Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

King County Directors Association

For the period January 1, 2015 through December 31, 2015

Published May 22, 2017

Report No. 1019096

Office of the Washington State Auditor
Pat McCarthy

May 22, 2017

Board of Directors
King County Directors Association
Kent, Washington

Report on Financial Statements

Please find attached our report on the King County Directors Association's financial statements.

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

Sincerely,

Pat McCarthy

State Auditor

Olympia, WA

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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*

King County Directors Association
January 1, 2015 through December 31, 2015

Board of Directors
King County Directors Association
Kent, 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 the King County Directors Association, Washington, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Association's basic financial statements, and have issued our report thereon dated March 24, 2017. The Association has omitted the management's discussion and analysis information that governmental accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements. Our opinion on the basic financial statements is not affected by this missing information. As discussed in Note 2 to the financial statements, during the year ended December 31, 2015, the Association implemented Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the Association'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control.

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Association'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 Association'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

March 24, 2017

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

King County Directors Association
January 1, 2015 through December 31, 2015

Board of Directors
King County Directors Association
Kent, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the King County Directors Association, Washington, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Association's basic financial statements as listed on page 10.

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 an opinion 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 Association'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 Association'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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the King County Directors Association, as of December 31, 2015, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 2 to the financial statements, in 2015, the Association adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No.* 27 and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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.

Accounting principles generally accepted in the United States of America require that pension plan information on pages 22 through 23 be presented to supplement the basic financial statements. 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.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated March 24, 2017 on our consideration of the Association'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 Association's internal control over financial reporting and compliance.

Pat McCarthy

Pat McCarthy

State Auditor

Olympia, WA

March 24, 2017

FINANCIAL SECTION

King County Directors Association
January 1, 2015 through December 31, 2015

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2015
Statement of Revenues, Expenses, and Changes in Net Position – 2015
Statement of Cash Flows – 2015
Notes to Financial Statements – 2015

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of the Net Pension Liability – PERS 1 and PERS 2/3 – 2015
Schedule of Employer Contributions – PERS 1 and PERS 2/3 – 2015

KING COUNTY DIRECTORS' ASSOCIATION
STATEMENT OF NET POSITION
As of December 31, 2015

ASSETS	
CURRENT ASSETS	
Cash	214,990
Total Accounts Receivable	12,057,172
Inventory	6,374,009
Prepaid Expenses	186,892
Total Current Assets	18,833,063
Capital Assets	
Nondepreciable Capital Assets	285,108
Depreciable Capital Assets, Net	2,209,808
Total Assets	21,327,979
DEFERRED OUTFLOW OF RESOURCES	
Deferred Outflows - Pensions	272,221
Total Deferred Outflow of Resources	272,221
Total Assets and Deferred Outflow of Resources	21,600,200
LIABILITIES	
CURRENT LIABILITIES	
Accounts Payable	6,267,765
Note Payable (Net)	5,550,000
Total Current Liabilities	11,817,765
OTHER LIABILITIES	
Net Pension Liablity	2,128,830
Total Liabilities	13,946,595
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflows - Pensions	328,278
Total Deferred Inflow of Resources	328,278
NET POSITION	
Net Investment in Capital Assets	2,494,916
Unrestricted	4,830,411
Total Net Position	7,325,327
Total Liabilities, Deferred Inflow of Resources and Net Position	21,600,200

The notes to the financial statements are an integral part of this statement.

KING COUNTY DIRECTORS ASSOCIATION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Year Ending 12/31/15

OPERATING REVENUES	
Merchandise Billings - net of discounts	132,995,894
Service Fees - Contract Billings	530,832
Total Operating Revenue	133,526,726
OPERATING EXPENSES	
Cost of Merchandise Billed	125,475,305
Salaries	1,929,290
Freight	2,398,237
General Office Expense	37,768
Printing	0
Data Processing: Supplies & Services	348,414
Postage/Mailing Services	41,451
Telephone Expense	56,173
Warehouse Labor Expense	834,867
Warehouse Supplies & Equip. Repair	162,264
Building Maintenance	49,623
Utilities	110,033
Payroll taxes	254,403
Insurance Expense: Fire/Liability	71,905
Consulting Expense	0
Advertisement for Bids	21,970
Expenses of Executive Council	2,181
Professional Fees	21,836
Other Taxes	16,716
Auditing Expense	38,866
Sick Leave/Vacation Expense	25,676
State Retirement Expense	9,058
Pension Expense	89,592
Employee Medical Insurance	339,306
Depreciation	275,501
Employee Travel Expense	73,593
Promotion & Training Expense	54,203
Loss on Disposal of Capital Assets	48,497
Total Operating Expenses	132,786,728
Operating Income	739,998
Nonoperating Revenue (Expenses)	
Sublease Income	0
Interest Income	0
Misc. Income	11,100
Interest Expense, Note Payable	(149,841)
Total Nonoperating Income	(138,741)
Change in Net Position	601,257
Net Position - January 1, as previously reported	9,068,466
Cummulative Effect of Change in Accounting Principle (Adjustment related to Pensions - See Notes)	(2,344,396)
Net Position - January 1, as restated	6,724,070
Less: Withdrawal of Ownership Equity	0
Net Position, End of Year	7,325,327

