Office of the Washington State Auditor
Pat McCarthy

Financial Statements and Federal Single Audit Report

Olympic Educational Service District No. 114

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

Published May 23, 2019

Report No. 1023940

Office of the Washington State Auditor
Pat McCarthy

May 23, 2019

Board of Directors
Olympic Educational Service District No. 114
Bremerton, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on Olympic Educational Service District No. 114's financial statements and compliance with federal laws and regulations.

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

Sincerely,

Pat McCarthy

State Auditor

Olympia, WA

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Olympic Educational Service District No. 114
September 1, 2017 through August 31, 2018

SECTION I – SUMMARY OF AUDITOR'S RESULTS

The results of our audit of Olympic Educational Service District No. 114 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 its major federal program.

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

Identification of Major Federal Programs

The following 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

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.

Olympic Educational Service District No. 114
September 1, 2017 through August 31, 2018

2018-001 The District reported its own activity in a fiduciary fund, which does not comply with governmental accounting standards.

Background

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

Our audit identified a material weakness in internal controls over financial reporting that hindered the District's ability to produce accurate financial statements.

Description of Condition

The District operates a compensated absence liability pool that allows members to accumulate dedicated funds for payment of leave related to sick and vacation buyout at retirement and certain other instances. The portion of the pool related to external parties should be reported in a fiduciary fund on the District's financial statements. The District and one school district participate in the pool.

Our audit found the District incorrectly reported its financial activities in the fiduciary fund.

Cause of Condition

The District relied on guidance it received from a consultant for fiscal year 2012 when it started to report financial statements in accordance with generally accepted accounting principles (GAAP). The provided guidance focused on the overall reporting of pools and did not include how the District should report its own activity in the pool. The District did not have a process in place to evaluate the appropriate presentation of this activity.

Effect of Condition

The compensated absences fiduciary fund incorrectly included $326,686 in District cash and liabilities. These amounts should be included in the District's operating fund to give users a more accurate picture of the District's financial position.

Recommendation

We recommend the District establish a more formalized process for technical review of its financial statements to ensure accurate reporting of the District's financial statements in accordance with generally accepted accounting principles.

District's Response

While we agree with the auditor's finding, we do take exception to the fact that this same area has been audited every year with no requested change in practice. In light of the information provided by the Auditor's office during the audit, the District will not report its own funds in the Compensated Absences Fund. The District's Compensated Absences assets and liabilities for this fund will be included in the Operations Fund on the Statement of Net Position.

The District has been recording our funds in the Compensated Absences Fund since fiscal year 2009-2010 based on OSPI guidance. In January of 2012, the nine ESDs went together and hired Karlyn Shannon to put together changes to the ESDS financial statements and notes in January 2012. She was hired because the State Auditor's office (SAO) did not like the inconsistencies they saw between ESD's notes and some financial statements (we did not all use the same notes and supplementary schedules, etc.). SAO also believed it would make their audits easier and more consistent if the information about year end financial reporting was included in the ESD accounting manual. OSPI was to incorporate these statements, notes, etc. in to a new ESD accounting manual with the assistance of the SAO to be published in the next few months. Her report included the following statement regarding the Compensated Absences Fund.

"Undivided Interests in Joint Operations

It is also possible to have what looks like a joint venture (an interlocal agreement that meets the 5 requirements listed above). However the financial relationship is not necessarily evenly spread but tied to the specific participants. For example the GAAFR states:

> *"In some joint operations, individual participating governments retain their claim to specific assets and continue to be responsible for specific liabilities. When an individual participating government can be thus associated with a specific asset or liability of a joint operation, that government has an undivided interest in that asset or liability."*

Reporting for a joint operation with undivided interest is similar to a joint venture as follows:

- *Operations of the agreement are reported in an agency fund by the administering agency.*
- *An asset or liability is reported on a single line in all participating member's financial statements (including the administering agency if they are a member).*
- *A joint operation note disclosure is reported in the notes to the financial statements of all participating members. "*

OSPI Guidance:

011-2012 New financial documents based on Karlyn Shannon and OSPI.

In 2013-2014 OSPI classified the Compensated Absences Fund as an Enterprise fund instead of an Agency fund. As such it was reported on the Statement of Net Position and Statement of Revenues, Expenses and Changes in Fund net Position.

2014-2015 OSPI moved the Compensated Absences Fund back to an Agency Fund with no mention of change in reporting the District's funds.

2015-2016 OSPI added the following to Statement of Fiduciary Net Position – Agency Funds:.

Note: In the statement of net position, Agency fund assets should equal liabilities. Agency funds should not be reported in the statement of changes in fiduciary net position. (GASBS 34, ¶ 110) (which is a separate fiduciary statement.

2016-2017 OSPI made changes to our Chart of Accounts, added and remove lines on Net Position and changed the Revenue/Expense statements.

2017-2018 OSPI specified Note 11 as Compensated Absences Fund. No other changes made regarding this fund.

The District followed OSPI guidance which is formulated based on working with SAO and was unaware of the change by the State Auditor's Office in 2014-2015 until this audit. While researching the history in order to respond to the audit, it was found some ESD do report their own funds, while others do not.

ESD 114 takes its financial reporting very seriously and sets high standards for itself as proven by our audit history. Prior to the auditor finding last year that applied to all nine ESD, we have never had a finding until now. Complying with GAAP can be challenging. The District will continue to rely on guidance from

OSPI and the State Auditor's Office. We appreciate the Auditor's assistants in clarifying the reporting requirements.

The District appreciates the opportunity to respond to the State Auditor's Office finding.

Auditor's Remarks

The District was very helpful during our audit, and we appreciate the steps the District has taken to resolve this issue and we appreciate its commitment to strengthen its policies and procedures. We will review the condition during our next audit.

Applicable Laws and Regulations

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

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

Governmental Accounting Standards Board Statement No. 34 *Basic Financial Statements – and Managements Discussion and Analysis – for State and Local Governments*, paragraph 69 – Fiduciary funds should be used to report assets held in a trustee or agency capacity for others and therefore cannot be used to support the government's own programs.

OESD 114
Serving the Kitsap & Olympic Peninsulas

Olympic Educational Service District 114

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Olympic Educational Service District No. 114
September 1, 2017 through August 31, 2018

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

<table>
<tr><td>Audit Period:
9/1/2016-8/31/2017</td><td>Report Ref. No.:
1021437</td><td colspan="2">Finding Ref. No.:
2017-001</td></tr>
<tr><td colspan="4">Finding Caption:
The District did not report liabilities related to its other post-employment benefits in accordance with government accounting standards.</td></tr>
<tr><td colspan="4">Background:
The District did not report liabilities related to its post-employment benefits, other than pension, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. Our audit has identified a significant deficiency in internal controls over financial reporting that hindered the District’s ability to produce reliable financial statements. We recommended the District:
Perform necessary research and obtain needed actuarial studies to correctly report other post-employment benefit liabilities on its financial statements
Establish a more formalized process for technical review of the financial statements to ensure accurate preparation and reporting of the District’s financial statements in accordance with generally accepted accounting principles and reporting requirements</td></tr>
<tr><td colspan="4">Status of Corrective Action: (check one)</td></tr>
<tr><td>☒ Fully Corrected</td><td>☐ Partially Corrected</td><td>☐ Not Corrected</td><td>☐ Finding is considered no longer valid</td></tr>
<tr><td colspan="4">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.</td></tr>
</table>

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*

Olympic Educational Service District No. 114
September 1, 2017 through August 31, 2018

Board of Directors
Olympic Educational Service District No. 114
Bremerton, 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 Olympic Educational Service District No. 114, as of and for the year ended August 31, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated May 16, 2019. As discussed in Note 14 to the financial statements, during the year ended August 31, 2018, the District implemented Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

May 16, 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

Olympic Educational Service District No. 114
September 1, 2017 through August 31, 2018

Board of Directors
Olympic Educational Service District No. 114
Bremerton, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of Olympic Educational Service District No. 114, 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

May 16, 2019

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Olympic Educational Service District No. 114
September 1, 2017 through August 31, 2018

Board of Directors
Olympic Educational Service District No. 114
Bremerton, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of each major fund and the aggregate remaining fund information of Olympic Educational Service District No. 114, 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 22.

