



Office of the Washington State Auditor
Pat McCarthy

Financial Statements and Federal Single Audit Report

Puget Sound Regional Council

King County

For the period July 1, 2016 through June 30, 2017

Published February 15, 2018

Report No. 1020802





Office of the Washington State Auditor
Pat McCarthy

February 15, 2018

Executive Board
Puget Sound Regional Council
Seattle, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on the Puget Sound Regional Council's financial statements and compliance with federal laws and regulations.

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

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**Puget Sound Regional Council
King County
July 1, 2016 through June 30, 2017**

SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of the Puget Sound Regional Council 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 the governmental activities and each major fund in accordance with accounting principles generally accepted in the United States of America (GAAP).

Internal Control over Financial Reporting:

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

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

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 Council's compliance with requirements applicable to its major federal program.

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

Identification of Major Federal Programs:

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

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
20.505	Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research

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

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

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

**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**

**Puget Sound Regional Council
King County
July 1, 2016 through June 30, 2017**

Executive Board
Puget Sound Regional Council
Seattle, 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 governmental activities and each major fund of the Puget Sound Regional Council, King County, Washington, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Council's basic financial statements, and have issued our report thereon dated February 7, 2018. As discussed in Note 1 to the financial statements, during the year ended June 30, 2017, the Council implemented Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurement and Application*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

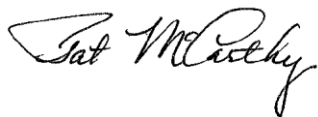
COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Council's financial statements are free from material misstatement, we performed tests of the Council'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 Council'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 Council'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

February 7, 2018

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

**Puget Sound Regional Council
King County
July 1, 2016 through June 30, 2017**

Executive Board
Puget Sound Regional Council
Seattle, Washington

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM**

We have audited the compliance of the Puget Sound Regional Council, King County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the Council's major federal programs for the year ended June 30, 2017. The Council'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 Council'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 Council'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 Council's compliance.

Opinion on Each Major Federal Program

In our opinion, the Council 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 June 30, 2017.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the Council 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 Council'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 Council'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.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy

State Auditor

Olympia, WA

February 7, 2018

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Puget Sound Regional Council King County July 1, 2016 through June 30, 2017

Executive Board
Puget Sound Regional Council
Seattle, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities and each major fund of the Puget Sound Regional Council, King County, Washington, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Council's basic financial statements as listed on page 14.

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 Council'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 Council'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 the governmental activities and each major fund of the Puget Sound Regional Council, as of June 30, 2017, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 1 to the financial statements, in 2017, the Council adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurement and Application*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

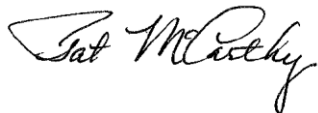
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 14 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial 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.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Council'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 February 7, 2018 on our consideration of the Council'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 Council's internal control over financial reporting and compliance.



Pat McCarthy

State Auditor

Olympia, WA

February 7, 2018

FINANCIAL SECTION

Puget Sound Regional Council King County July 1, 2016 through June 30, 2017

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2017

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2017

Statement of Activities – 2017

Balance Sheet – Governmental Fund – 2017

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental
Fund – 2017

Notes to Financial Statements – 2017

REQUIRED SUPPLEMENTARY INFORMATION

Budgetary Comparison Schedule – 2017

Schedule of Proportionate Share of the Net Pension Liability – Washington Public
Employees Retirement System 1 – 2017

Schedule of Employer Contributions – Washington Public Employees Retirement
System 1 – 2017

Schedule of Proportionate Share of the Net Pension Liability – Washington Public
Employees Retirement System 2/3 – 2017

Schedule of Employer Contributions – Washington Public Employees Retirement
System 2/3 – 2017

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2017

Notes to the Schedule of Expenditures of Federal Awards – 2017

**PUGET SOUND REGIONAL COUNCIL
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2017**

Management's Discussion and Analysis (MD&A) presents a narrative overview and analysis of the financial activities of the Puget Sound Regional Council (PSRC) for the fiscal year ended June 30, 2017. As this information is presented in summary form, it should be read in conjunction with the financial statements and footnotes as a whole.

The PSRC is the regional transportation, economic and growth planning coordinating agency for the central Puget Sound region of Washington State. It serves as a forum for cities, counties, ports, transit agencies, tribes, and the state to work together on important regional issues.

The PSRC has an agreement with the Central Puget Sound Economic Development District (CPSEDD) to make the best use of public resources. CPSEDD is reported as a blended component unit in the financial statements of PSRC because PSRC bears a financial burden in providing support funding to CPSEDD as well as PSRC management is responsible for the activities of CPSEDD. The financial highlights and the comparative financial information in this analysis include the blended component unit data.

PSRC adopted new reporting requirements from the Governmental Accounting Standards Board (GASB) in the 2017 financial statements. In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*, which requires the use of appropriate valuation techniques to measure the fair value of King County pool investments. The required disclosures are presented in Note 3 to the financial statements.

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. GASB Statement No. 76 establishes the hierarchy of GAAP for state and local governments. The new standard is effective for periods beginning after June 15, 2015 and have been adopted for preparation of financial statements as of June 30, 2016. Implementation of this statement did not have a significant impact on PSRC's financial statements for the years ended June 30, 2016 nor 2015.

In March 2016, GASB issued Statement No. 82, *Pension Issues-An Amendment of GASB Statements No. 67, No. 68, and No. 73*. This statement addresses the specific issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements are effective for reporting periods beginning after June 15, 2016, except for the requirements for the selection of assumptions, in a circumstance in which an employer measures its pension liability as of a date other than its most recent fiscal year-end. In that circumstance, the requirements for those provisions are effective in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. The financial statements reflect implementation of applicable issues.

Financial Highlights

The following are the PSRC's financial highlights for fiscal year 2017:

As required by GASB 68, PSRC accounts for their proportionate share of the DRS pension liabilities. PSRC's net pension liability is \$5,870,274. This increased from FY 2016 primarily because of the 41% increase in the DRS net pension liability for PERS 2 and 3. GASB 68 pension guidance only affects the government-wide statements. Results of governmental activities, excluding the pension amounts, can be seen in the governmental fund statements.

- As of June 30, 2017, the government-wide net position of PSRC was (\$51,640), which was an increase of \$343,187 from the prior year. This increase is largely the result of a decrease in consultant expenditures combined with increased revenue from dues that was assigned for contingencies. Of this amount, \$164,802 was invested in capital assets, \$66,548 was restricted for CPSEDD, and (\$282,990) was unrestricted.
- PSRC's governmental fund had a fund balance of \$4,830,034 as of June 30, 2017, which was an increase of \$614,653 from the prior year. This is largely because of the recognition of \$550,846 in revenues from grants that had not been collected within 60 days of year end for the previous fiscal year. These grant revenues were not considered available for fiscal year 2016 and therefore were not counted as revenues in the governmental fund financial statements until fiscal year 2017. The amount of accounts receivable not collected within 60 days for fiscal year 2017 is \$103,545 and is reported as a deferred inflow of resources in the governmental fund. The governmental fund balance includes \$135,517 attributable to non-spendable prepaid expenses, and \$1,332,000 assigned for contingencies. The remaining portion of the balance, \$3,362,517 was unassigned and available to support future operations.

