Office of the Washington State Auditor
Pat McCarthy

## Financial Statements and Federal Single Audit Report

# Northwest Educational Service District No. 189

**For the period September 1, 2017 through August 31, 2018**

**Published May 20, 2019**

**Report No. 1023574**

# Office of the Washington State Auditor
# Pat McCarthy

May 20, 2019

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

## Report on Financial Statements and Federal Single Audit

Please find attached our report on Northwest Educational Service District No. 189's financial statements and compliance with federal laws and regulations.

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

Sincerely,

Pat McCarthy

State Auditor

Olympia, WA

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# SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**Northwest Educational Service District No. 189**
**September 1, 2017 through August 31, 2018**

## SECTION I – SUMMARY OF AUDITOR'S RESULTS

The results of our audit of Northwest Educational Service District No. 189 are summarized below in accordance with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

### Financial Statements

We issued an unmodified opinion on the fair presentation of each major fund in accordance with accounting principles generally accepted in the United States of America (GAAP).

Internal Control over Financial Reporting:

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

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

### Federal Awards

Internal Control over Major Programs:

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

We issued an unmodified opinion on the District's compliance with requirements applicable to 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 |
|---|---|
| 93.959 | Block Grants for Prevention and Treatment of Substance Abuse |

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

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

## SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

## SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

Northwest Educational Service District 189

Together We Can



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Larry Francois, *Superintendent*

# SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

## Northwest Educational Service District No. 189
## September 1, 2017 through August 31, 2018

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

| **Audit Period:**<br>September 1, 2016 through August 31, 2017 | **Report Ref. No.:**<br>1020705 | **Finding Ref. No.:**<br>2017-001 |
|---|---|---|

**Finding Caption:**

The District did not report the liabilities related to its other postemployment benefits in accordance with governmental accounting standards

**Background:**

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

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

**Status of Corrective Action: (check one)**

| | | | |
|---|---|---|---|
| ☒ Fully Corrected | ☐ Partially Corrected | ☐ Not Corrected | ☐ Finding is considered no longer valid |

**Corrective Action Taken:**

*GASB Statement No. 75 superseded GASB Statement No. 45 for the accounting and reporting of post-employment benefits. The District fully implemented Governmental Accounting Standards Board (GASB) Statement No. 75 – Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions for the 2017-2018 fiscal year. The District obtained an actuarial report and recorded amounts in the underlying accounting records, reported amounts on the financial statements, and provided additional information in the notes to the financial statements, as required by GASB Statement No. 75.*

*Furthermore, the District has continued an intentional process to evaluate and review new and revised accounting and reporting pronouncements in order to continue to comply with generally accepted accounting principles. This process includes all the state's educational service districts, the Office of Superintendent of Public Instruction, and the Washington State Auditor's Office.*

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

**Northwest Educational Service District No. 189**
**September 1, 2017 through August 31, 2018**

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of each major fund of Northwest Educational Service District No. 189, as of and for the year ended August 31, 2018, 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 8, 2019. As discussed in Note 1 to the financial statements, during the year ended August 31, 2018, the District implemented Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The District has omitted the management's discussion and analysis information that accounting principles generally accepted in the United States of America has determined to supplement, although not required to be a part of the basic financial statements. Our opinion on the basic financial statements is not affected by the missing information.

## INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

## COMPLIANCE AND OTHER MATTERS

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

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

## PURPOSE OF THIS REPORT

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

Pat McCarthy

State Auditor

Olympia, WA

May 8, 2019

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

**Northwest Educational Service District No. 189**
**September 1, 2017 through August 31, 2018**

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

## REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of Northwest Educational Service District No. 189, 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, 2018. 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, 2018.

## 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

Pat McCarthy

State Auditor

Olympia, WA

May 8, 2019

# INDEPENDENT AUDITOR’S REPORT ON FINANCIAL STATEMENTS

**Northwest Educational Service District No. 189**
**September 1, 2017 through August 31, 2018**

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

## REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of each major fund of Northwest Educational Service District No. 189, as of and for the year ended August 31, 2018, and the related notes to the financial statements, which collectively comprise the District’s basic financial statements as listed on page 17.

### Management’s Responsibility for the Financial Statements

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

### Auditor’s Responsibility

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

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

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

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund of Northwest Educational Service District No. 189, as of August 31, 2018, and the respective 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.

## Matters of Emphasis

As discussed in Note 1 to the financial statements, in 2018, the District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the required supplementary information listed on page 17 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

### *Supplementary and Other Information*

Our audit was 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 8, 2019 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 8, 2019

# FINANCIAL SECTION

**Northwest Educational Service District No. 189**
**September 1, 2017 through August 31, 2018**

## BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2018
Statement of Revenues, Expenses and Changes in Net Position – 2018
Statement of Cash Flows – 2018
Notes to Financial Statements – 2018

## REQUIRED SUPPLEMENTARY INFORMATION

Schedules of the District's Proportionate Share of the Net Pension Liability – PERS 1, SERS 2/3, TRS 1, TRS 2/3 – 2018
Schedules of the District's Defined Benefit Contributions – PERS 1, SERS 2/3, TRS 1, TRS 2/3 – 2018
Schedule of Changes in Total OPEB Liability and Related Ratios – 2018

## SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2018
Notes to the Schedule of Expenditures of Federal Awards – 2018

**Educational Service District #189**
**STATEMENT OF NET POSITION - ALL FUNDS**
**FOR THE YEAR ENDED AUGUST 31, 2018**

| | NOTE REF | OPERATING FUND | WORKERS COMPENSATION FUND | UNEMPLOYMENT FUND | TOTAL ALL FUNDS |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **CURRENT ASSETS** | | | | | |
| Cash and Cash Equivalents | Note 1 | $ 308,772.81 | $ 10,209.09 | $ 8,510.02 | $ 327,491.92 |
| Investments | Notes 1, 2 | $ 2,511,600.00 | $ 141,700.00 | $ 1,309,500.00 | $ 3,962,800.00 |
| Accounts Receivable | Note 1 | $ 1,840,809.37 | $ 339.56 | $ 9,671.11 | $ 1,850,820.04 |
| Prepaids | Note 1 | $ 56,512.82 | | | $ 56,512.82 |
| Other Assets | | | $ 314.07 | $ 1,535.14 | $ 1,849.21 |
| **TOTAL CURRENT ASSETS** | | $ 4,717,695.00 | $ 152,562.72 | $ 1,329,216.27 | $ 6,199,473.99 |
| **NONCURRENT ASSETS** | | | | | |
| Investments | Note 2 | $ 6,688,226.87 | $ 649,994.04 | $ 4,800,000.00 | $ 12,138,220.91 |
| Capital Assets | Note 3 | | | | |
| Land and Land Improvements | | $ 909,421.00 | | | $ 909,421.00 |
| Building | | $ 6,309,219.11 | | | $ 6,309,219.11 |
| Equipment | | $ 421,640.98 | | | $ 421,640.98 |
| Less: Accumulated Depreciation | | $ (3,801,739.50) | | | $ (3,801,739.50) |
| Net Capital Assets | | $ 3,838,541.59 | | | $ 3,838,541.59 |
| Investment in Joint Venture | Note 11 | $ (101,691.44) | | | $ (101,691.44) |
| **TOTAL NONCURRENT ASSETS** | | $ 10,425,077.02 | $ 649,994.04 | $ 4,800,000.00 | $ 15,875,071.06 |
| **TOTAL ASSETS** | | $ 15,142,772.02 | $ 802,556.76 | $ 6,129,216.27 | $ 22,074,545.05 |
| **DEFERRED OUTFLOWS OF RESOURCES** | Note 1 | | | | |
| Deferred OutFlows – Pension Plans | Note 6 | $ 557,447.41 | | | $ 557,447.41 |
| **TOTAL DEFERRED OUTFLOWS OF RESOURCES** | | $ 557,447.41 | | | $ 557,447.41 |
| **LIABILITIES** | | | | | |
| **CURRENT LIABILITIES** | | | | | |
| Accounts Payable | Note 1 | $ 267,473.52 | $ 15,089.25 | | $ 282,562.77 |
| Accrued Salaries | Note 1 | $ 54,768.61 | | | $ 54,768.61 |
| Payroll Deductions & Taxes Payable | Note 1 | $ 27,110.46 | | | $ 27,110.46 |
| Compensated Absences | Note 1 | $ 732,476.01 | | | $ 732,476.01 |
| Claim Reserves | Note 8 | | | | |
| IBNR | | | $ 8,967.09 | $ 397,718.00 | $ 406,685.09 |
| Open Claims | | | | $ 53,790.15 | $ 53,790.15 |
| Unallocated Loss Adjustment Expenses | | | $ 16,971.79 | $ 45,000.00 | $ 61,971.79 |
| Future L&I Assessments | | | $ 833.04 | | $ 833.04 |
| Unearned Revenue | Note 1 | $ 176,293.58 | | | $ 176,293.58 |
| Other Liabilities and Credits | | $ 2,772.34 | | | $ 2,772.34 |
| **TOTAL CURRENT LIABILITIES** | | $ 1,260,894.52 | $ 41,861.17 | $ 496,508.15 | $ 1,799,263.84 |
| **NONCURRENT LIABILITIES** | | | | | |
| Claim Reserves | Note 8 | | | | |
| IBNR | | | $ 439,387.52 | $ 3,612.00 | $ 442,999.52 |
| Unallocated Loss Adjustment Expenses | | | $ 98,669.21 | $ 45,000.00 | $ 143,669.21 |
| Future L&I Assessments | | | $ 40,819.10 | | $ 40,819.10 |
| Net Pension Liability | Note 6 | $ 5,214,777.93 | | | $ 5,214,777.93 |
| Net OPEB Liability | Note 7 | $ 4,808,219.00 | | | $ 4,808,219.00 |
| **TOTAL NONCURRENT LIABILITIES** | | $ 10,022,996.93 | $ 578,875.83 | $ 48,612.00 | $ 10,650,484.76 |
| **TOTAL LIABILITIES** | | $ 11,283,891.45 | $ 620,737.00 | $ 545,120.15 | $ 12,449,748.60 |
| **DEFERRED INFLOWS OF RESOURCES** | Note 1 | | | | |
| Deferred InFlows – Pension Plans | Note 6 | $ 1,385,240.63 | | | $ 1,385,240.63 |
| Deferred InFlows – OPEB Plans | Note 7 | $ 308,457.00 | | | $ 308,457.00 |
| **TOTAL DEFERRED INFLOWS OF RESOURCES** | | $ 1,693,697.63 | | | $ 1,693,697.63 |
| **NET POSITION** | | | | | |
| Net Investment in Capital Assets | | $ 3,838,541.59 | | | $ 3,838,541.59 |
| Restricted for Support Programs | Note 10 | $ 7,074,212.52 | | | $ 7,074,212.52 |
| Restricted for Risk Pool Net Position | | | $ 181,819.76 | $ 5,584,096.12 | $ 5,765,915.88 |
| Restricted for Other Items | | $ 691,972.48 | | | $ 691,972.48 |
| Restricted for Joint Venture | Note 11 | $ (101,691.44) | | | $ (101,691.44) |
| Unrestricted | | $ (8,780,404.80) | | | $ (8,780,404.80) |
| **TOTAL NET POSITION** | | $ 2,722,630.35 | $ 181,819.76 | $ 5,584,096.12 | $ 8,488,546.23 |

