**	
TRS 1			
Member Contribution Rate	6.00%	6.00%	
Employer Contribution Rate	15.20%	13.13%	
TRS 2			
Member Contribution Rate	7.06%	5.95%	
Employer Contribution Rate	15.20%	13.13%	
TRS 3			
Member Contribution Rate	varies*	varies*	
Employer Contribution Rate	15.20%	13.13%	**
SERS 2			
Member Contribution Rate	7.27%	5.63%	
Employer Contribution Rate	13.48%	11.58%	
SERS 3			
Member Contribution Rate	varies*	varies*	
Employer Contribution Rate	13.48%	11.58%	**
Note: The DRS administrative rate of .0018 is included in the employer rate.			

*** = Variable from 5% to 15% based on rate selected by the member.**
**** = Defined benefit portion only.**

The Collective Net Pension Liability

The collective net pension liabilities for the pension plans the ESDs participated in are reported in the following tables.

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

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

At June 30, 2017, the ESD reported a total liability of $ 3,467,146 for its proportionate shares of the individual plans' collective net pension liability. The district's proportionate share of the collective net pension liability is based on annual contributions for each of the employers participating in the DRS administered plans. At June 30, 2017, the district's proportionate share of each plan's net pension liability is reported below:

June 30, 2017	PERS 1	SERS 2/3	TRS 1	TRS 2/3
District's Annual Contributions	198,521	256,622	86,480	87.440
Proportionate Share of the Net Pension Liability	1,566,017	934,952	747,146	219,031

At June 30, 2017, the ESD' percentage of the proportionate share of the collective net pension liability was as follows and the change in the allocation percentage from the prior year is illustrated below:

Changes in Proportionate Shares	PERS 1	SERS 2/3	TRS 1	TRS 2/3
Current year proportionate share of the Net Pension Liability	.033003%	.189463%	.024713%	.023732%
Prior year proportionate share of the Net Pension Liability	.031426%	.201048%	.025669%	.024851%
Net difference percentage	.001577%	-.011585%	-.000956%	-.0001119%

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, 2016, 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, 2016, valuation were based on the results of the *2007–2012 Experience Study Report* and *the 2015 Economic Experience Study*. Additional assumptions for subsequent events and law changes are current as of the 2016 actuarial valuation report.

Long-term Expected Rate of Return

The long-term expected rate of return on pension plan investments was determined using a building-block method in which a best-estimate of expected future rates of return (expected returns, net of pension plan investment expense, but including inflation) are developed for each major asset class by the Washington State Investment Board (WSIB). Those expected returns make up one component of WSIB's CMAs. The CMAs contain three pieces of information for each class of assets the WSIB currently invest in:

- Expected annual return
- Standard deviation of the annual return
- Correlations between the annual returns of each asset class with every other asset class

WSIB uses the CMAs and their target asset allocation to simulate future investment returns over various time horizons.

The long-term expected rate of return of 7.50% percent approximately equals the median of the simulated investment returns over a fifty-year time horizon, increased slightly to remove WSIB's implicit and small short-term downward adjustment due to assumed mean reversion. WSIB's implicit short-term adjustment, while small and appropriate over a ten to fifteen-year period, becomes amplified over a fifty-year measurement period.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plans' target asset allocation as of June 30, 2017, are summarized in the following table:

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

The inflation component used to create the above table is 2.20 percent, and represents WSIB's most recent long-term estimate of broad economic inflation.

Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent. To determine the discount rate, an asset sufficiency test was completed to test whether the pension plan's fiduciary net position was sufficient to make all projected future benefit payments of current plan members. Consistent with current law, the completed asset sufficiency test included an assumed 7.70 percent long-term discount rate to determine funding liabilities for calculating future contributions rate requirements. Consistent with the long-term expected rate of return, a 7.50 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue to be made at contractually required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.50 percent on pension plan investments was applied to determine the total pension liability.