Overview of Financial Statements

This discussion and analysis is intended to serve as an introduction to the PSRC's basic financial statements which include three components: (1) government-wide financial statements; (2) fund financial statements; and (3) notes to the financial statements. This report also contains required supplementary information is presented in addition to the basic financial statements.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of PSRC's finances in a manner similar to a private sector business. The statements provide short-term and long-term perspective regarding PSRC's financial position, which assists in assessing PSRC's financial condition at the end of the fiscal year.

These statements are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. All revenues are recognized in the period in which they are earned and expenses are recognized in the period in which they are incurred. The government-wide financial statements include two statements.

The statement of net position presents all of PSRC's assets and liabilities, deferred inflows and outflows of resources with the residual reported as net position. Over time,

increases or decreases in PSRC's net position may serve as a useful indicator of whether its financial position is improving or deteriorating.

The statement of activities presents information showing how PSRC's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. As a result, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

Typically, both of these government-wide financial statements would distinguish functions of the reporting entity principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or part of their costs through user fees and charges (business-type activities). PSRC, however, has and reports only governmental activities.

Fund Financial Statements

The fund financial statements are designed to report financial information about each fund. A fund is a grouping of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives.

PSRC, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Funds can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds. PSRC has and reports one governmental fund, which is its sole major fund.

The governmental fund is used to account for essentially the same functions that are reported as governmental activities in the government-wide financial statements. Unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in determining whether there will be sufficient near-term financial resources available to meet PSRC's current needs. PSRC prepares the governmental fund financial statements using the current financial resources measurement focus and the modified accrual basis of accounting.

Because the focus on governmental fund is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental fund with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental fund and governmental activities.

The basic governmental fund financial statements can be found immediately following the government-wide financial statements.

Notes to the Financial Statements

The notes provide additional information essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the basic financial statements.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, certain required supplementary information is also presented, including this section. Additional required supplementary information immediately follows the notes to the financial statements.

Government-wide Financial Analysis

The statement of net position represents information regarding all PSRC's assets, liabilities, deferred inflows and outflows of resources and net position. The net position is the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Over time, net position may serve as a useful indicator of PSRC's financial position.

Current assets comprise 96% of total assets as of June 30, 2017, which is an increase of 1% from the prior fiscal year. Total assets increased 4% from the prior fiscal year. Liabilities increased by 15 percent from the prior fiscal year partly due to an increase in accounts payable and the net pension liability. Deferred inflows related to pensions decreased by 84% (see Note 5). PSRC reports deferred outflows related to pensions of \$1,323,741 and deferred inflows of \$120,604.

Net position increased by \$343,187 in fiscal year 2017. The overall financial position improved from prior fiscal year. Condensed financial statements with comparative data are presented below:

	FY 2017		FY 2016	
<i>Condensed Statements of Net Position:</i>				
<i>Capital assets, net</i>	\$	164,802	\$	205,842
<i>Current and other assets</i>		5,542,230		5,296,117
Total assets		<u>5,707,032</u>		<u>5,501,959</u>
Deferred outflows of resources		<u>1,323,741</u>		<u>910,509</u>
<i>Current liabilities</i>		1,091,535		994,135
<i>Non-current liabilities</i>		5,870,274		5,053,359
Total liabilities		<u>6,961,809</u>		<u>6,047,494</u>
Deferred inflows of resources		<u>120,604</u>		<u>759,802</u>
<i>Invested in capital assets</i>		164,802		205,842
<i>Restricted</i>		66,548		66,548
<i>Unrestricted</i>		<u>(282,990)</u>		<u>(667,217)</u>
Net position	\$	<u>(51,640)</u>	\$	<u>(394,827)</u>

Program revenues accounted for approximately 31% of PSRC's total revenues while 40% of program revenues were from operating grants and contributions. Program revenues decreased by \$534,372 compared to fiscal year 2016.

Member dues are assessed to local governments and through special contractual arrangements. These member dues are first distributed to match the basic grants and

are then used to support administrative costs and various projects. Member dues had a 4% increase compared to fiscal year 2016.

Unrestricted grants and contributions increased by \$262,187 primarily because PSRC completed work on restricted grants in fiscal year 2016 and as a result, spent additional time on unrestricted grants in fiscal year 2017.

All of PSRC's expenses are program expenses. Total program expenses decreased by \$167,164, or 2% due to decreased consultant expenditures.

See condensed statement of activities below:

	FY 2017	FY 2016
<i>Condensed Statements of Activities:</i>		
Dues and other service revenue	\$2,066,244	\$1,986,672
Operating grants and contributions	1,367,172	1,981,116
Total program revenues	<u>\$3,433,416</u>	<u>\$3,967,788</u>
Unrestricted grants and contributions	\$7,234,874	\$6,972,687
Interest and other revenues	290,569	66,097
Total general revenues	<u>\$7,525,443</u>	<u>\$7,038,784</u>
Total revenues	<u>\$10,958,859</u>	<u>\$11,006,572</u>
Regional planning and development	\$10,001,820	\$10,081,616
CPSEDD	613,852	701,220
Total expenses	<u>\$10,615,672</u>	<u>\$10,782,836</u>
Changes in net position	<u>343,187</u>	<u>223,737</u>
Ending net position	<u>\$ (51,640)</u>	<u>\$(394,827)</u>

Governmental Fund Financial Analysis

Fund balances increased \$614,653 in fiscal year 2017. Deferred inflows of resources are recognized in the governmental fund financial statements when funds are not received within 60 days after year end and therefore not counted as available resources. This caused approximately \$103,545 in potential revenues to be deferred to future periods. \$3.4m of the total fund balance of approximately \$4.8m is unassigned and available for spending in future years at PSRC's discretion. Total revenues for fiscal year 2017 were \$11.4m, which is an increase of approximately \$1m compared to fiscal year 2016. This increase was due to the combined result of increase dues, increased grant revenue, interest income and miscellaneous revenues. Expenditures decreased by \$234,838 primarily due to reduced consulting and operating expenses.