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

## Educational Service District #189

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

**FOR THE YEAR ENDED AUGUST 31, 2018**

| | OPERATING FUND | WORKERS COMPENSATION FUND | UNEMPLOYMENT FUND | TOTAL ALL FUNDS |
|---|---|---|---|---|
| **OPERATING REVENUES** | | | | |
| Local Sources | $ 1,222,802.09 | | | $ 1,222,802.09 |
| State Sources | $ 2,746,944.52 | | | $ 2,746,944.52 |
| Allotment | $ 584,831.25 | | | $ 584,831.25 |
| Federal Sources | $ 1,347,613.78 | | | $ 1,347,613.78 |
| Cooperative Programs | $ 15,511,356.77 | | | $ 15,511,356.77 |
| Other Programs | $ 2,056,162.55 | | | $ 2,056,162.55 |
| Member Assessments/Contributions | | | $ 152,694.83 | $ 152,694.83 |
| **TOTAL OPERATING REVENUE** | $ 23,469,710.96 | | $ 152,694.83 | $ 23,622,405.79 |
| **OPERATING EXPENSES** | | | | |
| General Operations and Administration | $ 2,090,601.22 | | $ 20,000.00 | $ 2,110,601.22 |
| Instructional Support Programs | $ 10,273,570.40 | | | $ 10,273,570.40 |
| Non Instructional Support Programs | $ 9,543,298.91 | | | $ 9,543,298.91 |
| Incurred Loss/Loss Adjustment Expenses | | | | |
| Paid on Current Losses | | $ 6,506.39 | $ 355,111.50 | $ 361,617.89 |
| Change in Loss Reserves | | | $ 44,886.00 | $ 44,886.00 |
| Unallocated Loss Adjustment Expenses | | | | |
| Change in Unallocated Loss Reserves | | $ 9,607.57 | | $ 9,607.57 |
| Professional Fees | | $ 15,000.00 | $ 47,513.96 | $ 62,513.96 |
| Labor & Industries Assessments | | $ 316.45 | | $ 316.45 |
| Depreciation/Depletion | $ 270,886.04 | | | $ 270,886.04 |
| Other Operating Expenses | | $ 5,226.00 | | $ 5,226.00 |
| Pension Expense from change in Net Pension Liability | | $ 12,397.90 | | $ 12,397.90 |
| **TOTAL OPERATING EXPENSES** | $ 22,178,356.57 | $ 49,054.31 | $ 467,511.46 | $ 22,694,922.34 |
| **OPERATING INCOME (LOSS)** | $ 1,291,354.39 | $ (49,054.31) | $ (314,816.63) | $ 927,483.45 |
| **NONOPERATING REVENUES (EXPENSES)** | | | | |
| Interest and Investment Income | $ 114,872.56 | $ 8,247.88 | $ 76,554.22 | $ 199,674.66 |
| Interest Expense and Related Charges | $ (748.66) | | | $ (748.66) |
| Rental Income | $ 42,242.25 | | | $ 42,242.25 |
| Change in Joint Venture | $ 57,611.00 | | | $ 57,611.00 |
| Other Nonoperating Revenues | $ 7,517.89 | | | $ 7,517.89 |
| **TOTAL NONOPERATING REVENUES (EXPENSES)** | $ 221,495.04 | $ 8,247.88 | $ 76,554.22 | $ 306,297.14 |
| **INCREASE (DECREASE) IN NET POSITION** | $ 1,512,849.43 | $ (40,806.43) | $ (238,262.41) | $ 1,233,780.59 |
| **NET POSITION - BEGINNING BALANCE** | $ 6,384,000.15 | $ 222,626.19 | $ 5,822,358.53 | $ 12,428,984.87 |
| Cumulative Effect of Change in Accounting Principle | $ (5,174,219.23) | | | $ (5,174,219.23) |
| **NET POSITION - ENDING BALANCE** | $ 2,722,630.35 | $ 181,819.76 | $ 5,584,096.12 | $ 8,488,546.23 |

