



KING COUNTY

1200 King County Courthouse
516 Third Avenue
Seattle, WA 98104

Signature Report

FCD Motion FCD19-01

Proposed No. FCD19-01.1

Sponsors

1 A MOTION relating to the King County Flood Control
2 Zone District's 2018 financial statements and adopting the
3 King County Flood Control Zone District Financial
4 Statements for the Year Ended December 31, 2018.

5 WHEREAS, the King County Flood Control Zone District ("the District") board
6 of supervisors desires to adopt the District's financial statements for the year ended
7 December 31, 2018;

8 NOW, THEREFORE, BE IT MOVED BY THE BOARD OF SUPERVISORS
9 OF THE KING COUNTY FLOOD CONTROL ZONE DISTRICT:

10 SECTION 1. The King County Flood Control Zone District board of supervisors

11 adopts the King County Flood Control Zone District Financial Statements for the Year
12 Ended December 31, 2018, attached to this motion as Attachment A.
13

FCD Motion FCD19-01 was introduced on and passed by the King County Flood Control District on 5/29/2019, by the following vote:

Yes: 9 - Mr. von Reichbauer, Mr. Gossett, Ms. Lambert, Mr. Dunn, Mr. McDermott, Mr. Dembowski, Mr. Upthegrove, Ms. Kohl-Welles and Ms. Balducci



ATTEST



Melani Pedroza, Clerk of the Board

KING COUNTY FLOOD CONTROL ZONE
DISTRICT



Reagan Dunn, Chair

Attachments: A. King County Flood Control Zone District Financial Statements for the Year Ended December 31, 2018

King County Flood Control Zone District

**Financial Statements for the
Year Ended December 31, 2018**

INDEPENDENT ACCOUNTANT'S COMPILATION REPORT

King County Flood Control Zone District
Seattle, Washington

Management is responsible for the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of King County Flood Control Zone District, as of and for the year ended December 31, 2018, and related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents, in accordance with accounting principles generally accepted in the United States of America. We have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We did not audit or review the financial statements nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, we do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 1 through 6 and page 20, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. This information is the representation of management. This information was subject to our compilation engagement, however, we have not audited or reviewed the supplementary information and, accordingly, do not express an opinion, a conclusion, nor provide any form of assurance on such information.

A handwritten signature in cursive script that reads "Francis Company". The signature is written in black ink and has a long, sweeping underline that extends to the right.

Seattle, Washington
May 15, 2019

KING COUNTY FLOOD CONTROL ZONE DISTRICT
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis (MD&A) presents a narrative overview and analysis of the financial activities of the King County Flood Control Zone District (the District) for the fiscal year ended December 31, 2018. We encourage readers to consider this information in conjunction with the District's financial statements and notes to the financial statements, which follow.

The District was established in April 2007 to provide an integrated and coordinated approach to flooding as well as funding to improve the King County's nearly 500 aging and inadequate flood protection facilities. The King County Council oversees the District as a Board of Supervisors. A 15-member Advisory Committee, made up of citizens and local government officials, provides recommendations on the District's work plan and budget.

The District has also entered into an inter-local agreement with the Water and Land Resources Division of King County to provide the necessary staffing for implementation of the District flood control programs and projects.

Financial Highlights

- As of December 31, 2018, the assets of the District exceeded its liabilities by \$238.9 million on a government-wide basis (net position). Net position included net investment in capital assets of \$156.2 million and unrestricted net position of \$82.7 million.
- In 2018, the District's total net position increased by \$28.5 million.
- As of December 31, 2018, the District's governmental fund had an ending balance of \$81.8 million, which was an increase of \$10.0 million from the prior year. The governmental fund balances included \$4 million attributable to nonspendable cash advance, \$27.2 million committed for carryover of unspent appropriations, and \$7.5 million was assigned for self-insured retention. The remaining portion of fund balance, \$43.1 million, was unassigned and available to support future operations.