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The Pension Plans reported collective Deferred Outflows of Resources and collective Deferred Inflows of Resources related to the individual plans. At August 31, 2017, the ESD reported Deferred Outflows of Resources and Deferred Inflows of Resources related to pensions from the following sources:

Plan Name 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	$	$ 58,439
Changes in assumptions or other inputs	$	$
Changes in proportion and differences between contributions and proportionate share of contributions	$	$
Contributions subsequent to the measurement date	$ 31,607	$

TOTAL	$ 31,607	$ 58,439

Plan Name SERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experiences	$ 186,168	$
Net difference between projected and actual earnings on pension plan investments	$	$ 242,944
Changes in assumptions or other inputs	$ 9,759	$
Changes in proportion and differences between contributions and proportionate share of contributions	$ 91,042	$ 50,393
Contributions subsequent to the measurement date	$ 39,968	$
TOTAL	$ 326,937	$ 293,337

Plan Name 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	$	$ 31,653
Changes in assumptions or other inputs	$	$
Changes in proportion and differences between contributions and proportionate share of contributions	$	$
Contributions subsequent to the measurement date	$ 16,398	$
TOTAL	$ 16,398	$ 31,653

Plan Name TRS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experiences	$ 54,619	$ 11,174
Net difference between projected and actual earnings on pension plan investments	$	$ 79,267
Changes in assumptions or other inputs	$ 2,581	$
Changes in proportion and differences between contributions and proportionate share of contributions	$ 24,234	$ 13,222

Contributions subsequent to the measurement date	$ 16,476	$
TOTAL	$ 97,910	$ 103,663

$104,448 reported as Deferred Outflows of Resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended August 31, 2018.

Other amounts reported as Deferred Outflows of Resources and Deferred Inflows of Resources related to pensions will be recognized in pension expense as follows:

Year ended August 31	PERS 1	SERS 2/3	TRS 1	TRS 2/3
2018	(39,501)	(5,066)	(23,250)	(23,265)
2019	12,471	77,669	8,704	20,710
2020	(2,896)	(11,659)	(774)	(1,237)
2021	(28,514)	(89,930)	(16,333)	(32,631)
2022		16,154		2,957
Thereafter		6,462		11,238

Pension Expense

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

	Pension Expense	
PERS 1	$	(24,854)
SERS 2/3	$	54,010
TRS 1	$	(71,426)
TRS 2/3	$	(1,123)
TOTAL	**$**	**(43,393)**

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

The table below presents the ESD's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50%) or one percentage point higher (8.50%) than the current rate. Amounts are calculated by plan using the ESD's allocation percentage.

	1% Decrease (6.50%)	**Current Discount Rate (7.50%)**	**1% Increase (8.50%)**
PERS1 NPL	$5,780,412,000	$4,745,078,000	$3,848,257,000
Allocation Percentage	.033000%	.033003%	.033003%
Proportionate Share of Collective NPL	$1,907,709	$1,566,017	$1,270,040

SERS2/3 NPL	$1,278,921,000	$493,475,000	($153,665,000)
Allocation Percentage	.189463%	.189463%	.189463%
Proportionate Share of Collective NPL	$2,423,081	$934,952	$(291,138)
TRS1 NPL	$3,759,368,000	$3,023,268,000	$2,386,123,000
Allocation Percentage	.024713%	.024713%	.024713%
Proportionate Share of Collective NPL	$929,059	$747,146	$589,687
TRS2/3 NPL	$3,134,647,000	$922,943,000	($873,375,000)
Allocation Percentage	.023732%	.023732%	.023732%
Proportionate Share of Collective NPL	$743,907	$219,031	$(207,267)

Schedule of Required Supplementary Information
Required supplementary information is presented in the required supplementary schedules for each plan the District participates in.

Note 7: OTHER POST EMPLOYMENT BENEFIT PLANS

457 Plan – Deferred Compensation Plan

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

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

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

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

Note 8: SHARED RISK POOL DISCLOSURES

Workers' Compensation Insurance Trust

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

The Trust provides industrial injury accident insurance coverage for its membership. The Trust is fully funded by its member participants. Member contributions are calculated based on the members' hours worked. The Trust retains responsibility for the payment of claims within specified self-insured retention limits prior to the application of coverage provided by its excess insurance contracts. The Trust acquires insurance from unrelated underwriters. The Trust's per-occurrence retention limit is $450,000 and the tri-annual aggregate retention is $13,690,560. Since the Trust is a cooperative program, there is a joint liability among participating members.