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

## Educational Service District #189
## STATEMENT OF CASH FLOWS
### FOR THE YEAR ENDED AUGUST 31, 2018

| | OPERATING FUND | WORKERS COMPENSATION FUND | UNEMPLOYMENT FUND | TOTAL ALL FUNDS |
|---|---|---|---|---|
| **CASH FLOW FROM OPERATING ACTIVITIES** | | | | |
| Cash Received from Customers | $ 19,552,649.01 | | | $ 19,552,649.01 |
| Cash Received from State and Federal Sources | $ 3,726,666.27 | | | $ 3,726,666.27 |
| Cash Received from Members | | | $ 143,385.69 | $ 143,385.69 |
| Payments to Suppliers for Goods and Services | $ (7,113,159.03) | | | $ (7,113,159.03) |
| Payments to Employees for Services | $ (15,299,684.00) | | | $ (15,299,684.00) |
| Cash Paid for Benefits/Claims | | $ (3,656.94) | $ (379,565.10) | $ (383,222.04) |
| Cash Paid for Labor and Industries Assessments | | $ (11,393.73) | | $ (11,393.73) |
| Cash Paid for Professional Services | | $ (13,750.00) | $ (67,513.96) | $ (81,263.96) |
| Cash Paid for Other Operating Expense | | $ (5,226.00) | | $ (5,226.00) |
| **NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES** | $ 866,472.25 | $ (34,026.67) | $ (303,693.37) | $ 528,752.21 |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | | | | |
| Principal and Interest Payment on Notes | $ (13,565.38) | | | $ (13,565.38) |
| Other Noncapital Activities | $ 7,517.89 | | | $ 7,517.89 |
| **NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES** | $ (6,047.49) | | | $ (6,047.49) |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | | | | |
| Purchase of Capital Assets | $ (122,516.15) | | | $ (122,516.15) |
| Principal and Interest Paid on Capital Debt | $ (19,654.09) | | | $ (19,654.09) |
| Rental Income | $ 42,242.25 | | | $ 42,242.25 |
| **NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES** | $ (99,927.99) | | | $ (99,927.99) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| Proceeds from Sales and Maturities of Investments | $ 4,844,229.38 | $ 175,000.00 | $ 4,777,889.65 | $ 9,797,119.03 |
| Purchase of Investments | $ (6,688,226.87) | $ (649,994.04) | $ (4,800,000.00) | $ (12,138,220.91) |
| Interest and Dividends Received | $ 114,872.56 | $ 8,492.64 | $ 76,180.32 | $ 199,545.52 |
| **NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES** | $ (1,729,124.93) | $ (466,501.40) | $ 54,069.97 | $ (2,141,556.36) |
| **INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | $ (968,628.16) | $ (500,528.07) | $ (249,623.40) | $ (1,718,779.63) |
| **CASH AND CASH EQUIVALENTS - BEGINNING** | $ 3,789,000.97 | $ 652,437.16 | $ 1,567,633.42 | $ 6,009,071.55 |
| **CASH AND CASH EQUIVALENTS - ENDING** | $ 2,820,372.81 | $ 151,909.09 | $ 1,318,010.02 | $ 4,290,291.92 |
| **RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES** | | | | |
| **OPERATING NET INCOME** | $ 1,291,354.39 | $ (49,054.31) | $ (314,816.63) | $ 927,483.45 |
| Adjustment to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities | | | | |
| Depreciation Expense | $ 270,886.04 | | | $ 270,886.04 |
| Change in Assets and Liabilities | | | | |
| Receivables, Net | $ (235,098.69) | $ 1,919.54 | $ (9,309.14) | $ (242,488.29) |
| Prepaids | $ 5,903.15 | | | $ 5,903.15 |
| Accounts and Other Payables | $ 223,080.27 | | | $ 223,080.27 |
| Accrued Expenses | | $ 3,501.53 | $ (24,453.60) | $ (20,952.07) |
| Unearned Revenue | $ (11,281.91) | | | $ (11,281.91) |
| Pension Expense from change in Net Pension Liability | | | | |
| Change in Deferred Outflows | $ 315,422.00 | | | $ 315,422.00 |
| Change in Deferred Inflows | $ 74,765.00 | | | $ 74,765.00 |
| Change in Net Pension Liability | $ (1,366,423.00) | | | $ (1,366,423.00) |
| OPEB Expense from change in Net OPEB Liability- | | | | |
| Change in Deferred Inflows | $ 308,457.00 | | | $ 308,457.00 |
| Change in Net OPEB Liability | $ (10,592.00) | | | $ (10,592.00) |
| Other Changes for Insurance Funds | | | | |
| Future L&I Assessments | | $ 89.57 | | $ 89.57 |
| Provision for Unallocated Loss Adjustment | | $ 9,517.00 | | $ 9,517.00 |
| Claim Reserves | | | $ 44,886.00 | $ 44,886.00 |
| **NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES** | $ 866,472.25 | $ (34,026.67) | $ (303,693.37) | $ 528,752.21 |

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

# NORTHWEST EDUCATIONAL SERVICE DISTRICT NO. 189
# NOTES TO THE FINANCIAL STATEMENTS
# FOR FISCAL YEAR ENDING AUGUST 31, 2018

## Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Northwest Educational Service District No. 189 ("the District") were developed under authority of the Office of Superintendent of Public Instruction. Except where noted as exceptions, the rules of generally accepted accounting principles (GAAP) are the basis for accounting and financial reporting in the District. The following summary of the more significant accounting policies is presented to assist the reader in interpreting the financial statements and other data in this report. These policies should be viewed as an integral part of the accompanying financial statements.

### *Reporting Entity*

Northwest Educational Service District No. 189 is one of nine municipal corporations of the State of Washington organized pursuant to Title 28A *Revised Code of Washington* (RCW) for the purpose of (1) providing cooperative and informational services to local school districts; (2) assisting the state superintendent of public instruction and the state board of education in the performance of their respective statutory or constitutional duties; and (3) providing services to school districts to assure equal educational opportunities.

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

The District serves 35 school districts in Island, San Juan, Skagit, Snohomish and Whatcom counties. Oversight responsibility for the District's operations is vested with the Board of Directors who are elected by the school directors of the educational service district, one from each of nine educational service district board-member districts. Management of the District is appointed by and accountable to the Board of Directors. Fiscal responsibility, including budget authority, the power to operate cooperatives, set fees for services, and issue debt consistent with the provisions of state statutes, rests with the Board. For financial reporting purposes, the District's financial statements include all fund entities that are controlled by the District's Board of Directors and managed by the administrative staff.

### *Basis of Accounting and Reporting*

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

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

The District reports the following major proprietary funds:

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

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

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's 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, as well as interest and investment income, interest expense, lease income and changes in joint venture.

The District has prepared an annual program report to OSPI in a format issued separately. This annual report requires specific information and is not prepared on the basis of generally accepted accounting principles.

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

<u>Cash and Cash Equivalents, Deposits and Investments – See Note 2</u>
The Skagit County Treasurer is the ex-officio treasurer for the District. In this capacity, the County Treasurer receives daily deposits and transacts investments on behalf of the District. On August 31, 2018, the treasurer was holding $3,962,800 in short-term residual investments of surplus cash for the proprietary funds. This amount is classified on the statement of net position as current investments and considered part of cash and cash equivalents.

For the purposes of the statement of cash flows, the District considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash and cash equivalents. Investments held by the County Treasurer are considered highly liquid as they are accessible on a daily basis, equivalent to a cash account. The Treasurer bears the risk of maturity in the pool.

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 the remaining proprietary and agency funds, the amounts represent balances due from clients within thirty days of payroll dates.

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

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

Inventory
The District does not maintain material amounts of inventory.

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

Capital Assets and Depreciation – See Note 3

Investment in Joint Venture – See Note 11

Accounts Payable
This account reflects amounts owed to vendors for goods or services received but not yet paid as of August 31, 2018.

Accrued Salaries, Payroll Deductions and Taxes Payable
These accounts consist of accrued wages and accrued employee benefits.

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

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

The balance reported in the Statement of Net Position as of August 31, 2018, represents the aggregate amount of vacation and sick leave payable for all eligible employees of the District. The District accounts for leave on the first in first out basis (FIFO). See Note 5 for the non-current amounts.

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

Unearned Revenue
This account primarily consists of resources received in advance from grantors in a voluntary non-exchange transaction in which allowable costs have not yet been incurred and other eligibility requirements other than a time requirement have not been met.

Long Term Debt – See Note 5

Deferred Outflows and Deferred Inflows of Resources
Accounting principles for pensions under GASB Statement No. 68 (see Note 6) requires the District to recognize as deferred outflows or inflows on the Statement of Net Position their proportionate share of the State Department of Retirement System's deferred income or expenses items, to be recognized over a number of years, for changes in experience, assumptions, proportion, contributions and investment earnings.

Accounting principals for other post-retirement employee benefits (OPEB) under GASB Statement No 75 (see Note 7) requires the District to recognize deferred outflows or inflows of resources on the Statement of Net Position related to their proportionate share of the employer plan administered under the Washington Health Care Authority's deferred income or expense items, to be recognized over a number of years, for changes in experience, assumptions, proportion, contributions and investment earnings.

Summary of Significant Changes in Accounting Policies
GASB No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* (GASB 75) governs the specifics of accounting for public OPEB plan obligations for participating employers and is required to be implemented for the fiscal years beginning after June 15, 2017. The District has implemented GASB 75 treatment for the plan as a single-employer defined benefit OPEB plan for the fiscal year September 1, 2017 to August 31, 2018. As a result of the implementation, an adjustment for change in accounting principal of $(4,818,811) was recorded for the District and $(355,408) related to Investment in Joint Venture. See Note 7 and Note 11.

## Note 2: CASH, CASH EQUIVALENT, AND INVESTMENTS

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

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

Investments held by the District are considered Level 1 only, and have a maturity of one year or less. As of August 31, 2018, the District had the following investments:

| Investment | Maturity | Fair Value |
|---|---:|---:|
| Local Government Investment Pool | $3,962,800 | $3,962,800 |
| Government Agency | $12,138,221 | $12,137,071 |
| Total Investments | $16,101,021 | $16,099,871 |

**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 reduces credit risk by purchasing securities rated at the highest quality by credit rating organizations at the time of purchase. The Pool does not contain any structured investment vehicles or collateralized debt obligations.

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

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

***Interest Rate Risk***

As a means of limiting its exposure to rising interest rates, securities purchased in the LGIP 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, 2018, was as follows:

| | Beginning Balance 9/1/2017 | Increases | Decreases | Ending Balance 8/31/2018 |
|---|---|---|---|---|
| Capital assets not being depreciated: | | | | |
| Land | $909,421 | | | $909,421 |
| Total capital assets not being depreciated | $909,421 | | | $909,421 |
| | | | | |
| Depreciable capital assets: | | | | |
| Buildings | $6,309,219 | | | $6,309,219 |
| Equipment | $876,026 | $122,516 | $576,901 | $421,641 |
| Total depreciable capital assets | $7,185,245 | $122,516 | $576,901 | $6,730,860 |
| | | | | |
| Less accumulated depreciation for: | | | | |
| Buildings | ($3,317,896) | ($232,974) | | ($3,550,870) |
| Equipment | ($789,858) | ($37,912) | $576,901 | ($250,869) |
| Total accumulated depreciation | ($4,107,754) | ($270,886) | $576,901 | ($3,801,739) |
| | | | | |
| Total depreciable assets, net | $3,077,491 | ($148,370) | | $2,929,121 |
| Total assets, net | $3,986,912 | ($148,370) | | $3,838,542 |
| | | | | |

***Lease Income***

The ESD has recognized lease income of $9,145.68 on owned properties for year ending August 31, 2018. After August 31, 2018 lease continues on a month-to-month basis.