The notes to the financial statements are an integral part of this statement.

KING COUNTY DIRECTORS' ASSOCIATION
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2015

Cash Flows from Operating Activities	
Cash received from customers and other parties	134,691,027
Cash paid to suppliers and employees	(130,289,766)
Net cash flows from operating activities	4,401,261
Cash Flows from Non-Capital and Related Financing Activities	
Interest expense	(149,841)
Other misc. non-operating income	11,100
Repayment of Note Payable (net)	(9,850,000)
Borrowings on Note Payable (net)	5,550,000
Net Change in Pension Obligations	(159,518)
Net cash flows, non-capital and related financing activities	(4,598,259)
Cash Flows from Capital and Related Financing Activities	
Purchase of capital assets	(1,456,887)
Refund of ownership equity	0
Net cash flows, capital and related financing activities	(1,456,887)
Cash Flows from Investing Activities	
Interest income	0
Sublease income	0
Net cash flows from investing activities	0
Net change in cash	(1,653,885)
Reconciliation of Net change in cash	
Cash and cash equivalents, beginning of year	1,868,875
Cash and cash equivalents, end of year	214,990
	(1,653,885)
Reconciliation of Operating Income to Net Cash Flows from Operating Activities	
Operating income	739,998
Adjustments to reconcile operating income to net cash flow from operating activities	
Depreciation	275,501
Change in operating assets & liab.	
Accounts receivable	1,164,301
Inventory	1,268,121
Prepaid expense	(5,465)
Loss on sale of capital assets	48,497
Accounts payable	910,308
Cash flows from operating activities	4,401,261

The notes to the financial statements are an integral part of this statement.

NOTE 1 - SCOPE OF REPORTING ENTITY

The King County Directors' Association Purchasing Department (KCDA) was formed by the Washington State public school districts, in accordance with RCW 28A.320.080, and generates all revenues by the billing for goods and services provided to its members. This report covers the source of all revenues, the record of all expenditures and the distribution of surplus.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

KCDA maintains its records in accordance with generally accepted accounting principles. In 2003 KCDA implemented GASB 34, entitled “Basic Financial Statements and Management Discussion and Analysis for State and Local governments”, with the exception that management has elected not to present Management Discussion and Analysis. In addition, during 2012 KCDA implemented the provisions of GASB 63 and its impact on basic financial statements. Also, during 2013 all applicable provisions of GASB 65 were implemented. During 2015 all current promulgations of the GASB, including the provisions of GASB 68, *Accounting and Financial Reporting for Pensions*, and the attendant GASB 71*, Pension Transition for Contributions Made Subsequent to the Measurement Date*, were reviewed and applicable provisions were implemented as appropriate. Significant policies are described in the various notes below.

Since comparative statements are not required by GAAP to be presented, King County Directors Association has elected to present a single year for the year ended December 31, 2015. This represents a departure from prior year financial statement presentations.

Pensions

For 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 all state sponsored pension plans and additions to/deductions from those plans’ fiduciary net position have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems. For this purpose, 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.

A. Cash

Cash balances are summarized into one total for each year presented in the balance sheet and the statement of cash flow. Cash includes demand deposits in banks and investments in marketable securities. See "Note 5" regarding investments.

B. Deposits

Cash deposits from members are shown on the balance sheet as current liabilities. In years prior to 2006, KCDA provided a deferred merchandise delivery program for members who wish to order and pay for merchandise according to normal terms and have the goods delivered as needed in the future. Members were billed upon receipt of the merchandise. Deferred merchandise inventory was owned by the member districts and stored in the KCDA warehouse. The deferred inventory was shown on the balance sheet as a current asset, with an offsetting current liability for the same amount. Beginning in 2006, the deferred inventory program was discontinued and is no longer reflected on the balance sheet.

