Office of the Washington State Auditor
Pat McCarthy

Financial Statements and Federal Single Audit Report

Educational Service District No. 113

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

Published May 9, 2019

Report No. 1023580

Office of the Washington State Auditor
Pat McCarthy

May 9, 2019

Board of Directors
Educational Service District No. 113
Tumwater, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on Educational Service District No. 113'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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Educational Service District No. 113
September 1, 2017 through August 31, 2018

SECTION I – SUMMARY OF AUDITOR'S RESULTS

The results of our audit of Educational Service District No. 113 are summarized below in accordance with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Financial Statements

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

Internal Control over Financial Reporting:

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

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

Federal Awards

Internal Control over Major Programs:

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

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

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

Identification of Major Federal Programs:

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

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

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

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

SECTION II – FINANCIAL STATEMENT FINDINGS

See finding 2018-001.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

Educational Service District No. 113
September 1, 2017 through August 31, 2018

2018-001 The District did not have effective controls in place to ensure accurate reporting of its financial statements

Background

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

Government Auditing Standards requires auditors to communicate material weaknesses in internal controls, as defined below in the Applicable Laws and Regulations section, as a finding.

Description of Condition

The District reported a deferred outflow as a negative number rather than a positive number and entered an error in the cell formula of the spreadsheet it uses, resulting in understated expenses.

This control deficiency in internal controls over financial reporting represents a material weakness.

Cause of Condition

The errors were caused by clerical oversights. Further, the District's final review processes over the financial statements did not verify that certain check figures were accurate.

Effect of Condition

The District reported a deferred outflow as a negative number rather than a positive number, causing an error of $2,242,936 on the Statement of Net Position.

Further, the District entered an error in one of its cell formulas, which caused it to understate expenses by $353,251 on the Statement of Revenues, Expenses and Changes in Fund Net Position. This caused the total net position to not tie between the Statement of Revenues, Expenses and Changes in Fund Net Position, and the Statement of Net Position.

The District subsequently corrected the financial statements.

Recommendation

We recommend the District enhance its technical review of the financial statements to identify errors and ensure it reports the financial statements accurately.

District's Response

The Educational Service District takes its financial reporting seriously. The Financial Statements, as provided to the State Auditors, contained errors that were not identified in our financial statement preparation or review process. The ESD will improve its diligence in the preparation and establish a collaborative review(s) process for our year-end financial statements.

Auditor's Remarks

We appreciate the District's response and recognize that the District is committed to ongoing quality improvement.

We also wish to thank District management for their cooperation and assistance during our audit. We look forward to working with the District on this issue and will follow up on it during the next audit.

Applicable Laws and Regulations

Government Auditing Standards, December 2011 Revision, paragraph 4.23

The American Institute of Certified Public Accountants Codification of Statements on Auditing Standards, section 115.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Educational Service District No. 113
September 1, 2017 through August 31, 2018

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

Audit Period: 9/1/2016 – 8/31/2017	Report Ref. No.: 1021473	Finding Ref. No.: 2017-001

Finding Caption:

The District did not report the liabilities related to their other post-employment benefits in accordance with government accounting standards.

Background:

The District did not report the liabilities related to their other post-employment benefits in accordance with Governmental Accounting Standards Board (GASB) Statement No. 45. Consequently, the District did not report the liability totaling $4,159,359, nor present the applicable information in the note disclosures and report other information as required by GAAP. The District subsequently corrected the financial statements.

Status of Corrective Action: (check one)

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

Corrective Action Taken:

Notwithstanding the factors surrounding why GASB 45, the predecessor to GASB 75, both entitled Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, was not previously addressed in audits since the initial issuance of GASB 45, the District commissioned an actuarial study and reported other postemployment benefit liabilities in its financial statements.

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*

Educational Service District No. 113
September 1, 2017 through August 31, 2018

Board of Directors
Educational Service District No. 113
Tumwater, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of each major fund and the aggregate remaining fund information of Educational Service District No. 113, 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 April 10, 2019. The District has omitted the management's discussion and analysis information that governmental accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements. Our opinion on the basic financial statements is not affected by this missing information. As discussed in Notes 1 and 12 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*.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Audit Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying Schedule of Audit Findings and Responses as Finding 2018-001 to be material weaknesses.

COMPLIANCE AND OTHER MATTERS

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

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

DISTRICT'S RESPONSE TO FINDINGS

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

PURPOSE OF THIS REPORT

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

Pat McCarthy

State Auditor

Olympia, WA

April 10, 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

Educational Service District No. 113
September 1, 2017 through August 31, 2018

Board of Directors
Educational Service District No. 113
Tumwater, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of Educational Service District No. 113, 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

State Auditor

Olympia, WA

April 10, 2019

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Educational Service District No. 113
September 1, 2017 through August 31, 2018

Board of Directors
Educational Service District No. 113
Tumwater, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of each major fund and the aggregate remaining fund information of Educational Service District No. 113, 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 19.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund and the aggregate remaining fund information of Educational Service District No. 113, as of August 31, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Notes 1 and 12 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 19 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 the 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.

The risk pool statistical information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied to the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

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

April 10, 2019

FINANCIAL SECTION

Educational Service District No. 113
September 1, 2017 through August 31, 2018

BASIC FINANCIAL STATEMENTS

REQUIRED SUPPLEMENTARY INFORMATION

SUPPLEMENTARY AND OTHER INFORMATION

Educational Service District #113
STATEMENT OF NET POSITION - ALL FUNDS
August 31, 2018

	NOTE REF	OPERATING	WORKERS COMPENSATION FUND	UNEMPLOYMENT FUND	TOTAL ALL FUNDS
ASSETS					
CURRENT ASSETS					
Cash and Cash Equivalents	Note 1	$ 8,927,025	$ 21,122,070	$ 4,886,591	$ 34,935,686
Accounts Receivable (net of uncollectible allowance)	Note 1	$ 2,749,406	$ 439,319	$ 31,897	$ 3,220,622
TOTAL CURRENT ASSETS		$ 11,676,431	$ 21,561,389	$ 4,918,488	$ 38,156,309
NONCURRENT ASSETS					
Capital Assets	Note 3				
Land and Land Improvements	Note 3	$ 1,500,000			$ 1,500,000
Building	Note 3	$ 9,713,825			$ 9,713,825
Equipment	Note 3	$ 1,553,752			$ 1,553,752
Less: Accumulated Depreciation	Note 3	$ (3,674,082)			$ (3,674,082)
Net Capital Assets		$ 9,093,495	$ -	$ -	$ 9,093,495
Net Cash/Investments Held for Compensated Absences	Note 10	$ 951,547			$ 951,547
TOTAL NONCURRENT ASSETS		$ 10,045,042	$ -	$ -	$ 10,045,042
TOTAL ASSETS		$ 21,721,473	$ 21,561,389	$ 4,918,488	$ 48,201,351
DEFERRED OUTFLOWS OF RESOURCES					
Deferred OutFlows – Pension Plans	Note 5	$ 1,121,468			$ 1,121,468
TOTAL DEFERRED OUTFLOWS OF RESOURCES	Note 5	$ 1,121,468	$ -	$ -	$ 1,121,468
LIABILITIES					
CURRENT LIABILITIES					
Accounts Payable	Note 1	$ 754,366	$ 434,448	$ 67,759	$ 1,256,573
Accrued Interest Payable	Note 1	$ 52,738			$ 52,738
Accrued Salaries	Note 1	$ 64,292			$ 64,292
Payroll Deductions & Taxes Payable	Note 1	$ 13,066			$ 13,066
Public Employees' Retirement System	Note 1	$ 303,528			$ 303,528
Deferred Compensation	Note 1	$ 30			$ 30
Bonds Payable	Note 4	$ 225,000			$ 225,000
Capital Leases Payable	Note 4	$ 14,525			$ 14,525
Claim Reserves	Note 8				
IBNR			$ 1,110,197	$ 82,204	$ 1,192,401
Open Claims			$ 1,312,032		$ 1,312,032
Unallocated Loss Adjustment Expenses			$ 415,000		$ 415,000
Future L&I Assessments			$ 874,000		$ 874,000
OPEB Liability, short term	Note 6	$ 276,833			$ 276,833
TOTAL CURRENT LIABILITIES		$ 1,704,377	$ 4,145,677	$ 149,963	$ 6,000,018
NONCURRENT LIABILITIES					
Compensated Absences_	Note 1	$ 1,171,634			$ 1,171,634
Claim Reserves_	Note 8				
IBNR_			$ 1,721,720	$ 3,131	$ 1,724,851
Open Claims_			$ 1,778,051		$ 1,778,051
Net Pension Liability	Note 5	$ 7,855,861			$ 7,855,861
OPEB Liability	Note 6	$ 6,874,162			$ 6,874,162
Bonds Payable_	Note 4	$ 4,115,000			$ 4,115,000
Capital Leases Payable_	Note 4	$ 10,178			$ 10,178
Investment in Joint Venture	Note 11	$ 101,691			$ 101,691
TOTAL NONCURRENT LIABILITIES		$ 20,128,526	$ 3,499,771	$ 3,131	$ 23,631,428
TOTAL LIABILITIES		$ 21,832,904	$ 7,645,448	$ 153,094	$ 29,631,446
DEFERRED INFLOWS OF RESOURCES					
Deferred InFlows – Pension Plans	Note 5	$ 1,890,894			$ 1,890,894
Deferred InFlows – OPEB Plans	Note 6	$ 430,858			$ 430,858
TOTAL DEFERRED INFLOWS OF RESOURCES		$ 2,321,752	$ -	$ -	$ 2,321,752
NET POSITION					
Net Investment in Capital Assets	Note 3	$ 4,753,495	$ -	$ -	$ 4,753,495
Restricted for Debt Service	Note 4	$ 431,450			$ 431,450
Restricted for Support Programs	Note 9	$ 1,290,105			$ 1,290,105
Restricted for Risk Pool Net Position	Note 8		$ 13,915,941	$ 4,765,394	$ 18,681,335
Restricted for Joint Venture	Note 11	$ (101,691)	$ -	$ -	$ (101,691)
Unrestricted		$ (7,685,073)			$ (7,685,073)
TOTAL NET POSITION		$ (1,311,714)	$ 13,915,941	$ 4,765,394	$ 17,369,621

