Office of the Washington State Auditor
Pat McCarthy

## Financial Statements Audit Report

# King County Directors Association

**For the period January 1, 2022 through December 31, 2022**

*Published February 5, 2024*

Report No. 1034155

# Office of the Washington State Auditor
# Pat McCarthy

February 5, 2024

Board of Directors
King County Directors Association
Kent, Washington

## Report on Financial Statements

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

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

Sincerely,

Pat McCarthy

Pat McCarthy, State Auditor

Olympia, WA

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## Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

**King County Directors Association**
**January 1, 2022 through December 31, 2022**

Board of Directors
King County Directors Association
Kent, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States, the financial statements of the King County Directors Association, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the Association's basic financial statements, and have issued our report thereon dated January 29, 2024.

## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

Our consideration of internal control was for the limited purpose described above and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified.

Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

## REPORT ON COMPLIANCE AND OTHER MATTERS

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

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

## PURPOSE OF THIS REPORT

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

Pat McCarthy

Pat McCarthy, State Auditor

Olympia, WA

January 29, 2024

# INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

**King County Directors Association**
**January 1, 2022 through December 31, 2022**

Board of Directors
King County Directors Association
Kent, Washington

## REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

### Opinion

We have audited the accompanying financial statements of the King County Directors Association, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the Association's basic financial statements as listed in the financial section of our report.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the King County Directors Association, as of December 31, 2022, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Association and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

Performing an audit in accordance with GAAS and *Government Auditing Standards* includes the following responsibilities:

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, no such opinion is expressed;
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements;
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern for a reasonable period of time; and

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### 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 in the financial section of our report be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

## OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 2024 on our consideration of the Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Association's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Association's internal control over financial reporting and compliance.

Pat McCarthy

Pat McCarthy, State Auditor

Olympia, WA

January 29, 2024

# FINANCIAL SECTION

**King County Directors Association**
**January 1, 2022 through December 31, 2022**

## REQUIRED SUPPLEMENTARY INFORMATION



## BASIC FINANCIAL STATEMENTS



## REQUIRED SUPPLEMENTARY INFORMATION

**KING COUNTY DIRECTORS ASSOCIATION**
**MANAGEMENT DISCUSSION AND ANALYSIS**
**FOR YEAR ENDED DECEMBER 31, 2022**

The King County Directors Association (KCDA) presents this Management Discussion and Analysis (MD&A), which provides a comprehensive overview of our operational results and financial condition for the year ended December 31, 2022. This report highlights material changes in our financial condition and results of operations and serves as a valuable tool for stakeholders seeking to understand our organization's performance.

As a public agency, KCDA provides centralized procurement services to member school districts and public agencies. Our cooperative purchasing program enables members to purchase goods and services at a reduced cost through collective bargaining, fulfilling legal procurement requirements and saving time and costs. We generate revenue through service fees charged on warehouse and direct ship orders of our members or vendors.

We encourage readers to consider this MD&A in conjunction with additional information furnished with the financial statements and accompanying notes. Together, these materials provide a comprehensive understanding of KCDA's financial and operational performance.

## FINANCIAL HIGHLIGHTS

- In 2022, KCDA achieved a total operating revenue of $194.1 million, which was comparable to the previous year's revenue. However, we saw a notable 18% increase in warehouse sales and a slight 2% decrease in direct ship sales, which positively impacted our service fees and overall financial performance.
- Operating expenses remained stable at $191.9 million, consistent with the prior year.
- Despite a decrease of $0.2 million or 8.6% in the change in net position for 2022, totaling $2.4 million, KCDA maintained strong financial standing.
- The net position increased by 18.5% to $14.5 million, reflecting our operational efficiency.

## OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A serves as an introduction to KCDA's basic financial statements, which consist of four components: the statement of net position, the statement of revenues, expenses and changes in net position, the statement of cash flows, and the notes to the financial statements. Additionally, this report includes supplementary information that provides further details to support the basic financial statements.

**The statement of net position** presents information on KCDA's assets and deferred outflows of resources, as well as liabilities and deferred inflows of resources. The difference between them is reported as net position. Over time, increases and decreases in net position can serve as an essential indicator of KCDA's financial position.

**The statement of revenues, expenses, and changes in net position** provides information on how KCDA's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event that led to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported for some items that will not result in cash flows until future fiscal periods, such as unused vacation leave.

**The statement of cash flows** presents information on cash receipts, payments, and net changes in cash resulting from KCDA's operating, investing, and financing activities during the fiscal year.

**The notes to the financial statements** provide additional information that is critical to fully understand the data presented in the accompanying financial statements.

Throughout this analysis of financial statements, percentages and ratios were calculated and rounded using the actual detail from the financial statements.

## FINANCIAL ANALYSIS

KCDA's net position serves as a crucial indicator of our financial position over time. At December 31, 2022, our assets and deferred outflows of resources exceeded our liabilities and deferred inflows of resources by $14.5 million, compared to $12.3 million reported at December 31, 2021. This increase of $2.2 million or 18.4% reflects the efficiency of our operations and the financial strength of our organization.

**KING COUNTY DIRECTORS ASSOCIATION**
**Condensed Comparative Statement of Net Position**

| | 2022 | 2021 | Change |
|---|---|---|---|
| **Assets** | | | |
| Current assets | $ 28,793,427 | 25,233,091 | 3,560,337 |
| Non-current assets | 937,877 | 2,561,130 | (1,623,253) |
| Capital assets (net) | 3,426,468 | 3,048,384 | 378,084 |
| Total assets | 33,157,772 | 30,842,604 | 2,315,168 |
| **Deferred Outflows of Resources** | 930,922 | 294,891 | 636,031 |
| **Liabilities** | | | |
| Current liabilities | 18,036,038 | 15,953,263 | 2,082,775 |
| Non-current liabilities | 554,913 | 252,023 | 302,890 |
| Total liabilities | 18,590,952 | 16,205,286 | 2,385,665 |
| **Deferred Inflows of Resources** | 982,643 | 2,677,797 | (1,695,154) |
| **Net Position** | | | |
| Restricted | 4,340,941 | 3,440,914 | 900,028 |
| Unrestricted | 10,174,158 | 8,813,498 | 1,360,660 |
| **Total Net Position** | $ 14,515,099 | 12,254,412 | 2,260,687 |

In 2022, KCDA's total assets had a year-end balance of $33.2 million, primarily due to an increase in accounts receivable. Accounts receivable had an ending balance of $13.8 million, representing the largest portion of total assets. Although there was a 41.8% increase or $4.1 million in accounts receivable compared to the previous fiscal year, this was mainly due to timing at year-end, and the balance dropped back to normal in the following period. Inventory had an ending balance of $9.7 million, which decreased by 3.8% or $0.4 million compared to the previous year, falling within a reasonable range of normal variation.

