Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

King County Directors Association

For the period January 1, 2023 through December 31, 2023

Published December 5, 2024

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Office of the Washington State Auditor
Pat McCarthy

December 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, State Auditor

Olympia, WA

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King County Directors Association
January 1, 2023 through December 31, 2023

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, 2023, and the related notes to the financial statements, which collectively comprise the Association's basic financial statements, and have issued our report thereon dated November 27, 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

November 27, 2024

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

King County Directors Association
January 1, 2023 through December 31, 2023

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, 2023, 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, 2023, 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.

Matters of Emphasis

As discussed in Note 1 to the financial statements, in 2023, the Association adopted new accounting guidance, Governmental Accounting Standards Board *Statement No. 101, Compensated Absences*. Our opinion is not modified with respect to this matter.

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 November 27, 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

November 27, 2024

FINANCIAL SECTION

King County Directors Association
January 1, 2023 through December 31, 2023

REQUIRED SUPPLEMENTARY INFORMATION

BASIC FINANCIAL STATEMENTS

REQUIRED SUPPLEMENTARY INFORMATION

KING COUNTY DIRECTORS ASSOCIATION
MANAGEMENT DISCUSSION AND ANALYSIS
FOR YEAR ENDED DECEMBER 31, 2023

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, 2023. 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 2023, KCDA's cash and cash equivalents balance recorded at $3.1 million, reflecting an improvement of $1.9 million or a 164% increase from the previous year. This increase followed the payoff of notes payable totaling $3.5 million.
- KCDA achieved a total operating revenue of $183.3 million, representing a 6% decrease from the previous year, driven by an 8% decrease in warehouse sales and a 5% decrease in direct ship sales, leading to a 14% decrease in service fees.
- Total operating expenses, including the cost of goods sold, decreased to $182.8 million, reflecting a 5% improvement from the prior year.
- The change in net position for 2023 amounted to $0.6 million, indicating a decline compared to the prior year.
- KCDA's net position increased by 4% to $15.1 million from the prior year's balance for the year ended December 31, 2023.

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

Summary of Financial Position

KCDA's net position serves as a crucial indicator of our financial position over time. As of December 31, 2023, our assets and deferred outflows of resources exceeded our liabilities and deferred inflows of resources by $15.1 million, compared to $14.5 million reported at December 31, 2022. This increase of $0.6 million, or 4%, reflects favorable operational performance.

In 2023, KCDA's total assets had a year-end balance of $34.7 million, primarily due to an increase in cash and cash equivalents and contract receivable.

The cash balance in the current fiscal year stood at $3.1 million, marking a significant increase of 164% or $1.9 million, providing robust support for warrant transactions. Accounts receivable concluded with an ending balance of $14.3 million, constituting the largest portion of total assets. Contract receivable closed at $4.5 million, reflecting a notable increase of 15.9% from the previous year. Inventory ended at $8.2 million, demonstrating a decrease of 15.8% or $1.5 million compared to the previous year.

KCDA's capital assets remained nearly unchanged at $3.4 million, similar to the prior year. The implementation of accounting for subscription-based information technology arrangements (SBITA) as intangible assets based on GASB Statement No. 96 resulted in recording $0.1 million. Additionally, KCDA's net pension assets, classified as a restricted asset, concluded the year at $1.0 million, marking a 5.8% increase. However, deferred outflows on pensions ended at $0.8 million, indicating a decrease of 13%, primarily due to actuarial changes in the estimation of pension obligations.

Total liabilities at the end of 2023 amounted to $19.8 million, indicating a 6.7% increase or $1.2 million from year-end 2022. The largest portion of total liabilities was accounts payable, with an ending balance of $18.7 million, reflecting payment timing differences. The line of credit at the end of 2023 was zero, marking a decrease of 100% or $3.5 million compared to the end of 2022.

Compensated absences were recorded at $0.4 million, a $0.2 million increase, marking a 100% rise compared to the previous year, following the implementation of GASB Statement No. 101. Additionally, SBITA liability was accounted for at $0.05 million for the first time. The net pension liability ended at $0.4 million, indicating a 20% decrease, while deferred inflows on pension recorded a significant decrease of $0.4 million, representing a 44% decline from the previous year.

The statement of net position offers a snapshot of an organization's financial health, detailing changes in assets, liabilities, deferred inflows/outflows of resources, and net position. However, for a deeper understanding of these changes, we must consult the statement of revenues, expenses, and changes in net position. The condensed financial information below offers an overview of KCDA's financial position for the fiscal years ended December 31.