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

Educational Service District #113

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

For the Fiscal Year Ended August 31, 2018

	OPERATING	WORKERS COMPENSATION FUND	UNEMPLOYMENT FUND	TOTAL ALL FUNDS
OPERATING REVENUES				
Local Sources	$ 1,278,586			$ 1,278,586
State Sources	$ 5,312,583			$ 5,312,583
Allotment	$ 690,170			$ 690,170
Federal Sources	$ 10,216,942			$ 10,216,942
Cooperative Programs	$ 7,779,753			$ 7,779,753
Other Programs	$ 9,807,668	$ 5,000		$ 9,812,668
Member Assessments/Contributions		$ 6,915,298	$ 487,090	$ 7,402,389
Other Operating Revenue		$ 50		$ 50
TOTAL OPERATING REVENUE	$ 35,085,702	$ 6,920,348	$ 487,090	$ 42,493,141
OPERATING EXPENSES				
General Operations and Administration	$ 2,625,897	$ 1,352,278	$ 29,235	$ 4,007,410
Instructional Support Programs	$ 21,067,078			$ 21,067,078
Non Instructional Support Programs	$ 11,227,069			$ 11,227,069
Incurred Loss/Loss Adjustment Expenses				
Paid on Current Losses		$ 3,616,773	$ 381,982	$ 3,998,755
Change in Loss Reserves		$ 415,000	$ 28,169	$ 443,169
Unallocated Loss Adjustment Expenses				
Change in Unallocated Loss Reserves		$ 30,000		$ 30,000
Excess/Reinsurance Premiums		$ 259,923		$ 259,923
Professional Fees		$ 41,299	$ 42,962	$ 84,261
Labor & Industries Assessments		$ 561,421		$ 561,421
Depreciation/Depletion	$ 409,767			$ 409,767
Other Operating Expenses		$ 277,487		$ 277,487
TOTAL OPERATING EXPENSES	$ 35,329,812	$ 6,554,180	$ 482,348	$ 42,366,340
OPERATING INCOME (LOSS)	$ (244,110)	$ 366,169	$ 4,742	$ 126,801
NONOPERATING REVENUES (EXPENSES)				
Interest and Investment Income	$ 124,356	$ 266,246	$ 61,480	$ 452,081
Interest Expense and Related Charges	$ (213,150)			$ (213,150)
Change in Joint Venture	$ (297,797)			$ (297,797)
Change in Compensated Absences	$ (126,038)			$ (126,038)
TOTAL NONOPERATING REVENUES (EXPENSES)	$ (512,629)	$ 266,246	$ 61,480	$ (184,903)
INCOME (LOSS) BEFORE OTHER ITEMS	$ (756,739)	$ 632,414	$ 66,222	$ (58,102)
NET POSITION - BEGINNING BALANCE	$ 2,643,113	$ 13,283,527	$ 4,699,172	$ 20,625,812
Cumulative Effect of Change in Accounting Principle	$ (3,198,089)			$ (3,198,089)
NET POSITION - ENDING BALANCE	$ (1,311,714)	$ 13,915,941	$ 4,765,394	$ 17,369,621

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

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

Educational Service District #113
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended August 31, 2018

	OPERATING	WORKERS COMPENSATION FUND	UNEMPLOYMENT FUND	TOTAL ALL FUNDS
CASH FLOW FROM OPERATING ACTIVITIES				
Cash Received from Customers	$ 17,505,498	$ 5,050		$ 17,510,547
Cash Received from State and Federal Sources	$ 17,327,744			$ 17,327,744
Cash Received from Members		$ 6,881,651	$ 489,744	$ 7,371,394
Payments to Suppliers for Goods and Services	$ (10,427,108)	$ (426,499)	$ (17,931)	$ (10,871,538)
Payments to Employees for Services	$ (23,845,985)	$ (930,214)	$ (19,997)	$ (24,796,196)
Cash Paid for Benefits/Claims		$ (3,616,773)	$ (381,982)	$ (3,998,755)
Internal Activity - Reimbursements from Other Funds	$ 1,486,276			$ 1,486,276
Internal Activity - Payments Made for Other Funds	$ (1,361,498)			$ (1,361,498)
Cash Paid for Reinsurance		$ (254,282)		$ (254,282)
Cash Received for Labor and Industries Assessments		$ 1,643,318		$ 1,643,318
Cash Paid for Labor and Industries Assessments		$ (2,189,468)		$ (2,189,468)
Cash Paid for Professional Services		$ (41,299)	$ (42,962)	$ (84,261)
Cash Paid for Other Operating Expense		$ (275,555)		$ (275,555)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	$ 684,927	$ 795,929	$ 26,871	$ 1,507,728
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Principal and Interest Paid on Capital Debt	$ (449,031)			$ (449,031)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	$ (449,031)	$ -	$ -	$ (449,031)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest and Dividends Received	$ 124,356	$ 266,246	$ 61,480	$ 452,081
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	$ 124,356	$ 266,246	$ 61,480	$ 452,081
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	$ 360,252	$ 1,062,175	$ 88,351	$ 1,510,778
CASH AND CASH EQUIVALENTS - BEGINNING	$ 8,566,773	$ 20,059,895	$ 4,798,240	$ 33,424,908
CASH AND CASH EQUIVALENTS - ENDING	$ 8,927,025	$ 21,122,070	$ 4,886,591	$ 34,935,686

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

Educational Service District #113
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended August 31, 2018