KCDA's cash balance in the current fiscal year was $1.2 million, an increase of 11.6% or $0.1 million, providing adequate support for warrant transactions. KCDA's net pension assets, classified as a restricted asset, ended the year at $0.9 million, which decreased by 63.4% or $1.6 million, mainly due to actuarial changes in the estimation of pension obligation.

Total liabilities at the end of 2022 were valued at $18.6 million, an increase of 14.7% or $2.4 million from year-end 2021. The most substantial portion of total liabilities was accounts payable with an ending balance of $14.1 million, reflecting payment timing differences similar to those seen with accounts receivable. The line of credit at the end of 2022 was $3.5 million, a decrease of 22.2% or $1.0 million compared to $4.5 million reported at the end of 2021.

The statement of net position provides information on the financial health of an organization by showing changes in assets, liabilities, deferred inflows/outflows of resources, and net position. However, to gain insight into the sources of these changes, we need to refer to the statement of revenues, expenses, and changes in net position.

**KING COUNTY DIRECTORS ASSOCIATION**

**Condensed Comparative Statement of Revenues, Expenses and Changes in Net Position**

| | 2022 | 2021 | Change |
|---|---|---|---|
| **Revenue** | | | |
| Merchandise billings | $ 193,570,321 | 193,416,235 | 154,086 |
| Service fees - contract billings | 536,910 | 468,446 | 68,465 |
| Nonoperating revenue | 31,593 | 471,739 | (440,146) |
| Total revenue | 194,138,825 | 194,356,420 | (217,595) |
| **Operating Expenses** | | | |
| Cost of merchandise billed | 183,793,002 | 185,006,929 | (1,213,927) |
| Operating expenses | 8,037,300 | 6,517,946 | 1,519,354 |
| Interest expense | 47,836 | 80,471 | (32,635) |
| Loss on asset disposal | 0 | 278,939 | (278,939) |
| Total expenses | 191,878,137 | 191,884,284 | (6,147) |
| **Change in Net Position** | 2,260,687 | 2,472,136 | (211,448) |
| **Beginning Net Position** | 12,254,412 | 9,782,276 | 2,472,136 |
| **Ending Net Position** | $ 14,515,099 | 12,254,412 | 2,260,687 |

In the fiscal year 2022, KCDA's merchandise billings increased modestly by $0.2 million compared to the previous year. This growth was primarily driven by warehouse sales, which increased by 17.9% or $3.7 million to $24.4 million. This increase was due to active school class activities and the effects of inflation throughout the year. However, direct ship sales decreased slightly by 2.2% or $3.5 million, amounting to $155.8 million in fiscal year 2022. This decline was due to constrained capital projects, and tightened fund controls. Despite the weakness in direct ship sales, the overall revenue growth in fiscal year 2022 was positive, primarily driven by the growth in warehouse sales.

KCDA collected $0.5 million in service fees from AEPA vendors, an increase of 14.6% compared to the previous year. These vendors did not use KCDA's purchase order system, but provided quarterly transaction reports, which included the specified service fees outlined in their contracts.

Non-operating revenue for the year included a sublease income of $10.0 thousand from rental income received for parking space, although this agreement was terminated at the end of 2022. In addition, KCDA recorded an interest income of $21.6 thousand from our investment pool as part of our non-operating revenue.

In 2022, the cost of merchandise billed decreased slightly by 0.7%, amounting to $1.2 million compared to the previous year. However, operating expenses for the fiscal year 2022 were $8.1 million, representing a significant increase of 23.3% or $1.5 million from the previous year. This increase was primarily due to full-scale business operations and inflationary pressures.

Employee salaries and benefits were a major contributor to the increase in operating expenses, rising by $0.9 million or 29.0% compared to the previous fiscal year. This increase was mainly due to a reduction in the pension adjustment applied in the previous year. Operating expenses, excluding salaries and benefits, amounted to $3.9 million or 7.5%, which also increased from the previous year. This increase was primarily due to an uptick in freight and warehouse supplies expenses, initiated by full business operations, and a corresponding rise in prices during the year.

Despite prevailing economic challenges, KCDA managed to maintain an overall net position of $2.3 million, primarily driven by strong warehouse sales. However, this amount decreased by $0.2 million or 8.6% compared to the previous fiscal year due to the absence of loan forgiveness that was granted in 2021. In summary, KCDA's fiscal year 2022 showcased favorable revenue growth attributable to robust warehouse sales, while operating expenses increased as a result of full-scale business operations and the impact of inflationary pressures.

## CAPITAL ASSET AND DEBT ADMINISTRATION

As of December 31, 2022, KCDA's business operations reported a total of $3.4 million in capital assets, net of depreciation. These assets comprise a range of items, including land, warehouse and office buildings, non-building improvements, warehouse fixtures, computers, software, and other equipment. Notably, KCDA's completed projects under development, such as the conveyor belt system in the warehouse, saw $0.7 million reclassified to warehouse fixtures and equipment. This addition was the primary driver of the $0.4 million increase in capital assets from the previous year.

For a more detailed breakdown of KCDA's 2022 capital assets, please refer to the following summary and Note 3 in the Notes to the Financial Statements.

**Capital Assets**

| | 2022 | 2021 | Change |
|---|---|---|---|
| Land/Under Development | $ 285,108 | 606,864 | (321,756) |
| Warehouse/Office building | 803,475 | 714,977 | 88,498 |
| Office equipment and systems | 1,305,438 | 1,427,274 | (121,836) |
| Warehouse fixture and equipment | 1,027,034 | 291,887 | 735,147 |
| Lease asset | 5,413 | 7,381 | (1,968) |
| **Total** | $ 3,426,468 | 3,048,384 | 378,084 |

* Net of depreciation

## LONG-TERM DEBT

As of the reporting period, KCDA maintained a strong financial position with no outstanding long-term debt. However, to meet specific purchase obligations while awaiting the receipt of accounts receivable from members, the organization utilized a tax-exempt revolving note series 20, which functions as a line of credit with a maximum available amount of $12.0 million that is renewable annually. The line of credit serves as a flexible short-term loan option and allows KCDA to effectively manage its cash flow. As of December 31, 2022, the outstanding balance on the line of credit is $3.5 million, and the organization remains committed to utilizing it prudently to maintain its strong financial position. Please see Note 4 on the Notes to the Financial Statements for more information regarding the line of credit.