C. Accounts Receivable

Includes all unpaid billings to members. Payment terms for Class 1 Washington public school districts and other types of Washington government agencies were net 40 days. Private school members who have bonds receive those same terms. Class 2 Washington public school districts were net 45 days. Private schools without bonds receive no discounts and must pay invoices before delivery of merchandise. Out-of-state public schools and public agencies have terms of net 40 days. Service charges are levied for accounts over 30 days past due. Due to the rare occurrence of bad debts, KCDA considers all accounts receivable to be collectible and therefore does not include an allowance for doubtful accounts in accounts receivable.

D. Inventory

Inventory consists of merchandise held for future sale to members and is valued at the lower of cost or market. Cost is determined by the average cost method.

E. Capital Assets and Depreciation

Capital assets are stated at cost. Depreciable assets are depreciated on a straight-line basis. The cost of capital assets sold or retired is credited to the asset account and the related depreciation is charged to the accumulated depreciation account. Profit or loss resulting from the sale or retirement is included in income.

F. Vacation and Sick Leave Benefits

Earned, but unused, vacation and sick leave are accrued at 100% and 25% respectively of current pay rates. At December 31, 2015 the balance of accrued vacation and sick leave was $186,931.

G. Revenues

Operating revenues are derived primarily from billings to members for goods and services, and from rebates for use of KCDA contracts. Included in each billing is the cost of the product, Washington State sales tax and a service fee to cover the cost of the Association's operation. Additional non-operating revenues are generally received from interest income on investments, short term rental of warehouse space, sale of data processing services, and gain on sale of capital assets. Revenues are classified as operating and non-operating in the statement of revenues, expenses, and changes in net position.

H. Interest Income and Expense

KCDA earns interest income by investing cash balances in the King County investment pool (see Note 5). Normally there are cash balances to invest during its non-peak operating months, October through April. However during the other months, short-term borrowing is needed to fund a cash flow deficit created by the purchase of large quantities of school supplies for summer annual orders. Either commercial paper (CP) is sold or a bank line of credit (LOC) is utilized to borrow these funds (see Note 4). Funds received from accounts receivable collections are deposited daily in the County investment pool. During the non-peak months, KCDA sometimes elects to keep the LOC extended (or CP issued) to re-invest the proceeds at higher interest rates being paid by the County, in a manner that does not trigger the arbitrage rebate requirements of the Internal Revenue Code. Therefore, KCDA, at times, is borrowing and investing simultaneously. KCDA accounts for interest income and expense by offsetting them. The net amount is classified in the financial statements as operating interest expense in the peak months when the LOC (or CP) interest expense is greater than the interest income, when our operations are being financed by the borrowing. In non-peak months when interest income exceeds LOC (or CP) interest expense, the net amount is classified in the financial statements as other income in the investment interest income account.

I. Reserve Ownership – Net Position

Net position represents the sum of the reserve ownership balances. The reserve ownership is allocated among participating members (Washington public school districts) each year by dividing the year's net income in proportion to the total service fees billed to each district. For 2002 and years thereafter a change was made in that method so as to include rebates earned by each district's purchases in that districts total service fees for the year. The rebates, for goods purchased through KCDA contracts but not billed through KCDA, were not formerly included in each district's annual service fee total. These districts may withdraw from KCDA and receive a refund of their ownership balance in merchandise over 10 years, or in cash over 15 years.

NOTE 3 – CAPITAL ASSETS

The following is a summary of property and equipment at cost:

Non-depreciable Capital Assets:

Description	12/31/2014 Balance	Additions	Retirements	12/31/2015 Balance
Land	$ 285,108	0	0	$ 285,108

Depreciable Capital Assets:

Description	12/31/2014 Balance	Additions	Retirements	12/31/2015 Balance
Building	2,404,103	365,557	0	2,769,660
Office equipment	2,785,182	167,224	64,557	2,887,849
Office systems under development	0	907,158	0	907,158
Warehouse Equipment	2,257,957	16,948	0	2,274,905
Total Cost	7,447,242	1,456,887	64,557	8,839,572
Accumulated Depreciation				
Building	1,923,127	92,368	0	2,015,495
Office equipment	2,395,422	127,855	16,060	2,507,217
Warehouse equipment	2,051,774	55,278	0	2,107,052
Total accumulated depreciation	6,370,323	275,501	16,060	6,629,764
Net property & equipment	$ 1,076,919	$ 1,181,386	$ 48,497	$ 2,209,808

NOTE 4 – SHORT-TERM BORROWING PROGRAM
In April of 2005, KCDA initiated a $10 million bank line of credit through Key Bank. Washington State law provides the authority for this program. That same program was renewed in 2015, though, with an increase in the line of credit to $12 million. The balance of the bank line of credit outstanding at 12/31/15 was $5,550,000.