	OPERATING	WORKERS COMPENSATION FUND	UNEMPLOYMENT FUND	TOTAL ALL FUNDS
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
OPERATING NET INCOME	$ (244,110)	$ 366,169	$ 4,742	$ 126,801
Adjustment to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities				
Depreciation Expense	$ 409,767			$ 409,767
Change in Assets and Liabilities				
Receivables, Net	$ 1,118,410	$ (33,648)	$ 2,653	$ 1,087,416
Accounts and Other Payables	$ 4,709	$ 18,408	$ (9,759)	$ 13,358
Accrued Expenses	$ 22,278			$ 22,278
Pension Expense from change in Net Pension Liability				
Change in Deferred Outflows	$ (103,029)			$ (103,029)
Change in Deferred Inflows	$ 598,900			$ 598,900
Change in Net Pension Liability	$ (1,346,404)			$ (1,346,404)
Expense from change in Total OPEB Liability-				
Change in Deferred Inflows	$ 430,858			$ 430,858
Change in Total OPEB Liability	$ (206,453)			$ (206,453)
Other Changes for Insurance Funds				
Claims Reserve-Current		$ 141,409	$ 28,084	$ 169,493
Claims Reserve-Prior Year		$ 112,347	$ 1,151	$ 113,498
IBNR-Current		$ 80,942		$ 80,942
IBNR-Prior Year		$ 302		$ 302
Future L&I Assessments		$ 80,000		$ 80,000
Provision for Unallocated Loss Adjustment		$ 30,000		$ 30,000
Unearned Member Assessments				$ -
Insurance Recoverables				$ -
Claim Reserves				$ -
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	$ 684,926	$ 795,929	$ 26,871	$ 1,507,727

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

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Educational Service District #113

STATEMENT OF FIDUCIARY NET POSITION - AGENCY FUNDS

August 31, 2018

	COMPENSATED ABSENCES	AGENCY	HRA
ASSETS			
Cash and Cash Equivalents	$ 1,849,017	$ 24,663	$ 7,522
Accounts Receivable	$ 4,151		
TOTAL ASSETS	$ 1,853,168	$ 24,663	$ 7,522
LIABILITIES			
Accounts Payable	$ 158,564	$ 713	$ 1,299
Deposits (from school districts)	$ 1,694,605	$ 23,950	$ 6,223
TOTAL LIABILITIES	$ 1,853,168	$ 24,663	$ 7,522

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

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NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Capital Region Educational Service District 113 conform to generally accepted accounting principles (GAAP) applicable to governmental enterprise units. 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

Capital Region Educational Service District No. 113 (CR ESD) is one of nine regional 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 any 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 CR ESD. The CR ESD is a separate legal entity and is fiscally independent from all other units of government.

The CR ESD serves forty-four public school districts in *Grays Harbor, Lewis, Mason, Pacific and Thurston* counties. Oversight responsibility for the CR ESD's operations is vested with the Board of Directors who are elected by the school directors of the educational service district, one from each of seven educational service district board-member districts. Management of the CR ESD 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 CR ESD’s financial statements include all fund entities that are controlled by the CR ESD's Board of Directors and managed by the administrative staff, unless noted hereafter.

Basis of Accounting and Reporting

The CR ESD’s accounting policies, as reflected in the accompanying financial statements, conform to the Accounting Manual for Educational Service Districts, prescribed by the Office of Superintendent of Public Instruction (OSPI). This manual allows for a practice that differs from generally accepted accounting principles in the following manner: 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 CR ESD reports the following major proprietary funds:

- The Operating fund is the CR ESD’s primary fund. It accounts for all financial resources of the CR ESD that are not reported in the following funds.

- The Unemployment Compensation Pool fund accounts for the collection of premiums from members of the fund and the related payment of associated claims and expenses.

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

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

In addition, the CR ESD reports the following agency funds:

- The Capital Compensated Absences Liability Pool fiduciary fund accounts for assets held by the CR ESD to provide a funding mechanism for members to pay for the cash-out of liabilities for compensated absences when employees of member districts leave service or retire.

- The Health Reimbursement Arrangement accounts for assets held by the CR ESD to provide IRS authorized reimbursement of health related expenditures for Head Start employees. The benefit is included in the Head Start bargaining agreement with the CR ESD.

- The Agency Fund is used to account for assets held by the CR ESD to provide student support services in our programs from funds provided by donors.

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

Assets, Liabilities, and Equity

Cash and Cash Equivalents

The Thurston County Treasurer is the ex-officio treasurer for the CR ESD. In this capacity, the county treasurer receives daily deposits and transacts investments on behalf of the CR ESD. On August 31, 2018, the treasurer was holding a CR ESD aggregate fair value balance of $36,373,876 in short-term residual investments. This amount is classified on the statement of net position as cash and cash equivalents.

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

Deposits and Investments – See Note 2

Receivables

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

Interfund Receivables and Payables

Interfund payables from the Workers' Compensation Trust and Unemployment Pool to the Operating Fund consist of reimbursements of administrative expenses paid by the Operating Fund on behalf of the other funds.

Interfund payables from the Compensated Absences Pool to the Operating Fund consist of claims for reimbursement from the Pool for paid sick leave and vacation leave cash outs.

All of these amounts are included in either the Accounts Receivable or Accounts Payable of the respective fund.

Capital Assets and Depreciation – See Note 3

Compensated Absences

Employees earn vacation leave at varying rates in accordance with CR ESD policy. Unused 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 CR ESD 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.

The balance reported in the statement of net position as of August 31, 2018, represents the amount funded through the Capital Compensated Absences Fund. *See Note 10*

Other Accrued Liabilities

These accounts consist of accrued wages and accrued employee benefits.

Deferred Outflows and Inflows of Resources

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

The CR ESD adopted GASB 75 for the year ended August 31, 2018. GASB 75 requires the CR ESD to recognize as deferred outflows or inflows of resources on the Statement of Net Position. These changes include differences between expected and actual experience, changes in assumptions, and differences between expected and actual earning on plan investments.

Long Term Debt – See Note 5

Claim Reserves

The liability for losses and loss adjustment expenses represent estimates of future payments to settle workers' compensation and unemployment claims and includes case-basis reserves for individual losses, administrative costs directly attributable to specific losses and a provision for losses incurred but not reported (IBNR). IBNR includes case-development and reopened claims liabilities.

The Workers Compensation Trust uses an independent actuary to assist in the development of a loss estimate and the Trust recognizes the liability provided by the actuary. Such liabilities are based on estimates and, while the Trustees believe that the amount is adequate, the ultimate liability may be in excess of or less than the amounts provided. The methods for making such estimates and for establishing the resulting liability are continually reviewed, and any adjustments are reflected currently in earnings.

NOTE 2: DEPOSITS AND INVESTMENTS

Cash and Investments are held by the Thurston County Treasurer. The Thurston County Treasurer, by law, is the Treasurer of the CR ESD. Investments consist of deposits into the Thurston County Investment Pool (TCIP.) The TCIP operates in a manner consistent with SEC Rule 2a7. As a 2a7-like pool, investments in the TCIP are reported at amortized cost. Because of our relationship with Thurston County Treasure, Investments listed below are shown as Cash and Cash Equivalents on the Statement of Net Position.

All funds deposited in the TCIP are available to the CR ESD at full face value without regard to current market values of the investment pool. Earnings distributions, including any realized transactions in the pool, are distributed monthly, calculated on the average daily balance of the participant's cash balances.

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. To limit this risk, state law does not allow general governments to invest in corporate equities. TCIP policy further limits risk to investments in securities that have one of the three highest ratings of a national rating agency at the time of investment.

Concentration Risk – Concentration risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The TCIP adopted investment policy requires that no more than 25% of the investments will be in a single security type, with the exception of U.S. treasury and agency securities and the State Local Government Investment Pool. The TCIP investments held are in compliance with this requirement.