## Note 4: SHORT-TERM DEBT

The District did not have any short-term debt in the fiscal year ending August 31, 2018.

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

***Long-Term Debt***

The District did not have general obligation bonds in the fiscal year ending August 31, 2018.

### *Operating Lease(s)*

The District is committed under various leases for space and equipment. All leases are considered operating leases for accounting purposes because the District does not acquire interests in the property. Lease expenses for the year ended August 31, 2018, totaled $168,757. Future minimum rental commitments for these leases are as follows:

| Fiscal Year Ending August 31 | Amount |
|---|---|
| 2019 | $160,506 |
| 2020 | $163,543 |
| 2021 | $166,649 |

### *Capital Lease(s)*

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

Assets acquired through capital leases are as follows:

| Asset | Amount |
|---|---|
| Xerox Nuvera 120 DPSC/Bourg | $242,934 |
| Less accumulated depreciation | ($242,934) |
| Total | $0 |

There are no future minimum lease obligations as of August 31, 2018.

### *Changes in Long-Term Liabilities*

During the fiscal year ended August 31, 2018, the following changes occurred in long-term liabilities:

| | Beginning Balance 9/1/2017 | Additions | Reductions | Ending Balance 8/31/2018 | Due Within One Year |
|---|---|---|---|---|---|
| Compensated Absences (See Note 1) | $78,989 | | $78,989 | | |
| Other Debt | $13,260 | | $13,260 | | |
| Capital Leases | $19,211 | | $19,211 | | |
| Net Pension Liability (NPL) (See Note 6) | | | | | |
| NPL TRS 1 | $1,511,649 | | $182,438 | $1,329,211 | |
| NPL TRS 2/3 | $442,399 | | $245,952 | $196,447 | |
| NPL SER 2/3 | $1,774,422 | | $721,018 | $1,053,404 | |
| NPL PERS 1 | $2,852,731 | | $217,015 | $2,635,716 | |
| Net OPEB Liability (See Note 7) | | $4,818,811 | $10,592 | $4,808,219 | |
| Total Long-Term Liabilities | $6,692,661 | $4,818,811 | $1,488,475 | $10,022,997 | |

## 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, 2018, was as follows:

| Plan | Retirees and Beneficiaries Receiving Benefits | Inactive Plan Members Entitled to but not yet Receiving Benefits | Active Plan Members |
|---|---|---|---|
| PERS 1 | 47,037 | 539 | 1,986 |
| SERS 2 | 9,171 | 6,050 | 27,786 |
| SERS 3 | 8,866 | 8,678 | 34,930 |
| TRS 1 | 33,460 | 147 | 497 |
| TRS 2 | 5,453 | 2,617 | 20,518 |
| TRS 3 | 11,960 | 8,735 | 55,117 |

### *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 various plans are effective as of the dates shown in the table. The pension plan contribution rates (expressed as a percentage of covered payroll) for 2017 and 2018 are listed below:

| **Pension Rates** | | | |
|---|---|---|---|
| | 9/1/18 Rate | 7/1/17 Rate | |
| **PERS 1** | | | |
| Member Contribution Rate | 6.00% | 6.00% | |
| Employer Contribution Rate | 12.83% | 12.70% | |
| **Pension Rates** | | | |
| | 9/1/18 Rate | 9/1/17 Rate | |
| **TRS 1** | | | |
| Member Contribution Rate | 6.00% | 6.00% | |
| Employer Contribution Rate | 15.41% | 15.20% | |
| **TRS 2** | | | |
| Member Contribution Rate | 7.06% | 7.06% | |
| Employer Contribution Rate | 15.41% | 15.20% | |
| **TRS 3** | | | |
| Member Contribution Rate | varies* | varies* | |
| Employer Contribution Rate | 15.41% | 15.20% | ** |
| **SERS 2** | | | |
| Member Contribution Rate | 7.27% | 7.27% | |
| Employer Contribution Rate | 13.58% | 13.48% | |
| **SERS 3** | | | |
| Member Contribution Rate | varies* | varies* | |
| Employer Contribution Rate | 13.58% | 13.48% | ** |
| | | | |
| *Note: The DRS administrative rate of .0018 is included in the employer rate.* | | | |
| * = Variable from 5% to 15% based on rate selected by the member. | | | |
| ** = Defined benefit portion only. | | | |

### *The Collective Net Pension Liability*

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

| Dollars in Thousands | PERS 1 | SERS 2/3 | TRS 1 | TRS 2/3 |
|---|---|---|---|---|
| Total Pension Liability | $12,143,412 | $5,719,600 | $8,722,439 | $14,422,685 |
| Plan fiduciary net position | ($7,677,378) | ($5,420,538) | ($5,801,847) | ($13,972,571) |
| Participating employers' net pension liability | $4,466,034 | $299,062 | $2,920,592 | $450,114 |
| Plan fiduciary net position as a percentage of the total pension liability | 63.22% | 94.77% | 66.52% | 96.88% |

### *The Districts's Proportionate Share of the Net Pension Liability (NPL)*

At June 30, 2018, the District reported a total liability of $5,214,778 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, 2018, the district's proportionate share of each plan's net pension liability is reported below:

| June 30, 2018 | PERS 1 | SERS 2/3 | TRS 1 | TRS 2/3 |
|---|---|---|---|---|
| District's Annual Contributions | $394,483 | $616,203 | $189,280 | $194,032 |
| Proportionate Share of the Net Pension Liability | $2,635,716 | $1,053,404 | $1,329,211 | $196,447 |

At June 30, 2018, the District 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:

| Allocation Percentages | PERS 1 | SERS 2/3 | TRS 1 | TRS 2/3 |
|---|---|---|---|---|
| Current year proportionate share of the Net Pension Liability | 0.059017% | 0.352236% | 0.045512% | 0.043644% |
| Prior year proportionate share of the Net Pension Liability | 0.060120% | 0.359577% | 0.050000% | 0.047934% |
| Net difference percentage | -0.001103% | -0.007341% | -0.004489% | -0.004290% |

### *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, 2017, with the results rolled forward to June 30, 2018, using the following actuarial assumptions, applied to all prior periods included in the measurement:

| | |
|---|---|
| Inflation | 2.75% total economic inflation, 3.50% salary inflation |
| Salary increases | In addition to the base 3.50% salary inflation assumption, salaries are also expected to grow by promotions and longevity. |
| Investment rate of return | 7.40% |

### *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, 2017 valuation were based on the results of the *2007–2012 Experience Study Report and the 2017 Economic Experience Study*. Additional assumptions for subsequent events and law changes are current as of the 2017 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 7.40% 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, 2018, are summarized in the following table:

| TRS 1, TRS 2/3, PERS 1, and SERS 2/3 | | |
|---|---|---|
| Asset Class | Target Allocation | Long-term Expected Real Rate of Return |
| Fixed Income | 20.00% | 1.70% |
| Tangible Assets | 7.00% | 4.90% |
| Real Estate | 18.00% | 5.80% |
| Global Equity | 32.00% | 6.30% |
| Private Equity | 23.00% | 9.30% |

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

### *Discount Rate*

The discount rate used to measure the total pension liability was 7.40%. 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 7.50% long-term discount rate to determine funding liabilities for calculating future contributions rate requirements. Consistent with the long-term expected rate of return, a 7.40% 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 7.40% 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, 2018, the District reported Deferred Outflows of Resources and Deferred Inflows of Resources related to pensions from the following sources:

| *PERS 1* | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Difference between expected and actual experiences | - | - |
| Net difference between projected and actual earnings on pension plan investments | - | $104,742 |
| Changes in assumptions or other inputs | - | - |
| Changes in proportion and differences between contributions and proportionate share of contributions | - | - |
| Contributions subsequent to the measurement date | $1,668 | - |
| TOTAL | $1,668 | $104,742 |

| *SERS 2/3* | Deferred Outflows of Resources | Deferred Inflows of Resources |
| --- | --- | --- |
| Difference between expected and actual experiences | $290,327 | - |
| Net difference between projected and actual earnings on pension plan investments | - | $512,169 |
| Changes in assumptions or other inputs | $8,349 | $216,230 |
| Changes in proportion and differences between contributions and proportionate share of contributions | - | $169,694 |
| Contributions subsequent to the measurement date | $106,857 | - |
| TOTAL | $405,533 | $898,093 |

| *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 | - | $56,842 |
| Changes in assumptions or other inputs | - | - |
| Changes in proportion and differences between contributions and proportionate share of contributions | - | - |
| Contributions subsequent to the measurement date | $1,713 | - |
| TOTAL | $1,713 | $56,842 |

| *TRS 2/3* | Deferred Outflows of Resources | Deferred Inflows of Resources |
| --- | --- | --- |
| Difference between expected and actual experiences | $92,316 | $14,506 |
| Net difference between projected and actual earnings on pension plan investments | - | $166,142 |
| Changes in assumptions or other inputs | $3,340 | $78,945 |
| Changes in proportion and differences between contributions and proportionate share of contributions | $18,961 | $65,970 |
| Contributions subsequent to the measurement date | $33,917 | - |
| TOTAL | $148,534 | $325,563 |

$144,155 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, 2019.