KING COUNTY DIRECTORS ASSOCIATION

Condensed Comparative Statement of Net Position

		2023	2022	Change
Assets				
Current assets	$	30,174,388	28,793,427	1,380,961
Non-current assets		992,168	937,877	54,292
Capital assets (net)		3,402,895	3,426,468	(23,572)
Intangible assets (net)		100,525	-	100,525
Total assets		34,669,977	33,157,772	1,512,206
Deferred Outflows of Resources		811,086	930,922	(119,836)
Liabilities				
Current liabilities		19,314,236	18,036,038	1,278,198
Non-current liabilities		518,236	554,913	(36,677)
Total liabilities		19,832,472	18,590,952	1,241,521
Deferred Inflows of Resources		555,385	982,643	(427,259)
Net Position				
Restricted		4,650,857	4,340,941	309,916
Unrestricted		10,442,350	10,174,158	268,192
Total Net Position	$	15,093,207	14,515,099	578,108

Summary of Operations and Changes in Net Position

In fiscal year 2023, KCDA experienced a decrease in total merchandise billings to $182.7 million, reflecting a 6% decline, or $10.8 million, compared to the previous year. This downturn was primarily driven by both warehouse and direct ship sales. Warehouse sales decreased by 9%, or $2.2 million, to a total of $23.1 million. Direct ship sales also saw a slight decrease of 5%, or $8.6 million, totaling $159.6 million. Overall, the decline in revenue for fiscal year 2023 was reflective of the prevailing economic conditions.

Despite these challenges, KCDA collected $0.6 million in service fees from direct ship contract vendors, marking a notable increase of 14.3% compared to the previous year. These vendors, while not utilizing KCDA's purchase order system, provided quarterly transaction reports, inclusive of the specified service fees outlined in their contracts.

In 2023, the cost of merchandise billed decreased by 5%, or $9.3 million compared to the previous year, aligning with the sales decline. However, operating expenses for fiscal year 2023 totaled $8.3 million, representing a slight increase of 3.8% or $0.3 million from the previous year. This increase was primarily attributed to prevailing inflationary pressures.

Notably, employee salaries and benefits constituted the largest contributors to the rise in operating expenses, increasing by $0.2 million or 5.7% compared to the previous fiscal year. Operating expenses, excluding salaries and benefits, amounted to $4.0 million, reflecting a 2% increase from the previous year. This rise was primarily due to an uptick in maintenance, depreciation, and utilities, driven by corresponding price increases during the year, despite cost-saving measures in freight, general operations and information technology expenses.

For non-operating activities, KCDA recorded interest income of $0.07 million from our investment pool as part of our non-operating revenue. Moreover, no sublease income was recognized in 2023 subsequent to the termination of the contract at the close of 2022.

For the year ended December 31, 2023, KCDA experienced a $0.6 million increase in net position. This change in net position occurred despite declines in revenue, higher costs, and increased operating expenses during the year. The positive change in net position demonstrates KCDA's financial resilience amidst the challenges faced. To provide a comprehensive overview, the following table summarizes the operations for fiscal years ending December 31.

KING COUNTY DIRECTORS ASSOCIATION

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

	2023	2022	Change
Revenue			
Merchandise billings	$ 182,734,916	193,570,321	(10,835,405)
Service fees - contract billings	613,737	536,910	76,827
Nonoperating revenue	73,817	31,593	42,224
Total revenue	183,422,470	194,138,825	(10,716,354)
Operating Expenses			
Cost of merchandise billed	174,454,981	183,793,002	(9,338,021)
Operating expenses	8,346,032	8,037,300	308,732
Interest expense	43,350	47,836	(4,486)
Total expenses	182,844,363	191,878,137	(9,033,775)
Change in Net Position	578,108	2,260,687	(1,682,580)
Beginning Net Position	14,515,099	12,254,412	2,260,687
Ending Net Position	$ 15,093,207	14,515,099	578,108

CAPITAL ASSET

As of December 31, 2023, KCDA's business operations reported a total of $3.4 million in capital assets, net of depreciation. These assets encompass a variety of items, including land, warehouse and office buildings, non-building improvements, warehouse fixtures, computers, software, and other equipment. Notably, KCDA added $0.3 million in depreciable capital assets, including buildings, office, and warehouse equipment. Non-depreciable assets increased by $0.1 million for the under development of facility improvement projects, specifically in HVAC systems replacement. Additionally, $0.3 million in capital assets were retired in 2023, with these assets fully depreciated.