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 Olympic Educational Service District No. 114, 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 Note 14 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 the supplementary information listed on page 22 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Supplementary and Other Information

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated May 16, 2019 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Pat McCarthy

State Auditor

Olympia, WA

May 16, 2019

FINANCIAL SECTION

Olympic Educational Service District No. 114
September 1, 2017 through August 31, 2018

BASIC FINANCIAL STATEMENTS

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

REQUIRED SUPPLEMENTARY INFORMATION

Ten Year Claims Development Information – Worker's Compensation Pool – 2018
Reconciliation of Claims Liabilities by Type of Contract – Worker's Compensation Pool – 2018
Schedule of the District's Proportionate Share of the Net Pension Liability – (PERS 1, SERS 2/3, TRS 1, TRS 2/3) – 2018
Schedule of District Contributions – (PERS 1, SERS 2/3, TRS 1, TRS 2/3) – 2018
Schedules of Changes in Total OPEB Liability and Related Ratios – 2018

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards and Notes – 2018

Educational Service District #114
STATEMENT OF NET POSITION - ALL FUNDS
31-Aug-18

	NOTE REF	OPERATING	WORKERS COMPENSATION FUND	UNEMPLOYMENT FUND	TOTAL ALL FUNDS
ASSETS					
CURRENT ASSETS					
Cash and Cash Equivalents	Note 1	$ 64,423	$ 55,871	$ 6,443	$ 126,737
Net Assets for Pool Participants					$ -
Investments	Notes 1, 2	$ 4,908,516	$ 11,896,344	$ 4,247,924	$ 21,052,784
Accounts Receivable (net of uncollectible allowance)	Note 1	$ 1,279,690	$ 194,170	$ 11,659	$ 1,485,519
Other Receivables	Note 8				$ -
Member Assessments/Contributions					$ -
Accrued Deductibles/Co-pays					$ -
Excess/Reinsurance Recoverable	Note 8		$ 4,105		$ 4,105
Due from Other Governments	Note 1				$ -
Inventory	Note 1				$ -
Prepaids	Note 1	$ 39,295	$ 6,442		$ 45,737
Restricted Assets	Note 1				$ -
Other Assets	Note 1				$ -
TOTAL CURRENT ASSETS		$ 6,291,924	$ 12,156,932	$ 4,266,026	$ 22,714,882
NONCURRENT ASSETS					
Investments_	Note 2				$ -
Capital Assets	Note 3				
Land and Land Improvements		$ 357,962			$ 357,962
Construction in Progress					$ -
Building		$ 5,556,753			$ 5,556,753
Equipment		$ 447,887			$ 447,887
Less: Accumulated Depreciation		$ (2,246,478)			$ (2,246,478)
Net Capital Assets		$ 4,116,124	$ -	$ -	$ 4,116,124
Net Cash/Investments Held for Compensated Absences		$ 326,686			$ 326,686
Net Cash/Investments Held for Unemployment					$ -
Investment in Joint Venture	Note 12	$ (101,691)			$ (101,691)
Contracts Receivable	Note 1				$ -
Other Assets_					$ -
TOTAL NONCURRENT ASSETS		$ 4,341,119	$ -	$ -	$ 4,341,119
TOTAL ASSETS		$ 10,633,043	$ 12,156,932	$ 4,266,026	$ 27,056,001
DEFERRED OUTFLOWS OF RESOURCES					
Deferred OutFlows – Refunded Bonds					$ -
Deferred OutFlows – Pension Plans		$ 515,531			$ 515,531
Deferred OutFlows – OPEB Plans		$ -			$ -
TOTAL DEFERRED OUTFLOWS OF RESOURCES	Note 1	$ 515,531	$ -	$ -	$ 515,531
LIABILITIES					
CURRENT LIABILITIES					
Accounts Payable	Note 1	$ 454,999	$ 84,967	$ 760	$ 540,726
Amount Due to Pool Participants					$ -
Notes Payable	Note 5				$ -
Accrued Interest Payable	Note 5				$ -
Accrued Salaries	Note 1	$ 42,623			$ 42,623
Payroll Deductions & Taxes Payable	Note 1	$ 13,195			$ 13,195
Public Employees' Retirement System					$ -
Deferred Compensation					$ -
Compensated Absences	Note 1	$ 129,958			$ 129,958
Bonds Payable	Note 5	$ 289,904			$ 289,904
Capital Leases Payable	Note 5				$ -

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

Educational Service District #114

STATEMENT OF NET POSITION - ALL FUNDS

31-Aug-18

	NOTE REF	OPERATING	WORKERS COMPENSATION FUND	UNEMPLOYMENT FUND	TOTAL ALL FUNDS
Claim Reserves	Note 8				
IBNR			$ 644,677		$ 644,677
Open Claims			$ 307,885	$ 47,203	$ 355,088
Unallocated Loss Adjustment Expenses			$ 201,000		$ 201,000
Future L&I Assessments			$ 631,575		$ 631,575
Deposits	Note 1				$ -
Unearned Revenue	Note 1	$ 135,376			$ 135,376
Unearned Member Assessments/Contributions	Note 8				$ -
Other Liabilities and Credits	Note 1				$ -
TOTAL CURRENT LIABILITIES		$ 1,066,055	$ 1,870,104	$ 47,963	$ 2,984,122
NONCURRENT LIABILITIES					
Compensated Absences_	Note 1	$ 342,192			$ 342,192
Unemployment					$ -
Notes Payable_	Note 5				$ -
Claim Reserves_	Note 8				
IBNR_			$ 1,412,053		$ 1,412,053
Open Claims_			$ 490,977	$ 1,778	$ 492,755
Unallocated Loss Adjustment Expenses_					$ -
Future L&I Assessments_					$ -
Net Pension Liability	Note 6	$ 4,204,205			$ 4,204,205
Net OPEB Liability	Note 7	$ 3,629,975			$ 3,629,975
Bonds Payable_	Note 5	$ 1,548,096			$ 1,548,096
Capital Leases Payable_	Note 5				$ -
Other Liabilities and Credits	Note X				$ -
TOTAL NONCURRENT LIABILITIES		$ 9,724,468	$ 1,903,030	$ 1,778	$ 11,629,276
TOTAL LIABILITIES		$ 10,790,523	$ 3,773,134	$ 49,741	$ 14,613,398
DEFERRED INFLOWS OF RESOURCES	Note 1				
Deferred InFlows – Refunded Bonds					$ -
Deferred InFlows – Pension Plans	Note 6	$ 999,403			$ 999,403
Deferred InFlows – OPEB Plans	Note 7	$ 283,364			$ 283,364
TOTAL DEFERRED INFLOWS OF RESOURCES		$ 1,282,767	$ -	$ -	$ 1,282,767
NET POSITION					
Net Investment in Capital Assets		$ 2,278,124	$ -	$ -	$ 2,278,124
Restricted for Debt Service	Note 10	$ 289,904			$ 289,904
Restricted for Self-Insurance	Note 10	$ -			$ -
Restricted for Support Programs	Note 10	$ 1,996,708			$ 1,996,708
Restricted for Risk Pool Net Position			$ 8,383,798	$ 4,216,285	$ 12,600,083
Restricted for Other Items		$ 965,674			$ 965,674
Restricted for Joint Venture	Note 12	$ (101,691)	$ -	$ -	$ (101,691)
Unrestricted		$ (6,353,435)			$ (6,353,435)
TOTAL NET POSITION		$ (924,716)	$ 8,383,798	$ 4,216,285	$ 11,675,367

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

Educational Service District #114
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED AUGUST 31, 2018