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 |
|---|---|---|---|---|
| 2019 | 4,582 | (90,813) | 5,687 | (6,692) |
| 2020 | (22,897) | (127,564) | (11,767) | (38,913) |
| 2021 | (68,708) | (273,079) | (40,421) | (93,387) |
| 2022 | (17,719) | (75,855) | (10,341) | (31,190) |
| 2023 | | (21,829) | | (7,807) |
| Thereafter | | (10,277) | | (32,957) |

***Pension Expense***

The District recognizes a pension expense for its proportionate share of the collective pension expense. This is determined by using the District's proportionate share of the collective net pension liability. For the year ending August 31, 2018, the District recognized a total pension expense from change in the net pension liability as follows:

| | Pension Expense |
|---|---|
| PERS 1 | (218,428) |
| SERS 2/3 | (459,708) |
| TRS 1 | (189,863) |
| TRS 2/3 | (108,237) |
| TOTAL | (976,236) |

### *Sensitivity of the Net Pension Liability (NPL) to Changes in the Discount Rate*

The table below presents the Districts's proportionate share of the net pension liability calculated using the discount rate of 7.40%, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.40%) or one percentage point higher (8.40%) than the current rate. Amounts are calculated by plan using the District's allocation percentage.

| | 1% Decrease (6.40%) | Current Discount Rate (7.40%) | 1% Increase (8.40%) |
|---|---|---|---|
| **PERS1 NPL** | $5,488,477,000 | $4,466,034,000 | $3,580,392,000 |
| Allocation Percentage | 0.059017% | 0.059017% | 0.059017% |
| Proportionate Share of Collective NPL | $ 3,239,131 | $ 2,635,716 | $ 2,113,037 |
| | | | |
| **SERS2/3 NPL** | $1,127,549,000 | $299,062,000 | ($383,817,000) |
| Allocation Percentage | 0.352236% | 0.352236% | 0.352236% |
| Proportionate Share of Collective NPL | $ 3,971,632 | $ 1,053,404 | $ (1,351,941) |
| | | | |
| **TRS1 NPL** | $3,650,431,000 | $2,920,592,000 | $2,288,760,000 |
| Allocation Percentage | 0.045512% | 0.045512% | 0.045512% |
| Proportionate Share of Collective NPL | $ 1,661,373 | $ 1,329,211 | $ 1,041,653 |
| | | | |
| **TRS2/3 NPL** | $2,805,439,000 | $450,114,000 | ($1,463,229,000) |
| Allocation Percentage | 0.043644% | 0.043644% | 0.043644% |
| Proportionate Share of Collective NPL | $ 1,224,404 | $ 196,447 | $ (638,611) |

## 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.

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

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

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

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

***Access to Other Post Employment Medical Benefits through the Washington State Health Care Authority (HCA)***

Washington State, through the HCA, administers a defined benefit other post-employment (OPEB) plan. The Public Employees Benefits Board (PEBB) created under the HCA is authorized to design benefits and determine the terms and conditions of employee and retired employee participation and coverage, including establishment of eligibility criteria for both active and retired employees. Eligible retirees and spouses are entitled to subsidies associated with postemployment medical benefits provided through PEBB.

The relationship between the PEBB OPEB plan and its employers and their employees and retirees is not formalized in a contract or plan document. Rather, the benefits are provided in accordance with a substantive plan. A substantive plan is one in which the plan terms are understood by the employers and plan members. This understanding is based on communications between the HCA, employers and plan members, and the historical pattern of practice with regard to sharing of benefit costs.

Participation in the plan is administered by HCA as a single-employer defined benefit OPEB plan. No assets are accumulated in a trust that meets the criteria in paragraph 4 of Governmental Accounting Standards Board Statement No. 75 (GASB 75).

**Implementation of GASB 75 in the Fiscal Year Ending August 31, 2018**

*GASB No. 75 Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* (GASB 75) governs the specifics of accounting for public OPEB plan obligations for participating employers and is required to be implemented for fiscal years beginning after June 15, 2017. The District has implemented GASB 75 treatment for the plan as a single-employer defined benefit OPEB plan for the fiscal year September 1, 2017 to August 31, 2018.

**Valuation Date, Measurement Date and Reporting Date**

The “valuation date” is July 1, 2018. This is the date as of which the census data is gathered and the actuarial valuation is performed. The “measurement date” is August 31, 2018. This is the date as of which the Total OPEB Liability is determined. The “reporting date” is the District’s fiscal year end of August 31, 2018.

The Total OPEB Liability is also reported as of the beginning of the measurement period as permitted by GASB 75 in this transition year. This calculation is based on a roll backward of the actuarial valuation results, with an adjustment to the discount rate.

**General Description**

Employers participating in the PEBB plan include the Washington state general government agencies, higher education institutions, K-12 school and educational service districts and political subdivisions. Additionally, the PEBB’s OPEB plan is available to retirees of K-12 school districts and educational service districts who do not participate in PEBB for insurance for their active employees. RCW 41.05.085 provides that contribution requirements of participating employers and of plan members are established by and may be amended by the HCA Board of

Directors. Participating employers and active plan members are required to contribute the established benefit rates. All K-12 school districts and ESDs contribute the same rate which is set annually as an amount per pro-rated FTE under RCW 28A.400.410. Employers do not have the ability to contribute additionally to funding against future liabilities or impact funding progress on the actuarially determined liability of the HCA OPEB plan. The District participates in PEBB for insurance for its active employees. The District's established contribution to PEBB for retiree OPEB for the fiscal year ending August 31, 2018 under the required formula was $139,219.

The PEBB OPEB plan provides healthcare insurance benefits (medical and dental) for retirees and their dependents. Retired members may only elect dental coverage if they have elected medical coverage. PEBB offers thirteen (13) medical plans and three (3) dental plans. All current and future retirees who elect medical and dental coverage are assumed to elect carriers based on the weighted average of selection of carriers by current PEBB retirees.

*Employees covered by benefit terms.* District employees are eligible for retiree medical benefits after becoming eligible for service retirement pension benefits (either reduced or full pension benefits) under Plan 2 or 3 of TRS or SERS (see Note 6):

- Age 65 with 5 years of service for Plan 2
- Age 55 with 20 years of service for Plan 2
- Age 55 with 10 years of service for Plan 3

Former members who are entitled to a deferred vested pension benefit are not eligible to receive medical and life insurance benefits after pension benefit commencement. Survivors of covered members who die are eligible for medical benefits. At June 30, 2018, the following employees were covered by benefit terms:

| | |
|---|---|
| Retirees or dependents currently receiving benefit payments | 72 |
| Active employees who may qualify for benefits upon retirement | 185 |

It is not possible to determine the number of inactive employees entitled to, but not yet receiving benefit payments. Retiring employees apply for benefits at their discretion, may be otherwise working and not eligible for benefits or be deceased. This data is not monitored by the District, HCA or the State of Washington.

*Election assumptions.* 50% of employees are assumed to elect medical and dental benefits upon retirement. 45% of employees are assumed to enroll eligible dependents as of the retirement date. 100% of employees are assumed to enroll in Medicare, once eligible, after initial participation.

**Total OPEB Liability**

The District's Total OPEB Liability of $4,818,811 and $4,808,219 was measured for the years ending August 31, 2017 and 2018, respectively, and was determined by an actuarial valuation as of the valuation date of July 1, 2018, calculated based on the discount rates discussed below, projected to the measurement dates. There have been no significant changes between the valuation date and the fiscal year end. If there were significant changes, an additional analysis or valuation might be required.

**Actuarial Assumptions and Other Inputs**
The Total OPEB Liability in the July 1, 2018 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement dates, unless otherwise specified.

*Inflation*. The inflation rate of 2.75% was developed by the Office of the State Actuary for PEBB[1] and was applied to the measurement dates ending August 31, 2017 and 2018.