For a more detailed breakdown of KCDA's 2023 capital assets, please refer to the following summary and Note 3 in the Notes to the Financial Statements.

Capital Assets

	2023	2022	Change
Land/Under Development	$ 394,638	285,108	109,530
Warehouse/Office building	794,620	803,475	(8,855)
Office equipment and systems	1,286,203	1,305,438	(19,235)
Warehouse fixture and equipment	923,990	1,027,034	(103,044)
Lease asset	3,445	5,413	(1,968)
Total	$ 3,402,895	3,426,468	(23,572)

* Net of depreciation

ECONOMIC FACTORS AND 2024 BUDGET

The economic outlook for education, marked by a slowing growth trend in public school enrollments despite a rising school-age population, carries significant implications for budgetary decisions and capital projects. With headcount enrollment at 1,073,794 in 2023, a decrease of approximately 3,545 students from 2022, public schools may encounter challenges in securing funding allocations proportional to their needs as enrollments plateau or decline. Moreover, the shift towards alternative teaching arrangements due to pandemic-related remote learning policies highlights the necessity of flexible budgeting to adapt to changing educational landscapes. This economic context underscores the importance of careful consideration in capital project planning, ensuring that investments align with evolving enrollment patterns and educational priorities. Balancing the fulfillment of ongoing operational needs with strategic capital project planning becomes increasingly crucial amidst shifting demographics and educational paradigms.

The 2024 budget anticipates total net billings of $200 million, reflecting a notable 9% increase driven primarily by commercial activity, warehouse and direct ship sales, contributing to a $17.1 million rise, mainly attributed to direct ship sales. Additionally, the 2024 budget forecasts operating expenses of $9.3 million, marking a $1.0 million increase over 2023 expenses, primarily due to anticipated growth in operational revenue and associated expenses. Projections indicate a net income of $0.6 million, representing a 10% increase from 2023 numbers.

The 2024 capital budget forecasts a total of $0.6 million, allocated as follows: $0.2 million for building and facility improvements, $0.08 million for warehouse equipment replacement, and $0.36 million for information technology projects.

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, 2023

ASSETS	
CURRENT ASSETS	
Cash and Cash Equivalents	$ 3,137,418
Accounts Receivable, Net	14,274,047
Contract Receivable	4,457,554
Inventory	8,154,122
Prepayments	151,247
Total Current Assets	**30,174,388**
NON-CURRENT ASSETS	
Restricted Assets	
Net Pension Assets	992,168
Capital Assets	
Land/Under Development	394,638
Warehouse/Office Building	3,417,684
Office Equipment & Systems	3,738,940
Warehouse Fixtures & Equipment	2,581,751
Lease Asset	9,349
Less Accumulated Depreciation	(6,739,467)
Total Capital Assets, Net	3,402,895
Intangible Assets	
SBITA Asset	108,993
Less Accumulated Amortization	(8,467)
Total Intangible Assets, Net	100,525
Total Noncurrent Assets	**4,495,589**
TOTAL ASSETS	**$ 34,669,977**
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflows on Pension	811,086
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	**$ 35,481,064**
LIABILITIES	
CURRENT LIABILITIES	
Accounts Payable	18,712,940
Salaries and Related Payables	272,859
Compensated Absences, Current	307,799
Lease Liability, Current	1,996
SBITA Liability, Current	18,643
Total Current Liabilities	**19,314,236**
NONCURRENT LIABILITIES	
Compensated Absences	60,823
Lease Liability	1,518
SBITA Liability	26,742
Net Pension Liability	429,154
Total Noncurrent Liabilities	518,236
TOTAL LIABILITIES	**$ 19,832,472**

DEFERRED INFLOWS OF RESOURCES	
Deferred Inflows on Pension	555,385
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	**$ 20,387,857**
NET POSITION	
Net Investment in Capital Assets	3,402,895
Restricted for Pensions	1,247,961
Unrestricted	10,442,350
TOTAL NET POSITION	**$ 15,093,207**