As of August 31, 2018, the CR ESD had the following investments:

Investment	Effective Duration	Fair Value
Local Government Investment Pool	None	N/A
Thurston County Investment Pool Thurston County Investment Pool – Agency Funds	1.6 years	$ 34,514,684 $1,859,192
Total Investments		$ 36,373,876

NOTE 3: CAPITAL ASSETS

Capital assets, which include property, facilities, and large equipment, are capitalized at total acquisition cost, provided such cost exceeds $25,000 and has an expected useful life of more than five years. 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	$1,500,000			$1,500,000
Total capital assets not being depreciated	1,500,000			1,500,000
Depreciable capital assets:				
Buildings	9,713,825			9,713,825
Equipment	1,486,458			1,486,458
Capital Lease	67,295			67,295
Total depreciable capital assets	11,267,578			11,267,578
Less accumulated depreciation for:				
Buildings	2,104,662	323,794		2,428,456
Equipment	1,128,249	72,514		1,200,763
Capital Lease	31,404	13,459		44,863
Total accumulated depreciation	3,264,315	409,767		3,674,082
Total depreciable assets, net	$8,003,263	(409,767)		$7,593,496
Total assets, net	$9,503,263	(409,767)		$9,093,496

Individual tracking records are maintained on all assets costing $5,000 or more and, individual assets costing $250 or more that are deemed to be small and attractive. These assets are recognized as an expense when purchased.

NOTE 4: LONG-TERM DEBT, LIABILITIES AND LEASES

Long-Term Debt

The CR ESD issued a general obligation bond to finance the purchase of its office location in Tumwater in 2012. The following is a summary of long-term debt instruments of the CR ESD for the fiscal year ended August 31, 2018:

Purpose	Maturity Range	Interest Rate	Original Amount	Amount of Installments
Purchase of CR ESD Tumwater Building	12/1/2031	3% to 5%	$ 5,675,000	Varies

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

Fiscal Year Ending August 31	Principal	Interest
2019	225,000	206,450
2020	235,000	196,750
2021	245,000	186,650
2022	255,000	175,375
2023 – 2031	$ 3,380,000	$ 911,750

Operating Lease(s)

The CR ESD is committed under various leases for equipment and real estate. All leases are considered operating leases for accounting purposes because the CR ESD does not acquire interests in the property. Lease expenses for the year ended August 31, 2018, totaled $480,040. Future minimum rental commitments for these leases are as follows:

Fiscal Year Ending August 31	Equipment Amount	Real Estate Amount
2019	28,023	356,334
2020	26,627	247,625
2021-2023	$ 56,736	$ 312,370

Capital Lease(s)

The CR ESD has entered into a lease agreement for financing of office multifunction printers with no down payment. The lease agreements qualify as a capital lease for accounting purposes; therefore, it has 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
Multifunction Copiers	$ 67,295
Less: accumulated depreciation	44,863
Total	$ 22,432

The future minimum lease obligation and the net present value of these minimum lease payments as of August 31, 2018, were as follows:

Fiscal Year Ending August 31	Amount
2019	15,612
2020	10,408
Total minimum lease payments	26,020
Less: Interest	(1,317)
Present Value of Minimum Lease Payments	$ 24,703

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
Bonds Payable	$4,560,000		$220,000	$4,340,000	$225,000
Capital Leases	38,384		13,681	24,703	14,525
Net OPEB Obligation	4,159,359	2,991,636		7,150,995	276,833
Compensated Absences (unfunded portion)	94,050	126,037		220,087	
Net Pension Liability PERS 1	4,631,718		91,552	4,540,166	
Net Pension Liability SERS 2/3	2,953,812		1,093,591	1,860,221	
Net Pension Liability TRS 1	1,231,570	26,633		1,258,203	
Net Pension Liability TRS 2/3	385,166		187,895	197,271	
Total Long-Term Liabilities	$18,054,059	3,144,306	1,606,719	$ 19,591,646	$516,358

NOTE 5: PENSION PLANS

The CR ESD is required to provide retirement benefits for substantially all of qualifying employees through the State of Washington State Department of Retirement System (DRS) 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 ESDs participated in are reported in the following tables.

The Net Pension Liability as of June 30, 2018:				
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 ESD's Proportionate Share of the Net Pension Liability (NPL)

At June 30, 2018, the ESD reported a total liability of $7,855,861 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	680,183	1,089,254	179,169	194,846
Proportionate Share of the Net Pension Liability	4,540,166	1,860,221	1,258,203	197,271

At June 30, 2018, the ESD' percentage of the proportionate share of the collective net pension liability was as follows and the change in the allocation percentage from the prior year is illustrated below:

Allocation Percentages	PERS 1	SERS 2/3	TRS 1	TRS 2/3
Current year proportionate share of the Net Pension Liability	0.101660%	0.622018%	0.043080%	0.043827%
Prior year proportionate share of the Net Pension Liability	0.097611%	0.598574%	0.040736%	0.041732%
Net difference percentage	0.004049%	0.023445%	0.002344%	0.002095%

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	5.00%	4.40%
Real Estate	18.00%	5.80%
Global Equity	32.00%	6.60%
Private Equity	23.00%	9.60%

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

Discount Rate

The discount rate used to measure the total pension liability was 7.40 percent. To determine the discount rate, an asset sufficiency test was completed to test whether the pension plan's fiduciary net position was sufficient to make all projected future benefit payments of current plan members. Consistent with current law, the completed asset sufficiency test included an assumed 7.50 percent long-term discount rate to determine funding liabilities for calculating future contributions rate requirements. Consistent with the long-term expected rate of return, a 7.40 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue to be made at contractually required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

Therefore, the long-term expected rate of return of 7.40 percent on pension plan investments was applied to determine the total pension liability.

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

The Pension Plans reported collective Deferred Outflows of Resources and collective Deferred Inflows of Resources related to the individual plans. At August 31, 2018, the ESD 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	$	$(180,424)
Changes in assumptions or other inputs	$	$
Changes in proportion and differences between contributions and proportionate share of contributions	$	$
Contributions subsequent to the measurement date	$117,742	$
TOTAL	$117,742	$(180,424)

SERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experiences	$512,692	$
Net difference between projected and actual earnings on pension plan investments	$	$(904,447)
Changes in assumptions or other inputs	$14,743	$(381,844)
Changes in proportion and differences between contributions and proportionate share of contributions	$105,132	$(60,768)
Contributions subsequent to the measurement date	$193,585	$
TOTAL	$826,152	$(1,347,059)

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	$	$(53,806)
Changes in assumptions or other inputs	$	$
Changes in proportion and differences between contributions and proportionate share of contributions	$	$
Contributions subsequent to the measurement date	$29,462	$
TOTAL	$29,462	$(53,806)

TRS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experiences	$92,703	$(14,567)
Net difference between projected and actual earnings on pension plan investments	$	$(166,839)
Changes in assumptions or other inputs	$3,354	$(79,276)
Changes in proportion and differences between contributions and proportionate share of contributions	$19,970	$(48,925)
Contributions subsequent to the measurement date	$32,085	$
TOTAL	$148,112	$(309,607)

$372,874 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	$7,894	$3,959	$5,384	$(20,056)
2020	(39,442)	(180,342)	(11,138)	(49,783)
2021	(118,353)	(437,309)	(38,262)	(92,653)
2022	(30,522)	(89,029)	(9,789)	(24,060)
2023		(2,606)		(578)
Thereafter		(9,165)		(6,450)

Pension Expense

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

	Pension Expense
PERS 1	$596,216
SERS 2/3	$491,343
TRS 1	$207,431
TRS 2/3	$78,087
TOTAL	$1,373,077

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

The table below presents the ESD's proportionate share of the net pension liability calculated using the discount rate of 7.40%, 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 ESD's allocation percentage.

	1% Decrease (6.40%)	Current Discount Rate (7.40%)	1% Increase (8.40%)
PERS 1 NPL	$5,488,477,000	$4,466,034,000	$3,580,392,000
Allocation Percentage	0.101660%	0.101660%	0.101660%
Proportionate Share of Collective NPL	5,579,580	4,540,166	3,639,823
SERS 2/3 NPL	$1,127,549,000	$299,062,000	($383,817,000)
Allocation Percentage	0.622018%	0.622018%	0.622018%
Proportionate Share of Collective NPL	7,013,563	1,860,221	(2,387,413)

TRS 1 NPL	$3,650,431,000	$2,920,592,000	$2,288,760,000
Allocation Percentage	0.043080%	0.043080%	0.043080%
Proportionate Share of Collective NPL	1,572,621	1,258,203	986,007
TRS 2/3 NPL	$2,805,439,000	$450,114,000	($1,463,229,000)
Allocation Percentage	0.043827%	0.043827%	0.043827%
Proportionate Share of Collective NPL	1,229,537	197,271	(641,288)

NOTE 6: OTHER POST EMPLOYMENT BENEFIT PLANS

457 Plan – Deferred Compensation Plan

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

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

The CR ESD 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 CR ESD complies with IRS regulations that require school districts to have written plans to include participating investment companies, types of investments, loans, transfers, and various requirements. The plan is administered by TSA Consulting Group, Inc., (a third party administrator).