Budget Variance in the General Fund

PSRC prepares its budget on a biennial basis. Fiscal year 2017 is the second year of the biennium. The variance between actual and budget was primarily due to the basis used. The budget was prepared based on available funding, including total amounts of grants awarded, regardless of the actual spending, for the biennium. Actuals reflected all costs incurred during the fiscal year 2016 and 2017, which were reimbursed by grants and/or supported by contributions and local matching. The unspent amounts will be carried over to next biennial budget. The current budget has two-year revenue and expenditure amounts of \$28m. In fiscal year 2017, PSRC earned \$11.4m of these revenues and spent \$10.8m of associated expenditures.

Capital Assets

PSRC's net investment in capital assets as of June 30, 2017 amounted to \$164,802. This investment in capital assets includes computers, equipment, software, and leasehold improvements. Capital assets decreased by \$41,039 from fiscal year 2016 as depreciation expense exceeded acquisitions. For further information regarding capital assets, see Note 4 to the financial statements.

Request for Information

This financial report is designed to provide a general overview of the Puget Sound Regional Council's finances for all those with an interest in the Council's finances. Questions concerning any information provided in this report should be addressed to: Puget Sound Regional Council, Chief Financial Officer, 1011 Western Ave, Suite 500, Seattle, Washington 98104.

**PUGET SOUND REGIONAL COUNCIL
GOVERNMENT-WIDE FINANCIAL STATEMENTS
STATEMENT OF NET POSITION
JUNE 30, 2017**

	Governmental Activities
ASSETS	
Current assets:	
Cash (Notes 1 and 3)	\$ 3,024,013
Grants receivable (Note 1)	2,174,792
Accounts receivable (Note 1)	161,445
Prepays (Note 1)	135,517
Total current assets	5,495,767
Noncurrent assets:	
Capital assets, being depreciated (Notes 1 and 4):	
Equipment and software	1,072,913
Leasehold improvements	131,973
Less: accumulated depreciation	(1,040,084)
Total capital assets, being depreciated, net	164,802
Security deposits (Note 9)	46,463
Total noncurrent assets	211,265
Total assets	5,707,032
DEFERRED OUTFLOWS OF RESOURCES (NOTE 1)	
Deferred outflows related to pensions	1,323,741
Total deferred outflows	1,323,741
LIABILITIES	
Current liabilities:	
Accounts payable	217,110
Accrued liabilities (Notes 1 and 6)	844,689
Unearned revenue (Note 1)	29,736
Total current liabilities	1,091,535
Non-current liabilities:	
Net pension liability	5,870,274
Total non-current liabilities	5,870,274
Total liabilities	6,961,809
DEFERRED INFLOWS OF RESOURCES (NOTE 1)	
Deferred inflows related to pensions	120,604
Total deferred inflows of resources	120,604
NET POSITION (NOTE 1)	
Net investment in capital assets	164,802
Restricted for CPSEDD	66,548
Unrestricted	(282,990)
Total net position	\$ (51,640)

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

**PUGET SOUND REGIONAL COUNCIL
GOVERNMENT-WIDE FINANCIAL STATEMENTS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017**

Functions/Programs	Expenses	Indirect Expense Allocation	Program Revenues		Net Governmental Activities
			Charges for Services	Operating Grants and Contributions	
Regional Planning and Development	\$ (6,722,976)	\$ (3,278,844)	\$ 1,937,506	\$ 1,177,250	\$ (6,887,064)
Central Puget Sound Economic Development District (CPSEDD)	(489,999)	(123,853)	128,738	189,922	(295,192)
Total governmental activities	(7,212,975)	(3,402,697)	2,066,244	1,367,172	(7,182,256)
GENERAL REVENUES					
Unrestricted grants and contributions					7,234,874
Interest income and other revenues					290,569
Total general revenues					7,525,443
CHANGES IN NET POSITION					343,187
NET POSITION AS OF JULY 1, 2016					(394,827)
NET POSITION AS OF JUNE 30, 2017					\$ (51,640)

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

**PUGET SOUND REGIONAL COUNCIL
BALANCE SHEET
GOVERNMENTAL FUND
JUNE 30, 2017**

	GENERAL FUND
ASSETS and DEFERRED OUTFLOWS of RESOURCES	
Cash (Notes 1 and 3)	\$ 3,024,013
Grants receivable (Note 1)	2,174,792
Accounts receivable (Note 1)	161,445
Prepays (Note 1)	135,517
Total assets	5,495,767
Deferred outflows of resources (Note 1)	-
Total assets and deferred outflows of resources	\$ 5,495,767
LIABILITIES, DEFERRED INFLOWS of RESOURCES and FUND BALANCES	
Liabilities:	
Accounts payable	217,110
Accrued liabilities (Note 1)	315,342
Unearned revenue (Note 1)	29,736
Total liabilities	562,188
Deferred inflows of resources (Note 1)	103,545
Fund Balances (Note 1):	
Nonspendable	135,517
Restricted	-
Committed	-
Assigned for Contingencies	1,332,000
Unassigned	3,362,517
Total fund balances	4,830,034
Total liabilities, deferred inflows of resources and fund balances	\$ 5,495,767
Total fund balances - governmental fund	\$ 4,830,034
Amounts reported for governmental activities in the statement of net position are different because:	
Security deposits are not current financial resources and therefore not reported in the governmental fund	46,463
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental fund	164,802
Deferred inflows of resources due to revenue recognition criteria not being met	103,545
Accrued compensated absences not reported in governmental fund	(529,348)
GASB 68 deferred outflows not reported in the governmental fund	1,323,741
GASB 68 liabilities and deferred inflows not reported in the governmental fund	(5,990,877)
Total net position of governmental activities	<u>\$ (51,640)</u>

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

**PUGET SOUND REGIONAL COUNCIL
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2017**

	GENERAL FUND
Revenues	
Member dues (Note 1)	\$ 2,066,244
Grant revenue	9,049,348
Contributions	-
Interest income	38,141
Other miscellaneous revenues	254,595
Total revenues	11,408,328
Expenditures	
Salaries and benefits	8,348,717
Consulting	868,606
Rent (Note 9)	916,308
Other operating expenditures	612,205
Capital outlay (Notes 1 & 4)	47,839
Total expenditures	10,793,675
Changes in fund balances	614,653
Total fund balances as of July 1, 2016	4,215,381
Total fund balances as of June 30, 2017	\$ 4,830,034
Changes in fund balances	\$ 614,653
Amounts reported for governmental activities in the statement of activities are different because:	
Depreciation expense not reported in governmental fund but reported in government-wide statement of activities	(86,712)
Expenditures for acquisitions of equipment which were capitalized in the government-wide financial statements	47,839
Proceeds from disposition of equipment reported net of undepreciated cost in government-wide statement of activities	(2,167)
Net change in accrued expenses for compensated absences not reported in governmental fund but reported in government-wide financial statements	(18,641)
Net change in deferred inflows of resources over periods due to revenue recognition criteria not being met	(447,301)
Net change in expenses for GASB 68 pension recognition	235,516
Changes in net position of governmental activities	<u>\$ 343,187</u>

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

**PUGET SOUND REGIONAL COUNCIL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Puget Sound Regional Council (PSRC) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described below:

Reporting Entity

PSRC began operations on October 1, 1991. It is the third in a series of regional planning agencies that have served the people of the central Puget Sound region continuously since 1957. Its immediate predecessor, the Puget Sound Council of Governments (PSCOG), was legally dissolved in 1991 to make way for a stronger agency whose members will better achieve collective regional goals. See Note 7 Related Parties for additional disclosure about the entity.