## Requests for Information

The purpose of this financial report is to offer a comprehensive overview of KCDA's financial activities for stakeholders and other interested parties. If you have any queries about the data presented in this report, or require further financial information, please direct your inquiries to the appropriate channels listed below.

KCDA
18639 80th Ave S. Kent, WA 98032

**KING COUNTY DIRECTORS ASSOCIATION**
**STATEMENT OF NET POSITION**
**As of December 31, 2022**

| | |
|---|---|
| **ASSETS** | |
| **CURRENT ASSETS** | |
| Cash and Cash Equivalents | $ 1,187,800 |
| Accounts Receivable, Net | 13,800,313 |
| Contract Receivable | 3,847,474 |
| Inventory | 9,685,993 |
| Prepayments | 271,848 |
| **Total Current Assets** | **28,793,427** |
| **NON-CURRENT ASSETS** | |
| Restricted Assets | |
| Net Pension Assets | 937,877 |
| Capital Assets | |
| Land/Under Development | 285,108 |
| Warehouse/Office Building | 3,438,027 |
| Office Equipment & Systems | 3,742,991 |
| Warehouse Fixtures & Equipment | 2,614,788 |
| Lease Asset | 9,349 |
| Less Accumulated Depreciation | (6,663,796) |
| Total Capital Assets, Net | 3,426,468 |
| **Total Noncurrent Assets** | **4,364,344** |
| **TOTAL ASSETS** | **33,157,772** |
| **DEFERRED OUTFLOWS OF RESOURCES** | |
| Deferred Outflows on Pension | 930,922 |
| **TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES** | **34,088,694** |
| **LIABILITIES** | |
| **CURRENT LIABILITIES** | |
| Accounts Payable | 14,144,084 |
| Salaries and Related Payables | 231,964 |
| Compensated Absences, Current | 156,743 |
| Notes Payable | 3,500,000 |
| Lease Liability, Current | 1,964 |
| Other Liabilities | 1,284 |
| **Total Current Liabilities** | **18,036,038** |
| **NONCURRENT LIABILITIES** | |
| Compensated Absences | 12,709 |
| Lease Liability | 3,513 |
| Net Pension Liability | 538,691 |
| **Total Noncurrent Liabilities** | 554,913 |
| **DEFERRED INFLOWS OF RESOURCES** | |
| Deferred Inflows on Pension | 982,643 |
| **TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES** | **19,573,595** |
| **NET POSITION** | |
| Net Investment in Capital Assets | 3,426,468 |
| Restricted for Pensions | 914,474 |
| Unrestricted | 10,174,158 |
| **TOTAL NET POSITION** | **$ 14,515,099** |

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

## KING COUNTY DIRECTORS ASSOCIATION
## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
## For the Year Ended December 31, 2022

| | | |
|---|---|---|
| **OPERATING REVENUES** | | |
| Merchandise Billings, Net | $ | 193,570,321 |
| Contract Service | | 536,910 |
| Total Operating Revenue | | 194,107,231 |
| **OPERATING EXPENSES** | | |
| Cost of Merchandise Billed | | 183,793,002 |
| Salaries and Benefits | | 4,119,271 |
| Freight | | 2,375,301 |
| General Operations | | 305,690 |
| Maintenance | | 88,717 |
| IT and Software | | 317,246 |
| General Administration | | 298,994 |
| Depreciation | | 335,993 |
| Travel | | 36,135 |
| Utilities | | 138,331 |
| Other Operating Expenses | | 21,623 |
| Total Operating Expenses | | 191,830,302 |
| **OPERATING INCOME** | | **2,276,930** |
| **NONOPERATING REVENUES (EXPENSES)** | | |
| Sublease Income | | 10,000 |
| Investment Interest Income | | 21,593 |
| Note Interest Expense | | (47,836) |
| Total Nonoperating Income (Expenses) | | (16,243) |
| **CHANGE IN NET POSITION** | | **2,260,687** |
| **NET POSITION, Beginning of Year** | | 12,254,412 |
| **NET POSITION, End of Year** | **$** | **14,515,099** |

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

## KING COUNTY DIRECTORS ASSOCIATION
## STATEMENT OF CASH FLOWS
## For the Year Ended December 31, 2022

| | |
|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | |
| Cash Receipts from Customers and Other Parties | $ 190,285,900 |
| Cash Payments to Suppliers | (184,323,408) |
| Cash Payments for Payroll and Related Costs | (4,107,050) |
| Net Cash Flows from Operating activities | 1,855,443 |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | |
| Interest Expense | (47,836) |
| Cash Payments for Note Payable | (1,000,000) |
| Net Cash Flows from Noncapital Financing Activities | (1,047,836) |
| **CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES** | |
| Purchase of Capital Assets | (716,010) |
| Net Cash Flows from Capital Financing Activities | (716,010) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | |
| Interest Income | 21,593 |
| Sublease Income | 10,000 |
| Net Cash Flows from Investing Activities | 31,593 |
| **Net Change in Cash** | **123,191** |
| **Cash and Cash Equivalents, Beginning of Year** | **1,064,609** |
| **Cash and Cash Equivalents, End of Year** | **1,187,800** |

| | |
|---|---|
| **RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES** | |
| Operating Income | 2,276,930 |
| Adjustments to Reconcile Operating Income to Net Cash Flow from Operating Activities | |
| Depreciation | 335,993 |
| Pension from change in net pension asset/liability | (413,853) |
| Change in Operating Assets & Liabilities | |
| Accounts receivable | (3,821,331) |
| Inventory | 381,045 |
| Prepaid expense | 3,140 |
| Accounts payable | 3,130,945 |
| Salaries | 12,221 |
| Compensated absence | (2,587) |
| Other liabilities | (47,059) |
| Cash Flows from Operating Activities | $ 1,855,443 |

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

## NOTE 1 – SUMMARY SIGNIFICANT ACCOUNTING POLICIES

The King County Directors Association (KCDA) was established by the Washington State public school districts in accordance with RCW 28A.320.080, to provide centralized procurement services to member school districts and public agencies. KCDA's primary objectives are to streamline procurement processes, enhance efficiency, and reduce costs while complying with all legal procurement requirements. To achieve this, KCDA manages centralized receiving, warehousing, and distribution services, and offers a diverse range of contracts to provide a one-stop-shop for consumable supplies, capital projects, facilities projects, and technology equipment. This report presents a comprehensive overview of all revenue sources, expenditure records, and the distribution of surplus.