The plan assets are assets of CR ESD employees, not the CR ESD, 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 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 7):

- 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	135
Active employees who may qualify for benefits upon retirement	190

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 $7,357,448 and $7,150,995 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 whereby 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	$ 7,357,448
Changes for the year:	
Service cost	304,891
Interest on Total OPEB Liability	264,200
Effect of plan changes	-
Effect of economic/demographic gains or losses	-
Effect of assumptions changes or inputs	(502,668)
Expected benefit payments	(272,876)
Balance as of August 31, 2018	$ 7,150,995

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	$8,342,815	$7,150,995	$6,198,616

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	$6,126,446	$7,150,995	$8,460,527

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended August 31, 2018, the District recognized OPEB expense of $497,281 as follows:

For the year ending	August 31, 2018
Service cost	$ 304,891
Interest on Total OPEB Liability	264,200
Effect of plan changes	-
Recognition of Deferred Inflows/Outflows of Resources	
Recognition of economic/demographic gains/losses	-
Recognition of assumption changes or inputs	(71,810)
OPEB Expense	$497,281

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

	Deferred Inflows of Resource	Deferred Outflows of Resources
Differences between expected and actual experience	$ -	$ -
Changes of assumptions or inputs	(430,858)	-
Contributions made subsequent to the Measurement Date	NA	-
Total	$ (430,858)	$ -

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	$ (71,810)
2020	(71,810)
2021	(71,810)
2022	(71,810)
2023	(71,810)
Thereafter	$ (71,808)

NOTE 7: SHARED RISK POOL DISCLOSURES

Workers' Compensation Insurance Trust

The Workers' Compensation Trust (WCT) is a Self-Insurance Pool organized pursuant to Title 51.14 RCW for the purpose of managing workers' compensation premium, employee claims, and safety programs. Membership is established by execution of an agreement between the CR ESD and each local school district. The CR ESD is responsible for conducting the business affairs of the WCT and is also a member of the WCT.

The WCT provides industrial injury accident insurance coverage for its membership and is fully funded by its member participants. Member contributions are calculated based on their employee's hours worked and the member's experience rated contribution factor. The WCT retains responsibility for the payment of claims within specified self-insured retention limits prior to the application of coverage provided by its excess insurance contracts. The WCT acquires insurance from unrelated underwriters. The WCT's per-occurrence retention limit is $450,000 and the annual aggregate retention is $18,464,200 minimum for a three-year period FY 2015-18. Since the WCT is a shared risk program, there is a joint liability among participating members.

For fiscal year 2018, there are 46 members in the pool including 45 participating school districts. A Board comprised of one designated representative from each participating member and a seven member Executive Committee governs the WCT. The Executive Committee has seven members elected by the Board and the CR ESD Superintendent.

At August 31, 2018, the amount of claim liabilities totaled $7,211,000. This liability is the CR ESDs best estimate based on available information including actuarial reports. Changes in the reported liability since August 31, 2017, resulted in the following:

	Beginning Balance 9/1/2017	Current Year Claims and Changes in Estimates	Ending Balance 8/31/2018
Incurred but not Reported	2,750,673	335,000	2,831,917
Open Claims	2,836,327		3,090,083
Future L&I Assessments	794,000	80,000	874,000
Estimated Unallocated Loss Adjustment	385,000	30,000	415,000

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

Unemployment Compensation Pool

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

The Pool provides unemployment compensation coverage for members of the Pool arising from current and/or former employees. The Pool is fully funded by its member participants. Member districts pay a contribution calculated at 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 38 school district members in the Pool in addition to the CR ESD. The Pool is governed by a Cooperative Board, which is comprised of one designated representative from each participating member and a six member Executive Committee. Six members elected by the Cooperative Board and the CR ESD Superintendent comprise the Executive Committee. At August 31, 2018, the amount of claim reserves totaled $85,335. This liability is the CR ESDs best estimate based on available information including actuarial statements. Changes in the reported liability since August 31, 2017, resulted in the following:

	Beginning Balance 9/1/2017	Current Year Claims and Changes in Estimates	Ending Balance 8/31/2018
Claims Reserves	56,100	29,235	$85,335

NOTE 8: RISK MANAGEMENT

The CR ESD is a member of the United Schools Insurance Program. 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 program was formed on September 1, 1985 when 29 school districts in the state of Washington joined together by signing a Joint Purchasing Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. Current membership includes 154 school districts.

The program allows members to jointly purchase insurance coverage and provide related services such as administration, risk management, claims administration, etc. Coverage for Wrongful Acts Liability and Employee Benefit Liability is on a claims-made basis. All other coverages are on an occurrence basis. The program provides the following forms of group purchased insurance coverage for its members: Property, General Liability, Automotive Liability, Wrongful Acts Liability and Crime.

Liability insurance is subject to a self-insured retention of $100,000. Members are responsible for a $1,000 deductible for each claim (member deductibles may vary), while the program is responsible for the $100,000 self-insured retention (SIR). Insurance carriers cover insured losses over $101,000 to the limits of each policy. Since the program is a cooperative program, there is a joint liability among the participating members towards the sharing of the $100,000 SIR. The program also purchases a stop loss policy with an attachment point of $1,051,056, as an additional layer of protection for its members. Settlements have not exceeded insurance coverage in each of the past three years.

Property insurance is subject to a per-occurrence deductible of $100,000. Members are responsible for the first $1,000 of the deductible amount of each claim (Member deductibles may vary), while the program is responsible for the $100,000 SIR.

Equipment Breakdown insurance is subject to a per-occurrence deductible of $10,000. Members are responsible for the deductible amount of each claim.

Member contract to remain in the program for a minimum of one year, and must give notice before August 31 to terminate participation the following September 1. The Interlocal Agreement is renewed automatically each year. Even after termination, a member is still responsible for the contributions to the program for any unresolved, unreported, and in-process claims for the period they were a signatory to the Joint Purchasing Agreement.

The program is fully funded by its member participants. Claims are filed by members with Clear Risk Solutions, which has been contracted to perform program administration, claims adjustment, and loss prevention for the program. Total member fees paid to the third party administrator under this arrangement for the year ended August 31, 2018 amounted to $1,687,905.

A Board of Directors, consisting of nine members, is selected by the membership from six areas of the state on a staggered term basis and is responsible for conducting the business affairs of the program. The Board of Directors has contracted with Clear Risk Solutions to perform day-to-day administration of the program. This program has no employees.

NOTE 9: NET POSITION - RESTRICTED AND RESERVED

The CR ESD reports Restricted Net Position as follows:

Restricted Net Position	Amount
Capital Regional Information Service Center	702,805
Lewis County Special Education Coop	587,300
Total Restricted Net Position	$ 1,290,105

Additionally, the CR ESD's statement of net position reflects Unrestricted Net Position for Other Items comprised of program support and obligations as follows:

Unrestricted Net Position - Support Programs	Amount
Facility Reserves	$ 1,145,197
Regional Math / Science Services	150,151
Student Assistance Programs	513,722
Enterprise Fund	316,879
Youth Education	501,888
Equipment & Technology Replacement	74,070
Research Department	278,118
Personnel Coop	209,068
Network Services Coop	201,113
Student Support	156,615
Communications	49,582
Business Support Services	104,623
Transportation Vehicles	156,864
Conference Coordinator	131,809
TPEP	76,442
Early Childhood	(61,603)
Traffic Safety	(212,914)
Teacher Evaluation Website	(116,267)
Digital Learning	70,606
Other Coop	8,325
Other Program Reserves	1,372,867
GASB 68 Pension + In/Out Flows	(8,625,287)
GASB 75 OPEB + In/Out Flows	(7,581,853)
Bond Payoff	3,615,000
Compensated Absences Pool Equity	(220,087)
Total Unrestricted Net Position	$ (7,685,073)

Reserve for Debt Service	Amount
Debt Service	$ 431,450

Net Invested in Capital Assets	Amount
Capital Assets	$ 4,753,495

NOTE 10: CAPITAL COMPENSATED ABSENCES LIABILITY FUND

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

For fiscal year 2018, there are 11 member school districts in the Fund including the CR ESD. The Fund allows members to accumulate dedicated funds for payment of leave related to sick leave and vacation leave buy out at retirement and certain other instances. Payroll contributions are made to the Fund at the time leave is earned to reserve assets for expenditures. Coverage is on an “occurrence” basis. Expenditures of leave taken during employment continue to be recorded when paid.