NOTE 5 - INVESTMENTS
On October 1, 1995, KCDA joined the King County investment pool, which includes the County's own funds as well as those of approximately 100 independent government agencies. Those funds are co-mingled and then invested by the County's cash management department in accordance with Washington State law which regulates the types of investment vehicles that government entities may own. At December 31, 2015 the Pool's holdings totaled approximately $5.3 billion with an average portfolio maturity of 0.93 years. KCDA's investments in the Pool as of December 31, 2015 is as follows:

Investment Type	Fair Value	Effective Duration
King County Investment Pool	$ 251,391	0.93 Years

Interest Rate Risk. As of December 31, 2015, the Pool's average duration was 0.93 years. As a means of limiting its exposure to rising interest rates, securities purchased in the Pool must have a final maturity, or weighted average life, no longer than five years. While the Pool's market value is calculated on a monthly basis, unrealized gains and losses are not distributed to participants. The Pool distributes earnings monthly using an amortized cost methodology.

Credit Risk. As of December 31, 2015, the district's investment in the Pool was not rated by a nationally recognized statistical rating organization (NRSRO). In compliance with state statutes, Pool policies authorize investments in U.S. Treasury securities, U.S. agency securities and mortgage-backed securities, municipal securities (rated at least "A" by two NRSROs), commercial paper (rated at least the equivalent of "A-1" by two NRSROs), certificates of deposits issued by qualified public depositaries, repurchase agreements, and the Local Government Investment Pool managed by the Washington State Treasurer's office.

Impaired Investments. As of December 31, 2015, all impaired commercial paper investments have completed enforcement events. The King County impaired investment pool (Impaired Pool) held one commercial paper asset where the Impaired Pool accepted an exchange offer and is receiving the cash flows from the investment's underlying securities; and the residual investments in four commercial paper assets that were part of completed enforcement events, where the Impaired Pool accepted the cash out option. King County Directors Association's share of the impaired investment pool principle is $10,827 and its fair value of these investments is $5,876.

As of September 1, 2008, impaired commercial paper assets were removed from the main King County Investment Pool and placed into an impaired investment pool. As of December 31, 2008, the King County impaired investment pool held one commercial paper asset that is impaired and part of an enforcement event where a trustee or receiver is appointed to determine the best options for selling assets and/or restructuring the portfolio; and the residual investments in four commercial paper assets that were part of completed enforcement events. KCDA's share of the impaired investment pool is $44,585 (Maximum Loss Exposure) and KCDA's unrealized loss exposure for these investments is $38,459 as of 12/31/08. During 2008, KCDA's share of realized losses from previously impaired investments was $31,700. This amount plus the estimated future unrealized loss exposure of $38,459, totals a combine realized/unrealized loss of $70,158. In 2007 KCDA reflected a Generally Accepted Accounting Principles (GAAP) adjustment to its year-end financial statements of $46,569, to reflect the fair value of investments at year end. In 2008, KCDA made an additional adjustment of $23,589 (to bring the total to $70,158), which resulted in a further decrease in cash on the balance sheet and a corresponding decrease in interest income on the income statement. Due to the positive cash flows from and overall assessment of the final impaired asset (Victoria), no adjustments were made in 2015.

All temporary investments are stated at cost, which approximates market value. Other property and investments are shown on the balance sheet at cost, net of amortized premium or discount.

NOTE 6 - PENSION PLANS
The following table represents the aggregate pension amounts for all plans, in which King County Directors Association participates, subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* for the year 2015:

Aggregate Pension Amounts – All Plans	
Pension liabilities	$ 2,128,830
Pension assets	$ 0
Deferred outflows of resources	$ 272,221
Deferred inflows of resources	$ 328,278
Pension expense/expenditures	$ 89,592

State Sponsored Pension Plans

Substantially all of the King County Directors Association's full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans. The state Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to:

Department of Retirement Systems
Communications Unit
P.O. Box 48380
Olympia, WA 98540-8380

Or the DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov.