### A. Basis of Accounting and Presentation

The financial statements have been prepared in accordance with Generally Accepted Accounting Principles (GAAP) in the United States of America and accounting standards established by the Governmental Accounting Standards Board (GASB) for state and local government entities. KCDA utilizes the accrual basis of accounting to recognize revenues when earned and expenses when incurred, with the exception of interest on assessments, which is recorded upon receipt. Additionally, capital projects are accounted for through capitalization, long-term liabilities are reflected in the appropriate accounts, and non-operating income includes gains and losses from the disposal of assets as well as interest income. KCDA maintains its accounting records in accordance with the guidelines prescribed by the Washington State Auditor's Office.

### B. Cash and Cash Equivalents

Cash balances for each presented year in the balance sheet and statement of cash flows have been consolidated into a single total. KCDA considers highly liquid investments with a maturity of three months or less as cash equivalents, which include demand deposits in banks and marketable securities. KCDA has contracted with King County for treasurer services to manage its investment and deposit activities. For additional details on KCDA's investment and deposit policies, please refer to "Note 2."

### C. Accounts Receivable

KCDA recognizes receivables upon the issuance of invoices and includes all outstanding billings to its members. Payment terms for Class 1 Washington public school districts and other types of Washington government agencies are net 40 days, while private school members with bonds receive the same terms. Private schools without bonds are required to pay invoices before merchandise delivery and receive no discounts. Out-of-state public schools and public agencies have net 40 days to pay their bills. Class 2 Washington public school districts have net 45 days to pay. KCDA considers all accounts receivable to be collectible due to the infrequent incidence of bad debts and therefore does not include an allowance for doubtful accounts in its accounts receivable.

### D. Inventory

KCDA's inventory comprises goods held for future sale to its members and is recorded at the lower of cost or market value. To determine the cost of inventory, KCDA utilizes the weighted moving average method. This method calculates the average cost of all inventory items held by KCDA during the reporting period, with the average cost adjusting over time as new inventory is received and older inventory is sold.

## E. Capital Assets and Depreciation

KCDA considers capital assets as those with an initial cost exceeding $1,000 and an estimated useful life of over one year. Costs for significant capital asset expenses, such as major repairs that extend their useful life, are capitalized, while expenses for maintenance, repairs, and minor renewals are recognized as expenses when incurred. The straight-line method is used to depreciate depreciable assets. The cost of capital assets is credited to the asset account when sold or retired, and the related depreciation is charged to the accumulated depreciation account. Any gain or loss from the sale or retirement of capital assets is included in the income statement.

## F. Leases

Leases are contractual agreements that transfer control of the right to use a nonfinancial asset from one entity to another for a specified period in exchange or exchange-like transactions. KCDA records all leases as capital assets, except for those with a maximum term of 12 months or less, including options to extend. Lease liabilities are recognized at the present value of the fixed lease payments, reduced by any incentives, using a discount rate based on similarly secured borrowings available. Lease assets are recognized based on the initial present value of the fixed lease payments, reduced by any incentives, and any direct costs from executing the leases.

For short-term leases, payment provisions in the contract are used to recognize lease payments. Lease assets are amortized within operating expenses on a straight-line basis over the shorter estimated useful lives of the assets or the lease term. The interest components of the lease are included in interest expense and recognized using the effective interest over the lease term.

## G. Compensated Absences

Compensated absences refer to employee absences, such as those for vacation and sick leave, that are paid by the employer. KCDA recognizes unpaid leave for compensated absences as both an expense and liability at the end of each calendar year, specifically on December 31. Regular full-time or part-time employees may accumulate up to 300 hours of vacation pay, which is payable upon resignation, subject to a two-week notice period. However, any unused sick leave is forfeited by employees upon both voluntary and involuntary termination, and no payout is made.

## H. Prepayments

Prepaid expenses represent costs paid in advance for future use over a short-term period. For example, insurance premiums are typically paid in advance of the coverage period, with the portion of the payment relating to future periods recorded as a prepaid expense. Prepaid expenses are recognized as assets on the balance sheet and are amortized as expenses over the periods benefited.

## I. Revenues and Expenses

Operating revenues are generated primarily from billings to members for goods and services and from rebates for using KCDA contracts. Each billing includes the cost of the product, Washington State sales tax, and a service fee to cover KCDA's operating costs. Additional non-operating revenues are typically received from interest income on investments, short-term rental of parking spaces, and gains on the sale of capital assets. Revenues are classified as operating or non-operating in the statement of revenues, expenses, and changes in net position.

Operating expenses are the direct costs necessary for providing KCDA services. Non-operating expenses are all other expenses that do not meet the definition of an operating expense.

## J. Interest Income and Expense

KCDA earns interest income by investing its cash balances in the King County investment pool (as detailed in Note 2 of the financial statements). During its non-peak operating months, which are from October through April, KCDA typically has cash balances to invest. However, during other months when large quantities of school supplies are purchased for summer annual orders, KCDA experiences a cash flow deficit and needs to borrow funds in the short-term. To do so, KCDA either sells commercial paper (CP) or utilizes a bank line of credit (LOC) (as described in Note 4).

Funds received from accounts receivable collections are deposited daily in the County investment pool. During non-peak months, KCDA sometimes elects to keep the LOC extended (or CP issued) to reinvest the proceeds at higher interest rates being paid by the County. KCDA does so in a manner that does not trigger the arbitrage rebate requirements of the Internal Revenue Code. Therefore, KCDA is sometimes borrowing and investing simultaneously.

KCDA accounts for interest income and expense by offsetting them. The net amount is classified in the financial statements as operating interest expense in the peak months when the LOC (or CP) interest expense is greater than the interest income. During these peak months, KCDA's operations are being financed by borrowing. In non-peak months when interest income exceeds LOC (or CP) interest expense, the net amount is classified in the financial statements as other income in the investment interest income account.

### K. <u>Pensions</u>

To measure the net pension liability, net pension asset, deferred outflows of resources, deferred inflows of resources related to pensions, and pension expense, KCDA uses information about the fiduciary net position of all state-sponsored pension plans, as well as additions to and deductions from those plans' fiduciary net position. This information is reported by the Washington State Department of Retirement Systems, and for consistency, KCDA follows the same basis of reporting. In accordance with the benefit terms, benefit payments (including refunds of employee contributions) are recognized when they become due and payable.

In calculating the restricted net position related to the net pension asset, KCDA includes both the net pension asset and the related deferred outflows and deferred inflows.