For fiscal year 2017, there are 19 members in the pool including 18 participating school districts. A Board comprised of one designated representative from each participating member and a six member Executive Board governs the Trust. The Executive Board has five members elected by the Board and the District Superintendent. The District is responsible for conducting the business affairs of the Trust. At August 31, 2017, the amount of liabilities totaled $5,126,335. This liability is the Districts best estimate based on available information. Changes in the reported liability since August 31, 2016, resulted in the following:

	Beginning Balance 9/1/2016	Current Year Claims and Changes in Estimates	Ending Balance 8/31/2017
Incurred but not Reported	$ 3,936,000	$(121,000)	$3,815,000
Future L&I Assessments	598,000	32,000	630,000
Estimated Unallocated Loss Adjustment	260,000	4,000	264,000

Unemployment Compensation Insurance Fund

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

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

For fiscal year 2017, there are 17 members in the pool including 16 participating school districts. The pool is governed by a Cooperative Board, which is comprised of one designated representative from each participating member and a six member Executive Board. Five members elected by the Cooperative Board and the District Superintendent comprise the Executive Board. At August 31, 2017, the amount of liabilities totaled $3,002,655. This liability is the Districts best estimate based on available information. Changes in the reported liability since August 31, 2016, resulted in the following:

	Beginning Balance 9/1/2016	Current Year Claims and Changes in Estimates	Ending Balance 8/31/2017
Claims Reserve	$ 0	$0	$0

Note 9: RISK MANAGEMENT

The District is a member of the Washington Schools Risk Management Pool (Pool). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The Pool was formed in 1986 when educational services districts and school districts in the State of Washington joined together by signing the Cooperative Risk Management Pool Account Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. Over 90 school and educational service districts have joined the Pool. The District joined the *Pool* effective September 1, 1998.

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

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

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

The Pool is governed by a board of directors, which is comprised of one designated representative from each participating member. An executive board is elected at the annual meeting, and is responsible for overseeing the business affairs of the Pool. Financial statements and disclosures for the Pool can be obtained from the following address:

Washington Schools Risk Management Pool
320 Andover Park East, Suite 275
Tukwila, WA. 98188

Note 10: NET POSITION, RESTRICTED

The District's statement of net position reports $ 522,911 of restricted assets for Support Programs. The following lists the programs restricted by the Board of Directors:

Support Program	Amount
Instructional	$340,927

Non-Instructional	181,984
Total Restricted for Support Programs	$522,911

Note 11: JOINT VENTURE WITH UNDIVIDED INTEREST

Compensated Absences Liability Fund

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

For fiscal year 2017, there are 5 members in the Fund including 4 participating school districts. The Fund allows members to accumulate dedicated funds for payment of leave related to sick leave and vacation leave buy out at retirement and certain other instances. Payroll contributions are made to the Fund at the time leave is earned to reserve assets for expenditures. Coverage is on an “occurrence” basis. Expenditures of leave taken during employment continue to be recorded when paid.

The District contributes to the Compensated Absences Liability Pool for liabilities relating to sick leave and vacation leave cash outs. As of August 31, 2017, the District’s total compensated absences balance in the pool was $130,313. The District reports the balance of the liabilities and does not reduce the liability by the funded portion. The funded portion is reported as an asset.

Changes for the fiscal year are summarized below.