Overview of the Financial Statements

The District's basic financial statements include three components: (1) government-wide financial statements; (2) fund financial statements; and (3) notes to the financial statements. Required supplementary information is presented in addition to the basic financial statements.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances in a manner similar to a private sector business. The statements provide short-term and long-term information about the District's financial position, which assists in assessing the District's financial condition at the end of the fiscal year. These statements are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. All revenues are recognized in the period in which they are earned and expenses are recognized in the period in which they are incurred. The government-wide financial statements include two statements:

- The statement of net position presents all of the District's assets and liabilities, deferred inflows and outflows of resources, and net position. Over time, increases or decreases in the District's net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

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

All of the District's activities are governmental activities related to flood control programs which are supported by property taxes.

Fund Financial Statements

The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The District is a special purpose governmental entity and it has one governmental fund, the sole major fund, to finance the flood control services. Unlike the government-wide financial statements, the governmental fund financial statements focus on how cash and other financial assets can readily be converted to available resources and the balances left at year-end that are available for future spending. Such information may be useful in determining whether there will be adequate financial resources available to meet the current needs of the District.

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

Notes to the Financial Statements

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

Required Supplementary Information

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

Government-wide Financial Analysis

The Statement of Net Position presents all of the District's assets, liabilities, deferred inflows and outflows of resources, and net position. The amount of net position is the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Over time, this information may serve as a useful indicator of the District's financial position. The District's net position was \$238.9 million at the end of 2018, and 65.4 percent of the net position was invested in capital assets. Total net position increased \$28.5 million, and investment in capital assets went up by \$18.3 million or 13.3 percent in 2018. For further information regarding the increase in capital assets see Note 4 to the financial statements. The increase in net position in 2018 reflects the District's ability to meet current and future obligations in the course of its activities.

	2018	2017
Condensed Statement of Net Position		
ASSETS		
Current and other assets	\$ 105,381,608	\$ 92,670,405
Capital assets	<u>156,216,647</u>	<u>137,936,451</u>
Total assets	<u>261,598,255</u>	<u>230,606,856</u>
 DEFERRED OUTFLOWS OF RESOURCES		
	-	-
 LIABILITIES		
Current liabilities	<u>22,715,379</u>	<u>20,257,149</u>
Total liabilities	<u>22,715,379</u>	<u>20,257,149</u>
 DEFERRED INFLOWS OF RESOURCES		
	-	-
 NET POSITION		
Net investment in capital assets	156,216,647	137,936,451
Unrestricted	<u>82,666,229</u>	<u>72,413,255</u>
Total net position	<u>\$ 238,882,876</u>	<u>\$ 210,349,706</u>

	2018	2017
Condensed Statement of Activities		
GENERAL REVENUE		
Property taxes	\$ 56,744,506	\$ 54,767,662
Investment earnings, net	1,539,805	861,000
Other taxes	308,782	248,957
Unrealized investment (loss)	63,832	(242,762)
SPECIAL ITEM		
Loss of sales on capital assets	-	(1,123,513)
Total Revenue	<u>58,656,925</u>	<u>54,511,344</u>
EXPENSES		
Flood controls	30,123,755	31,377,321
Change in Net Position	<u>28,533,170</u>	<u>23,134,023</u>
Net Position, End of Year	<u>\$238,882,876</u>	<u>\$210,349,706</u>

The District's flood control services are funded by property taxes, which comprise 96.7 percent of total general revenue. Total general revenue increased by \$4.1 million or 7.6 percent in 2018, primarily due to increases in property tax revenue and investment earnings. Expenses decreased by \$1.3 million or 4.0 percent in 2018, primarily due to decreases in capital expenditures compared to the prior year. The change in the District's total net position resulted from revenues exceeding expenses; a significant portion of this excess was expended on capital assets. The overall financial position of the District has improved in 2018 and indicates its ability to meet its ongoing obligations.