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, 2023

OPERATING REVENUES		
Merchandise Billings, Net	$	182,734,916
Contract Service		613,737
Total Operating Revenue		183,348,653
OPERATING EXPENSES		
Cost of Merchandise Billed		174,454,981
Salaries and Benefits		4,353,912
Freight		2,273,806
General Operations		284,891
Maintenance		116,763
IT and Software		289,945
General Administration		372,155
Depreciation and Amortization		417,816
Travel		41,594
Utilities		173,453
Other Operating Expenses		21,696
Total Operating Expenses		182,801,013
OPERATING INCOME		**547,640**
NONOPERATING REVENUES (EXPENSES)		
Investment Interest Income		73,817
Note Interest Expense		(43,350)
Total Nonoperating Income (Expenses)		30,467
CHANGE IN NET POSITION		**578,108**
NET POSITION, Beginning of Year		14,515,099
NET POSITION, End of Year	**$**	**15,093,207**

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, 2023

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Receipts from Customers and Other Parties	$ 182,264,838
Cash Payments to Suppliers	(172,081,322)
Cash Payments for Payroll and Related Costs	(4,313,017)
Net Cash Flows from Operating activities	5,870,499
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Interest Expense	(43,350)
Cash Payments for Note Payable	(3,500,000)
Net Cash Flows from Noncapital Financing Activities	(3,543,350)
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES	
Purchase of Capital Assets	(451,348)
Net Cash Flows from Capital Financing Activities	(451,348)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest Income	73,817
Net Cash Flows from Investing Activities	73,817
Net Change in Cash	**1,949,618**
Cash and Cash Equivalents, Beginning of Year	**1,187,800**
Cash and Cash Equivalents, End of Year	**$ 3,137,418**

RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES	
Operating Income	$ 547,640
Adjustments to Reconcile Operating Income to Net Cash Flow from Operating Activities	
Depreciation and Amortization	417,816
Pension from change in net pension asset/liability	(471,252)
Change in Operating Assets & Liabilities	
Accounts receivable	(1,083,815)
Inventory	1,531,871
Prepaid expense	120,601
Accounts payable	4,568,856
Salaries and related payables	40,895
Compensated absence	199,170
Other liabilities	(1,284)
Cash Flows from Operating Activities	$ 5,870,499

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

NOTE 1 – SUMMARY SIGNIFICANT ACCOUNTING POLICIES

The King County Directors Association Purchasing Department (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 the accounting standards established by the Governmental Accounting Standards Board (GASB) for state and local government entities. As of January 1, 2023, KCDA adopted GASB Statement No. 96, *Subscription-Based Information Technology Arrangements,* and Statement No. 101, *Compensated Absences*.

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 in aggregate 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 depreciated 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. Subscription-Based Information Technology Arrangement (SBITA)

The SBITA are contracts conveying control of the right to use a vendor's IT software and associated tangible assets for a specified subscription term, which may include options to extend or terminate. At commencement of the subscription term, KCDA recognizes a right-to-use subscription asset and a corresponding subscription liability. The liability is initially measured at the present value of expected future subscription payments, discounted using either the SBITA's implicit rate or KCDA's incremental borrowing rate, with subsequent amortization of the discount over the subscription term. The subscription asset comprises the initial liability amount, any prepaid subscription costs, and eligible implementation costs. The subscription asset is amortized on a straight-line basis over the shorter of the estimated useful life of the underlying assets or the subscription term.

Costs related to SBITA are accounted for as follows: pre-implementation costs are expensed as incurred, implementation costs are capitalized as part of the subscription asset, and post-implementation costs are expensed as incurred.

H. Compensated Absences

GASB Statement No. 101 requires recognizing liabilities for unused leave attributable to services rendered, leave that accumulates, and leave likely to be used or paid. Measurement guidelines are established for leave not yet used and for leave used but not yet paid. Certain types of compensated absences are recognized only when the leave commences or is used. Additionally, the statement addresses tax implications related to compensated absences, requiring consideration of any associated tax effects when calculating the liability.

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.

I. 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.

J. Revenues and Expenses

Operating revenues are generated primarily from billings to members for goods and services and rebates for utilizing KCDA contracts. Each billing comprises the product cost, Washington State sales tax, and a service fee to cover KCDA's operating costs. Revenue recognition occurs at the shipping point for warehouse sales and upon completion of projects or delivery for direct ship sales fulfilling contractual obligations. Non-operating revenues, typically derived from interest income on investments and gains on the sale of capital assets, complement operating revenue streams. These 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.

K. 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 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.

L. Pensions

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.

M. Deferred Outflows/Inflows of Resources

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.