	OPERATING	WORKERS COMPENSATION FUND	UNEMPLOYMENT FUND	TOTAL ALL FUNDS
OPERATING REVENUES				
Local Sources	$ 1,328,318			$ 1,328,318
State Sources	$ 3,221,418			$ 3,221,418
Allotment	$ 582,498			$ 582,498
Federal Sources	$ 6,796,658			$ 6,796,658
Cooperative Programs	$ 5,419,719			$ 5,419,719
Other Programs	$ 1,307,626			$ 1,307,626
Member Assessments/Contributions		$ 3,021,698	$ 233,422	$ 3,255,120
Supplemental Member Assessments				$ -
Other Operating Revenue	$ 15,000			$ 15,000
TOTAL OPERATING REVENUE	$ 18,671,237	$ 3,021,698	$ 233,422	$ 21,926,357
OPERATING EXPENSES				
General Operations and Administration	$ 1,420,208	$ 796,859	$ 42,088	$ 2,259,155
Instructional Support Programs	$ 11,895,493			$ 11,895,493
Non Instructional Support Programs	$ 4,128,957			$ 4,128,957
Incurred Loss/Loss Adjustment Expenses				
Paid on Current Losses		$ 1,844,386	$ 195,480	$ 2,039,866
Change in Loss Reserves		$ (10,119)	$ 6,281	$ (3,838)
Unallocated Loss Adjustment Expenses				
Paid Unallocated Loss Adjustment Expenses				$ -
Change in Unallocated Loss Reserves		$ (57,230)		$ (57,230)
Excess/Reinsurance Premiums		$ 123,356		$ 123,356
Professional Fees		$ 36,425	$ 21,973	$ 58,398
Labor & Industries Assessments		$ 1,411,223		$ 1,411,223
Depreciation/Depletion	$ 105,639			$ 105,639
Other Operating Expenses			$ 401,338	$ 401,338
Pension Expense from change in Net Pension Liability				$ -
OPEB Expense from change in Net OPEB Liability				$ -
TOTAL OPERATING EXPENSES	$ 17,550,297	$ 4,144,900	$ 667,160	$ 22,362,357
OPERATING INCOME (LOSS)	$ 1,120,940	$ (1,123,202)	$ (433,738)	$ (436,000)
NONOPERATING REVENUES (EXPENSES)				
Interest and Investment Income	$ 70,611	$ 192,182	$ 68,654	$ 331,447
Interest Expense and Related Charges	$ (54,545)			$ (54,545)
Lease Income				$ -
Gains (Losses) on Capital Asset Disposition	$ (79,320)			$ (79,320)
Change in Joint Venture	$ (297,797)			$ (297,797)
Change in Compensated Absences	$ 158,521			$ 158,521
Other Nonoperating Revenues	$ 5,507			$ 5,507
Other Nonoperating Expenses				$ -
TOTAL NONOPERATING REVENUES (EXPENSES)	$ (197,023)	$ 192,182	$ 68,654	$ 63,813
INCOME (LOSS) BEFORE OTHER ITEMS	$ 923,917	$ (931,020)	$ (365,084)	$ (372,187)
Extraordinary Items				$ -
Special Items				$ -
INCREASE (DECREASE) IN NET POSITION	$ 923,917	$ (931,020)	$ (365,084)	$ (372,187)
NET POSITION - BEGINNING BALANCE	$ 1,754,885	$ 9,314,818	$ 4,581,369	$ 15,651,072
Cumulative Effect of Change in Accounting Principle	$ (3,603,518)			$ (3,603,518)
PRIOR PERIOD ADJUSTMENT				$ -
NET POSITION - ENDING BALANCE	$ (924,716)	$ 8,383,798	$ 4,216,285	$ 11,675,367

Educational Service District #114
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED AUGUST 31, 2018

	OPERATING	WORKERS COMPENSATION FUND	UNEMPLOYMENT FUND	TOTAL ALL FUNDS
CASH FLOW FROM OPERATING ACTIVITIES				
Cash Received from Customers	$ 2,591,362			$ 2,591,362
Cash Received from State and Federal Sources	$ 11,337,376			$ 11,337,376
Cash Received from Members	$ 5,486,633	$ 2,952,796	$ 232,972	$ 8,672,401
Payments to Suppliers for Goods and Services	$ (5,150,722)	$ (845,226)	$ (49,429)	$ (6,045,377)
Payments to Employees for Services	$ (12,558,286)			$ (12,558,286)
Cash Paid for Benefits/Claims		$ (1,840,981)	$ (195,480)	$ (2,036,461)
Internal Activity - Payments to Other Funds				$ -
Cash Paid for Reinsurance		$ (123,367)		$ (123,367)
Cash Paid for Labor and Industries Assessments		$ (1,411,223)		$ (1,411,223)
Cash Paid for Professional Services				$ -
Cash Paid for Other Operating Expense			$ (423,311)	$ (423,311)
Other Receipts (Payments)				$ -
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	$ 1,706,363	$ (1,268,001)	$ (435,248)	$ 3,114
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchase of Capital Assets				$ -
Proceeds from Capital Debt				$ -
Principal and Interest Paid on Capital Debt	$ (288,545)			$ (288,545)
Capital Contributions				$ -
Lease Income				
Other Receipts (Payments)				$ -
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	$ (288,545)	$ -	$ -	$ (288,545)
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from Sales and Maturities of Investments				$ -
Lease Income				$ -
Purchase of Investments				$ -
Interest and Dividends Received	$ 70,611	$ 192,182	$ 68,654	$ 331,447
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	$ 70,611	$ 192,182	$ 68,654	$ 331,447
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	$ 1,488,429	$ (1,075,819)	$ (366,594)	$ 46,016
CASH AND CASH EQUIVALENTS - BEGINNING	$ 3,484,510	$ 13,028,034	$ 4,620,961	$ 21,133,505
PRIOR PERIOD ADJUSTMENT				$ -
CASH AND CASH EQUIVALENTS - ENDING	$ 4,972,939	$ 11,952,215	$ 4,254,367	$ 21,179,521
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
OPERATING NET INCOME	$ 1,120,940	$ (1,123,202)	$ (433,738)	$ (436,000)
Adjustment to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities				
Depreciation Expense	$ 105,639			$ 105,639
Change in Assets and Liabilities				$ -
Receivables, Net	$ 662,417	$ (68,902)	$ (449)	$ 593,066
Prepaids	$ 13,805	$ (11)		$ 13,794
Inventories				$ -
Accounts and Other Payables	$ 66,530	$ (8,537)	$ (7,342)	$ 50,651
Accrued Expenses				$ -
Unearned Revenue	$ 81,718			$ 81,718
Pension Expense from change in Net Pension Liability				$ -
Change in Deferred Outflows	$ (652,871)			$ (652,871)
Change in Deferred Inflows	$ 999,403			$ 999,403
Change in Net Pension Liability	$ (1,001,039)			$ (1,001,039)

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

Pension Expense from change in Net OPEB Liability-				$ -
Change in Deferred Outflows	$ 283,364			$ 283,364
Change in Deferred Inflows	$ 26,457			$ 26,457
Change in Net OPEB Liability				$ -
Other Changes for Insurance Funds				$ -
Claims Reserve-Current		$ 1,321	$ 6,006	$ 7,327
Claims Reserve-Prior Year		$ (78,587)	$ 275	$ (78,312)
IBNR-Current		$ 46,586		$ 46,586
IBNR-Prior Year		$ 20,561		$ 20,561
Future L&I Assessments		$ (59,230)		$ (59,230)
Provision for Unallocated Loss Adjustment		$ 2,000		$ 2,000
Unearned Member Assessments				$ -
Insurance Recoverables				$ -
Claim Reserves				$ -
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	$ 1,706,363	$ (1,268,001)	$ (435,248)	$ 3,114

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

Educational Service District #114
STATEMENT OF FIDUCIARY NET POSITION - AGENCY FUNDS
31-Aug-18

		COMPENSATED ABSENCES
ASSETS		
Cash and Cash Equivalents	$	13,641.00
Investments	$	265,845.00
Accounts Receivable		
Assets Used in Operations		
TOTAL ASSETS	$	279,486.00
LIABILITIES		
Accounts Payable	$	134,094.00
Program Refunds Payable to JV Participants		
Deposits (from school districts)	$	145,392.00
TOTAL LIABILITIES	$	279,486.00

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

OLYMPIC EDUCATIONAL SERVICE DISTRICT 114

NOTES TO THE FINANCIAL STATEMENTS

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Educational Service District No.114 ("the District") were developed under authority of the Office of Superintendent of Public Instruction. Except where noted as exceptions, the rules of generally accepted accounting principles (GAAP) are the basis for accounting and financial reporting in the District. The following summary of the more significant accounting policies is presented to assist the reader in interpreting the financial statements and other data in this report. These policies should be viewed as an integral part of the accompanying financial statements.