Governmental Fund Financial Analysis

The focus of the District's governmental fund is to provide information on near-term inflows, outflows, and the resulting balances of resources that are available for spending. Such information is useful in assessing the District's financing requirements. In particular, the unassigned fund balance may serve as a useful measure of a government's net financial resources available for spending at the end of the fiscal year.

As of December 31, 2018, the District's governmental fund reported ending fund balances of \$81.8 million, of which \$4 million was nonspendable, \$27.2 was committed and \$7.5 million was assigned. The nonspendable fund balance of \$4 million was advanced to the King County Water and Land Resources Division for the District's operating and capital expenditures. For more information regarding nonspendable cash advance, see Note 6 to the District's financial statements. The committed fund balance of \$27.2 million is for carryover of unspent appropriations, and the assigned fund balance of \$7.5 million is for self-insured retention relating to the District's excess liability coverage and is explained in Note 5 to the District's financial statements. The remainder, \$43.1 million, is available for spending in future years at the District's discretion. The total fund balances increased by \$10.0 million.

<i>Condensed Balance Sheet</i>	2018	2017
Total Assets	\$ 105,381,608	\$ 92,670,405
Deferred Outflows of Resources	-	-
Total Liabilities	22,715,379	20,257,149
Deferred Inflows of Resources	912,799	680,753
Fund Balances		
Nonspendable - cash advance	4,000,000	4,000,000
Committed	27,169,811	24,125,478
Assigned	7,500,000	7,500,000
Unassigned	<u>43,083,619</u>	<u>36,107,025</u>
Total Fund Balances	<u><u>\$ 81,753,430</u></u>	<u><u>\$ 71,732,503</u></u>

Overall governmental fund revenues for 2018 totaled \$58.5 million, a decrease of \$1.46 million or 2.4 percent. The decrease was primarily due to the proceeds from sale of capital asset that occurred in the previous year. Total expenditures decreased 4 percent or \$2 million from the previous year, primarily due to a decrease in capital project expenditures. The fund balance increased by \$10.0 million in 2018 compared to an increase of \$9.4 million for 2017.

<i>Condensed Statement of Revenues, Expenditures, and Changes in Fund Balances</i>	2018	2017
Total Revenues	\$ 58,456,134	\$ 59,918,657
Total Expenditures	48,435,207	50,490,755
Changes in Fund Balances	<u><u>\$ 10,020,927</u></u>	<u><u>\$ 9,427,902</u></u>

Budget Variances in the General Fund

Differences between the original budget and the final amended budget resulted from a significant increase to budgeted expenditures for capital projects.

Property tax revenue was on budget for 2018. Property taxes were budgeted based on approved tax levies for 2018, while property taxes reported as actual were total taxes collected in 2018. See the District's accounting policies in Note 1 to the financial statements. Actual expenditures were less than budget estimates by \$113.7 million primarily because the 2018 budgeted expenditures included carryover amounts from prior years which were not completely expended in 2018.

Capital Assets

The District's capital assets, net of accumulated depreciation, amounted to \$156.8 million as of December 31, 2018. This is an increase of \$18.3 million or 13.2 percent from the previous year. These capital assets include land, construction in progress, levees and facilities, and machinery and equipment. For further information regarding capital assets, see Note 5 to the financial statements.

	Balance	Balance
Governmental Activities	12/31/2018	12/31/2017
Land	\$71,279,425	\$64,558,548
Construction in progress	52,093,553	56,267,887
Levees and facilities	36,174,689	19,603,463
Machinery and equipment	18,476	18,476
Less: accumulated depreciation	<u>(3,349,496)</u>	<u>(2,511,923)</u>
Total Capital Assets, Net	<u>\$156,216,647</u>	<u>\$137,936,451</u>

Economic Factors and Next Year's Budget

The District adopts its budget on an annual basis. The budget is based on the District's goals and its operating and capital programs. The 2019 budget (General Fund, as approved on November 5, 2018) is summarized below:

Property Taxes	<u>\$58,405,697</u>
District overhead and administration	816,638
Maintenance and operations	12,439,055
Construction and improvements	<u>79,487,639</u>
Total	<u>\$92,743,332</u>

The District's Board has authorized \$58.4 million of property taxes to be levied for 2019, an increase of 4.9 percent over 2018.