The CR ESD contributes to the Compensated Absences Liability Pool for liabilities relating to sick leave and vacation leave cash outs. As of August 31, 2018, the CR ESD’s total compensated absences equity balance in the pool was $951,548

Changes for the fiscal year are summarized below.

CR ESD 113 changes		Balance at 8/31/2017
Beginning Long-term Liability		1,040,418
Beginning Pool Balance	946,368	
Payments to Pool	178,101	
Interest	12,433	
Less: Withdrawals from Pool	185,355	
Less: Ending Pool Balance		951,548
Increase (Decrease) to Estimates of Long-term Liability		131,217
Ending Unfunded Liability (Excess Funding)		220,087

NOTE 11: INVESTMENT IN JOINT VENTURE

Washington State Information Processing Cooperative

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

WSIPC adopted GASB 68 at the year ended August 31, 2015. GASB 68 requires 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.

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.

The CR ESD's share of the total Investment in the Joint Venture is ($101,691). The CR ESD made no capital contributions to the Joint Venture during 2018. There were no contributions to, or distributions from, the Joint Venture in 2018.

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

Statement of Net Position	Amount
Assets & Deferred Outflows	
Current Assets	$6,902,203
Noncurrent Assets	1,688,220
Deferred Outflows of Pensions	419,112
Total Assets & Deferred Outflows	$9,009,535
Liabilities, Deferred Inflows & Joint Venture Capital	
Current Liabilities	$850,582
Noncurrent Liabilities	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
Statement of Revenues, Expenses and Changes in Net Position	
Operating Revenues Non-Operating Revenues	$23,106,691 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)

Financial statements for WSIPC may be requested from:

WSIPC,
2121 West Casino Road
Everett, WA 98204-1472.

NOTE 12: SUBSEQUENT EVENTS & CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE

Capital Region ESD 113 implemented GASB 75 for the year ended August 31, 2018 which resulted in a cumulative effect of change in accounting principles entry of $(3,198,089).

EDUCATIONAL SERVICE DISTRICT 113
REQUIRED SUPPLEMENTAL INFORMATION - TEN YEAR CLAIMS DEVELOPMENT INFORMATION
WORKER'S COMPENSATION TRUST
FOR THE FISCAL YEAR ENDED AUGUST 31, 2018

	Fiscal and Policy Year Ended									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
1. Net earned required contributions and investment revenues	6,754,090.28	6,631,762.69	6,389,260.97	5,616,914.39	5,633,393.57	5,961,223.01	6,411,357.08	6,579,548.96	6,730,338.00	7,186,593.76
2. Unallocated expenses	1,632,853.63	1,713,585.36	1,542,636.92	1,746,417.91	2,231,758.83	2,157,588.66	1,928,876.68	2,076,826.63	2,196,700.00	2,214,920.28
3. Estimated incurred claims and expense, end of fiscal year	3,356,857.00	2,150,858.00	2,081,920.00	2,056,051.00	3,304,963.00	2,879,676.00	2,533,893.00	2,782,564.00	2,450,745.00	2,904,803.00

	Fiscal and Policy Year Ended									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
4. Paid (cumulative) as of:										
End of policy year	1,165,156	1,069,025	1,072,987	1,067,269	1,432,721	1,422,640	1,112,829	1,385,027	1,280,122	1,592,771
One year later	2,107,798	1,933,563	2,101,100	1,886,798	2,764,077	2,721,087	2,054,149	2,550,091	2,215,473	
Two years later	2,456,359	2,305,921	2,452,095	2,304,989	3,299,040	3,419,665	2,630,521	3,011,369		
Three years later	2,744,580	2,539,442	2,661,222	2,537,204	3,604,119	3,743,269	2,867,595			
Four years later	2,936,859	2,609,719	2,782,210	2,687,372	3,688,884	3,846,167				
Five years later	3,091,678	2,782,798	2,834,919	2,829,173	3,724,823					
Six years later	3,064,339	2,724,724	2,886,121	2,897,309						
Seven years later	3,096,333	2,734,089	2,996,363							
Eight years later	3,179,426	2,734,929								
Nine years later	3,179,052									
	27,021,580	21,434,210	19,787,017	16,210,114	18,513,664	15,152,828	8,665,094	6,946,487	3,495,595	1,592,771

	Fiscal and Policy Year Ended									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
5. Reestimated incurred claims and expense										
End of policy year	3,353,237	2,151,733	2,081,920	2,056,051	3,304,963	2,879,676	2,533,893	2,782,564	2,450,745	2,904,803
One year later	3,024,376	2,465,123	2,540,188	2,395,323	3,793,335	3,583,965	2,782,388	3,111,327	2,937,877	
Two years later	3,191,449	2,609,825	2,817,781	2,632,927	3,788,687	3,943,703	2,948,948	3,281,650		
Three years later	3,128,183	2,656,080	2,801,718	2,804,417	3,831,035	3,984,076	3,145,563			
Four years later	3,271,473	2,700,899	2,919,060	2,836,856	3,880,410	4,047,634				
Five years later	3,148,963	2,831,406	3,046,044	2,930,639	3,823,462					
Six years later	3,138,129	2,729,604	3,054,196	2,934,583						
Seven years later	3,228,731	2,735,839	3,032,430							
Eight years later	3,179,426	2,739,429								
Nine years later	3,179,052									
	31,843,019	23,619,938	22,293,337	18,590,796	22,421,892	18,439,054	11,410,792	9,175,541	5,388,622	2,904,803

Part 2 - Reconciliation of Claims Liabilities by Type of Contract

The schedule below presents the changes in claims liabilities for the past two years for the pool's contracts.

ESD 113 Workers' Compensation Trust
Actuarial Reserve Amounts

	8/31/2017	8/31/2018	Increase / (Decrease)
Claims Reserve - Current	1,170,623	1,312,032	141,409
Claims Reserve - Prior	1,665,704	1,778,051	112,347
Incurred But Not Reported (IBNR) - Current	1,029,255	1,110,197	80,942
Incurred But Not Reported (IBNR) - Prior	1,721,418	1,721,720	302
Future L & I Assessments - Current	794,000	874,000	80,000
Estimated Unallocated Loss Adjustments	385,000	415,000	30,000
	6,766,000	7,211,000	445,000

Total unpaid claims and claim adjustment expenses at the end of the fiscal year.