N. Net Position

Net position represents the sum of the reserve ownership balances. The reserve ownership is allocated among participating members (Washington public school districts) each year by dividing the year's net income in proportion to the total service fees billed to each district. For 2002 and years thereafter a change was made 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.

O. 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 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, 2023, 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, 2023 are as follows:

Investment Type	Fair Value	Effective Duration
King County Investment Pool	$3,154,104	0.79 Years

Interest Rate Risk. As of December 31, 2023, the Pool's average duration was 0.79 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, 2023, 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, 2023, 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. KCDA's share of the impaired investment pool principal is $2,087 and the district's fair value of these investments is $1,030.36.

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 2023.

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, 2023 were as shown in the following table:

Description	12/31/2022 Balance	Additions	Retirements	12/31/2023 Balance
Non-depreciable Capital Assets:				
Land	$ 285,108			285,108
Projects under Developme	-	109,530	-	109,530
Subtotal	285,108	109,530	-	394,638
Depreciable Capital Assets:				
Building	3,438,027	88,101	108,444	3,417,684
Office Equipment	3,742,991	167,311	171,362	3,738,940
Warehouse Equipment	2,614,788	20,834	53,871	2,581,751
Lease	9,349			9,349
Subtotal	9,805,155	276,246	333,677	9,747,724
Accumulated Depreciation				
Building	2,634,552	96,956	108,444	2,623,064
Office Equipment	2,437,553	186,547	171,362	2,452,738
Warehouse Equipment	1,587,754	123,878	53,871	1,657,761
Lease	3,937	1,968		5,905
Subtotal	6,663,796	409,349	333,677	6,739,468
Net Capital Assets	**$ 3,426,468**	**(23,573)**	**-**	**3,402,895**

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 worth $10 million, which was later increased to $12 million but matured on October 27,2023. The agreement with Key

Bank includes specific provisions, such as the bank's first and prior lien on KCDA's accounts, inventory, and equipment, and the use of all remedies as cash collateral under the UCC in the event of default.

On October 26, 2023, in response to evolving funding requirements, KCDA engaged in an Interfund Loan Agreement facilitated by King County, offering a line of credit of up to $6 million over a two-year term. This program operates with an interfund borrowing rate, commonly referred to as the 'Gross Pool Earnings Rate,' as established by King County. Notably, this line of credit operates without any collateral or associated financial requirements, providing KCDA with flexible short-term borrowing capabilities.

The significance of this program cannot be overstated, as it serves as a vital financial tool for KCDA, supporting its ongoing operations and strategic initiatives. Specifically, the line of credit facilitates essential functions such as building up seasonal inventory in anticipation of school openings and bridging the gap between accounts receivable and accounts payable.

<u>NOTE 5</u> - <u>LEASES</u>

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, 2023 are as follows:

The lease asset amount and the accumulated depreciation as of December 31, 2023, are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Office equipment	$9,349	-	-	$9,349
Accumulated depreciation	3,937	1,968	-	5,905
Total	$5,413	1,968	-	$3,445

The principal amount of the lease liability as of December 31, 2023, is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Office equipment	$5,478	-	1,964	$3,514

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
2023	$1,964	76	$2,040
2024	1,996	44	2,040
2025	1,518	12	1,530

<u>NOTE 6</u> - <u>SBITA</u>

KCDA has engaged in several subscription-based information technology agreements. As of December 31, 2023, KCDA holds six qualifying SBITAs as defined by GASB 96.

Description	Expiration Date with Extension Terms	Terms	Annual Increase	Interest Rate	Payment Frequency
IT security training	2/27/2026	3 years	None	4.83%	Annual
Anti-Malware	10/4/2026	3 years	None	4.83%	3 years

Adobe creative cloud	6/28/2026	3 years	None	4.83%	Annual
Office 365 – Teams, email	6/15/2028	5 years	None	4.83%	Annual
Site monitoring	3/22/2026	3 years	None	4.83%	Annual
Enhanced website search	2/28/2026	3 years	None	4.83%	Monthly

The SBITA asset amount and the accumulated amortization as of December 31, 2023, are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Subscription assets	$ -	108,993	-	$108,993
Accumulated amortization	-	8,467	-	8,467
Net subscription assets	$ -	100,525	-	$100,525

The principal amount of the SBITA liability as of December 31, 2023, is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
SBITAs	$ -	44,578	-	$44,578

As of December 31, 2023, outflows of resources from SBITAs activities were as follows:

Principal payments in 2023	$21,315
Interest expense on SBITAs	$807
Variable payments	-
Total	$22,122

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

Year Ended December 31	Principal	Interest	Total
2024	$17,836	1,814	$19,650
2025	18,715	938	19,654
2026	4,233	221	4,454
2027	2,258	109	2,367
Total	$43,042	3,083	$46,125

NOTE 7 – COMPENSATED ABSENCES

KCDA recorded a $199,170 increase in the liability for compensated absences in 2023, in accordance with the provisions outlined in GASB Statement No. 101.