Request for Information

This financial report is designed to provide a general overview of the King County Flood Control Zone District's finances to all those with an interest in the District's finances. Questions concerning any information provided in this report should be addressed to: King County Flood Control Zone District, 516 3rd Ave, Room 1200, Seattle, Washington 98104.

**KING COUNTY FLOOD CONTROL ZONE DISTRICT
GOVERNMENT-WIDE FINANCIAL STATEMENTS
STATEMENT OF NET POSITION
DECEMBER 31, 2018**

	Primary Government Governmental Activities
ASSETS	
Cash and cash equivalents	100,287,674
Taxes receivable	912,799
Other receivable	181,135
Cash advance	4,000,000
Capital assets not being depreciated (Note 4)	
Land	71,279,425
Construction in progress	52,093,553
Capital assets net of accumulated depreciation (Note 4)	
Levees and facilities	32,843,669
TOTAL ASSETS	261,598,255
DEFERRED OUTFLOWS OF RESOURCES (NOTE 1)	
Deferred outflows related to pensions	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	-
LIABILITIES	
Current liabilities:	
Accounts payable and accrued liabilities	22,715,379
TOTAL LIABILITIES	22,715,379
DEFERRED INFLOWS OF RESOURCES (NOTE 1)	
TOTAL DEFERRED INFLOWS OF RESOURCES	-
NET POSITION	
Net investment in capital assets	156,216,647
Unrestricted	82,666,229
TOTAL NET POSITION	238,882,876

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

**KING COUNTY FLOOD CONTROL ZONE DISTRICT
GOVERNMENT-WIDE FINANCIAL STATEMENTS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Expenses	Program Revenues		Net Governmental Activities
		Charges for Services	Operating Grants and Contributions	
PRIMARY GOVERNMENT				
Flood controls	\$ 30,123,755			\$ 30,123,755
Total primary government				30,123,755
General Revenue				
Taxes:				
Property taxes				56,744,506
Leasehold excise taxes				279,634
Other taxes				29,148
Investment earnings, net of investment expenses				1,539,805
Unrealized investment income (loss)				63,832
Special Item - loss on sale of capital assets				-
Total general revenues and special item				58,656,925
CHANGE IN NET POSITION				28,533,170
NET POSITION, BEGINNING OF THE YEAR				210,349,706
NET POSITION, END OF THE YEAR				\$ 238,882,876

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

**KING COUNTY FLOOD CONTROL ZONE DISTRICT
BALANCE SHEET
GOVERNMENTAL FUND
DECEMBER 31, 2018**

	General Fund
ASSETS AND OUTFLOWS OF RESOURCES	
Cash and cash equivalents	\$ 100,287,674
Taxes receivable	912,799
Other receivable	181,135
Cash advance	4,000,000
TOTAL ASSETS	105,381,608
DEFERRED OUTFLOWS OF RESOURCES	-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	105,381,608
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	
LIABILITIES	
Accounts payable and accrued liabilities	22,715,379
TOTAL LIABILITIES	22,715,379
DEFERRED INFLOWS OF RESOURCES	
Unavailable revenue - property tax	912,799
TOTAL DEFERRED INFLOWS OF RESOURCES	912,799
FUND BALANCES	
Nonspendable - cash advance	4,000,000
Restricted	-
Committed	27,169,811
Assigned	7,500,000
Unassigned	43,083,619
TOTAL FUND BALANCES	81,753,430
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 105,381,608
Total fund balances - governmental fund	81,753,430
Amounts reported for governmental activities in the statement of net position (page 7) are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental fund	156,216,647
Property taxes levied but unavailable in the governmental fund which were reported as property tax revenue in the statement of activities	912,799
TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES	\$ 238,882,876