		Balance at 8/31/2017
Beginning Long-term Liability		$216,938.04
Beginning Pool Balance	$107,056.80	
Payments to Pool	$22,210.08	
Interest	$1,046.35	
Withdrawals from Pool	($ 0.00)	
Ending Pool Balance	$130,313.23	
Increase (Decrease) to Estimates of Long-term Liability		$20,306.32
Ending Long-term Liability		$237,244.36

Note 12: INVESTMENT IN JOINT VENTURE

Washington State Information Processing Cooperative

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

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

Condensed Financial Statements	Amount
Assets	
Current Assets	6,854,993
Non-Current Assets	1,700,000
Deferred Outflows of Pensions	569,301
Other Assets	
Total Assets	**9,125,015**
Liabilities and Joint Venture Capital	
Current Liabilities	649,613
Noncurrent Liabilities	5.664,278
Deferred Inflows of Pensions	1,046,172
Investment in Joint Venture	1,764,952
Total Liabilities and Joint Venture Capital	**9,125,015**
Operating Revenues Plus/Minus Other Income/Expense (Net)	22,422,799 35,090
Less Operating Expenses	20,521,436
Net Income	**1,936,453**
Prior Period Adjustment	

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

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

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

Note 13: CONTINGENT LIABILITIES AND LITIGATIONS

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

Note 14: OTHER DISCLOSURES

Stewardship, Compliance, and Accountability

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

Accounting and Reporting Changes

There were no changes in accounting practices.

Subsequent Events

There were no events after the financial reporting date that would have a material impact on the next future years.

REQUIRED SUPPLEMENTAL INFORMATION

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

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

Part 1 - Ten-Year Claims Development Information

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

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

Fiscal and Policy Year Ended
(In Thousands)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
1. Required contribution and investment revenue										
Earned	$3,902	$3,100	$3,082	$3,199	$3,273	$3,090	$3,225	$3,515	$3,929	$4,135
Ceded	105	102	135	108	108	111	126	128	134	140
Net earned	2,988	2,998	2,947	3,091	3,165	2,979	3,099	3,387	3,794	3,995
2. Unallocated expenses	780	790	814	805	740	657	704	648	744	781
3. Estimated claims and expenses end of policy year:										
Incurred	1,600	1,400	1,553	1,845	1,695	1,929	2,279	1,873	2,310	2,373
Ceded*	0	0	39	45	35	29	29	24	60	73
Net incurred	1,600	1,400	1,514	1,800	1,660	1,900	2,250	1,850	2,250	2,300
4. Net paid (cumulative) as of:										
End of policy year	425	412	385	536	422	564	692	444	582	789
One year later	937	850	843	959	1,100	1,132	1,517	1,023	1,110	
Two years later	1.130	1,081	1,089	1,257	1,471	1,392	2,046	1,413		
Three years later	1,171	1,204	1,213	1,372	1,626	1,510	2,218			
Four years later	1,186	1,344	1,257	1,466	1,687	1,564				
Five years later	1,190	1,400	1,259	1,499	1,717					
Six years later	1.191	1,439	1,259	1,516						
Seven years later	1,191	1,502	1,259							
Eight years later	1,191	1,528								
Nine years later	1,191									
5. Re-estimated ceded claims and expenses	13	14	15	17	20	24	32	31	44	73
6. Re-estimated net incurred claims and expenses										

End of policy year	1,600	1,400	1,514	1,800	1,660	1,900	2,250	1,850	2,250	2,300
One year later	1,650	1,513	1,500	1,600	2,000	2,050	2,450	1,850	2,050	
Two years later	1,525	1,500	1,475	1,775	2,000	1,850	2,515	1,800		
Three years later	1,425	1,475	1,415	1,750	1,885	1,800	2,595			
Four years later	1,345	1,515	1,405	1,665	1,875	1,710				
Five years later	1,285	1,600	1,355	1,640	1,840					
Six years later	1,268	1,555	1,335	1,610						
Seven years later	1,245	1,610	1,315							
Eight years later	1,232	1,595								
Nine years later	1,220									
7. Increase (decrease) in estimated net incurred claims and expenses from end of policy year	(380)	195	(199)	(190)	180	(190)	345	(50)	(200)	0

*Estimates were not done for years prior to 2007-08.

Part 2 - Reconciliation of Claims Liabilities by Type of Contract

The schedule below presents the changes in claims liabilities for the past two years for the pool's two types of contracts: property and casualty, and employee health and accident benefits.