PSRC is a special purpose government, and serves as the regional planning and decision-making body for growth and transportation issues in King, Kitsap, Pierce and Snohomish counties. Regular membership in PSRC is open to all local governments in the four-county Puget Sound region.

PSRC is governed by a General Assembly and Executive Board. The General Assembly is composed of all member jurisdictions and agencies, and meets at least annually. Executive Board members are appointed by their General Assembly constituents to represent the member governments. The Executive Board meets monthly to conduct the ongoing business of the agency and to provide a forum for discussing regional issues.

As required by generally accepted accounting principles, the financial statements present PSRC, the primary government, and its blended component unit, the Central Puget Sound Economic Development District (CPSEDD). CPSEDD was organized in 1971 to promote economic development and long-term employment within the member jurisdictions. CPSEDD is a legally separate entity, but PSRC management is responsible for the activities of CPSEDD. PSRC also bears a financial burden in providing support funding to CPSEDD. Additionally the majority of Board members of CPSEDD are also members of PSRC.

Separately issued financial statements for CPSEDD can be obtained by contacting CPSEDD at the following address: Central Puget Sound Economic Development, 1011 Western Ave., Suite 500, Seattle, WA 98104

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. PSRC reports its governmental activities, which normally are supported by grants, contributions and member dues. PSRC does not have business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by the program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. PSRC's policy is to allocate general and administrative costs to all specific functions based on its indirect cost plan. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by the program, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Unrestricted grants and other items not included among program revenues are reported as general revenues.

Separate fund financial statements are provided for the governmental fund. Governmental fund financial statements consist of a balance sheet and a statement of revenues, expenditures, and changes in fund balances. The general fund, the only major fund, is used to account for all financial resources and activities associated with the primary purpose for which PSRC was created. PSRC has no non-major funds.

Measurement Focus and Basis of Accounting

The government-wide financial statements are based on the flow of economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Revenues and receivables resulting from exchange and exchange-like transactions, such as member dues are recognized when the exchange takes place. Revenues and receivables from non-exchange transactions, such as federal and state grants and contributions, are recognized in conformity with GASB Statement No. 33, which requires recognition of grants and other similar items as soon as all applicable eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenue are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, PSRC considers revenues, including grants and member dues, to be available if they are collected within 60 days of the end of current fiscal year. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments are recorded only when payment is due.

New Accounting Pronouncements

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*, which requires the use of valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. The Statement also establishes a hierarchy of inputs to valuation techniques used to measure fair value. The required disclosures are presented in Note 3 to the financial statements.

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. GASB Statement No. 76 establishes the hierarchy of GAAP for state and local governments. The new standard is effective for periods beginning after June 15, 2015 and have been adopted for preparation of financial statements as of June 30, 2016. Implementation of this statement did not have a significant impact on PSRC's financial statements for the years ended June 30, 2016 nor 2015.

In March 2016, GASB issued Statement No. 82, *Pension Issues-An Amendment of GASB Statements No. 67, No. 68, and No. 73*. This statement addresses the specific issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements are effective for reporting periods beginning after June 15, 2016, except for the requirements for the selection of assumptions, in a circumstance in which an employer measures its pension liability as of a date other than its most recent fiscal year- end. In that circumstance, the requirements for those provisions are effective in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. The financial statements reflect implementation of applicable issues.

Budget Information

PSRC adopts a two-year budget. Grant revenues are recognized in the budget when they are awarded, regardless of whether the work will be performed in the current biennium. Grant revenues for work to be completed in the next biennium are reflected as encumbered revenues in the expenditures section of the budget. Amounts budgeted for salaries and benefits, overhead, consultants and other direct expenditures reflect the amounts related to grant work to be completed in the current biennium. The biennial budget includes the option for adjustment after the first year with a supplemental budget or simple budget amendment.

The budgetary comparison schedule contains the original and final budget information. The original budget is the first complete appropriated budget. The final budget is the original budget adjusted by all reserves, allocations, supplemental appropriations, and other legally authorized changes applicable for the year. Significant variances exist between actual and budgeted revenues and expenditures. These differences are most significant in the first year of the biennial budget cycle.

PSRC may over expend appropriations in those instances where no specific limit is identified. In these cases, services that have been appropriately authorized are considered to be eligible for payment and revenue is available to pay for the service.

Cash

Cash consists of cash and pooled investments. All PSRC funds and its component unit participate in the King County Investment Pool (the Pool) maintained by the King County Treasury Operation Section. The King County Treasurer acts as custodian for PSRC's cash. The Pool functions essentially as a demand deposit account where PSRC receives an allocation of its proportionate share of pooled earnings. Interest earnings distributed are used for PSRC's operations. The cash balance at the fiscal year end is reported at cost, which approximates the fair market value of pool shares.

Cash also includes \$10,000 in a revolving cash account which is maintained at U. S. Bank for small purchases and payments that must be made more quickly than King County's processing time allows.

Grants and Accounts Receivable

Grants receivable represents revenues and contracts for the current period that have been recorded but not received. Accounts receivable represents contributions and dues for the current period that have been recorded but not received. PSRC uses the allowance method to account

for uncollectible receivables. No allowance for uncollectible amounts has been recorded since management considers the balance in grants and accounts receivable to be fully collectible.

Prepays

PSRC accounts for prepaid assets using the consumption method. The purchase is reported as an asset and the recognition of the expenditures is deferred until the period in which the expense is actually incurred.

Capital Assets

Capital assets, including computers, equipment and software, are reported in the government-wide financial statements. Capital assets are defined by PSRC as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Costs for additions or improvements to capital assets are capitalized when they increase the effectiveness or efficiency of the asset.

The costs for normal maintenance and repairs are not capitalized.

Capital assets of the primary government, as well as the component unit, are depreciated using the straight-line method over the following estimated useful lives:

Software	3 years
Computers and equipment	5-8 years
Leasehold improvements	10 years

In the governmental fund financial statements capital asset purchases, including improvements, are recorded as expenditures in the year of acquisition, using the same measurement criteria as that used for the government-wide financial statements. Donated assets are not recorded in the governmental fund.

Accrued Liabilities and Compensated Absences

Accrued liabilities consist of accrued salaries, accrued employee benefits and compensated absences.

Compensated absences are absences for which employees will be paid, such as vacation and sick leave. All vacation and sick pay is accrued when incurred in the government-wide financial statements.