### L. <u>Deferred Outflows/Inflows of Resources</u>

Deferred outflows of resources represent a reduction in net position that will be applied to future periods and will not be recognized as an outflow of resources (expense) until that time. Examples of deferred outflows of resources include losses on contributions to pension plans after the June 30 measurement date and KCDA's share of deferred outflows related to the pension plan. Deferred outflows of resources related to pensions arising from the difference between projected and actual earnings on plan investments are amortized over a five-year period. Any remaining deferred outflows related to pensions are amortized over the average expected service lives of all employees who will receive pensions through each plan.

Deferred inflows of resources, on the other hand, represent an increase in net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time. KCDA's share of deferred inflows of resources related to pensions is recognized when it receives those inflows. Deferred inflows of resources related to pensions arising from the difference between projected and actual earnings on plan investments are amortized over a five-year period. The remaining deferred inflows related to pensions are amortized over the average expected service lives of all employees who will receive pensions through each plan.

### M. <u>Net Position</u>

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

The resources that are set aside for capital projects and pensions are classified as a restricted net position due to internal or external restrictions limiting their usage. Net investment in capital assets, which consists of capital assets net of accumulated depreciation, is reported separately as a distinct component of net position. In cases where pension plans have a net pension asset, the restricted net position is calculated by adjusting the net pension asset for any related deferred outflows/inflows of resources. Any net position that is not subject to classification as restricted or invested in capital assets is reported as unrestricted.

### N. Use of estimates

The accuracy of financial statements prepared in accordance with GAAP is dependent upon estimates and assumptions made by management. Significant estimates have been made in areas such as the useful lives of capital assets, asset retirement obligations, pension liabilities, and related deferred outflows and inflows of resources, as well as future interest rates. These estimates are based on management's best judgment, historical experience, and other available information, but are subject to inherent uncertainty and variability. Consequently, the actual results could differ from the estimates made by management.

## NOTE 2 – INVESTMENTS AND DEPOSITS

On October 1, 1995, KCDA joined the King County (the County) Investment Pool, which includes the County's own funds as well as those of approximately 100 independent government agencies. Those funds are co-mingled and then invested by the County's cash management department in accordance with Washington State law which regulates the types of investment vehicles that government entities may own. As of December 31, 2022, the Pool's holdings totaled approximately $8.8 billion with an average portfolio maturity of 0.99 years. KCDA's investments in the Pool as of December 31, 2022 are as follows:

| Investment Type | Fair Value | Effective Duration |
|---|---|---|
| King County Investment Pool | $1,176,835 | 0.99 Years |

**Interest Rate Risk.** As of December 31, 2022, the Pool's average duration was 0.99 years. As a means of limiting its exposure to rising interest rates, securities purchased in the Pool must have a final maturity, or weighted average life, no longer than five years. While the Pool's market value is calculated on a monthly basis, unrealized gains and losses are not distributed to participants. The Pool distributes earnings monthly using an amortized cost methodology.

**Credit Risk.** As of December 31, 2022, the district's investment in the Pool was not rated by a nationally recognized statistical rating organization (NRSRO). In compliance with state statutes, Pool policies authorize investments in U.S. Treasury securities, U.S. agency securities and mortgage-backed securities, corporate notes (rated at least "A"), municipal securities (rated at least "A" by two NRSROs), commercial paper (rated at least the equivalent of "A-1"), certificates of deposits issued by qualified public depositaries, repurchase agreements, and the Local Government Investment Pool managed by the Washington State Treasurer's office.

**Impaired Investments**. As of December 31, 2022, all impaired commercial paper investments have completed enforcement events. The King County impaired investment pool (Impaired Pool) held one commercial paper asset where the Impaired Pool accepted an exchange offer and is receiving the cash flows from the investment's underlying securities; and the residual investments in four commercial paper assets that were part of completed enforcement events, where the Impaired Pool accepted the cash out option. KCDA's share of the impaired investment pool principle is $2,498 and its fair value of these investments is $1,401.

As of September 1, 2008, impaired commercial paper assets were removed from the main King County Investment Pool and placed into an impaired investment pool. As of December 31, 2008, the King County impaired investment pool held one commercial paper asset that is impaired and part of an enforcement event where a trustee or receiver is appointed to determine the best options for selling assets and/or restructuring the portfolio; and the residual investments in four commercial paper assets that were part of completed enforcement events. KCDA’s share of the impaired investment pool is $44,585 (Maximum Loss Exposure) and KCDA’s unrealized loss exposure for these investments is $38,459 as of 12/31/08. During 2008, KCDA’s share of realized losses from previously impaired investments was $31,700. This amount plus the estimated future unrealized loss exposure of $38,459, totals a combined realized/unrealized loss of $70,158. In 2007 KCDA reflected a GAAP adjustment to its year-end financial statements of $46,569, to reflect the fair value of investments at year end. In 2008, KCDA made an additional adjustment of $23,589 (to bring the total to $70,158), which resulted in a further decrease in cash on the balance sheet and a corresponding decrease in interest income on the income statement. Due to the positive cash flows from and overall assessment of the final impaired asset (Victoria), no adjustments were made in 2022.

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

## NOTE 3 – CAPITAL ASSETS

Capital assets for the year ended December 31, 2022 were as shown in the following table:

| Description | 12/31/2021 Balance | Additions | Retirements | 12/31/2022 Balance |
|---|---|---|---|---|
| **Non-depreciable Capital Assets:** | | | | |
| Land | $ 285,108 | | | 285,108 |
| Projects under Developme | 321,756 | | 321,756 | - |
| Subtotal | 606,864 | - | 321,756 | 285,108 |
| **Depreciable Capital Assets:** | | | | |
| Building | 3,262,565 | 175,462 | | 3,438,027 |
| Office Equipment | 3,713,635 | 46,688 | 17,332 | 3,742,991 |
| Warehouse Equipment | 1,849,211 | 813,683 | 48,105 | 2,614,788 |
| Lease | 9,349 | | | 9,349 |
| Subtotal | 8,834,760 | 1,035,833 | 65,437 | 9,805,156 |
| **Accumulated Depreciation** | | | | |
| Building | 2,547,588 | 86,964 | | 2,634,552 |
| Office Equipment | 2,286,361 | 168,524 | 17,332 | 2,437,553 |
| Warehouse Equipment | 1,557,323 | 78,536 | 48,105 | 1,587,754 |
| Lease | 1,968 | 1,968 | | 3,936 |
| Subtotal | 6,393,240 | 335,992 | 65,437 | 6,663,795 |
| **Net Capital Assets** | **$ 3,048,384** | **699,840** | **321,756** | **3,426,468** |

When an operating asset or system is sold, retired, or disposed of, the original cost is removed from the asset accounts, any related accumulated depreciation is charged, and the net gain or loss on the disposition is credited or charged to income.