*Salary increases.* Salary assumptions reflect the assumptions used in the actuarial valuations for Washington State School Employees' Retirement System (SERS) and Teacher Retirement System (TRS)[2]. Projected payroll increases have been assumed to be 3.5% which equals 0.75% real wage growth above inflation. Projected annual merit and longevity increases for SERS range from 6.60% for 0 years of service to 0.10% for 20 years of service. Projected annual merit and longevity increases for TRS range from 5.10% for 0 years of service to 0.10% for 25 years of service.

*Discount Rate.* The discount rate was based on the 20-year Tax-Exempt Municipal Bond Yield (*Bond Buyer General* Obligation 20-bond municipal index for bonds that mature in 20 years). Discount rate assumptions were 3.51% and 3.96% for the measurement dates of August 31, 2017 and 2018, respectively.

*Demographic Assumptions*. Demographic assumptions regarding retirement, mortality, turnover, and marriage are based on assumptions used in the Office of the State Actuary's actuarial valuation for Washington State SERS and TRS[2], modified for the District.

- Service retirement assumptions for plans 2 and 3 were used, which vary based on hire date and years of service.
- The assumed rates of disability under SERS and TRS plans 2 and 3 are less than 0.1% for ages 50 and below and continue to be low after that; demographic assumptions assume a 0% disability rate for all ages.
- Mortality assumptions for SERS were used (RP-2000 base mortality table, adjusted by -1 year for both males and females, with generational mortality adjustments using projection scale BB).

*Healthcare Cost Trends*. Healthcare cost trends used in the actuarial valuation were developed for use in the July 1, 2018 OPEB valuation for the PEBB program[1], to be performed by the Office of the State Actuary. These assumptions are summarized below and refer to the amount by which medical costs are anticipated to exceed costs for the year ending 2018:

| Year Ending June 30, | Pre-65 Retiree Premiums & Claims | Post-65 Retiree Claims | Post-65 Retiree Premiums |
|---|---|---|---|
| 2019 | 6.8% | 3.6% | 2.8% |
| 2020-2095 | 6.3% to 4.5% | 7.6% to 4.7% | 12.5% to 4.7% |

Dental costs trends are assumed to increase 1.1% to 4.0% for the year 2019-2026 and beyond.

Healthcare cost trends reflect the impact of the excise tax for high cost or "Cadillac" health plans for 2022 and beyond, consistent with the current tax code in effect.

*Premium Levels.* Assumed annual medical retiree contributions as of July 1, 2018, used in the actuarial valuation are displayed below. These represent a weighted average of 2018 PEBB retiree contributions by medical plan, based on overall PEBB current retiree medical plan election. Contribution assumptions exclude fees charged as a direct pass-through to participating retirees.

| | Employee or Spouse | |
|---|---|---|
| | Non-Medicare | Medicare |
| Weighted average based on current PEBB retirees | $8,052.58 | $3,180.06 |

The July 1 2018 assumed annual dental retiree contributions for employee or spouse is $547.17, representing a weighted average of 2018 PEBB retiree contributions by dental plan, based on overall PEBB current retiree dental plan elections.

*Actuarial cost method.* The actuarial cost method used for determining the benefit obligations is the Entry Age Actuarial Cost Method. Under the principles of this method, the actuarial present value of the projected benefits of each individual included in the valuation is allocated as a level percentage of expected salary for each year of employment between entry age (defined as age at hire) and assumed exit (until maximum retirement age).

[1] The actuarial valuation for the Washington state OPEB plan offered through PEBB under administration of HCA can be found at
http://leg.wa.gov/osa/additionalservices/Pages/OPEB.aspx

[2] The actuarial valuation for the Washington State School Employees' Retirement System (SERS) and Teacher Retirement System (TRS) can be found in the Department of Retirement Systems annual Comprehensive Annual Financial Report (CAFR) at
https://www.drs.wa.gov/administration/annual-report/default.htm

**Claims Cost Assumptions**
Subsidies provided by PEBB and valued in the actuarial valuation include the following:

- Explicit medical subsidy for post-65 retirees and spouses
- Implicit medical and dental subsidy

The explicit subsidies are monthly amounts paid per post-65 retirees and spouses. As of the valuation date, the explicit subsidy for post-65 retirees and spouses is the lessor of $150 or 50% of the monthly premiums. As of January 1, 2019, the subsidy will be increased to $168 per month. Retirees and spouses currently pay the premium minus $150 when the premium is over $300 per month and pay half the premium when the premium is lower than $300.

The implicit medical subsidy is the difference between the total cost of medical benefits and premiums. For pre-65 retirees and spouses, the retiree pays the full premium amount, based on a pool that includes active employees. Active employees will tend to be younger and healthier than retirees on average and therefore can be expected to have lower average health costs. (For post-65 retirees and spouses, the retiree does not pay the full premium due to the explicit subsidy discussed above.) Under GASB 75, the total cost of benefit payments is to be based on claims costs or age-adjusted premiums approximating claims costs. The projection of retiree premiums is based on current amounts for the retirees' share of the premium, projected with the medical trend assumption, varied by age and sex. Implicit subsidies for dental coverage is also reflected in the actuarial valuation.

**Changes in the Total OPEB Liability**

The increase (decrease) in the Total OPEB Liability is detailed in the table below for the fiscal year ending August 31, 2018:

| | |
|---|---|
| Balance as of August 31, 2017 | $ 4,818,811 |
| Changes for the year: | |
| Service cost | 303,769 |
| Interest on Total OPEB Liability | 177,380 |
| Effect of plan changes | - |
| Effect of economic/demographic gains or losses | - |
| Effect of assumptions changes or inputs | (352,522) |
| Expected benefit payments | (139,219) |
| **Balance as of August 31, 2018** | **$ 4,808,219** |

Service cost represents the portion of the actuarial present value of expected benefit payments that is attributed to the valuation year.

Changes in assumptions or inputs represents the change in the portion of changes in the Total OPEB Liability that is not immediately recognized in OPEB expense and includes differences between expected and actual experience, changes in assumptions, and differences between expected and actual earnings on plan investments.

Expected benefit payments represent all benefits estimated to be payable through the OPEB plan to current active and inactive employees as a result of their past service and expected future service. This is the subsidy difference between the total cost of benefits and the portion of the benefits paid by the retirees. Per employee health costs vary depending on age, number of dependents and expected morbidity

*Sensitivity of the Total OPEB Liability to changes in the discount rate.* The following presents the District's Total OPEB Liability, calculated using the discount rate of 3.96%, as well as what the District's Total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.96%) or 1 percentage point higher (4.96%) than the current rate:

| | 1% Decrease 2.96% | Discount Rate 3.96% | 1% Increase 4.96% |
|---|---|---|---|
| Total August 31, 2018 OPEB Liability | $5,644,371 | $4,808,219 | $4,141,092 |

*Sensitivity of the Total OPEB Liability to changes in the healthcare cost trend rates.* The following presents the Total OPEB Liability of the District, calculated using the current healthcare cost trend rates as well as what the District's Total OPEB Liability would be if it were calculated using trend rates that are 1 percentage point lower or 1 percentage point higher than the current trend rates.

| | 1% Decrease | Current Trend Rate | 1% Increase |
|---|---|---|---|
| Total August 31, 2018 OPEB Liability | $4,081,683 | $4,808,219 | $5,738,903 |

**OPEB Expense and Deferred Outflows of Resource and Deferred Inflows of Resources Related to OPEB**
For the year ended August 31, 2018, the District recognized OPEB expense of $437,084 as follows:

| For the year ending | August 31, 2018 |
|---|---|
| Service cost | $ 303,769 |
| Interest on Total OPEB Liabilitly | 177,380 |
| Effect of plan changes | - |
| Recognition of Deferred Inflows/Outflows of Resources | |
| Recognition of economic/demographic gains/losses | - |
| Recognition of assumption changes or inputs | (44,065) |
| **OPEB Expense** | **$437,084** |

The District reported deferred outflows and inflows of resources as of the August 31, 2018 Measurement Date as follows:

| | Deferred Outflows of Resource | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual experience | - | - |
| Changes of assumptions or inputs | - | $308,457 |
| Contributions made subsequent to the Measurement Date | - | - |
| Total | - | $308,457 |

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

| Measurement Period Ending August 31, | |
|---|---|
| 2019 | $ (44,065) |
| 2020 | (44,065) |
| 2021 | (44,065) |
| 2022 | (44,065) |
| 2023 | (44,065) |
| Thereafter | $ (88,132) |

## 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 participating school district. The District is also a member of the Trust. Effective June 30, 1994, the Trust ceased coverage for claims coverage after that date. The Trust is operating in runoff mode since that date.