	Employee Health and Accident (In Thousands)	
	Year Ended 8/31/2017	Year Ended 8/31/2016
Unpaid claims and claim adjustment expenses at beginning of the fiscal year	4,793	4,353
Incurred claims and claim adjustment expenses:	2,300	2,250
Provision for insured events of the current fiscal year	1,284	485
Increases in provision for insured events of prior fiscal years	(400)	1
	4	12
Total incurred claims and claim adjustment expenses	3,188	2,748
Payments:		
Claims and claim adjustment expenses attributable to insured events of the current fiscal year	789	582
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	1,231	1,402
	1,252	324
Total payments	3,273	2,308
Total unpaid claims and claim adjustment expenses at end of the fiscal year.	4,709	4,793

Schedules of Required Supplementary Information for Pension Plans

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

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY PERS 1 Last 10 Fiscal Years* (Dollar amounts in thousands)			
	2015	2016	2017
District's proportion of the net pension liability (percentage)	.026771%	.031426%	.03303%
District's proportionate share of the net pension liability (amount)	$1,400,359	$1,687,732	$1,566,017
District's covered payroll	$3,001,551	$3,767,700	$3,997,685
District's proportionate share of the net pension liability (amount) as a percentage of its covered payroll	46.65%	44.79%	39.17%
Plan fiduciary net position as a percentage of the total pension liability	59.10%	57.03%	61.24%

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

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY SERS 2/3 Last 10 Fiscal Years* (Dollar amounts in thousands)			
	2015	2016	2017
District's proportion of the net pension liability (percentage)	.170642%	.201048%	.189463%
District's proportionate share of the net pension liability (amount)	$693,065	$1,320,418	$934,952
District's covered payroll	$2,937,432	$3,717,557	$3,871,538
District's proportionate share of the net pension liability (amount) as a percentage of its covered payroll	23.59%	35.52%	24.15%
Plan fiduciary net position as a percentage of the total pension liability	90.92%	86.52%	90.79%

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

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY TRS 1 Last 10 Fiscal Years* (Dollar amounts in thousands)			
	2015	2016	2017
District's proportion of the net pension liability (percentage)	.25202%	.25669%	.024713%
District's proportionate share of the net pension liability (amount)	$798,447	$876,396	$747,146
District's covered payroll	$1,208,020	$1,271,704	$1,343,011
District's proportionate share of the net pension liability (amount) as a percentage of its covered payroll	66.10%	68.92%	55.63%
Plan fiduciary net position as a percentage of the total pension liability	65.70%	62.07%	65.58%

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

	SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY		
	TRS 2/3		
	Last 10 Fiscal Years* (Dollar amounts in thousands)		
	2015	2016	2017
District's proportion of the net pension liability (percentage)	.025190 %	.024851 %	.023732%
District's proportionate share of the net pension liability (amount)	$212,554	$341,280	$219,031
District's covered payroll	$1,177,880	$1,240,199	$1,301,186
District's proportionate share of the net pension liability (amount) as a percentage of its covered payroll	18.05%	27.52%	16.83%
Plan fiduciary net position as a percentage of the total pension liability	92.48%	88.72%	93.14%

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

The information identified below is the Schedule of District Contributions, by Plan. The amounts reported in the Schedules of District Contributions are determined as of the district's fiscal year ending August 31. (*Prepare a separate table for each plan*.)