Capital assets are depreciated using straight-line method of depreciation over the following estimated useful lives:

- Buildings
    - Buildings 40 Years
    - Building Improvements 10 to 15 Years
- Office Equipment and Systems
    - Computers and related equipment 3 to 5 Years
    - Software 5 to 10 Years
    - General 5 to 10 Years
- Warehouse Equipment and Fixtures
    - General Equipment 5 to 15 Years
    - Printers and Scanners 3 to 5 Years

During the capital project period, all costs incurred are initially deferred to projects under development. Once the project is completed, costs related to the project are transferred to the asset account. In the event that the project is abandoned, any charges related to the project are immediately expensed.

## **NOTE 4 – SHORT-TERM BORROWING PROGRAM**

In April 2005, KCDA entered into an agreement with Key Bank to secure a bank line of credit initially valued at $10 million. Subsequently, the line of credit was increased to $12 million. The agreement has a one-year term and requires annual renewal. The line of credit was last renewed in 2022 for the same amount.

As of December 31, 2022, KCDA had an outstanding balance of $3.5 million on the line of credit.

The agreement with Key Bank includes specific provisions, which grant the bank a first and prior lien on KCDA's accounts, inventory, and equipment. In the event of default, Key Bank has the right to utilize all remedies as cash collateral under the Uniform Commercial Code (UCC).

The bank line of credit is crucial in providing KCDA with the necessary funding for its ongoing operations and projects, and the repayment terms and interest rates have been determined according to the agreement. Overall, this arrangement helps ensure that KCDA has the financial resources to achieve its goals and fulfill its mission.

## **NOTE 5 - LEASES**

KCDA has entered into agreements for financing office equipment through a capital lease. Capital assets and outstanding liabilities relating to the capital lease agreement contract as of December 31, 2022 are as follows:

The lease asset amount and the accumulated depreciation as of December 31, 2022, are as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|---|---|---|---|
| Office equipment | $9,349 | - | - | $9,349 |
| Accumulated depreciation | 1,968 | 1,968 | - | 3,936 |
| Total | $7,381 | 1,968 | - | $5,413 |

The principal amount of the lease liability as of December 31, 2022, is as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|---|---|---|---|
| Office equipment | $7,411 | - | 1,933 | $5,478 |

The principal and interest requirements to maturity of the lease equipment asset for the remaining life of the lease is shown below:

| Year Ended December 31 | Principal | Interest | Total |
|---|---|---|---|
| 2022 | 1,933 | 107 | 2,040 |
| 2023 | 1,964 | 76 | 2,040 |
| 2024 | 1,996 | 44 | 2,040 |
| 2025 | 1,518 | 12 | 1,530 |

During 2022, KCDA leased certain parking lots under a short-term, renewable, and cancelable contract. However, the contract was terminated on December 31, 2022.

## NOTE 6 - PENSION PLANS

The following table represents the aggregate pension amounts for all plans for the year 2022:

| **Aggregate Pension Amounts – All Plans** | |
|---|---|
| Pension liabilities | ($538,691) |
| Pension assets | 937,877 |
| Deferred outflows of resources | 930,922 |
| Deferred inflows of resources | (982,643) |
| Pension expense/expenditures | $84,158 |

### State Sponsored Pension Plans

Substantially all KCDA 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 annual comprehensive financial report (ACFR) that includes financial statements and required supplementary information for each plan.

The DRS ACFR 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.

<u>Contributions</u>

The PERS Plan 1 member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2022 were as follows:

| **PERS Plan 1<br>Actual Contribution Rates** | **Employer** | **Employee*** |
|---|---|---|
| January – August 2022 | | |
| PERS Plan 1 | 6.36% | 6.00% |
| PERS Plan 1 UAAL | 3.71% | |
| Administrative Fee | 0.18% | |
| Total | 10.25% | 6.00% |
| September – December 2022 | | |
| PERS Plan 1 | 6.36% | 6.00% |
| PERS Plan 1 UAAL | 3.85% | |
| Administrative Fee | 0.18% | |
| Total | 10.39% | 6.00% |

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

PERS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1 percent of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

- With a benefit that is reduced by three percent for each year before age 65; or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2/3 members hired on or after May 1, 2013, have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

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

Contributions

The PERS Plan 2/3 employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2022 were as follows:

| **PERS Plan 2/3** | | |
|---|---|---|
| **Actual Contribution Rates** | **Employer 2/3** | **Employee 2*** |
| January – August 2022 | | |
| PERS Plan 2/3 | 6.36% | 6.36% |
| PERS Plan 1 UAAL | 3.71% | |
| Administrative Fee | 0.18% | |
| Employee PERS Plan 3 | | Varies |
| Total | 10.25% | 6.36% |
| September– December 2022 | | |
| PERS Plan 2/3 | 6.36% | 6.36% |
| PERS Plan 1 UAAL | 3.85% | |
| Administrative Fee | 0.18% | |
| Employee PERS Plan 3 | | Varies |
| Total | 10.39% | 6.36% |

*For employees participating in JBM, the contribution rate was 15.90%.

KCDA's actual PERS plan contributions were $122,424 to PERS Plan 1 and $207,272 to PERS Plan 2/3 for the year ended December 31, 2022.

**Actuarial Assumptions**

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2022 with a valuation date of June 30, 2021. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2013-2018 Demographic Experience Study* and the *2021 Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2021 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2022. Plan liabilities were rolled forward from June 30, 2021, to June 30, 2022, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- Inflation: 2.75% total economic inflation; 3.25% salary inflation
- Salary increases: In addition to the base 3.25% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- Investment rate of return: 7.00%

Mortality rates were developed using the Society of Actuaries' Pub. H-2010 mortality rates, which vary by member status (e.g. active, retiree, or survivor), as the base table. OSA applied age offsets for each system, as appropriate, to better tailor the mortality rates to the demographics of each plan. OSA applied the long-term MP-2017 generational improvement scale, also developed by the Society of Actuaries, to project mortality rates for every year after the 2010 base table. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout their lifetime.