Public Employees' Retirement System (PERS)

PERS members include elected officials; state employees; employees of the Supreme, Appeals and Superior Courts; employees of the legislature; employees of district and municipal courts; employees of local governments; and higher education employees not participating in higher education retirement programs. PERS is comprised of three separate pension plans for membership purposes. PERS plans 1 and 2 are defined benefit plans, and PERS plan 3 is a defined benefit plan with a defined contribution component.

PERS Plan 1 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. 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 active status prior to the age of 65 may receive actuarially reduced benefits. 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. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

PERS Plan 1		
Actual Contribution Rates:	**Employer**	**Employee***
January through June 2015	9.21%	6.00%
July through December 2015	11.18%	6.00%

* For employees participating in JBM, the contribution rate was 12.26%

The King County Directors Association's actual contributions to the plan were $109,125 for the year ended December 31, 2015.

PERS Plan 2/3 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 1 percent of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. 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. PERS 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 benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit 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.

PERS 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 credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

PERS Plan 3 defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. As established by statute, Plan 3 required defined contribution rates are set at a minimum of 5 percent and escalate to 15 percent with a choice of six options. Employers do not contribute to the defined contribution benefits. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

PERS Plan 2/3		
Actual Contribution Rates:	**Employer 2/3**	**Employee 2***
January through June 2015	9.21%	4.92%
July through December 2015	11.18%	6.12%
Employee PERS Plan 3		Varies

* For employees participating in JBM, the contribution rate was 15.30%

The King County Directors Association's actual contributions to the plan were $ 139,976 for the year ended December 31, 2015.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2015 with a valuation date of June 30, 2014. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2014 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2015. Plan liabilities were rolled forward from June 30, 2014, to June 30, 2015, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 3% total economic inflation; 3.75% salary inflation

- **Salary increases**: In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.

- **Investment rate of return:** 7.5%

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. The OSA 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, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

There were minor changes in methods and assumptions since the last valuation.

- The OSA updated demographic assumptions, consistent with the changes from the *2007-2012 Experience Study Report*, used when valuing the PERS 1 and TERS 1 Basic Minimum COLA.

- The OSA corrected how valuation software calculates a member's entry age under the entry age normal actuarial cost method. Previously, the funding age was rounded, resulting in an entry age one year higher in some cases.

- For purposes of calculating the Plan 2/3 Entry Age Normal Cost contribution rates, the OSA now uses the current blend of Plan 2 and Plan 3 salaries rather than using a long-term membership assumption of two-thirds Plan 2 members and one-third Plan 3 members.

- The OSA changed the way it applies salary limits, as described in the *2007-2012 Experience Study Report*.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.5 percent.

To determine that rate, an asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.7 percent except LEOFF 2, which has assumed 7.5 percent). Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, PSERS 2, SERS 2/3, and TRS 2/3 employers, whose rates include a component for the PERS 1, and TRS 1 plan liabilities). Based on these assumptions, the pension plans' 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 7.5 percent was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.5 percent was determined using a building-block-method. The Washington State Investment Board (WSIB) used a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, including inflation) to develop each major asset class. Those expected returns make up one component of WSIB's capital market assumptions. The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times. The long-term expected rate of return of 7.5 percent approximately equals the median of the simulated investment returns over a 50-year time horizon.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.70%
Tangible Assets	5%	4.40%
Real Estate	15%	5.80%
Global Equity	37%	6.60%
Private Equity	23%	9.60%
	100%	

Sensitivity of NPL

The table below presents the King County Directors Association's proportionate share* of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the King County Directors Association's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5 percent) or 1-percentage point higher (8.5 percent) than the current rate.

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	$ 1,376,843	$ 1,130,875	$ 919,365
PERS 2/3	2,918,072	997,955	(472,207)

Pension Plan Fiduciary Net Position

Detailed information about the State's pension plans' fiduciary net position is available in the separately issued DRS financial report.

Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the King County Directors Association reported a total pension liability of $ 2,128,830 for its proportionate share of the net pension liabilities as follows (only report applicable plans):

	Liability (or Asset)
PERS 1	$ 1,130,875
PERS 2/3	997,955

At June 30, the King County Directors Association's proportionate share of the collective net pension liabilities was as follows (only report applicable plans):

	Proportionate Share 6/30/14	Proportionate Share 6/30/15	Change in Proportion
PERS 1	0.023467%	0.021619%	-0.001848%
PERS 2/3	0.026937%	0.027930%	0.000993%

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the *Schedules of Employer and Nonemployer Allocations* for all plans except LEOFF 1.