	SCHEDULE OF DISTRICT CONTRIBUTIONS		
	PERS 1		
	Last 10 Fiscal Years* (Dollar amounts in thousands)		
	2015	2016	2017
Contractually required contribution	$123,038	$178,217	$198,521
Contributions in relation to the contractually required contributions	$123,038	$178,217	$198,521
Contribution deficiency (excess)	$0	$0	$0
District's covered payroll	$3,001,551	$3,767,700	$3,997,865
Contribution as a percentage of covered-employee payroll	4.10%	4.73%	4.97%

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

	SCHEDULE OF DISTRICT CONTRIBUTIONS		
	SERS 2/3		
	Last 10 Fiscal Years* (Dollar amounts in thousands)		
	2015	2016	2017
Contractually required contribution	$165,901	$240,523	$256,622
Contributions in relation to the contractually required contributions	$165,901	$240,523	$256,622
Contribution deficiency (excess)	$0	$0	$0
District's covered payroll	$2,937,432	$3,717,557	$3,871,538
Contribution as a percentage of covered-employee payroll	5.65%	6.47%	6.63%

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

	SCHEDULE OF DISTRICT CONTRIBUTIONS		
	TRS 1		
	Last 10 Fiscal Years* (Dollar amounts in thousands)		
	2015	2016	2017
Contractually required contribution	$56,397	$78,011	$86,480
Contributions in relation to the contractually required contributions	$56,397	$78,011	$86,480
Contribution deficiency (excess)	$0	$0	$0
District's covered payroll	$1,208,020	$1,271,704	$1,343,011
Contribution as a percentage of covered-employee payroll	4.67%	6.13%	6.44%

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

SCHEDULE OF DISTRICT CONTRIBUTIONS			
TRS 2/3			
Last 10 Fiscal Years* (Dollar amounts in thousands)			
	2015	2016	2017
Contractually required contribution	$66,942	$81,115	$87,440
Contributions in relation to the contractually required contributions	$66,942	$81,115	$87,440
Contribution deficiency (excess)	$0	$0	$0
District's covered payroll	$1,177,880	$1,240,199	$1,301,186
Contribution as a percentage of covered-employee payroll	5.68%	6.54%	6.72%

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

Educational Service District No. 123

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ending August 31, 2017

1	2	3	4	5	6	7	8	9	10
					Expenditures				
Federal Agency Name	Pass-Through Agency	Federal Program Title	CFDA Number	Other Identification Number	From Direct Awards	From Pass-Through Awards	Total	Passed Through to Subrecipients	Footnote
U.S. Dept of ED	DEL	Special Education Grants for Infants and Families	84.181	FY 17-18 Contract No. 18-1006-01; FY 16-17 Contract No. 16-1014-03		99,692	99,692		4
U.S. Dept of ED	DEL	Special Education Grants for Infants and Families	84.181	FY 17-18 Contract No. 18-1038; FY 16-17 Contract No. 16-1044-02		54,707	54,707		4
U.S. Dept of ED	Reading Foundation	Fund for the Improvement of Education	84.215	n/a		263	263		3,4
U.S. Dept of ED	WA - OSPI	Migrant Education State Grant Program	84.011	Grant No. 0289952		154,344	154,344		4
U.S. Dept of ED	WA - OSPI	Title I Grants to Local Educational Agencies	84.010	Grant No. 0260067		145,539	145,539		4
U.S. Dept of ED	WA - OSPI	Title I Grants to Local Educational Agencies	84.010	Grant No. 0222518		15,245	15,245		4
U.S. Dept of ED	WA - OSPI	Title I Grants to Local Educational Agencies	84.010	Grant No. 0222657		95,611	95,611		4
U.S. Dept of ED	WA - OSPI	Title I Grants to Local Educational Agencies	84.010	Grant No. 0226034		69,590	69,590		4
U.S. Dept of ED	WA - OSPI	Special Education Preschool Grants	84.173	Grant No. 0380295		25,298	25,298		4
U.S. Dept of ED	WA - OSPI	Special Education Grants to States	84.027	Grant No. 0320245		194,820	194,820		4
				Total Special Education Cluster:		*220,119*	*220,119*		
U.S. Dept of ED	WA - OSPI	Twenty-First Century Community Learning Centers	84.287	Grant No. 0991301		301,920	301,920		4
U.S. Dept of ED	WA - OSPI	Twenty-First Century Community Learning Centers	84.287	Grant No. 0991212		131,874	131,874		4
U.S. Dept of ED	WA - OSPI	Twenty-First Century Community Learning Centers	84.287	Grant No. 0991126		452,536	452,536		4
U.S. Dept of ED	WA - OSPI	Twenty-First Century Community Learning Centers	84.287	Grant No. 0992963		487,808	487,808		4
U.S. Dept of ED	WA - OSPI	School Safety National Activities	84.184	Grant No. 0820005		11,654	11,654		4
		Subtotal U.S. Department of Education				**2,240,901**	**2,240,901**		
U.S. Dept of HHS	Thrive by Five	Affordable Care Act (ACA) Maternal, Infant, and Early Ch	93.505	Contract ID: 2016-CM-407		16,553	16,553		4
U.S. Dept of HHS	ESD 112	Substance Abuse and Mental Health Services Projects o	93.243	n/a		14,587	14,587		3,4
U.S. Dept of HHS	WA - OSPI	Block Grants for Prevention and Treatment of Substance	93.959	FY 17-18 Grant No. 998193; FY 16-17 Grant No. 998184		487,268	487,268		4
U.S. Dept of HHS	DEL	Child Care and Development Block Grant	93.575	FY 17-18 Contract No. 16-1144-02; FY 16-17 Contract No. 16-1144-01		150,127	150,127		4
U.S. Dept of HHS	Thrive by Five	Child Care and Development Block Grant	93.575	FY 16-17 Contract ID: 2017-CM-526		16,504	16,504		4
		Subtotal U.S. Department of Health and Human Services				**685,039**	**685,039**		
U.S. Dept of Agricu	WA-OSPI	Child and Adult Care Food Program	10.558	n/a		26,611	26,611		3
		Subtotal U.S. Department of Agriculture Food and Nutrition Services				**26,611**	**26,611**		
		Total Federal Awards Expended				**2,952,551**	**2,952,551**		