NOTE 8 - PENSION PLANS

The following table represents the aggregate pension amounts for all plans for the year 2023:

Aggregate Pension Amounts – All Plans	
Pension liabilities	($429,154)
Pension assets	992,168
Deferred outflows of resources	811,086
Deferred inflows of resources	(555,385)

Pension expense/expenditures	($139,995)

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 local governments; and higher education employees not participating in higher education retirement programs.

PERS is composed of and reported as three separate plans for accounting purposes: Plan 1, Plan 2/3 and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although employees can be a member of only Plan 2 or Plan 3, the defined benefits of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of Plan 2/3 may legally be used to pay the defined benefits of any Plan 2 or Plan 3 members or beneficiaries.

PERS Plan 1 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. 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. PERS Plan 1 retirement benefits are actuarially reduced if a survivor benefit is chosen. Members retiring from active status prior to the age of 65 may also receive actuarially reduced benefits. Other benefits include an optional cost-of-living adjustment (COLA). 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, adopted by the Pension Funding Council and is subject to change by the legislature. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2023 were as follows:

PERS Plan 1		
Actual Contribution Rates	**Employer**	**Employee***
January – June		
PERS Plan 1	6.36%	6.00%
PERS Plan 1 UAAL	3.85%	
Administrative Fee	0.18%	
TOTAL	**10.39%**	**6.00%**

July – August		
PERS Plan 1	6.36%	6.00%
PERS Plan 1 UAAL	2.85%	
Administrative Fee	0.18%	
TOTAL	**9.39%**	**6.00%**
September – December		
PERS Plan 1	6.36%	6.00%
PERS Plan 1 UAAL	2.97%	
Administrative Fee	0.20%	
TOTAL	**9.53%**	**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 provides retirement, disability and death benefits. Retirement benefits are determined as 2% of the member's 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. 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 retirement benefits are actuarially reduced if a survivor benefit is chosen. Other PERS Plan 2/3 benefits include a COLA based on the CPI, capped at 3% annually. 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. Members are eligible to withdraw their defined contributions upon separation. Members have multiple withdrawal options, including purchase of an annuity. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

<u>Contributions</u>

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 rates are adopted by the Pension Funding Council, and are subject to change by the Legislature. The employer rate includes a component to address the PERS Plan 1 Unfunded Actuarial Accrued Liability (UAAL).

As established by Chapter 41.34 RCW, Plan 3 defined contribution rates are set at a minimum of 5% and a maximum of 15%. PERS Plan 3 members choose their contribution rate from six options when joining membership and can change rates only when changing employers. Employers do not contribute to the defined contribution benefits.

The PERS Plan 2/3 defined benefit required contribution rates (expressed as a percentage of covered payroll) for 2023 were as follows:

PERS Plan 2/3 Actual Contribution Rates	Employer 2/3	Employee 2*	Employee 3**
January – June			
PERS Plan 2/3	6.36%	6.36%	Varies
PERS Plan 1 UAAL	3.85%		
Administrative Fee	0.18%		
TOTAL	**10.39%**	**6.36%**	
July – August			
PERS Plan 2/3	6.36%	6.36%	Varies
PERS Plan 1 UAAL	2.85%		
Administrative Fee	0.18%		
TOTAL	**9.39%**	**6.36%**	
September – December			
PERS Plan 2/3	6.36%	6.36%	Varies
PERS Plan 1 UAAL	2.97%		
Administrative Fee	0.20%		
TOTAL	**9.53%**	**6.36%**	

* For employees participating in JBM, the contribution rate was 15.90%.
** For employees participating in JBM, the minimum contribution rate was 7.50%.