Reporting Entity

Educational Service District No. 114 is one of nine municipal corporations of the State of Washington organized pursuant to Title 28A *Revised Code of Washington* (RCW) for the purpose of (1) providing cooperative and informational services to local school districts; (2) assisting the state superintendent of public instruction and the state board of education in the performance of their respective statutory or constitutional duties; and (3) providing services to school districts to assure equal educational opportunities.

As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. Based on the standards set by Governmental Accounting Standards Board (GASB) Statement 14, there were no component units of ESD 114. The District is a separate legal entity and is fiscally independent from all other units of government.

The District serves 15 school districts in Clallam, Jefferson, and parts of Kitsap and Mason counties. Oversight responsibility for the District's operations is vested with the Board of Directors who are elected by the school directors of the educational service district, one from each of seven educational service district board-member districts. Management of the District is appointed by and accountable to the Board of Directors. Fiscal responsibility, including budget authority, the power to operate cooperatives, set fees for services and issue debt consistent with the provisions of state statutes, rests with the Board. For financial reporting purposes, the District's financial statements include all fund entities that are controlled by the District's Board of Directors and managed by the administrative staff, unless noted hereafter.

Basis of Accounting and Reporting

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

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

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

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

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

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

In addition, the District reports the following fund types:

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

Assets, Liabilities, and Equity

<u>Cash and Cash Equivalents, Deposits and Investments – See Note 2</u>

The Kitsap County Treasurer is the ex-officio treasurer for the District. In this capacity, the county treasurer receives daily deposits and transacts investments on behalf of the District. On August 31, 2018 the treasurer was holding $ 126,737 in short-term residual investments of surplus cash, reported at fair value. This amount is classified on the statement of net position as cash and cash equivalents.

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

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

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

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

<u>Capital Assets and Depreciation – See Note 3</u>

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

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

The balance reported in the statement of net position as of August 31, 2018, represents the balance of the liabilities that are not fully funded by the Compensated Absences Liability Pool.

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

Long Term Debt – See Note 5

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

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

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

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

- Revenue from those who purchase, use, or directly benefit from the goods or services of the program;
- Revenue from other governments, entities, and individuals, if such revenue is restricted to a specific program or programs; and
- Earnings on permanent fund investments if restricted to a program specifically identified in the agreement.
- Current year pension liability expense from changes in net pension liability (see Note 6) or changes in OPEB liability (see Note 7).

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

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

Note 2: CASH, CASH EQUIVALENTS, AND INVESTMENTS

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

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

As of August 31, 2018, the District had the following investments:

Investment	Maturity	Fair Value
Local Government Investment Pool		
County Investment Pool	21,821,555	21,807,602
Certificate of Deposit		
Money Market Account		
Total Investments	21,821,555	21,807,602

The district's participation in the Kitsap County Investment Pool is voluntary and the pool is not rated by a nationally recognized statistical rating organization (NRSRO). The fair value of the district's investment in the pool is measured using a net asset value (NAV) as determined by the pool. The pool maintains a (duration/weighted average maturity) of 357/1.1300

Note 3: CAPITAL ASSETS

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

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

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

Capital assets activity for the fiscal year ended August 31, 2018, was as follows:

	Beginning Balance 9/1/2017	Increases	Decreases	Ending Balance 8/31/2018
Capital assets not being depreciated:				
Land	$ 357,962	$	$	$ 357,962
Construction in Progress				
Total capital assets not being depreciated	**$ 357,962**			**$ 357,962**
Depreciable capital assets:				
Buildings	$ 5,720,046		$ 163,293	$ 5,556,753

Improvements other than buildings				
Equipment	$ 447,887			$ 447,887
Other				
Total depreciable capital assets	**$ 6,167,933**		**$ 163,293**	**$ 6,004,640**
Less accumulated depreciation for:				
Buildings	$ 1,787,541	$ 100,331	$ 83,973	$ 1,803,899
Improvements other than buildings				
Equipment	$ 437,271	$ 5,308		$ 442,579
Other				
Total accumulated depreciation	**$ 2,224,812**	**$ 21,666**		**$ 2,246,478**
Total depreciable assets, net	**$ 3,943,121**		**$ 21,666**	**$ 3,758,162**
Total assets, net	**$ 4,301,083**	**$**	**$ 184,959**	**$ 4,116,124**

Note 4: SHORT-TERM DEBT

There was no Short-term debt for the fiscal year ended August 31, 2018.

Note 5: LONG-TERM DEBT, LIABILITIES AND LEASES

Long-Term Debt

The following is a summary of long-term debt instruments of the District for the fiscal year ended August 31, 2018:

Purpose	Maturity Range	Interest Rate	Original Amount	Amount of Installments
Purchase of land and building addition	10 years	2.79	2,543,000	From
				12,171.21 to
				291,003.65

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

Fiscal Year Ending August 31	Principal	Interest
2019	$ 242,000	$ 47,904
2020	$ 249,000	$ 41,055
2021	$ 251,000	$ 34,080
2022	$ 262,000	$ 26,910
2023 – 2024	$ 833,000	$ 35,335

Operating Lease(s)

The District is committed under various leases for space and equipment. All leases are considered operating leases for accounting purposes because the District does not acquire interests in the property.

Capital Lease(s)

The District has no capital lease agreement for financing.

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	$ 2,072,000		$ 234,000	$ 1,838,000	$ 242,000
Capital Leases	$0			$0	
Compensated Absences (unfunded portion)	$ 303,985		$ 158,521	$ 145,464	
Net Pension Liability TRS 1	$1,117,613		$ 75,415	$ 1,042,198	
Net Pension Liability TRS 2/3	$ 334,044		$ 183,745	$ 150,299	
Net Pension Liability SERS 2/3	$1,447,732		$ 587,005	$ 860,727	
Net Pension Liability PERS 1	$2,305,855		$ 154,874	$ 2,150,981	
OPEB Liability	$3,603,518		$26,457	$3,629,975	
Total Long-Term Liabilities	$11,184,747		$ 1,420,017	$ 9,817,644	$ 242,000

Note 6: PENSION PLANS

General Information

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

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

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

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

Membership & 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%	
PERS 2 (for WSIPC only)			
Member Contribution Rate	7.41%	7.38%	
Employer Contribution Rate	12.83%	12.70%	
PERS 3 (for WSIPC only)			
Member Contribution Rate	varies*	varies*	
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%	

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

At June 30, 2018, the ESD reported a total liability of $ 4,204,204 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	PERS 2/3 WSIPC
District's Annual Contributions	$321 933	$503,495	$148,409	$148,451	
Proportionate Share of the Net Pension Liability	$2,150,980	$860,727	$1,042,198	$150,299	

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	PERS 2/3 WSIPC
Current year proportionate share of the Net Pension Liability	0.048163%	0.287809%	0.035684%	0.033391%	
Prior year proportionate share of the Net Pension Liability	0.048595%	0.293375%	0.036967%	0.036193%	
Net difference percentage	-0.000432%	-0.005566%	-0.001283%	-0.002802%	

Actuarial Assumptions

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

The total pension liabilities for TRS 1, TRS 2/3, PERS 1 and SERS 2/3 were determined by actuarial valuation as of June 30, 2017, with the results rolled forward to June 30, 2018, using the following actuarial assumptions, applied to all prior periods included in the measurement:

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

Mortality Rates

Mortality rates used in the plans were based on the RP-2000 Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries. The Office of the State Actuary applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year, throughout their lifetime. The actuarial assumptions used in the June 30, 2017 valuation were based on the results of the *2007–2012 Experience Study Report and the 2017 Economic Experience Study*. Additional assumptions for subsequent events and law changes are current as of the 2017 actuarial valuation report.