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

For fiscal year 2018, there are 31 members in the pool including 30 participating school districts. A Board comprised of one designated representative from each participating member governs the Trust while a nine-member Executive Board advises the Trust. The Executive Board includes the District Superintendent and eight members elected by the member Board. The District is responsible for conducting the business affairs of the Trust. At August 31, 2018, the amount of liabilities totaled $605,648. This liability is the District's best estimate based on available information. Changes in the reported liability since August 31, 2017, resulted in the following:

| | Beginning Balance 9/1/2017 | Current Year Claims/ Changes in Estimates | Ending Balance 8/31/2018 |
|---|---|---|---|
| Incurred but not Reported | $448,356 | ($1) | $448,355 |
| Estimated Unallocated Loss Adjustment | $106,123 | $9,518 | $115,641 |
| Future L&I Assessments | $41,562 | $90 | $41,652 |

### *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 Pool. There is provision that members can be additionally assessed if the Pool needs additional funding.

For fiscal year 2018, there are 29 members in the pool including 27 participating school districts. The pool is governed by a Cooperative Board, which is comprised of one designated representative from each participating member and a nine-member Executive Board. Eight members elected by the Cooperative Board and the District Superintendent comprise the Executive Board. At August 31, 2018, the amount of liabilities totaled $545,120. This liability is the District's best estimate based on available information. Changes in the reported liability since August 31, 2017, resulted in the following:

| | Beginning Balance 9/1/2017 | Current Year Claims/Changes in Estimates | Ending Balance 8/31/2018 |
|---|---|---|---|
| Claims Reserves | $524,688 | $20,432 | $545,120 |

## 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 service districts and school districts in the state of Washington joined together by signing the Cooperative Risk Management Pool Account Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. Over 90 school and educational service districts have joined the Pool.

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

Members make an annual contribution to fund the Pool. The Pool acquires reinsurance from unrelated underwriters that are subject to a per-occurrence self-insured retention of $1 million risk shared by the Pool. 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 their share of contributions to the Pool for any unresolved, unreported, and in-process claims for the period they were a signatory to the Cooperative Risk Management Pool Account Agreement. The Pool is fully funded by its member participants.

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

Washington Schools Risk Management Pool
PO Box 88700
Tukwila, WA 98138-2700

## Note 10: NET POSITION, RESTRICTED

The District's statement of net position reports $7,074,213 of restricted assets for Support Programs. The following lists the programs restricted by the Board of Directors:

| Support Program | Amount |
|---|---|
| | |
| Special Education | 1,764,696 |
| Staff Development | 1,242,644 |
| Safe and Drug-Free Schools | 13,109 |
| Traffic Safety | 203,469 |
| Math & Science | 426,741 |
| Art | 341 |
| Highly Capable | 32,755 |
| Early Childhood | 228,184 |
| Migrant | 68,370 |
| Other Instructional Support Programs | 291,279 |
| Data Processing | 2,414,618 |
| Risk Management | 175,933 |
| Public Communication | 4,545 |
| Nursing Services | 5,327 |
| Fiscal Agent Services | 16,444 |
| Other Non-Instructional Support Programs | 185,758 |
| **Total Restricted for Support Programs** | **$ 7,074,213** |

The NWESD is a member of a joint venture for provision of information processing services. The NWESD interest in the joint venture of ($101,691) is reported as a restricted position on the Statement of Net Position. See Note 11 for further disclosure regarding the joint venture.

## Note 11: INVESTMENT IN JOINT VENTURE

### *Washington State Information Processing Cooperative*

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

WSIPC adopted GASB 68 at the year ended August 31, 2015. GASB 68 requires participating entities in the State Department of Retirement System (DRS) to recognize their proportionate share of the individual plans' net pension liability and related component measures that are reported on the DRS comprehensive annual financial report (CAFR) each year. WSIPC's financial statements include the proportionate share of the net pension liability associated with Public Employees' Retirement System (PERS) plans. General disclosures regarding the Washington state retirement system and pension accounting may be found in Note 6. Specific disclosures for the PERS plan may be found in the notes to WSIPC financial statements.

WSIPC implemented GASB 75 for the year ended August 31, 2018 to recognize the unfunded OPEB (Postemployment Benefit Plans Other than Pensions) liability on WSIPC's financial statements. WSIPC's Total OPEB Liability and the related component measures were determined through an actuarial valuation consistent with the actuarial valuation method used by the nine ESDs. WSIPC's Net Position includes a cumulative change in accounting principle associated with the adoption of GASB 75. General disclosures regarding the Washington state OPEB plan may be found in Note 7. Specific disclosures for WSIPC's plan participation may be found in the notes to WSIPC financial statements.

Condensed financial information of the joint venture for the fiscal year ended August 31, 2018, is as follows:

| Condensed Financial Statements | Amount |
|---|---|
| Assets | |
| Current Assets | $6,902,203 |
| Non-Current Assets | 1,688,220 |
| Deferred Outflows of Resources- Pensions | 419,112 |
| **Total Assets & Deferred Outflows** | **$9,009,535** |
| Liabilities, Deferred Inflows & Joint Venture Capital | |
| Current Liabilities | $850,582 |
| Noncurrent Liabilities-Other | 385,611 |
| Net Pension Liability | 3,792,197 |
| Total OPEB Liability | 3,113,905 |
| Deferred Inflows of Resources- Pensions | 1,555,568 |
| Deferred Inflows of Resources- OPEB | 226,895 |
| Net Position-Investment in Joint Venture | (915,223) |
| **Total Liabilities, Deferred Inflows & Joint Venture Investment** | **$9,009,535** |
| Operating Revenues<br>Non-Operating Revenues | $23,106,691<br>67,713 |
| Less Operating Expenses | 22,655,904 |
| **Increase/Decrease in Net Position** | **$518,500** |
| Cumulative Change in Accounting Principle | (3,198,674) |
| **Increase/(Decrease) in Net Position** | **($2,680,174)** |

The District's equal share of the total Investment in the joint venture is ($101,691). There were no contributions to, or distributions from, the joint venture during the fiscal year ending August 31, 2018.

## Note 12: CONTINGENT LIABILITIES AND LITIGATIONS

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

## Note 13: OTHER DISCLOSURES

### *Stewardship, Compliance, and Accountability*

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

### *Accounting and Reporting Changes*

The NWESD Board and the Compensated Absences Liability Pool Advisory Board approved a resolution to dissolve the Compensated Absences Liability Pool as of August 31, 2018.

### *Change in Accounting Principle*

For the fiscal year ending August 31, 2018 the District has implemented GASB Statement No. 75 Accounting for Postemployment Benefits Other than Pensions (OPEB). Implementation of the new statement, which had an effective date for fiscal years beginning after June 15, 2017, resulted in an adjustment for Change in Accounting Principle of $(4,818,811) for the District and $(355,408) for WSIPC, The total adjustment of $(5,174,219) is reported on the Statement of Revenues, Expenses and Changes in Fund Net Position. See Note 7 and Note 11 for further information.

# NORTHWEST EDUCATIONAL SERVICE DISTRICT NO. 189
# REQUIRED SUPPLEMENTARY INFORMATION
# FOR FISCAL YEAR ENDING AUGUST 31, 2018

The required supplementary information identified below is presented separately for each Pension Plan the District participates in.

### *SCHEDULES OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY*

The amounts are determined as of the June 30 measurement date of the collective net pension liability.

| PERS 1<br>Last 10 Fiscal Years* | | | | |
|---|---|---|---|---|
| | 2015 | 2016 | 2017 | 2018 |
| District's Proportion of the net pension liability (percentage) | 0.068976% | 0.059504% | 0.060120% | 0.059017% |
| District's proportionate share of the net pension liability (amount) | $ 3,608,100 | $ 3,195,657 | $ 2,852,731 | $ 2,635,716 |
| District's covered-employee payroll | $7,723,546 | $ 7,138,263 | $ 7,448,081 | $ 7,782,633 |
| District's proportionate share of the net pension liability (amount) as a percentage of its covered payroll | 46.72% | 44.77% | 38.30% | 33.87% |
| Plan fiduciary net position as a percentage of the total pension liability | 59.10% | 57.03% | 61.24% | 63.22% |

| SERS 2/3<br>Last 10 Fiscal Years* | | | | |
|---|---|---|---|---|
| | 2015 | 2016 | 2017 | 2018 |
| District's Proportion of the net pension liability (percentage) | 0.438667% | 0.379812% | 0.359577% | 0.352236% |
| District's proportionate share of the net pension liability (amount) | $1,781,649 | $ 2,494,478 | $ 1,774,422 | $ 1,053,404 |
| District's covered-employee payroll | $7,550,321 | $ 7,034,535 | $ 7,345,965 | $ 7,698,494 |
| District's proportionate share of the net pension liability (amount) as a percentage of its covered payroll | 23.60% | 35.46% | 24.16% | 13.68% |
| Plan fiduciary net position as a percentage of the total pension liability | 90.92% | 86.52% | 90.79% | 94.77% |