Employees hired after June 30, 1999 are only eligible for the Personal Time Bank Program (PTB) which combines vacation and sick leave into one bank of hours. Employees hired prior to July 1, 1999 may choose to retain a vacation and sick leave program. During open enrollment, employees with the vacation sick leave program may switch to the PTB program. Once they switch, they are not allowed to transfer back.

Employees earn PTB hours based upon their date of hire and years of service and may accumulate earned PTB hours up to a maximum of 360 hours. Unused PTB hours at retirement or normal termination are considered vested and payable to the employee. Earned but unused PTB hours are accrued as a liability of PSRC in the government-wide financial statements.

Employees no longer earn hours of sick leave for their services. However, some employees carry past balances and may carry sick leave balances up to a limit of 960 hours. Employees will not be paid for unused sick leave if they leave before retirement. Earned but unused sick leave is accrued as a liability of PSRC in the government-wide financial statements.

Membership Dues

Funding of PSRC is provided through federal, state and local grants and contributions, and membership dues assessed to local governments through special contractual arrangements. Membership dues are first distributed to match the grants and are then used for the general support of agency functions as allocated in the biennial budget and work program.

Deferred Inflows of Resources

In the governmental fund, deferred inflows of resources include grants that did not meet the availability criterion under the modified accrual basis. They also include PSRC's proportionate share of amounts reportable under the GASB 68 pension guidance.

Unearned Revenue

Unearned revenue are liabilities and should be distinguished from deferred inflows of resources. Amounts reported as unearned revenues are true obligations that PSRC has little or no discretion to avoid, including grant advance subject to eligibility requirements.

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.

Fund Balance Classification and Details

In the fund financial statements, governmental funds report the following classes of fund balances in accordance with GASB 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

Nonspendable fund balances are amounts that cannot be spent because they are either in a nonspendable form or are legally/contractually required to be maintained intact, including inventories, prepaid expenses, advances, etc.

Restricted fund balances are amounts that can be spent only for specific purposes stipulated by donors, grantors, creditors or by law.

Committed fund balances are amounts that are constrained for a specific purpose determined by a formal action of PSRC's General Assembly and Executive Board, PSRC's highest level of decision-making authority. The same action is required to remove or change the constraint as it did to impose the constraint.

Assigned fund balances are amounts constrained by the PSRC's intent that they will be used for specific purposes. PSRC has adopted its policy to delegate the authority to assign amounts to be used for specific purposes to its Policy Boards and Executive Director. PSRC's General Assembly adopted its budget, including \$1,332,000 which was assigned for contingency purposes.

The Executive Board approved increases to the contingency reserve going forward, up to the recommended level of two months of operating expenses. Dues increases fund the increases to the contingency reserve.

Unassigned fund balances are amounts not classified as nonspendable, restricted, committed or assigned in the general fund.

As of June 30, 2017, PSRC had nonspendable fund balances of \$135,517, resulting from prepaids, assigned fund balances of \$1,332,000 for contingency purpose, and an unassigned fund balance of \$3,362,517.

PSRC's spending policy of its general fund is restricted, assigned, committed, and unassigned. Restricted fund balances are spent first according to the purposes for which restricted funds are received. Unassigned funds are spent after committed and assigned funds have been exhausted.

Classification of Net Position

In the government-wide financial statements, net position is classified in the following three components:

Net Investment in Capital Assets – This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowing that are attributable to the acquisition, construction, or improvement of those assets. As of June 30, 2017, PSRC's net position invested in capital assets was \$164,802.

Restricted – This component of net position consists of external constraints imposed by creditors (through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation, that restrict the use of net assets. As of June 30, 2017, PSRC had a restricted net position of \$66,548 for CPSEDD.

Unrestricted – This component of net position consists of net position that does not meet the definition of "restricted" or "invested in capital assets, net of related debt". As of June 30, 2017, PSRC had an unrestricted net position of (\$282,990).

Accounting Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

NOTE 3 - DEPOSITS AND INVESTMENTS

It is PSRC's policy to invest all temporary cash surpluses in the King County Investment Pool (the Pool). The Pool is not registered with the Securities and Exchange Commission as an investment company. Oversight is provided by the King County Executive Finance Committee (EFC) pursuant to RCW 36.29.020. All investments are subject to written policies and procedures adopted by EFC.

The Pool functions as a demand deposit account where PSRC receives an allocation of its proportionate share of pooled earnings. Unrealized gains and losses due to changes in the fair values are not distributed to PSRC. As of June 30, 2017, PSRC had pooled investments totaling \$2,950,352 which approximates fair market value of the pooled investments.

Fair Value Hierarchy

PSRC categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

The following is a summary of inputs in valuing PSRC's investments as of June 30, 2017:

Investments at Fair Value Level	Fair Value 6/30/17	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobserv- able Inputs (Level 3)
U.S. Agency Securities	\$896,907		\$896,907	
Commercial Paper	115,064		115,064	
Bank Corporate Notes	460,255		460,255	
U.S. Agency Mortgage-backed Securities	2,950		2,950	
Treasury Securities	1,100,481	1,100,481		
Subtotals	\$2,575,658	\$1,100,481	\$1,475,176	-

Investments measured at amortized costs (not subject to Fair Value Hierarchy)

Repurchase Agreements	\$44,255
Local Government Investment Pool	<u>330,439</u>
Subtotal investments measured at cost	\$374,694
Total investments in Investment Pool	<u>\$2,950,352</u>

U.S. Treasury Securities are valued using quoted prices in active markets and classified in Level 1 of the fair value hierarchy.

U.S. Agency Securities, Commercial Paper, Bank Corporate Notes and U.S. Agency Mortgage-backed Securities are valued using standard inputs including benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data including market research publications.

Repurchase Agreements and Local Government Investment Pool are overnight securities and are not subject to GASB Statement No. 72.

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As of June 30, 2017, the Pool's average duration was 1.06 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 or losses are not distributed. The Pool distributes earnings monthly using an amortized cost methodology.

Credit Risk is the chance that an issuer will fail to pay principal or interest in a timely manner, or that negative perceptions of the issuer's ability to make these payments will cause the price of the investment to decline. As of June 30, 2017, PSRC's investments in the Pool were not rated by a nationally recognized statistical rating organization (NRSRO). In compliance with state statutes, the Pool is authorized to invest 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 depositories, repurchase agreements, and the Local Government Investment Pool managed by the Washington State Treasurer's office.

Custodial Credit Risk is the risk that in the event of the failure of the counterparty, PSRC will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Pool represents an interest in a group of securities and has no specific security subject to custodial risk.

The cash account at U. S. Bank is secured by the Federal Deposit Insurance Corporation (FDIC) for up to \$250,000. Deposits are not exposed to custodial credit risk since all deposits are covered by FDIC insurance.