Long-term Expected Rate of Return

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

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

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

The long-term expected rate of return of 7.40% percent approximately equals the median of the simulated investment returns over a fifty-year time horizon, increased slightly to remove WSIB's implicit and small short-term downward adjustment due to assumed mean reversion. WSIB's implicit short-term adjustment, while small and appropriate over a ten to fifteen-year period, becomes amplified over a fifty-year measurement period.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plans' target asset allocation as of June 30, 2018, are summarized in the following table:

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

The inflation component used to create the above table is 2.20 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	$	($ 85,479)
Changes in assumptions or other inputs	$	$
Changes in proportion and differences between contributions and proportionate share of contributions	$	$
Contributions subsequent to the measurement date	$ 712	$
TOTAL	$ 712	($ 85,479)

SERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experiences	$ 237,225	$
Net difference between projected and actual earnings on pension plan investments	$	($ 418,489)
Changes in assumptions or other inputs	$ 6,822	($ 176,680
Changes in proportion and differences between contributions and proportionate share of contributions	$	($ 41,970)
Contributions subsequent to the measurement date	$ 145,430	$
TOTAL	$ 389,477	($ 637,139)

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	$	($ 44,569)
Changes in assumptions or other inputs	$	$

TRS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in proportion and differences between contributions and proportionate share of contributions	$	$
Contributions subsequent to the measurement date	$ 2,076	$
TOTAL	$ 2,076	($ 44,569)

TRS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experiences	$ 70,630	($ 11,098)
Net difference between projected and actual earnings on pension plan investments	$	($ 127,113)
Changes in assumptions or other inputs	$ 2,555	($ 60,400)
Changes in proportion and differences between contributions and proportionate share of contributions	$ 269	($ 33,605)
Contributions subsequent to the measurement date	$ 49,812	$
TOTAL	$ 123,266	($ 232,215)

$ 198,029 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	3,740	(18,993)	4,459	(10,750)
2020	(18,686)	(92,126)	(9,226)	(33,971)
2021	(56,072)	(211,026)	(31,693)	(71,101)
2022	(14,460)	(49,876)	(8,109)	(21,438)
2023		(12,781)		(3,548)
Thereafter		(8,292)		(17,953)

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	($150,929)
SERS 2/3	$522,394
TRS 1	($66,439)
TRS 2/3	$200,634
TOTAL	$ 505,665

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.

Participating Plans for TRS, PERS, and SERS			
	1% Decrease **(6.40%)**	Current Discount Rate **(7.40%)**	1% Increase **(8.40%)**
PERS1	$5,488,477,000	$4,466,034,000	$3,580,392,000
%NPL	0.048163%	0.048163%	0.048163%
District's PERS1	$ 2,643,420	$ 2,150,980	$ 1,724,428
SERS2/3	$1,127,549,000	$299,062,000	($383,817,000)
%NPL	0.287809%	0.287809%	0.287809%
District's SERS2/3	$ 3,245,188	$ 860,727	$ (1,104,660)
TRS1	$3,650,431,000	$2,920,592,000	$2,288,760,000
%NPL	0.035684%	0.035684%	0.035684%
District's TRS1	$ 1,302,637	$ 1,042,198	$ 816,732
TRS2/3	$2,805,439,000	$450,114,000	($1,463,229,000)
%NPL	0.033391%	0.033391%	0.033391%
District's TRS2/3	$ 936,771	$ 150,299	$ (488,590)
PERS 2/3	$7,809,738,000	$1,707,411,000	($3,295,816,000)
%NPL	0.000000%	0.000000%	0.000000%
District's PERS2/3	$ -	$ -	$ -

Note 7: POST EMPLOYMENT BENEFIT PLANS OTHER THAN PENSION PLANS

457 Plan – Deferred Compensation Plan

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

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

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

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

Other Post-Employment Benefit Plans

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 eduational 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 requirments of participating employers and of plan members are established by and may be amended by the HCA Board of Directors. Participating employers and active plan members are required to contribute the established benefit rates. All K-12 school districts and ESDs contribute the same rate which is set annually as an amount per pro-rated FTE under RCW 28A.400.410. Employers do not have the ability to contribute additionally to funding against future liabilities or impact funding progress on the actuarially determined liability of the HCA OPEB plan. The District does not participate in PEBB for insurance for its active employees, The District's established contribution to PEBB for retiree OPEB for the fiscal year ending August 31, 2018 under the required formula was $94,530.

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:

- 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	25
Active employees who may qualify for benefits upon retirement	172

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 $3,603,518 and $3,629,975 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 disabilty 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% disabilty rate for all ages.
- Mortality assumptions for SERS were used (Society of Actuaries 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 anticpated 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 curent 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	$ 3,603,518
Changes for the year:	
Service cost	256,748
Interest on Total OPEB Liability	134,649
Effect of plan changes	-
Effect of economic/demographic gains or losses	-
Effect of assumptions changes or inputs	(316,313)
Expected benefit payments	(48,627)
Balance as of August 31, 2018	**$ 3,629,975**

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	$4,384,703	$3,692,975	$3,040,086

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	$2,961,810	$3,629,975	$4,514,443

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

For the year ended August 31, 2018, the District recognized OPEB expense of $358,448 as follows:

For the year ending	August 31, 2018
Service cost	$ 256,748
Interest on Total OPEB Liabilitly	$134,649
Effect of plan changes	-
Recognition of Deferred Inflows/Outflows of Resources	
Recognition of economic/demographic gains/losses	-
Recognition of assumption changes or inputs	(32,949)
OPEB Expense	**$358,448**

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	(283,364)	-
Contributions made subsequent to the Measurement Date	NA	-
Total	$ (283,364)	$ -

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

Measurement Period Ending August 31,	
2019	$ (32,949)
2020	$ (32,949)
2021	$ (32,949)
2022	$ (32,949)
2023	$ (32,949)
Thereafter	$ (118,619)

Note 8: SHARED RISK POOL DISCLOSURES

Workers' Compensation Insurance Trust

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

The Trust provides industrial injury accident insurance coverage for its membership. The Trust is fully funded by its member participants. Member contributions are calculated based on the members' hours worked. The Trust retains responsibility for the payment of claims within specified self-insured retention limits prior to the application of coverage provided by its excess insurance contracts. The Trust acquires insurance from unrelated underwriters. The Trust's per-occurrence retention limit is $ 450,000 and the annual aggregate retention is $ 7,269,255. Since the Trust is a cooperative program, there is a joint liability among participating members.

For fiscal year 2018, there are 15 members in the pool including 14 participating school districts. A Board comprised of one designated representative from each participating member governs the Trust. The Board of Trustees has five members elected by the District Superintendent. The District is responsible for conducting the business affairs of the Trust. At August 31, 2018, the amount of liabilities totaled $3,773,134. This liability is the Districts best estimate based on available information. Changes in the reported liability since August 31, 2018, 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	$ 1,989,583	$ 67,147	$ 2,056,730
Future L&I Assessments	$ 690,805	$ -59,230	$ 631,575
Estimated Unallocated Loss Adjustment	$ 199,000	$ 2,000	$ 201,000
Claims Reserves	$ 876,128	$ -77,266	$ 798,862

Unemployment Compensation Insurance Fund

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

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

For fiscal year 2018 there are 16 members in the pool including 15 participating school districts. The pool is governed by a Cooperative Board, which is comprised of one designated representative from each participating member.   Three members elected by the Cooperative Board and the District Superintendents compromise the Advisory Committee. At August 31, 2018, the amount of liabilities totaled $ 49,741. This liability is the Districts best estimate based on available information. Changes in the reported liability since August 31, 2018 resulted in the following:

	Beginning Balance 9/1/2017	Current Year Claims and Changes in Estimates	Ending Balance 8/31/2018
Claims Reserves	$ 42,700	$ 6,281	$ 48,981

Note 9: RISK MANAGEMENT

{For a member of a Risk Pool or Cooperative}

The District is a member of the Washington Risk Management Pool. Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The *Pool* was formed in 1986 when educational service districts and school districts in the state of Washington joined together by signing the Cooperative Risk Management Pool Account Agreement to pool their self-insured losses and jointly purchase insurance and administrative service. Over 90 school and educational service districts have joined the pool.
The Pool allows members to jointly purchase insurance coverage, establish a plan of self-insurance , and provide related services, such as risk management. The Pool provides the following coverages for its members: property, liability, vehicle, public official liability, crime, employment practices, machinery breakdown, and network security.