Methods did not change from the prior contribution rate setting June 30, 2019 Actuarial Valuation Report (AVR), however OSA introduced a temporary method change to produce asset and liability measures for the June 30, 2020 AVR. There were also the following assumption changes:

- OSA updated the Joint-and-Survivor Factors and Early Retirement Factors in the model. Those factors are used to value benefits for early retirement and survivors of members that are deceased prior to retirement. These factors match the administrative factors provided to DRS for future implementation that reflect current demographic and economic assumptions.
- OSA updated the economic assumptions based on the 2021 action of the PFC and the LEOFF Plan 2 Retirement Board. The investment return assumption was reduced from 7.5% (7.4% for LEOFF 2) to 7.0%, and the salary growth assumption was lowered from 3.5% to 3.25%. This action is a result of recommendations from OSA's biennial economic experience study.

**Discount Rate**

The discount rate used to measure the total pension liability for all DRS plans was 7.0%.

To determine that rate, an asset sufficiency test was completed to test whether each pension plan's fiduciary net position was sufficient to make all projected future benefit payments for current plan members. Based on OSA's 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 7.0% was used to determine the total liability.

**Long-Term Expected Rate of Return**

The long-term expected rate of return on the DRS pension plan investments of 7.0% was determined using a building-block-method. In selecting this assumption, OSA reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered Capital Market Assumptions (CMAs) and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the CMA's and their target asset allocation to simulate future investment returns at various future times.

**Estimated Rates of Return by Asset Class**

The table below summarizes the 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, 2022. The inflation component used to create the table is 2.2% and represents the WSIB's most recent long-term estimate of broad economic inflation.

| Asset Class | Target Allocation | % Long-Term Expected Real Rate of Return Arithmetic |
|---|---|---|
| Fixed Income | 20% | 1.5% |
| Tangible Assets | 7% | 4.7% |
| Real Estate | 18% | 5.4% |
| Global Equity | 32% | 5.9% |
| Private Equity | 23% | 8.9% |

| | | |
|---|---|---|
| | 100% | |

**Sensitivity of the Net Pension Liability/(Asset)**

The table below presents KCDA proportionate share* of the net pension liability calculated using the discount rate of 7%, as well as what KCDA proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6%) or 1-percentage point higher (8%) than the current rate.

| | 1% Decrease (6.0%) | Current Discount Rate (7.0%) | 1% Increase (8.0%) |
|---|---|---|---|
| PERS 1 | $719,684 | $538,691 | $380,727 |
| PERS 2/3 | 1,104,472 | (937,877) | (2,615,795) |

**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, 2022, KCDA reported its proportionate share of the net pension liabilities as follows:

| | Liability (or Asset) |
|---|---|
| PERS 1 | $538,691 |
| PERS 2/3 | (937,877) |

As of June 30, KCDA's proportionate share of the collective net pension liabilities were as follows:

| | Proportionate Share 6/30/21 | Proportionate Share 6/30/22 | Change in Proportion |
|---|---|---|---|
| PERS 1 | 0.020030% | 0.019347% | 0.000683% |
| PERS 2/3 | 0.025710% | 0.025288% | 0.000422% |

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30, 2022 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the Schedules of Employer and Nonemployer Allocations for all plans except LEOFF 1.

**Pension Expense**

For the year ended December 31, 2022, KCDA recognized pension expense as follows:

| | Pension Expense |
|---|---|
| PERS 1 | $230,486 |
| PERS 2/3 | (314,645) |
| TOTAL | ($84,158) |

**Deferred Outflows of Resources and Deferred Inflows of Resources**

As of December 31, 2022, KCDA reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| Plan Name<br>PERS 1 | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual experience | - | - |
| Net difference between projected and actual investment earnings on pension plan investments | - | (89,277) |
| Changes of assumptions | - | - |
| Changes in proportion and differences between contributions and proportionate share of contributions | - | - |
| Contributions subsequent to the measurement date | 60,962 | - |
| TOTAL | $60,962 | ($89,277) |

| Plan Name<br>PERS 2/3 | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual experience | $232,384 | ($21,231) |
| Net difference between projected and actual investment earnings on pension plan investments | - | (693,379) |
| Changes of assumptions | 522,737 | (136,871) |
| Changes in proportion and differences between contributions and proportionate share of contributions | 12,930 | (41,882) |
| Contributions subsequent to the measurement date | 101,910 | - |
| TOTAL | $869,960 | ($893,363) |

| Plan Name<br>ALL PLANS | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual experience | $232,384 | ($21,231) |
| Net difference between projected and actual investment earnings on pension plan investments | - | (782,656) |
| Changes of assumptions | 522,737 | (136,871) |
| Changes in proportion and differences between contributions and proportionate share of contributions | 12,930 | (41,882) |
| Contributions subsequent to the measurement date | 162,872 | - |
| TOTAL | $930,923 | ($982,641) |

Deferred outflows of resources related to pensions resulting from KCDA contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2023. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Year ended December 31: | Plan Name<br>PERS 1 | Plan Name<br>PERS 2/3 |
|---|---|---|
| 2023 | ($37,780) | ($219,908) |

| | | |
|---|---|---|
| 2024 | (34,314) | (197,764) |
| 2025 | (43,046) | (237,600) |
| 2026 | 25,863 | 309,692 |
| 2027 | - | 109,715 |
| Thereafter | - | 110,553 |
| TOTAL | ($89,277) | ($125,313) |

## NOTE 7 – RISK MANAGEMENT

To maintain a stable financial position and ensure the continuity of its operations, KCDA has put in place a comprehensive risk management system. This system is designed to identify, evaluate and manage potential financial and operational risks. Regular monitoring of these risks is conducted, and internal controls and policies are established to mitigate them. Additionally, KCDA maintains insurance coverage for areas of significant risk exposure.

KCDA's management team periodically reviews the effectiveness of the risk management system to make any necessary updates that will enhance its ability to manage risk.

As part of its risk management strategy, KCDA has secured insurance coverage to protect its physical property and manage various types of risks. As of 2022, the insurance coverage included $14.7 million for building insurance, $14.8 million for inventory and other personal property, $2.0 million for general liability insurance, $0.1 million for crime and fidelity cover, $3.0 million for commercial umbrella insurance, $1.0 million for employment related practices liability, and $1.0 million for directors and officers insurance. This comprehensive insurance coverage ensures that KCDA is prepared to manage a wide range of potential risks that could impact its operations and financial stability.

## NOTE 8 – CONTINGENCIES AND LITIGATION

KCDA has not been involved in any significant litigation or claims. Additionally, there are no known or anticipated contingencies that could negatively impact KCDA's financial position or operations. KCDA has also not received any legal notices, demands, or claims, and is not involved in any legal proceedings or regulatory investigations.