NOTE 4 - CAPITAL ASSETS

Capital assets activities for the year ended June 30, 2017 were as follows:

	Beginning Balance 7/1/2016	Increases	Decreases	Ending Balance 6/30/2017
Capital assets being depreciated:				
Computers, equipment and software	\$1,121,926	47,839	(96,852)	\$1,072,914
Leasehold improvements	131,973			131,973
Total capital assets being depreciated	1,253,899	47,839	(96,852)	1,204,887
Less accumulated depreciation for:				
Computers, equipment and software	(916,726)	(86,162)	94,685	(908,203)
Leasehold improvements	(131,331)	(550)		(131,881)
Total accumulated depreciation	(1,048,057)	(86,712)	94,685	(1,040,084)
Total capital assets being depreciated, net	\$205,842	(38,873)	(2,167)	\$164,803

Depreciation expense of \$86,712 was charged to PSRC's regional planning and development program in the government-wide financial statements. Capital gain of \$1,833 was recognized on the disposal of equipment and is included in other revenues.

In the governmental fund capital outlay expense of \$47,839 was recorded for computers and equipment purchased during the year.

NOTE 5 - PENSION PLANS

The following table represents the aggregate pension amounts for all plans subject to the requirements of GASB 68 for the year 2017:

Aggregate Pension Amounts – All Plans	
Pension liabilities	\$5,870,274
Pension assets	\$0
Deferred outflows of resources	\$1,323,741
Deferred inflows of resources	\$120,604
Pension expense/expenditures	\$398,248

State Sponsored Pension Plans

Substantially all of the Regional Council'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%. 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%. 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 2017 were as follows:

PERS Plan 1		
Actual Contribution Rates:	Employer	Employee
Local Government Units	6.23%	6.00%
Administrative Fee	0.18%	-
PERS Plan 1 UAAL	4.77%	-
TOTAL	11.18%	6.00%

The Regional Council does not currently employ any PERS 1 staff. However, it continues to fund the PERS 1 Unfunded Actuarial Accrued Liability (UAAL) per RCW 41.45.060. PSRC made \$284,459 in contributions to the plan for the fiscal year ended June 30, 2017.

PERS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as 2% of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1% 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 3% 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 5% 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 3% 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 completely 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% and escalate to 15% 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%. 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 2017 were as follows:

PERS Plan 2/3			
Actual Contribution Rates:	Employer	Employee Plan 2	Employee Plan 3
Local Government Units	6.23%	6.12%	varies
Administrative Fee	0.18%	-	-
PERS Plan 1 UAAL	4.77%	-	-
TOTAL	11.18%	6.12%	varies

The Regional Council's actual contributions to the plan were \$371,524 for the fiscal year ended June 30, 2017.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2016 with a valuation date of June 30, 2015. 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 2015 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2016. Plan liabilities were rolled forward from June 30, 2015, to June 20, 2016, 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. OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100% 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.

Discount Rate

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

To determine that rate, an asset sufficiency test included an assumed 7.7% long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.7% except LEOFF 2, which has assumed 7.5%). Consistent with the long-term expected rate of return, a 7.5% 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% was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on DRS pension plan investments of 7.5% 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. 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% 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, 2016, are summarized in the table below. The inflation component used to create the table is 2.2% and represents 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%	1.7%
Tangible Assets	5%	4.4%
Real Estate	15%	5.8%
Global Equity	37%	6.6%
Private Equity	23%	9.6%
	100%	

Sensitivity of NPL

The table below presents the Regional Council's proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as what the Regional Council'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%) or 1-percentage point higher (8.5%) than the current rate.

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	\$3,215,716	\$2,666,654	\$2,194,152
PERS 2/3	\$5,898,440	\$3,203,620	(\$1,667,669)

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, 2017, the Regional Council reported a total pension liability of \$5,870,274 for its proportionate share of the net pension liabilities as follows:

	Liability or (Asset)
PERS 1	\$2,666,654
PERS 2/3	\$3,203,620

At June 30, the Regional Council's proportionate share of the collective net pension liabilities was as follows:

	Proportionate Share 6/30/16	Proportionate Share 6/30/17	Change in Proportion
PERS 1	0.053071%	0.049654%	(0.003417%)
PERS 2/3	0.063734%	0.063628%	(0.000106%)

Employer contribution transmittals received and processed by 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 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, 2016, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2015, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

Pension expense in the table below shows a \$22,218 adjustment made at the beginning of fiscal year 2017 to correct fiscal year 2016 pension expense ending balance due to GASB 68. For the year ended June 30, 2017, the Regional Council recognized pension expense as follows:

	Pension Expense
PERS 1	(\$44,533)
PERS 2/3	442,782
Prior Period Adjustment	22,218
TOTAL	\$420,467

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2016, the Regional Council 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
Differences between expected and actual experience	\$0	\$0
Net difference between projected and actual investment earnings on pension plan investments	67,142	0
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	284,459	0
TOTAL	\$351,601	\$0

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$170,590	\$105,756
Net difference between projected and actual investment earnings on pension plan investments	392,031	0
Changes of assumptions	33,112	0
Changes in proportion and differences between contributions and proportionate share of contributions	4,884	14,846
Contributions subsequent to the measurement date	371,524	0
TOTAL	\$972,141	\$120,602

Deferred outflows of resources related to pensions resulting from the Regional Council's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30, 2017	PERS Plan 1	PERS Plan 2/3
2018	(\$16,532)	(\$4,464)
2019	(16,532)	(631)
2020	61,663	299,520
2021	38,543	185,590
2022	0	0
Thereafter	0	0
TOTAL	\$67,142	\$480,015

Deferred Compensation Plan

PSRC offers a non-pension retirement plan in the form of a deferred compensation plan. PSRC offers all full-time employees a plan created in accordance with Internal Revenue Code (IRC) Section 457. The plan permits them to defer portions of their compensation until future years. All amounts of compensation deferred under the plan are held in trust by a third-party administrator, ICMA Retirement Corporation, for the exclusive benefit of the plan participants and their beneficiaries as prescribed by Internal Revenue Code Section 457 (g). Accordingly, these assets have been excluded from the accompanying financial statements.

NOTE 6 - COMPENSATED ABSENCES

Accrued compensated absences are reported in the government-wide financial statements as current liabilities. Changes in these liabilities were as follows:

	7/1/2016	Increases	Decreases	6/30/2017
Accrued personal time	\$495,231	\$565,821	\$546,451	\$514,601
Accrued sick leave	15,476	0	730	14,746
Total accrued leave	\$510,707	\$565,821	\$547,181	\$529,347

Amounts Due Within One Year

	Due within one year
Accrued personal time	\$518,014
Accrued sick leave	7,637
Total due within one year	\$525,651

PSRC calculates amounts due within one year based on the average of leave used in the three most recent fiscal years.