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

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

The Pool is fully funded by its member participants.

The Pool is governed by a board of directors which is comprised of one designated representative from each participating member. An executive board is elected at the annual meeting, and is responsible for overseeing the business affairs of the Pool.

Note 10: NET POSITION, RESTRICTED

The District's statement of net position reports $ 2,962,382 of restricted assets for Support Programs. The following lists the programs restricted by the Board of Directors:

Support Program	Amount
Instructional	$ 1,996,708
Non-Instructional	$ 965,674
Total Restricted for Support Programs	$ 2,962,382

Note 11: JOINT VENTURE WITH UNDIVIDED INTEREST

Compensated Absences Liability Fund

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

For fiscal year 2018, there are 2 members in the Fund including the District. The Fund allows members to accumulate dedicated funds for payment of leave related to sick leave and vacation leave buy out at retirement and certain other instances. Payroll contributions are made to the Fund at the time leave is earned to reserve assets for expenditures. Coverage is on an “occurrence” basis. Expenditures of leave taken during employment continue to be recorded when paid.

The District contributes to the Compensated Absences Liability Pool for liabilities relating to sick leave and vacation leave cash outs. As of August 31, 2018 the District’s total compensated absences balance in the fund was $ 326,686. The District only reports the balance of the liabilities that are not fully funded in the statement of net position

Changes for the fiscal year are summarized below.

		Balance at 8/31/2018
Beginning Liability		$ 519,611
Beginning Pool Balance	$ 215,626	
Payments to Pool	$ 162,711	
Interest	$ 4,718	
Less Withdrawals from Pool	$ 56,369	
Less Ending Pool Balance		$ 326,686
Increase (Decrease) to Estimates of Liability		(47,461)
Ending Unfunded Liability		$ 145,464

Note 12: INVESTMENT IN JOINT VENTURE

Washington State Information Processing Cooperative

The District is a member of the Washington Information Processing Cooperative (WSIPC). The WSIPC Board of Directors consists of a member of each 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 WSIPC 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 expense 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.

WSIPC adopted 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 and 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.

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 – Other	$ 385,611
Net Pension Liability	$ 3,792,197
Total OPEB Liability	$ 3,113,905
Deferred Inflows of Resources - Pension	$ 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)**

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

Note 13: CONTINGENT LIABILITIES AND LITIGATIONS

The District has no current contingent liabilities or litigations.

Note 14: OTHER DISCLOSURES

Accounting and Reporting Changes

The District made changes to the accompanying financial statements to conform to the Accounting Manual for Educational Service Districts, prescribed by the Office of Superintendent of Public Instruction (OSPI).

The district adopted GASB 75 for the year ended August 31, 2018 to recognize the unfunded OPEB (Postemployment Benefit Plans Other than Pensions) liability on ESD #114 financial statements. The district's Total OPEB Liability and the related component measures were determined through and actuarial; valuation consistent with the actuarial valuation method used by the nine ESDs. The district's Net Position includes a cumulative change in accounting principle associated with the adoption of GASB 75.

REQUIRED SUPPLEMENTAL INFORMATION (RSI)

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

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

Part 1 – Ten-Year Claims Development Information

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

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

Fiscal and Policy Year Ended
(In Thousands)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
1. Required contribution and investment revenue:										
Earned	$3705	$3,597	$3,639	$3,406	$3,325	$3,335	$3,126	$2775	$2876	$3214
Ceded	111	140	107	103	99	117	118	115	125	123
Net earned	3,594	3,457	3,532	3,303	3,226	3,218	3,008	2,660	2,751	3091
2. Unallocated expenses										
	1,072	1,387	1,440	1,398	1,492	1,233	1,053	1,299	1,241	1,697
3. Estimated claims and expenses end of policy year:										
Incurred	2,275	2,150	2,025	1,725	1,700	1,425	1,725	1,450	1,450	1,450
Ceded	0	0	0	0	0	0	0	0	0	0
Net incurred	2,275	2,150	2,025	1,725	1,700	1,425	1,725	1,450	1,450	1,450
4. Net paid (cumulative) as of:										
End of policy year	660	591	476	475	564	431	515	406	545	497
One year later	1,255	1,001	805	951	1,009	766	928	944	1020	
Two years later	1,367	1,115	914	1,047	1,193	826	1,191	1145		
Three years later	1,429	1,291	923	1,080	1,353	880	1689			
Four years later	1,437	1,337	922	1,088	1,407	913				
Five years later	1,437	1,230	922	1,088	1,525					
Six years later	1,437	1,230	922	1,088						
Seven years later	1,438	1,230	922							
Eight years later	1,438	1,232								
Nine years later	1,438									
5. Re-estimated ceded claims and expenses										
	0	0	0	0	0	0	0	0	0	0
6. Re-estimated net incurred claims and expenses:										
End of policy year	2,275	2,150	2,025	1,725	1,700	1,425	1,725	1,450	1,450	1,450
One year later	2,175	1,850	1,575	1,615	1,625	1,250	1,575	1,430	1,550	
Two years later	1,975	1,625	1,325	1,450	1,600	1,150	1,595	1,500		
Three years later	1,800	1,625	1,200	1,360	1,615	1,075	1,995			
Four years later	1,650	1,590	1,120	1,285	1,645	1,045				
Five years later	1,625	1,415	1,040	1,200	1,650					
Six years later	1,590	1,340	1,010	1,175						
Seven years later	1,530	1,310	995							
Eight years later	1,500	1,280								
Nine years later	1,480									
	(795)	(30)	(1,030)	(550)	(50)	(380)	270	50	100	0

Part 2 – Reconciliation of Claims Liabilities by Type of Contract

The schedule below presents the changes in the Worker's Compensation Pool aggregate claims liabilities for the past two years. The Fund establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses.

	2018 (In Thousands)	2017 (In Thousands)
Unpaid claims and claim adjustment expenses at beginning of the fiscal year	$2,867	$3,108
Incurred claims and claim adjustment expenses:		
Provision for insured events of the current fiscal year	$1,450	$1,450
Increases in provision for insured events of prior fiscal years	$2,751	$1,715
Total incurred claims and claim adjustment expenses	$4,201	$3,165
Payments:		
Claims and claim adjustment expenses attributable to insured events of the current fiscal year	$ 497	$ 545
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	$3,715	$2,861
Total payments	$4,212	$3,406
Total unpaid claims and claim adjustment expenses at end of the fiscal year	$2,856	$2,867

PENSION PLANS

Schedules of Required Supplemental Information

September 1, 2017 through August 31, 2018

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

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AS OF JUNE 30				
PERS 1				
Last 10 Fiscal Years*				
	2015	2016	2017	2018
District's Proportion of the net pension liability (percentage)	0.050805%	0.049674%	0.048595%	0.048163%
District's proportionate share of the net pension liability (amount)	$ 2,657,596	$ 2,667,751	$ 2,305,855	$ 2,150,980
District's covered-employee payroll	$ 5,532,997	$ 5,810,581	$ 6,086,442	$ 6,462,081
District's proportionate share of the net pension liability (amount) as a percentage of its covered payroll	48.03%	45.91%	37.89%	33.29%
Plan fiduciary net position as a percentage of the total pension liability	59.10%	57.03%	61.24%	63.22%

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AS OF JUNE 30				
SERS 2/3				
Last 10 Fiscal Years*				
	2015	2016	2017	2018
District's Proportion of the net pension liability (percentage)	0.304955%	0.295323%	0.293375%	0.287809%
District's proportionate share of the net pension liability (amount)	$ 1,238,579	$ 1,939,582	$ 1,447,732	$ 860,727
District's covered-employee payroll	$ 5,262,259	$ 5,558,185	$ 6,037,740	$ 6,425,990
District's proportionate share of the net pension liability (amount) as a percentage of its covered payroll	23.54%	34.90%	23.98%	13.39%
Plan fiduciary net position as a percentage of the total pension liability	90.92%	86.52%	90.79%	94.77%