Educational Service District No. 113

REQUIRED SUPPLEMENTAL INFORMATION

SCHEDULE OF CHANGES IN THE ESD'S TOTAL OPEB LIABILITY AND RELATED RATIOS

AS OF AUGUST 31, 2018

Last 10 Fiscal Years

	Fiscal Year Ending August 31 2018
Total OPEB Liability	
Service cost	304,891
Interest on total OPEB liability	264,200
Changes of benefit terms	-
Effect of economic/demographic gains or (losses)	-
Effect of assumption changes or inputs	(502,669)
Expected benefit payments	(272,876)
Net change in total OPEB liability	(206,454)
Total OPEB liability, beginning	7,357,448
Total OPEB liability, ending	7,150,995
Covered employee payroll	16,396,953
Total OPEB liability as a % of covered employee payroll	43.61%

Notes to Schedules:

* Schedules are based on the District's financial reporting date, fiscal year ending August 31 in each period reported.
* Changes of benefit terms: There are no changes of benefit terms.
* Changes of assumptions: Changes of assumptions and other inputs reflect the effect of changes

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

Capital Region ESD 113
Schedule of Proportionate Share of the Net Pension Liability
PERS 1
As of June 30
Last 10 Fiscal Years*

PERS 1

		2015	2016	2017	2018
Employer's proportion of the net pension liability (asset)	%	0.094772%	0.094848%	0.097611%	0.101660%
Employer's proportionate share of the net pension liability	$	4,957,456	5,093,799	4,631,718	4,540,166
TOTAL	$				
Covered payroll	$	10,712,778	11,479,391	12,265,906	13,617,635
Employer's proportionate share of the net pension liability as a percentage of covered payroll	%	46.28%	44.37%	37.76%	33.34%
Plan fiduciary net position as a percentage of the total pension liability	%	59.10%	57.03%	61.24%	63.22%

Schedule of Proportionate Share of the Net Pension Liability
SERS 2/3
As of June 30
Last 10 Fiscal Years*

SERS 2/3

		2015	2016	2017	2018
Employer's proportion of the net pension liability (asset)	%	0.613125%	0.615719%	0.598574%	0.622018%
Employer's proportionate share of the net pension liability	$	2,490,214	4,043,840	2,953,812	1,860,221
TOTAL	$				
Covered payroll	$	10,554,201	11,391,617	12,230,142	13,604,786
Employer's proportionate share of the net pension liability as a percentage of covered payroll	%	23.59%	35.50%	24.15%	13.67%
Plan fiduciary net position as a percentage of the total pension liability	%	90.92%	86.52%	90.79%	94.77%

Schedule of Proportionate Share of the Net Pension Liability
TRS 1
As of June 30
Last 10 Fiscal Years*

TRS 1

		2015	2016	2017	2018
Employer's proportion of the net pension liability (asset)	%	0.046211%	0.043081%	0.040736%	0.043080%
Employer's proportionate share of the net pension liability	$	1,464,041	1,470,887	1,231,570	1,258,203
TOTAL	$				
Covered payroll	$	2,282,021	2,217,363	2,288,140	2,547,879
Employer's proportionate share of the net pension liability as a percentage of covered payroll	%	64.16%	66.33%	53.82%	49.38%
Plan fiduciary net position as a percentage of the total pension liability	%	65.70%	62.07%	65.58%	66.52%

Schedule of Proportionate Share of the Net Pension Liability
TRS 2/3
As of June 30
Last 10 Fiscal Years*

TRS 2/3

		2015	2016	2017	2018
Employer's proportion of the net pension liability (asset)	%	0.04876%	0.044401%	0.041732%	0.043827%
Employer's proportionate share of the net pension liability	$	411,465	609,760	385,166	197,271
TOTAL	$				
Covered payroll	$	2,282,021	2,217,363	2,288,140	2,547,879
Employer's proportionate share of the net pension liability as a percentage of covered payroll	%	18.03%	27.50%	16.83%	7.74%
Plan fiduciary net position as a percentage of the total pension liability	%	92.48%	88.72%	93.14%	96.88%

Capital Region ESD 113
Schedule of Employer Contributions
PERS 1
As of August 31
Last 10 Fiscal Years*

PERS 1

		2015	2016	2017	2018
Statutorily or contractually required contributions	$	438,322	560,057	593,051	696,848
Contributions in relation to the statutorily or contractually required contributions	$	438,322	560,057	593,051	696,848
Contribution deficiency (excess)	$	-	-		
Covered payroll	$	10,798,789	11,648,731	12,418,694	13,851,203
Contributions as a percentage of covered payroll	%	4.06%	4.81%	4.78%	5.03%

Schedule of Employer Contributions
SERS 2/3
As of August 31
Last 10 Fiscal Years*

SERS 2/3

		2015	2016	2017	2018
Statutorily or contractually required contributions	$	620,170	787,545	836,546	1,143,662
Contributions in relation to the statutorily or contractually required contributions	$	620,170	787,545	836,546	1,143,662
Contribution deficiency (excess)	$		-		
Covered payroll	$	10,653,066	11,572,336	12,345,393	13,846,394
Contributions as a percentage of covered payroll	%	5.82%	6.81%	6.78%	8.26%

Schedule of Employer Contributions
TRS 1
As of August 31
Last 10 Fiscal Years*

TRS 1

		2015	2016	2017	2018
Statutorily or contractually required contributions	$	103,030	137,856	143,188	183,355
Contributions in relation to the statutorily or contractually required contributions	$	103,030	137,856	143,188	183,355
Contribution deficiency (excess)	$				
Covered payroll	$	2,285,138	2,217,478	2,298,368	2,551,936
Contributions as a percentage of covered payroll	%	4.51%	6.22%	6.23%	7.18%

Schedule of Employer Contributions
TRS 2/3
As of August 31
Last 10 Fiscal Years*

TRS 2/3

		2015	2016	2017	2018
Statutorily or contractually required contributions	$	134,115	152,840	158,587	199,667
Contributions in relation to the statutorily or contractually required contributions	$	134,115	152,840	158,587	204,261
Contribution deficiency (excess)	$				
Covered payroll	$	2,285,138	2,217,478	2,298,368	2,551,936
Contributions as a percentage of covered payroll	%	5.87%	6.89%	6.90%	8.00%

CAPITAL REGION EDUCATIONAL SERVICE DISTRICT 113
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ending August 31, 2018

				Expenditures				
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
State of WA OSPI	Child And Adult Care Food Program CACFP	10.558	WINS #159260		460,744	**460,744**		2
Nisqually River Foundation	NOAA Mission-Related Education Awards	11.008	NA		17,905	**17,905**		6
National Oceanic and Atmospheric Administration (NOAA)	Marine Sanctuary Program	11.429	NA17NOS4290112		32,037	**32,037**		9
Pacific Mountain Workforce Development	WIOA Adult Program	17.258	CCL-ESD1113C-P1718		662	662		9
Pacific Mountain Workforce Development	WIOA Formula Youth	17.259	CCL-ESD1113C-P1718		705	705		9
Pacific Mountain Workforce Development	WIOA Dislocated Worker Program	17.278	CCL-ESD1113C-P1718		1,958	1,958		9
	WIOA Cluster Subtotal				3,325	**3,325**		
State of WA OSPI	Title I Grants To Local Education Agencies Title I Basic, Concentration, Targeted and Education Finance Incentive Grants	84.010	260082 / 260072		98,400	98,400		4
State of WA OSPI	Title I Grants To Local Education Agencies Title I Basic, Concentration, Targeted and Education Finance Incentive Grants	84.010	226036		61,273	61,273		4
State of WA OSPI	Title I Grants To Local Education Agencies Title I Basic, Concentration, Targeted and Education Finance Incentive Grants	84.010	222663		86,743	86,743		4
	Subtotal	**84.010**			246,416	**246,416**		
State of WA OSPI	Special Education Grants To States	84.027	320254		228,277	228,277		9

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

CAPITAL REGION EDUCATIONAL SERVICE DISTRICT 113
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ending August 31, 2018

				Expenditures				
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
State of WA OSPI	Special Education Preschool Grants	84.173	380304		29,387	29,387		9
Special Education Cluster (IDEA) Subtotal					257,664	**257,664**		
ESD 112	Special Education-Grants For Infants And Families	84.181	NA		1,918	**1,918**		4
State of WA OSPI	Javits Gifted And Talented Students Education	84.206	470024		3,609	**3,609**		9
State of WA OSPI	Twenty-First Century Community Learning Centers	84.287	991143		385,626	385,626		9
State of WA OSPI	Twenty-First Century Community Learning Centers	84.287	991406		248,748	248,748		9
State of WA OSPI	Twenty-First Century Community Learning Centers	84.287	991023		273,718	273,718		9
	Subtotal	**84.287**			908,092	**908,092**		
Grays Harbor County Public Health & Health Care Authority	Substance Abuse And Mental Health Services Projects Of Regional And National Significance PRNS	93.243	1765-80169 / TI025995		83,855	83,855		9
Shelton School District	Substance Abuse And Mental Health Services Projects Of Regional And National Significance PRNS	93.243	NA		304,941	304,941		9
ESD 112	Substance Abuse And Mental Health Services Projects Of Regional And National Significance PRNS	93.243	SM061861 / 0590014		14,409	14,409		9
	Subtotal	**93.243**			403,205	**403,205**		
	Head Start	93.600	10-CH010255-02-04 / 10-CH010255-03-03	7,253,817		**7,253,817**		5, 7