NOTE 7 - RELATED PARTIES

The Puget Sound Regional Council was organized in 1956 as the "Puget Sound Regional Planning Conference" by resolution of King, Kitsap, Pierce, and Snohomish Counties. The entity changed its name to the "Puget Sound Governmental Conference" in 1958. Several cities within those counties soon joined the entity, which in 1965 was reorganized consistent with changes in state law. In 1975, it was again reorganized as the "Puget Sound Council of Governments," and in 1991 as the "Puget Sound Regional Council."

CPSEDD and PSRC entered into a Memorandum of Agreement dated June 27, 2002 to cooperate and support economic planning activities within the region. The agreement allows both agencies to make the most efficient use of resources. PSRC bills CPSEDD for the services performed by PSRC staff and indirect costs based on its indirect cost plan approved by the Federal Transit Administration. For the fiscal year ending June 30, 2017, total PSRC contracted staff service expenses and related indirect costs incurred during the period amounted to \$405,716. PSRC also processes all CPSEDD's dues transactions, bill payments and cash receipts. CPSEDD reimburses PSRC for the net amount of transactions processed on its behalf. During the fiscal year, PSRC provided grant match funding and other contributions of \$294,588 to CPSEDD. As of June 30, 2017, the net balance due to PSRC from CPSEDD was \$8,461. These related party transactions are eliminated in the Regional Council's financial statements.

PSRC was created by a convocation of elected officials representing various central Puget Sound local governments on March 13, 1991. The convocation established PSRC as a separate legal entity to maintain the designation as the Metropolitan Planning Organization and the Regional

Transportation Planning Organization for the central Puget Sound region. An Interlocal Agreement was adopted by the local governments relating to the establishment and operation of PSRC.

The Interlocal Agreement discusses the following essential topics:

- Mission
- Establishment of Regional Planning Agency; Duration
- Membership and Representation
- General Organization
- Functions/Authority
- Relationship of Regional Planning Agency to Local and State Governments
- Funding of Agency Administration/Operations
- Withdrawals

The interlocal agreement also lays out the terms of dissolution:

“Upon termination of this Agreement any money or assets in possession of the Regional Planning Agency after payment of all liabilities, costs, expenses, charges validly incurred under this agreement, shall be returned to all contributing governments in proportion to their assessment determined at the time of termination. The debts, liabilities, and obligations of the Regional Planning Agency shall not constitute a debt, liability or obligation of any member agency.” Central Puget Sound local governments pay annual dues to PSRC to assist in funding the Biennial Budget and Work Program and match federal grants.

PSRC draws its membership, exercises its authority, and carries out its responsibilities pursuant to a variety of statutes, including without limitation:

- Chapter 39.34 RCW (Interlocal Cooperation Act)
- RCW 36.64.080-.110 (Joint Governmental Activities)
- RCW 36.70.060 (Regional Planning Commissions)
- Chapter 47.80 RCW (Regional Transportation Planning Organizations)
- Chapter 36.70A RCW (Growth Management Act)
- RCW 36.01.085 (County Economic Development Activities)
- RCW 35.21.703 (City Economic Development Activities)
- 23 USC §§134-135 (Metropolitan Planning Organizations)
- RCW 35.21.660-670, RCW 35A.35.020 (Model Cities)
- RCW 35.31.730-755 (Federally-assisted Programs, Projects, and Activities)
- RCW 35.63.070 (Regional Planning Commissions)
- 42 USC 3121, 42 USC 3211, 12 CFR 302 & 304 (Public Works and Economic Development Act of 1965)

PSRC membership includes unincorporated portions of the counties of King, Kitsap, Pierce and Snohomish. As well as different levels of membership shown below.

74 City Members, including:

Algona, Arlington, Auburn, Bainbridge Island, Beaux Arts, Bellevue, Black Diamond, Bonney Lake, Bothell, Bremerton, Buckley, Burien, Clyde Hill, Covington, Darrington, Du Pont, Duvall, Eatonville, Edgewood, Edmonds, Enumclaw, Everett, Federal Way, Fife, Fircrest, Gig Harbor, Granite Falls, Hunts Point, Issaquah, Kenmore, Kent, Kirkland, Lake Forest Park, Lake Stevens, Lakewood, Lynnwood, Maple Valley, Marysville, Medina, Mercer Island, Mill Creek, Milton, Monroe, Mountlake Terrace, Mukilteo, Newcastle, Normandy Park, North Bend, Orting, Pacific, Port Orchard, Poulsbo, Puyallup, Redmond, Renton, Ruston, Sammamish, SeaTac, Seattle, City of Seattle - Office of Economic Dev, Shoreline, Skykomish, Snohomish, Snoqualmie, Stanwood,

Steilacoom, Sultan, Sumner, Tacoma, Tukwila, University Place, Woodinville, Woodway, and Yarrow Point.

4 Indian Tribe Members, including:

The Puyallup Tribe of Indians, the Suquamish Tribe, and the Muckelshoot Indian Tribal Council.

10 Associate-Level Members, including:

Island County, Thurston Regional Planning Council, Port of Edmonds, Snoqualmie Tribe, Tulalip Tribes, Puget Sound Partnership, Washington Aerospace Office, University of Washington, Alderwood Water and Wastewater District, and Washington State University.

5 Statutory Members, including:

Ports of Bremerton, Everett, Seattle, and Tacoma. Also, the State Transportation Commission.

6 Transit Members, including:

Sound, King County-Metro, Pierce, Community, Everett and Kitsap Transit Agencies.

NOTE 8 - RISK MANAGEMENT

PSRC is exposed to various risks of loss related to torts, thefts of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. These risks are covered by commercial insurance purchased from independent third parties and participation in the Washington State Department of Labor and Industries program for worker's compensation coverage. Settlements of claims did not exceed insurance coverage for any of the past three years.

NOTE 9 - LEASES

PSRC leases various postage equipment and office facility. The terms of the office facilities lease provide for the lessor to retain a security deposit. PSRC signed the third amendment to the lease beginning June 1, 2014 and extending the agreement through May 31, 2024. The security deposit is refundable to PSRC at the end of the amended lease agreement. \$916,308 was paid for rent in fiscal year 2017.

The future minimum payments for the office facility lease are as follows (Payments June – May of each fiscal year):

2018	924,732
2019	951,930
2020	979,128
2021	1,006,326
2022	1,033,524
Thereafter	<u>2,148,642</u>
Total	\$ 7,044,282

NOTE 10 - CONTINGENCIES AND LITIGATIONS

PSRC participates in a number of federal and state assisted programs. These grants are subject to audit by the grantors or their representatives. Such audits could result in requests for reimbursements to grantor agencies for expenditures disallowed under the terms of the grant. Based upon prior experience, management believes such disallowances, if any, will be immaterial.