| TRS 1 | | | | |
|---|---|---|---|---|
| Last 10 Fiscal Years* | | | | |
| | 2015 | 2016 | 2017 | 2018 |
| District's Proportion of the net pension liability (percentage) | 0.059968% | 0.057579% | 0.050000% | 0.045512% |
| District's proportionate share of the net pension liability (amount) | $ 1,899,885 | $ 1,965,897 | $ 1,511,649 | $ 1,329,211 |
| District's covered-employee payroll | $ 2,542,851 | $ 2,749,295 | $ 2,714,910 | $ 2,614,103 |
| District's proportionate share of the net pension liability (amount) as a percentage of its covered payroll | 74.71% | 71.51% | 55.68% | 50.85% |
| Plan fiduciary net position as a percentage of the total pension liability | 65.70% | 62.07% | 65.58% | 66.52% |

| TRS 2/3 | | | | |
|---|---|---|---|---|
| Last 10 Fiscal Years* | | | | |
| | 2015 | 2016 | 2017 | 2018 |
| District's Proportion of the net pension liability (percentage) | 0.047199% | 0.050810% | 0.047934% | 0.043644% |
| District's proportionate share of the net pension liability (amount) | $ 398,265 | $ 697,766 | $ 442,399 | $ 196,447 |
| District's covered-employee payroll | $ 2,209,153 | $ 2,544,300 | $ 2,628,141 | $ 2,540,106 |
| District's proportionate share of the net pension liability (amount) as a percentage of its covered payroll | 18.03% | 27.42% | 16.83% | 7.73% |
| Plan fiduciary net position as a percentage of the total pension liability | 92.48% | 88.72% | 93.14% | 96.88% |

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

## *SCHEDULES OF THE DISTRICT'S DEFINED BENEFIT CONTRIBUTIONS*

The amounts reported in the Schedules of District Contributions are determined as of the district's fiscal year ending August 31

| PERS 1 | | | | |
|---|---|---|---|---|
| **Last 10 Fiscal Years*** | | | | |
| | 2015 | 2016 | 2017 | 2018 |
| Contractually required contribution | $ 316,111 | $ 335,689 | $ 363,156 | $ 400,724 |
| Contributions in relation to the contractually required contributions | $ 316,111 | $ 335,689 | $ 363,156 | $ 400,724 |
| Contribution deficiency (excess) | 0 | 0 | 0 | 0 |
| District's covered-employee payroll | $ 7,704,737 | $ 7,139,117 | $ 7,476,776 | $ 7 846,250 |
| Contribution as a percentage of covered-employee payroll | 4.10% | 4.70% | 4.86% | 5.11% |

| SERS 2/3 | | | | |
|---|---|---|---|---|
| **Last 10 Fiscal Years*** | | | | |
| | 2015 | 2016 | 2017 | 2018 |
| Contractually required contribution | $ 425,889 | $ 466,597 | $ 488,992 | $ 641,900 |
| Contributions in relation to the contractually required contributions | $ 425,889 | $ 466,597 | $ 488,992 | $ 641,900 |
| Contribution deficiency (excess) | 0 | 0 | 0 | 0 |
| District's covered-employee payroll | $ 7,543,472 | $ 7,039,938 | $ 7,375,472 | $ 7,764,845 |
| Contribution as a percentage of covered-employee payroll | 5.65% | 6.63% | 6.63% | 8.27% |

| TRS 1 | | | | |
|---|---|---|---|---|
| Last 10 Fiscal Years* | | | | |
| | 2015 | 2016 | 2017 | 2018 |
| Contractually required contribution | $ 134,568 | $ 189,887 | $ 166,508 | $ 194,070 |
| Contributions in relation to the contractually required contributions | $ 134,568 | $ 189,887 | $ 166,508 | $ 194,070 |
| Contribution deficiency (excess) | 0 | 0 | 0 | 0 |
| District's covered-employee payroll | $ 2,585,289 | $ 2,863,855 | $ 2,595,828 | $ 2,620,541 |
| Contribution as a percentage of covered-employee payroll | 5.21% | 6.63% | 6.41% | 7.41% |

| TRS 2/3 | | | | |
|---|---|---|---|---|
| Last 10 Fiscal Years* | | | | |
| | 2015 | 2016 | 2017 | 2018 |
| Contractually required contribution | $ 129,390 | $ 177,914 | $ 169,652 | $ 199,278 |
| Contributions in relation to the contractually required contributions | $ 129,390 | $ 177,914 | $ 169,652 | $ 199,278 |
| Contribution deficiency (excess) | 0 | 0 | 0 | 0 |
| District's covered-employee payroll | $ 2,272,146 | $ 2,663,342 | $ 2,524,581 | $ 2,546,624 |
| Contribution as a percentage of covered-employee payroll | 5.69% | 6.68% | 6.72% | 7.83% |

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

# NORTHWEST EDUCATIONAL SERVICE DISTRICT NO. 189
# REQUIRED SUPPLEMENTARY INFORMATION
# FOR FISCAL YEAR ENDING AUGUST 31, 2018

## *SCHEDULES OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS*

| TOTAL OPEB LIABILITY<br>Last 10 Fiscal Years * | |
|---|---|
| | 2018 |
| Service cost | $ 303,769 |
| Interest on total OPEB liability | 177,380 |
| Changes in benefit terms | - |
| Effect of economic/demographic gains or (losses) | - |
| Effect of assumption changes or inputs | (352,522) |
| Expected benefit payments | (139,219) |
| Net change in total OPEB liability | $ (10,952) |
| | |
| Total OPEB liability, beginning balance | 4,818,811 |
| Total OPEB liability, ending balance | $ 4,808,219 |
| | |
| Covered employee payroll | $ 10,601,373 |
| Total OPEB liability as a % of covered employee payroll | 45.35% |

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

**Northwest Educational Service District 189**
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**
**For the Year Ending August 31, 2018**

| 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/Award Number** | **From Direct Awards** | **From Pass Through Awards** | **Total** | **Passed Through to Subrecipients** | **Foot note** |
| US Department of Education | WA OSPI | Title I Grants to Local Educational Agencies | 84.010 | 1697 / 260075 | | 90,569.37 | 90,569.37 | | 7 |
| | | Title I Grants to Local Educational Agencies | 84.010 | 5925 / 222669 | | 111,932.39 | 111,932.39 | | 7 |
| | | Title I Grants to Local Educational Agencies | 84.010 | 5951 / 222543 | | 27,267.89 | 27,267.89 | | 7 |
| | | Title I Grants to Local Educational Agencies | 84.010 | 5961 / 222542 | | 11,598.72 | 11,598.72 | | 7 |
| | | Title I Grants to Local Educational Agencies | 84.010 | 5981 / 222541 | | 50,736.82 | 50,736.82 | | 7 |
| | | **Total CFDA 84.010** | | | | | **292,105.19** | | |
| | WA OSPI | Title I State Agency Program for Neglected and Delinquent Children and Youth | 84.013 | 5913 / 223080 | | 43,013.87 | **43,013.87** | | 7 |
| | WA OSPI | **Special Education Cluster (IDEA):** | | | | | | | |
| | | Special Education Grants to States | 84.027 | 1270 / 320257 | | 310,778.98 | 310,778.98 | | 7 |
| | | Special Education Preschool Grants | 84.173 | 1271 / 380307 | | 40,469.36 | 40,469.36 | | 7 |
| | | **Total Special Education Cluster** | | | | | **351,248.34** | | |
| | WA OSPI | Javits Gifted and Talented Students Education | 84.206 | 3015 / 470026 | | 4,245.73 | 4,245.73 | | 7 |
| | | **Total US Department of Education** | | | | **690,613.13** | **690,613.13** | | |
| US Department of Health and Human Services | | | | | | | | | |
| | ESD 112 | Substance Abuse and Mental Health Services Projects of Regional and National Significance | 93.243 | 2062 | | 21,658.99 | 21,658.99 | | 7 |
| | WA OSPI | Opioid STR | 93.788 | 2005 / 996801 | | 91,723.60 | 91,723.60 | | 7 |
| | WA OSPI | Block Grants for Prevention and Treatment of Substance Abuse | 93.959 | 2080 / 998195 | | 543,618.06 | 543,618.06 | | 2,7 |
| | | **Total US Department of Health and Human Services** | | | | **657,000.65** | **657,000.65** | | |
| | | **TOTAL Federal Awards Expended** | | | | **1,347,613.78** | **1,347,613.78** | | |

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

**Northwest Educational Service District #189**

# NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**For the Year Ending August 31, 2018**

## NOTE 1—BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal Awards is prepared on the same basis of accounting as the Northwest Educational Service District 189's (NWESD) financial statements. The NWESD uses the accrual basis of accounting. Expenditures represent only the federally funded portions of the program. District records should be consulted to determine amounts expended or matched from non-federal sources.

## NOTE 2—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 NWESD'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 7—FEDERAL INDIRECT RATE

The Northwest Educational Service District 189 used the federal restricted rate approved by its cognizant agency of 7.64% for grants awarded prior to July 1, 2017 and 7.38% for grants awarded after that date. The *Northwest Educational Service District* has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

# ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

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