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AS OF JUNE 30				
TRS 1				
Last 10 Fiscal Years*				
	2015	2016	2017	2018
District's Proportion of the net pension liability (percentage)	0.034688%	0.035248%	0.036967%	0.035684%
District's proportionate share of the net pension liability (amount)	$ 1,098,951	$ 1,203,450	1,117,613	1,042,198
District's covered-employee payroll	$ 1,730,396	$ 1,856,948	$ 2,047,284	$ 2,041,776
District's proportionate share of the net pension liability (amount) as a percentage of its covered payroll	63.51%	64.81%	54.59%	51.04%
Plan fiduciary net position as a percentage of the total pension liability	65.70%	62.07%	65.58%	66.52%

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AS OF JUNE 30				
TRS 2/3				
Last 10 Fiscal Years*				
	2015	2016	2017	2018
District's Proportion of the net pension liability (percentage)	0.036636%	0.036695%	0.036193%	0.033391%
District's proportionate share of the net pension liability (amount)	$ 309,137	$ 503,927	$ 334,044	$ 150,299
District's covered-employee payroll	$ 1,730,396	$ 1,856,948	$ 1,996,714	$ 1,960,014
District's proportionate share of the net pension liability (amount) as a percentage of its covered payroll	17.87%	27.14%	16.73%	7.67%
Plan fiduciary net position as a percentage of the total pension liability	92.48%	88.72%	93.14%	96.88%

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

The information identified below is the Schedule of District Contributions, by Plan. The amounts reported in the Schedules of District Contributions are determined as of the district's fiscal year ending August 31.

SCHEDULE OF DISTRICT CONTRIBUTIONS FOR FISCAL YEAR END AUGUST 31				
PERS 1				
Last 10 Fiscal Years*				
	2015	2016	2017	2018
Contractually required contribution	$ 233,501	$ 281,702	$ 292,309	$ 321,933
Contributions in relation to the contractually required contributions	$ 233,501	$ 281,702	$ 292,309	$ 321,933
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
District's covered-employee payroll	$ 5,584,398	$ 5,807,661	$ 6,149,258	$ 6,556,019
Contribution as a percentage of covered-employee payroll	4.18%	4.85%	4.75%	4.91%

SCHEDULE OF DISTRICT CONTRIBUTIONS FOR FISCAL YEAR END AUGUST 31				
SERS 2/3				
Last 10 Fiscal Years*				
	2015	2016	2017	2018
Contractually required contribution	$ 296,483	$ 353,307	$ 397,368	$ 503,495
Contributions in relation to the contractually required contributions	$ 296,483	$ 353,307	$ 397,368	$ 503,495
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
District's covered-employee payroll	$ 5,307,210	$ 5,584,851	$ 6,113,253	$ 6,523,332
Contribution as a percentage of covered-employee payroll	5.59%	6.33%	6.50%	7.72%

SCHEDULE OF DISTRICT CONTRIBUTIONS FOR FISCAL YEAR END AUGUST 31				
TRS 1				
Last 10 Fiscal Years*				
	2015	2016	2017	2018
Contractually required contribution	$ 77,623	$ 107,124	$ 129,361	$ 148,409
Contributions in relation to the contractually required contributions	$ 77,623	$ 107,124	$ 129,361	$ 148,409
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
District's covered-employee payroll	$ 1,760,023	$ 1,846,763	$ 2,067,993	$ 2,063,361
Contribution as a percentage of covered-employee payroll	4.41%	5.80%	6.26%	7.19%

SCHEDULE OF DISTRICT CONTRIBUTIONS FOR FISCAL YEAR END AUGUST 31				
TRS 2/3				
Last 10 Fiscal Years*				
	2015	2016	2017	2018
Contractually required contribution	$ 97,360	$ 119,773	$ 133,354	$ 148,451
Contributions in relation to the contractually required contributions	$ 97,360	$ 119,773	$ 133,354	$ 148,451
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
District's covered-employee payroll	$ 1,760,023	$ 1,846,763	$ 2,004,780	$ 1,980,418
Contribution as a percentage of covered-employee payroll	5.53%	6.49%	6.65%	7.50%

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

Educational Service District No. 114
REQUIRED SUPPLEMENTAL INFORMATION

SCHEDULES OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS
AS OF AUGUST 31, *
Last 10 Fiscal Years **

TOTAL OPEB LIABILTY		2018
Service cost	$	256,748
Interest on total OPEB liability		134,649
Changes in benefit terms		-
Effect of economic/demographic gains or (losses)		-
Effect of assumption changes or inputs		(316,313)
Expected benefit payments		(48,627)
Net change in total OPEB liability		26,457
Total OPEB liability, beginning balance		3,603,518
Total OPEB liability, ending balance	$	3,629,975
Covered employee payroll	$	8,726,000
Total OPEB liability as a % of covered employee payroll		41.60%

Notes to Schedules:

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

OLYMPIC EDUCATIONAL SERVICE DISTRICT 114
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ending August 31, 2018