**PUGET SOUND REGIONAL COUNCIL
GOVERNMENT-WIDE FINANCIAL STATEMENTS
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2017**

	Original Budget (Note 1)	Final Budget	Actual (Note 2)	Variance (Note 4)
Budgetary fund balance, July 1, 2015			4,785,509	
Resources (inflows):				
Carryover	\$ 5,173,000	\$ 6,489,000	\$ -	\$ 6,489,000
Participating member dues	3,129,000	3,131,000	3,130,340	660
Local transit dues	923,000	923,000	922,576	424
Federal and state grants	15,490,000	16,756,000	17,454,964	(698,964)
Other services and support	40,000	429,000	358,833	70,167
Anticipated revenue	804,000	315,000	-	315,000
Amounts available for appropriation	\$ 25,559,000	\$ 28,043,000	\$ 21,866,712	\$ 6,176,288
Expenditures (outflows):				
Salaries and benefits	\$ 17,846,000	\$ 17,201,000	\$ 16,665,137	\$ 535,863
Overhead	3,927,000	3,236,000	2,983,341	252,659
Consultants and other direct expenditures	1,750,000	3,347,000	2,173,709	1,173,291
Encumbered revenue	804,000	3,007,000		3,007,000
Contingency (Note 3)	1,232,000	1,252,000		1,252,000
Total charges to appropriations	\$ 25,559,000	\$ 28,043,000	\$ 21,822,187	\$ 6,220,813
Excess of revenues over expenditures			44,526	
Budgetary fund balance, June 30, 2017			\$ 4,830,034	

Notes:

Note 1 - See Financial Statement Note 1 for the policy of budget preparation.

Note 2 - CPSEDD is a blended component unit of PSRC and included in the budget.

Note 3 - Contingency represents funds set aside for future unanticipated events; its use is subject to approval by the Executive Board.

Note 4 - See variance analysis in Management's Discussion and Analysis.

Note 5 - PSRC uses Generally Accepted Accounting Principles (GAAP) as its basis of budgeting. Expenditures are matched to current revenues and excess budgetary revenues are encumbered for future use.

REQUIRED SUPPLEMENTARY INFORMATION

Puget Sound Regional Council
Schedule of Proportionate Share of the Net Pension Liability
Washington Public Employees Retirement System 1
As of June 30, 2017

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Employer's proportion of the net pension liability (asset)	0.053261%	0.05307%	0.049654%							
Employer's proportionate share of the net pension liability	\$ 2,683,048	2,776,107	2,666,654							
Covered Payroll (1)	\$ 125,853	0	0							
Employer's proportionate share of the net pension liability as a percentage of covered payroll	2132%	0.00%	0.00%							
Plan fiduciary net position as a percentage of the total pension liability	61.19%	59.10%	57.03%							

Notes to Schedule:

PSRC will continue to compile contributions figures going forward so that there is 10 years of comparative data available in future years.

(1) Covered Payroll is the payroll on which contributions to a pension plan are based (GASB 82, paragraph 5)

REQUIRED SUPPLEMENTARY INFORMATION

Puget Sound Regional Council
Schedule of Employer Contributions
Washington Public Employees Retirement System 1
As of June 30, 2017

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
<u>Contractually required contributions</u>	\$ 16,539	283,946	284,459							
Contributions in relation to the contractually required contributions	\$ (16,539)	(283,946)	(284,459)							
Contribution deficiency (excess)	\$ 0	0	0							
<u>Covered payroll (1)</u>	\$ 125,853	0	0							
<u>Contributions as a percentage of covered payroll</u>	13.14%	0.00%	0.00%							

Notes to Schedule:

PSRC will continue to compile contributions figures going forward so that there is 10 years of comparative data available in future years.

(1) Covered Payroll is the payroll on which contributions to a pension plan are based (GASB 82, paragraph 5)

REQUIRED SUPPLEMENTARY INFORMATION

Puget Sound Regional Council Schedule of Proportionate Share of the Net Pension Liability Washington Public Employees Retirement System 2/3 As of June 30, 2017

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Employer's proportion of the net pension liability (asset)	0.063519%	0.063734%	0.063628%							
Employer's proportionate share of the net pension liability	\$ 1,283,948	2,277,252	3,203,620							
Covered payroll (1)	\$ 4,919,831	5,952,733	5,963,487							
Employer's proportionate share of the net pension liability as a percentage of covered payroll	26.10%	38.26%	53.72%							
Plan fiduciary net position as a percentage of the total pension liability	93.29%	89.2%	85.82%							

Notes to Schedule:

PSRC will continue to compile contributions figures going forward so that there is 10 years of comparative data available in future years.

(1) Covered Payroll is the payroll on which contributions to a pension plan are based (GASB 82, paragraph 5)

REQUIRED SUPPLEMENTARY INFORMATION

Puget Sound Regional Council
Schedule of Employer Contributions
Washington Public Employees Retirement System 2/3
As of June 30, 2017

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
<u>Contractually required contributions</u>	\$ 521,715	370,855	371,524							
Contributions in relation to the contractually required contributions	\$ (521,715)	(370,855)	(371,524)							
Contribution deficiency (excess)	\$ 0	0	0							
<u>Covered payroll (1)</u>	\$ 4,919,831	5,952,733	5,963,487							
<u>Contributions as a percentage of covered payroll</u>	10.60%	6.23%	6.23%							

Notes to Schedule:

PSRC will continue to compile contributions figures going forward so that there is 10 years of comparative data available in future years.

(1) Covered Payroll is the payroll on which contributions to a pension plan are based (GASB 82, paragraph 5)

Washington State Auditor's Office

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(EPA), (United States Endowment for Healthy Watersheds Consortium
Forestry and Communities) Grant Program

66.441	E16_HWS	58,376	-	58,376	01,2,4
Total Federal Awards Expended: \$		6,679,578 \$	1,292,314 \$	7,971,893 \$	62,400

The accompanying notes are an integral part of this schedule.

NOTES:

NOTE 1 - BASIS OF ACCOUNTING

The schedule of expenditures of federal awards is prepared on the accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of 2 CFR 200 "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards". Therefore, some amounts presented in this schedule may differ from amounts presented, or used in the preparation of the basic financial statements.

NOTE 2 - PROGRAM COST

The amounts shown as current year expenditures represent only the Federal grant portion of the program cost. Entire program cost, including Puget Sound Regional Council's portion, may be more than shown.

NOTE 3 - MPO PLANNING FUNDS

For purposes of this report, these have been reported separately, although the state consolidates these under agreement number GCB 1768A.

NOTE 4 - INDIRECT COST RATE

The Council has not elected to use the 10-percent de minimus indirect cost rate allowed under the Uniform Guidance. The amount expended includes \$2,766,698 claimed as an indirect cost recovery using an approved indirect cost rate of 53.73% of direct salaries and benefits.

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.

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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