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

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE 1 - BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal Awards is prepared on the same basis of accounting as the ESD's financial statements. The ESD uses the *GAAP* 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 - PROGRAM COSTS/MATCHING CONTRIBUTIONS

The amounts shown as current year expenses represent only the *federal* grant portion of the program costs. Entire program costs, including the ESD's local matching share, may be more than shown. Such expenditures are recognized following, as applicable, either the cost principles in the 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 3 - NOT AVAILABLE (N/A)

There is no other identification number.

NOTE 4 - FEDERAL INDIRECT RATE

The ESD used the federal *restricted* rate of 8 percent for this program. The restricted rate is the approved rate as per the agreement with the cognizant agency for ESDs under Circular A-87.

The ESD *has not* elected to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE 5 - AMERICAN RECOVERY AND REINVENSTMENT ACT (ARRA)

The funding for this program was provided by the American Recovery and Reinvestment Act of 2009 (ARRA). Of the amount shown, $0 was paid to subrecipients.

Educational Service District 123

Mr. Darcy Weisner
Superintendent

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CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED UNDER UNIFORM GUIDANCE

Educational Service District No. 123
Franklin County
September 1, 2016 through August 31, 2017

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

Finding ref number: 2017-001	**Finding caption:** The District did not obtain an actuarial study to determine their post-employment benefit liabilities in accordance with government accounting standards
Name, address, and telephone of District contact person: Michelle Dearlove, Assistant Superintendent, Finance & Operation 3924 W. Court Street Pasco, WA 99301 509-547-8441 ext. 5776	
Corrective action the auditee plans to take in response to the finding: *ESD 123 does not concur with the finding. Contributions to the Health Care Authority (HCA) under RCW 41.05.120 are a cost-sharing plan under an arrangement equivalent to a trust.* *For the 2017-18 fiscal year, GASB 45 will be replaced by GASB 75 which has different criteria for OPEB. Additionally, ESDs are consulting with SAO and OSPI regarding changing the basis of accounting and no longer being GAAP based. If the ESD's continue to use GAAP accounting in 2017-18, the applicable GASB statements will be implemented.*	
Anticipated date to complete the corrective action: 2017-18 year reporting will implement GASB statements that are applicable.	

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.

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Contact information for the State Auditor's Office	
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