The collective net pension liability (asset) was measured as of June 30, 2015, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2014, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2015, the King County Directors Association recognized pension expense as follows:

	Pension Expense
PERS 1	($ 37,879)
PERS 2/3	$127,470

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2015, the King County Directors Association reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (prepare a separate table for each plan):

Plan Name PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 0	$ 0
Net difference between projected and actual investment earnings on pension plan investments	$ 0	$ 61,871
Changes of assumptions	$ 0	$ 0
Changes in proportion and differences between contributions and proportionate share of contributions	$ 0	$ 0
Contributions subsequent to the measurement date	$ 57,510	$ 0
TOTAL	$ 57,510	$ 61,871

Plan Name PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 106,083	$ 0
Net difference between projected and actual investment earnings on pension plan investments	$ 0	$ 266,407
Changes of assumptions	$ 1,608	$ 0
Changes in proportion and differences between contributions and proportionate share of contributions	$ 31,951	$ 0
Contributions subsequent to the measurement date	$ 75,069	$ 0
TOTAL	$ 214,711	$ 266,407

Deferred outflows of resources related to pensions resulting from the King County Directors Association's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows (prepare a separate table for each plan):

Year ended December 31:	Plan Name PERS 2/3
2016	$ 9,398
2017	$ 9,398
2018	$ 9,398
2019	$ 3,757
2020	$ 0
Thereafter	$

NOTE 7 – RISK MANAGEMENT

KCDA carries insurance to protect its physical property and to insure against various types of risk. During 2015, the following insurance was in force: Building - $10,000,000; Inventory – At current reportable cost; Equipment - $3,715,000; business income - $2,185,000; general liability - $2,000,000 and directors and officers - $3,000,000.

NOTE 8 – CONTINGENCIES AND LITIGATION

The KCDA insurance coverage is adequate to insure against any and all known claims pending against the Association.

KING COUNTY DIRECTORS' ASSOCIATION
Schedule of Proportionate Share of the Net Pension Liability
PERS 1
As of June 30 2015
Last 10 Fiscal Years*

		2015	20XX	20XX	20XX	20XX	20XX	20XX	20XX	20XX	20XX
Employer's proportion of the net pension liability (asset)	%	0.021619%									
Employer's proportionate share of the net pension liability	$	1,130,875									
Employer's covered employee payroll	$	0 (A)									
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	%	0.00%									
Plan fiduciary net position as a percentage of the total pension liability	%	59.10%									

KING COUNTY DIRECTORS' ASSOCIATION
Schedule of Proportionate Share of the Net Pension Liability
PERS 2/3
As of June 30 2015
Last 10 Fiscal Years*

		2015	20XX	20XX	20XX	20XX	20XX	20XX	20XX	20XX	20XX
Employer's proportion of the net pension liability (asset)	%	0.027930%									
Employer's proportionate share of the net pension liability	$	997,995									
Employer's covered employee payroll	$	2,478,100									
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	%	40.27%									
Plan fiduciary net position as a percentage of the total pension liability	%	89.20%									

Notes to Schedule:
(A) King County Directors Association no longer employs any PERS 1 participants

** Until a full 10-year trend is compiled, King County Directors Association will present information only for those years for which information is available.*

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

KING COUNTY DIRECTORS' ASSOCIATION
Schedule of Employer Contributions
PERS 1
As of December 31, 2015
Last 10 Fiscal Years*

		2015	20XX	20XX	20XX	20XX	20XX	20XX	20XX	20XX	20XX
Statutorily or contractually required contributions	$	109,125									
Contributions in relation to the statutorily or contractually required contributions	$	(109,125)									
Contribution deficiency (excess)	$	0									
Covered employer payroll	$	0									
Contributions as a percentage of covered employee payroll	%	0.00%									

KING COUNTY DIRECTORS' ASSOCIATION
Schedule of Employer Contributions
PERS 2/3
As of December 31, 2015
Last 10 Fiscal Years*

		2015	20XX	20XX	20XX	20XX	20XX	20XX	20XX	20XX	20XX
Statutorily or contractually required contributions	$	139,976									
Contributions in relation to the statutorily or contractually required contributions	$	(139,976)									
Contribution deficiency (excess)	$	0									
Covered employer payroll	$	2,478,100									
Contributions as a percentage of covered employee payroll	%	5.65%									

Notes to Schedule:

** Until a full 10-year trend is compiled, King County Directors Association will present information only for those years for which information is available.*

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