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

CAPITAL REGION EDUCATIONAL SERVICE DISTRICT 113
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ending August 31, 2018

				Expenditures				
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
State of WA OSPI	Medical Assistance Program	93.778	560001 / 560003		46,671	46,671		4
Health Care Authority	Medical Assistance Program	93.778	NA		14,609	14,609		6
	Medicaid Cluster Subtotal				14,609	**61,280**		
State of WA OSPI	Opioid STR	93.788	996803 / 996800		41,902	**41,902**		4
Thurston Mason BHO	Block Grants For Community Mental Health Services Mental Health Block Grant MHBG	93.958	2018-359		10,602	**10,602**		3, 7
Great Rivers BHO	Block Grants For Community Mental Health Services Mental Health Block Grant MHBG	93.959	20160054		25,816	25,816		3, 7
Thurston Mason BHO	Block Grants For Community Mental Health Services Mental Health Block Grant MHBG	93.959	2018-359 / 2016-359		109,998	109,998		3, 7
State of WA OSPI	Block Grants For Prevention And Treatment Of Substance Abuse Substance Abuse Block Grant SABG	93.959	998201 / 998189		340,677	340,677		4
ESD 112	Block Grants For Prevention And Treatment Of Substance Abuse Substance Abuse Block Grant SABG	93.959	NA		37,934	37,934		9
	Subtotal	**93.959**			378,611	**514,426**		
				Total Federal Awards Expended		**10,216,942**		

NOTES TO SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS

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

CAPITAL REGION EDUCATIONAL SERVICE DISTRICT 113
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ending August 31, 2018

				Expenditures				
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

Note 1 - Basis of Accounting
The Schedule of Expenditures of Federal Awards is prepared on the generally accepted accounting principles (GAAP) applicable to governmental enterprise units. Expenditures represent only the federally funded portions of the program. District records should be consulted to determine amounts expended or matched from non-federal sources.

Note 2 - Federal Indirect Rate
ESD 113 claimed indirect costs under this grant using its federal restricted/unrestricted rate of 7.25%.

Note 3 - Federal Indirect Rate
ESD 113 claimed indirect costs under this grant using its federal restricted/unrestricted rate of 10%

Note 4 - Federal Indirect Rate
ESD 113 claimed indirect costs under this grant using its federal restricted/unrestricted rate of 7.64% for September 2017 - June 2018. ESD 113 claimed indirect costs under this grant using its federal restricted/unrestricted rate of 7.38% for July 2018 - August 2018.

Note 5 - Federal Indirect Rate
ESD 113 claimed indirect costs under this grant using its federal restricted/unrestricted rate of 10.3%

Note 6 - Federal Indirect Rate
ESD 113 claimed indirect costs under this grant using its federal restricted/unrestricted rate of 0.0%

Note 7 - Program Costs / Matching Contributions
The amounts shown as current year expenses represent only the federal grant portion of the program costs. Entire program costs, including the ESD's local matching share, may be more than shown.

Note 8 - ESD 113 has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

Note 9 - Federal Indirect Rate
ESD 113 claimed indirect costs under this grant using its federal restricted/unrestricted rate of 7.64% for September 2017 - August 2018.

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

Educational Service District 113

WORKERS' COMPENSATION INSURANCE FUND
STATISTICAL INFORMATION
FOR THE FISCAL YEAR ENDED AUGUST 31, 2018

This is a report of statistical information for school districts and educational service districts financing worker's compensation insurance benefits through an enterprise fund.

DISTRICT NAME	NUMBER OF EMPLOYEES COVERED 1/	NUMBER OF NEW CLAIMS FILED IN PERIOD 2/	AMOUNT PAID ON NEW CLAIMS FILED IN PERIOD	AMOUNT ON CLAIMS FILED PRIOR TO PERIOD
Aberdeen School District	693	19	20,186.36	53,429.90
Adna School District	115	1	836.16	35.07
Arlington School District	798	22	24,352.45	-
Boistfort School District	32	1	481.74	-
Centralia School District	684	26	69,609.47	90,180.39
Chehalis School District	581	17	58,406.26	137,529.39
Cosmopolis School District	36	6	9,982.30	46,427.57
Elma School District	264	13	69,695.02	218,376.22
Evaline School District	20	1	235.49	-
Grapeview School District	45	3	2,071.93	-
Griffin School District	136	3	1,145.77	54,061.57
Hood Canal School District	91	3	31,817.61	18,580.22
Hoquiam School District	316	10	43,934.74	43,268.43
M.M.Knight School District	75	3	1,909.95	9,882.62
McCleary School District	86	3	20,654.55	2,659.17
Montesano School District	256	4	3,686.35	26,230.09
Morton School District	77	1	20,886.54	-
Mossyrock School District	105	4	16,771.38	1,968.04
Napavine School District	161	3	6,901.30	19,866.59
No. Beach School District	134	9	4,261.60	47,221.16
No. River School District	28	-	-	3,537.53
No. Thurston School District	2,553	110	327,765.12	255,875.19
Oakville School District	55	2	18,601.65	7,350.67
Ocosta School District	133	5	20,733.54	80,550.57
Olympia School District	1,792	62	142,601.76	325,423.40
Onalaska School District	163	5	8,931.04	6,767.11
Pe Ell School District	78	3	9,684.01	1,648.53
Pioneer School District	146	6	15,959.09	690.25
Quinault School District	50	-	-	42,343.86
Rainier School District	143	3	13,231.99	-
Raymond School District	135	4	17,151.58	44,205.70
Rochester School District	362	7	60,675.77	17,925.08
Satsop School District	12	-	-	-
Shelton School District	791	39	50,442.10	80,923.55
So Bend School District	137	8	25,705.34	10,656.54
Southside School District	35	1	9,503.05	3,175.99
Taholah School District	50	3	3,567.34	21,536.20
Tenino School District	216	8	8,193.52	(300.00)
Toledo School District	148	9	23,183.11	22,383.90
Tumwater School District	1,035	43	234,746.74	203,275.16
Vader(dissolved 8/31/07)	-	-	-	-
White Pass School District	99	2	992.05	7,043.07
Willapa School District	98	3	3,074.23	6,421.70
Winlock School District	156	7	9,698.56	2,524.51
Wishkah School District	52	1	173.51	(3,304.91)
Yelm School District	888	43	126,098.26	96,317.34
ESD 113	575	29	54,230.88	17,314.20
Total	14,635	555	$ 1,592,771.21	$ 2,024,001.57

1/ Average of four quarters. Note: Arlington SD joined 1-1-2018 (average 8 months from Jan-Aug)
2/ Claims with date of injury occuring during 2017-18

Educational Service District 113

My Partner for Learning Solutions

CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED UNDER UNIFORM GUIDANCE

Educational Service District No. 113
September 1, 2017 through August 31, 2018

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

Finding ref number: 2018-001	**Finding caption:** The District did not have effective controls in place to ensure accurate reporting of its financial statements.
Name, address, and telephone of District contact person: Keley Brewster, Director, Internal Business Services 6005 Tyee Drive S.W. Tumwater, WA 98512	
Corrective action the auditee plans to take in response to the finding: *The Educational Service District takes its financial reporting seriously. The Financial Statements, as provided to the State Auditors, contained errors that were not identified in our financial statement preparation or review process. The ESD will improve its diligence in the preparation and establish a collaborative review(s) process for our year-end financial statements.*	
Anticipated date to complete the corrective action: *The corrective actions shall be in place for the August 2019 financial statement review process.*	

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