KCDA's actual PERS plan contributions were $115,466 to PERS Plan 1 and $215,783 to PERS Plan 2/3 for the year ended December 31, 2023.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2023 with a valuation date of June 30, 2022. 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 2022 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2023. Plan liabilities were rolled forward from June 30, 2022, to June 30, 2023, 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 service-based salary increase.
- **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, 2021 Actuarial Valuation Report (AVR). OSA did make an assumption change to adjust TRS Plan 1 assets, LEOFF Plan 1/2 assets, and

LEOFF participant data to reflect certain material changes occurring after the June 30, 2022 measurement date.

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, 2021. 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's proportionate share* of the net pension liability calculated using the discount rate of 7%, as well as what KCDA'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%) 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	$599,560	$429,154	$280,429
PERS 2/3	1,079,102	(992,168)	(2,693,847)

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, 2023, KCDA reported its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	$429,154
PERS 2/3	(992,168)

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

	Proportionate Share 6/30/22	Proportionate Share 6/30/23	Change in Proportion
PERS 1	0.019347%	0.018800%	0.000547%
PERS 2/3	0.025288%	0.024207%	0.001081%

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30, 2023 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, 2023, KCDA recognized pension expense as follows:

	Pension Expense
PERS 1	($22,294)
PERS 2/3	(117,701)
TOTAL	($139,995)

Deferred Outflows of Resources and Deferred Inflows of Resources

As of December 31, 2023, KCDA reported deferred outflows of resources and deferred inflows of resources related to pensions from the following:

Plan Name 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	-	(48,410)
Changes of assumptions	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-
Contributions subsequent to the measurement date	48,319	-
TOTAL	$48,319	(48,410)

Plan Name PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$202,104	(11,086)
Net difference between projected and actual investment earnings on pension plan investments	-	(373,909)
Changes of assumptions	416,547	(90,791)
Changes in proportion and differences between contributions and proportionate share of contributions	39,261	(31,189)
Contributions subsequent to the measurement date	104,856	-
TOTAL	$762,768	(506,974)

Plan Name ALL PLANS	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$202,104	(11,086)
Net difference between projected and actual investment earnings on pension plan investments	-	(422,319)
Changes of assumptions	416,547	(90,791)
Changes in proportion and differences between contributions and proportionate share of contributions	39,261	(31,189)
Contributions subsequent to the measurement date	153,175	-
TOTAL	$811,086	(555,385)

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 PERS 1	Plan Name PERS 2/3
2024	($32,936)	(179,112)
2025	(41,421)	(217,204)
2026	25,540	306,635
2027	408	115,471
2028	-	116,011
Thereafter	-	9,135
TOTAL	($48,410)	150,937

NOTE 9 – 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 2023, the insurance coverage included $16.8 million for building insurance, $16.2 million for inventory and other personal property, $2.0 million for general liability insurance, $2.0 million for products, $0.1 million for crime and fidelity coverage, $1.0 million for business auto coverage, $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 10 – 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 11 – SUBSEQUENT EVENT

In the post-pandemic environment, KCDA is evaluating its inventory levels of certain COVID-related items, including face masks, hand sanitizers, and plexiglass barriers. This assessment considers factors such as declining demand and expiration dates to determine the quantity and nature of any potential future disposals. The results of this evaluation will be disclosed in subsequent financial statements, consistent with KCDA's commitment to transparent and accurate financial reporting.

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, 2023
Last 10 Fiscal Years*

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Employer's proportion of the net pension liability (asset)	0.018800%	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)	$ 429,154	$ 538,691	244,613	705,049	839,633	961,760	1,035,851	1,163,405	1,130,875	
Covered payroll	$ 3,345,637	$ 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	12.83%	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	80.16%	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, 2023
Last 10 Fiscal Years*

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Employer's proportion of the net pension liability (asset)	0.024207%	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)	$ (992,168)	$ (937,877)	(2,561,130)	333,958	273,646	473,943	975,646	1,399,053	997,995	
Covered payroll	$ 3,345,637	$ 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	29.66%	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	107.02%	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 (PERS)

KING COUNTY DIRECTORS ASSOCIATION
Schedule of Employer Contributions
PERS 1
For the year ended December 31, 2023
Last 10 Fiscal Years*

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Statutorily or contractually required contributions	$ 115,466	$ 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	115,466	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	0	
Covered payroll	$ 3,391,967	$ 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	3.40%	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, 2023
Last 10 Fiscal Years*

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Statutorily or contractually required contributions	$ 215,783	$ 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	215,783	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	0	
Covered payroll	$ 3,391,967	$ 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%	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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