Based on these factors, KCDA has not made any provision for contingencies or legal claims in its financial statements. This indicates that KCDA has taken measures to minimize potential legal risks and contingencies, which can help protect the organization's reputation and financial stability.

## NOTE 9 – SUBSEQUENT EVENT

The tax-exempt revolving note with Key Bank matured on October 27, 2023. In response to evolving funding requirements, effective October 26, 2023, KCDA strategically entered into an Interfund Loan Agreement with King County, marking a comprehensive departure from traditional borrowing practices. This shift transitions from a bank's line of credit to the more cost-effective and efficient interfund loan program, with an established amount of up to $6,000,000 and a contractual period spanning two years. Anticipated benefits include a notable reduction in interest expenses and a considerable enhancement in operational efficiency.

## NOTE 10 – COVID-19 PANDEMIC

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of COVID-19. Precautionary measures to slow the spread of the virus continued throughout 2021. These measures included limitations on business operations, public events, gatherings, travel, and in-person interactions.

In light of the changing post-pandemic landscape, KCDA is proactively assessing potential surpluses of specific COVID-related items such as face masks, sanitizers, and plexiglass barriers. This evaluation, considering factors such as declining demand and expiration dates, will determine the quantity and nature of any potential future disposals. The results will be disclosed in subsequent financial statements, aligning with our commitment to transparent and accurate representation.

# REQUIRED SUPPLEMENTARY INFORMATION For State Sponsored Plans (PERS)

**KING COUNTY DIRECTORS ASSOCIATION**
Schedule of Proportionate Share of the Net Pension Liability
PERS 1
As of June 30, 2022
Last 10 Fiscal Years*

| | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|---|---|---|---|---|
| Employer's proportion of the net pension liability (asset) | 0.019347% | 0.020030% | 0.019970% | 0.021835% | 0.021535% | 0.021830% | 0.021663% | 0.021619% | | |
| Employer's proportionate share of the net pension liability (asset) | $ 538,691 | 244,613 | 705,049 | 839,633 | 961,760 | 1,035,851 | 1,163,405 | 1,130,875 | | |
| Covered payroll | $ 3,188,391 | 3,075,090 | 3,038,525 | 3,062,014 | 2,860,747 | 2,752,950 | 2,579,107 | 2,478,100 | | |
| Employer's proportionate share of the net pension liability as a percentage of covered payroll | 16.90% | 7.95% | 23.20% | 27.42% | 33.62% | 37.63% | 45.11% | 45.63% | | |
| Plan fiduciary net position as a percentage of the total pension liability | 76.56% | 88.74% | 68.64% | 67.12% | 63.22% | 61.24% | 57.03% | 59.10% | | |

**KING COUNTY DIRECTORS ASSOCIATION**
Schedule of Proportionate Share of the Net Pension Liability
PERS 2/3
As of June 30, 2022
Last 10 Fiscal Years*

| | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|---|---|---|---|---|
| Employer's proportion of the net pension liability (asset) | 0.025288% | 0.025710% | 0.026112% | 0.028172% | 0.027758% | 0.028080% | 0.027787% | 0.027930% | | |
| Employer's proportionate share of the net pension liability (asset) | $ (937,877) | (2,561,130) | 333,958 | 273,646 | 473,943 | 975,646 | 1,399,053 | 997,995 | | |
| Covered payroll | $ 3,188,391 | 3,075,090 | 3,038,525 | 3,062,014 | 2,860,747 | 2,752,950 | 2,579,107 | 2,478,100 | | |
| Employer's proportionate share of the net pension liability as a percentage of covered payroll | 29.42% | 83.29% | 10.99% | 8.94% | 16.57% | 35.44% | 54.25% | 40.27% | | |
| Plan fiduciary net position as a percentage of the total pension liability | 106.73% | 120.29% | 97.22% | 97.77% | 95.77% | 90.97% | 85.82% | 89.20% | | |

*Until a full 10-year trend is compiled, only information for those years available is presented.

## REQUIRED SUPPLEMENTARY INFORMATION For State Sponsored Plans

**KING COUNTY DIRECTORS ASSOCIATION**
Schedule of Employer Contributions
PERS 1
For the year ended December 31, 2022
Last 10 Fiscal Years*

| | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|---|---|---|---|---|
| Statutorily or contractually required contributions | $ 122,424 | 136,201 | 143,519 | 154,843 | 150,307 | 135,725 | 127,604 | 109,125 | | |
| Contributions in relation to the statutorily or contractually required contributions | 122,424 | 136,201 | 143,519 | 154,843 | 150,307 | 135,725 | 127,604 | 109,125 | | |
| Contribution deficiency (excess) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | | |
| Covered payroll | $ 3,258,984 | 3,155,831 | 2,993,332 | 3,124,453 | 2,968,457 | 2,773,738 | 2675133 | 2,499,631 | | |
| Contributions as a percentage of covered payroll | 3.76% | 4.32% | 4.79% | 4.96% | 5.06% | 4.89% | 4.77% | 4.37% | | |

**KING COUNTY DIRECTORS ASSOCIATION**
Schedule of Employer Contributions
PERS 2/3
For the year ended December 31, 2022
Last 10 Fiscal Years*

| | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|---|---|---|---|---|
| Statutorily or contractually required contributions | $ 207,272 | 226,424 | 143,519 | 154,843 | 150,307 | 135,725 | 127,604 | 109,125 | | |
| Contributions in relation to the statutorily or contractually required contributions | 207,272 | 226,424 | 143,519 | 154,843 | 150,307 | 135,725 | 127,604 | 109,125 | | |
| Contribution deficiency (excess) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | | |
| Covered payroll | $ 3,258,984 | 3,155,831 | 2,993,332 | 3,124,453 | 2,968,457 | 2,773,738 | 2675133 | 2,499,631 | | |
| Contributions as a percentage of covered payroll | 6.36% | 7.17% | 4.79% | 4.96% | 5.06% | 4.89% | 4.77% | 4.37% | | |

*Until a full 10-year trend is compiled, only information for those years available is presented.

## ABOUT THE STATE AUDITOR'S OFFICE

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

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

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

The results of our work are available to everyone through the more than 2,000 reports we publish each year on our website, www.sao.wa.gov. Additionally, we share regular news and other information via an email subscription service and social media channels.

We take our role as partners in accountability seriously. The Office provides training and technical assistance to governments both directly and through partnerships with other governmental support organizations.

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