1	2	3	4	5	6	7	8	9	10
					Expenditures				
Federal Agency Name	Pass Through Agency	Federal Program Title	CFDA Number	Other Identification Number/Award Number	From Direct Awards	From Pass Through Awards	Total	Passed Through to Subrecipients	Foot note
NATIONAL AERONAUTICS & SPACE ADMINISTRATION	UNIVERSITY OF WASHINGTON	SCIENCE	43.001	UWSC8937		91,911.76	91,911.76		1, 7d, 7e
		SUBTOTAL - SCIENCE				**91,911.76**	**91,911.76**		
US DEPARTMENT OF AGRICULTURE	WA OSPI	CHILD & ADULT CARE FOOD PROGRAM	10.558	18070570		37,810.65	37,810.65		1, 7a
		SUBTOTAL - US DEPARTMENT OF AGRICULTURE				**37,810.65**	**37,810.65**		
US DEPARTMENT OF ED	SOUTH KITSAP SD	TITLE 1 GRANTSS TO LEA	84.010	PO 8341700025		34,809.69	34,809.69		1, 7a
	SOUTH KITSAP SD	TITLE 1 GRANTSS TO LEA	84.010	PO 8341700026		18,435.69	18,435.69		1, 7a
	WA OSPI	TITLE 1 GRANTSS TO LEA	84.010	222670		101,275.90	101,275.90		1, 7c
	WA OSPI	TITLE 1 GRANTSS TO LEA	84.010	260071		72,470.00	72,470.00		1, 7c
	WA OSPI	TITLE 1 GRANTSS TO LEA	84.010	222671		50,935.31	50,935.31		1, 7c
	SEATTLE PACIFIC UNIVERSITY	SUPPORTING EFFECTIVE INSTRUCTION STATE GRANTS	84.367	17-CS087		26,270.22	26,270.22		1, 7c
	WA OSPI	21ST CENTURY COMMUNITY LEARNING CENTER	84.287	991025		387,138.30	387,138.30	21,168.06	1, 2, 7c
	WA OSPI	MATHMATICS & SCIENCE PARTNERSHIP	84.366	55413		80,510.41	80,510.41		1, 7c
		SUBTOTAL - US DEPARTMENT OF ED				**771,845.52**	**771,845.52**	**21,168.06**	
US DEPARTMENT OF LABOR		YOUTHBUILD	17.274	YB-31066-17-60-A-53	308,959.15		308,959.15		1, 2, 7c
		SUBTOTAL - YOUTHBUILD			**308,959.15**	**-**	**308,959.15**	**-**	
US DEPARTMENT OF EDUCATION	ESD 112	SPECIAL EDUCATION GRANTS FOR INFANTS AND FAMILIES	84.181	PO 7008000061		3,357.82	3,357.82		1, 7e
	ESD 112	SPECIAL EDUCATION GRANTS FOR INFANTS AND FAMILIES	84.181	PO 7009000062		226.71	226.71		1, 7e
		SUBTOTAL - OFFICE OF SPECIAL EDUCATION & REHABILITATIVE SERVICES				**3,584.53**	**3,584.53**		
US DEPARTMENT OF HEALTH AND HUMAN SERVICES		HEAD START	93.600	10CH010249/02	635,567.46	-	635,567.46	21,667.46	1 ,2, 7h
		HEAD START	93.600	10CH010249/03	2,792,744.15	-	2,792,744.15	17,094.87	1 ,2, 7h
		HEAD START	93.600	10HP0010-03	783,597.00	-	783,597.00		1 ,2, 7h
	WA OSPI	ASSITANTANCE PROGRAM FOR CHRONIC DISEASE PREVENTION & CONTROL	93.945	930223		34,641.59	34,641.59		1, 7c
	WA OSPI	BLOCK GRANT FOR PREVENTION & TREATMENT OF SUBSTANCE ABUSE	93.959	998196		270,631.98	270,631.98		1, 7c
	WA OSPI	BLOCK GRANT FOR PREVENTION & TREATMENT OF SUBSTANCE ABUSE	93.959	998206		8,002.51	8,002.51		1, 7c
		SUBTOTAL - US DEPARTMENT OF HEALTH & HUMAN SVCS			**4,211,908.61**	**313,276.08**	**4,525,184.69**	**38,762.33**	
US DEPARTMENT OF EDUCATION		**SPECIAL EDUCATION CLUSTER (IDEA)**							
	WA OSPI	SPECIAL EDUCATION-GRANTS TO STATES	84.027	320258		200,721.11	200,721.11		1, 7c
	WA OSPI	SPECIAL EDUCATION-PRESCOOL GRANTS	84.173	380308		24,789.99	24,789.99		1, 7c
		SUBTOTAL - SPECIAL EDUCATION CLUSTER (IDEA)				**225,511.10**	**225,511.10**		
US DEPARTMENT OF HEALTH AND HUMAN SERVICES		**CCDF CLUSTER**							
	THRIVE WA	CHILD CARE & DEVELOPMENT BLOCK GRANT	93.575	2018 CI 1901		25,982.26	25,982.26		1, 7f
	THRIVE WA	CHILD CARE & DEVELOPMENT BLOCK GRANT	93.575	2018 CI 1901		11,924.98	11,924.98		1, 7f
	THRIVE WA	CHILD CARE & DEVELOPMENT BLOCK GRANT	93.575	2018 CI 1901		3,234.77	3,234.77		1, 7f
	DEL	CHILD CARE & DEVELOPMENT BLOCK GRANT	93.575	16-1142-03		101,920.65	101,920.65		1, 7g
	DEL	CHILD CARE & DEVELOPMENT BLOCK GRANT	93.575	16-1142 05		22,874.20	22,874.20		1, 7g
		SUBTOTAL - CCDF CLUSTER				**165,936.86**	**165,936.86**		
US DEPARTMENT OF HEALTH & HUMAN SVCS	ESD 112	SUBSTANCE ABUSE & MENTAL HEALTH SERVICES PROJECTS OF REGIONAL & NATIONAL SIGNIFICANCE	93.243	PO 7007000171		6,872.68	6,872.68		1, 7c
		SUBTOTAL - US DEPARTMENT OF HEALTH & HUMAN SERVICES				**6,872.68**	**6,872.68**		
US DEPARTMENT OF HEALTH & HUMAN SVCS		**TANF CLUSTER**							
	WA DSHS	TEMPORARY ASSISTANTS FOR NEEDY FAMILIES	93.558	N/A		27,855.95	27,855.95		1, 7h
		SUBTOTAL - TANF CLUSTER				**27,855.95**	**27,855.95**		
US DEPARTMENT OF HEALTH AND HUMAN SERVICES		**MEDICAID CLUSTER**							

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

OLYMPIC EDUCATIONAL SERVICE DISTRICT 114
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ending August 31, 2018

	HEALTH CARE AUTORITY	MEDICAL ASSISTANCE PROGRAM	93.778	K2413		6,129.92	6,129.92		1, 7b, 7e, 7g
		SUBTOTAL - MEDICAID CLUSTER				**6,129.92**	**6,129.92**		
		WIOA CLUSTER							
US DEPARTMENT OF LABOR	KITSAP COUNTY	WIOA YOUTH ACTIVITIES	17.259	KC 242 17		454,925.37	454,925.37		1, 7d
	KITSAP COUNTY	WIOA YOUTH ACTIVITIES	17.259	KC 083 18		111,457.37	111,457.37		1, 7c
	KITSAP COUNTY	WIOA YOUTH ACTIVITIES	17.259	KC 411 16		8,232.57	8,232.57		1, 7d
	KITSAP COUNTY	WIOA YOUTH ACTIVITIES	17.259	KC 119 18		8,604.66	8,604.66		1, 7c
	KITSAP COUNTY	WIOA ADULT PROGRAM	17.258	KC 411 16		7,642.23	7,642.23		1, 7d
	KITSAP COUNTY	WIOA ADULT PROGRAM	17.258	KC 119 18		7,987.64	7,987.64		1, 7c
	KITSAP COUNTY	WIOA DISLOCATED WORKER FORMULA GRANTS	17.278	KC 411 16		12,812.45	12,812.45		1, 7d
	KITSAP COUNTY	WIOA DISLOCATED WORKER FORMULA GRANTS	17.278	KC 119 18		13,391.53	13,391.53		1, 7c
		SUBTOTAL - WIOA CLUSTER				**625,053.82**	**625,053.82**		
		TOTAL OF FEDERAL AWARDS EXPENDED			**4,520,867.76**	**2,275,788.87**	**6,796,656.63**	**59,930.39**	

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

Note 1:
<u>Basis of Accounting</u>
The Schedule of Expenditures of Federal Awards is prepared on the same basis of accounting as OESD 114's financial statements. OESD 114 uses the accrual basis of accounting. Expenditures represent only the federally funded portions of the program. District records should be consulted to

Note 2:

<u>Program Costs/Matching Contributions</u>
The amounts shown as current year expenses represent only the federal grant portion of the program costs. Entire proigram costs, including the ESD'portion, may be more than

Note 7:
<u>Federal Indirect Rate</u>

7a. OESD 114 has not elected to use the 10-percent deminimis indirect cost rate allowed under the Uniform

7b. OESD 114 has not elected to use the 10-percent deminimis indirect cost rate allowed under the Uniform Guidance. The ESD used the federal restricted rate of 4.51%.

7c. OESD 114 has not elected to use the 10-percent deminimis indirect cost rate allowed under the Uniform Guidance. The ESD used the federal restricted rate of 7.64%

7d. OESD 114 has not elected to use the 10-percent deminimis indirect cost rate allowed under the Uniform Guidance. The ESD used the federal restricted rate of 8%.

7e. OESD 114 has not elected to use the 10-percent deminimis indirect cost rate allowed under the Uniform Guidance. The ESD used the federal restricted rate of 9%.

7f. OESD 114 has not elected to use the 10-percent deminimis indirect cost rate allowed under the Uniform Guidance. The ESD used the federal restricted rate of 10%.

7g. OESD 114 has not elected to use the 10-percent deminimis indirect cost rate allowed under the Uniform Guidance. The ESD ised the federal unrestricted rate 11%.

7h. OESD 114 has not elected to use the 10-percent deminimis indirect cost rate allowed under the Uniform Guidance. The ESD ised the federal unrestricted rate 12.97%.

Olympic Educational Service District 114

105 National Avenue North • Bremerton, WA 98312
(360) 405-5835• FAX (360) 405-5813

CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED UNDER UNIFORM GUIDANCE

Olympic Educational Service District No. 114
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:	**Finding caption:**
2018-001	The District reported its own activity in a fiduciary fund, which does not comply with governmental accounting standards
Name, address, and telephone of District contact person: Monica Hunsaker, Assistant Superintendent Olympic Educational Service District No. 114 105 National Avenue N. Bremerton, WA 98312 (360) 478-6894	
Corrective action the auditee plans to take in response to the finding: *The District has corrected the Statement of Fiduciary Net Position – Agency Funds for fiscal year 2017-2018. District assets and liabilities will not be included in future statements for the Agency Fund. The District will closely monitor guidance from the State Auditor's Office and OSPI related to GAAP changes affecting our financial statements.*	
Anticipated date to complete the corrective action: Immediately	

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