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

**KING COUNTY FLOOD CONTROL ZONE DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2018**

	General Fund
REVENUES	
Property taxes, net of refund of \$114,483	\$ 56,512,460
Leasehold excise taxes	279,634
Other taxes	29,148
Investment income	1,571,060
Unrealized investment income (loss)	63,832
Total revenues	58,456,134
EXPENDITURES	
Current operating:	
Administrative and other operating expenses	774,817
Contracted labor and services	8,793,875
Investment expenses	31,255
Capital projects expenditures	38,835,260
Total expenditures	48,435,207
CHANGE IN FUND BALANCES	10,020,927
TOTAL FUND BALANCES, BEGINNING OF THE YEAR	71,732,503
TOTAL FUND BALANCES, END OF THE YEAR	81,753,430
Change in fund balances - governmental fund	10,020,927
Amounts reported for governmental activities in the statement of activities (page 8) are different because:	
Governmental fund reported capital projects expenditures as expenditures. However, certain capital projects expenditures were reclassified as capital assets in the statement of net position. This is amount capitalized in the current year, net of depreciation expenses. Additionally, a sale of capital asset.	18,280,197
Prior year property taxes collected which are not reported as current year revenue in the statement of activities	232,046
TOTAL CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	\$ 28,533,170

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

**KING COUNTY FLOOD CONTROL ZONE DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of King County Flood Control Zone District (the District), have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described below.

Reporting Entity

The District, a municipal corporation and independent taxing authority, was established in April 2007 to provide funding and policy oversight for flood protection projects and programs in King County. The District took over several King County flood districts to improve the County's aging and inadequate flood protection facilities and improve countywide flood warnings and flood prediction capacity.

As authorized by the Revised Code of Washington (RCW) 86.15 "Flood Control Zone Districts", the King County Council is the District's Board of Supervisors, the governing body. The Board is staffed by the Executive Director, an outside management consultant who oversees overall performance and who represents the District on behalf of the Board of Supervisors.

The District is considered a special purpose government, supported primarily through property tax levied in King County. All activities for which the District is financially accountable have been incorporated to form the reporting entity. The District has no component units that are required to be included in its financial statements. King County reports the District as a component unit in its financial statements. However, the District, as a separate legal entity, has legal and administrative authority over all its resources.

Government-Wide and Fund Financial Statements

Government-wide financial statements report information on all of the non-fiduciary activities of the District, the primary government, consisting of a statement of net position and a statement of activities. The District reports its governmental activities, which normally are supported by property taxes. The District does not have business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of the District's program are offset by the program revenues.

**KING COUNTY FLOOD CONTROL ZONE DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by the program, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. The District's flood control activities are funded by property taxes, which are not considered to be program revenues. Taxes and other items not included among program revenues are reported instead as general revenues.

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

Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues and resulting receivables are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The District considers revenues to be available if they are collected within 60 days after year-end. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. Expenditures related to compensated absences and claims and judgments are recorded only when payment is due.

Governmental Accounting Standards Board (GASB) Pronouncements

In June 2012, the GASB issued Statement No. 68, *Accounting and Reporting for Pensions-An Amendment of GASB Statement No. 27*, which addresses accounting and financial reporting for pensions that are provided to the employees of state and local government employers. The Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. The District considered this new GASB standard and determined it was not applicable.

**KING COUNTY FLOOD CONTROL ZONE DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*, which requires the use of valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. The Statement also establishes a hierarchy of inputs to valuation techniques used to measure fair value. The required disclosures are presented in Note 2 to the financial statements.

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. It establishes financial reporting requirements for defined benefit pensions that are provided to employees of state and local governmental employers and that are not administered through trusts or equivalent arrangements and therefore outside the scope of Statement No. 68. The District considered this new GASB standard and determined it was not applicable.

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. GASB Statement No. 74 establishes financial reporting standards for state and local governmental other postemployment benefit (OPEB) plans other than pension plans. It also establishes financial reporting standards for governments that hold assets accumulated for purposes of providing OPEB through defined benefit OPEB plans that are not administered through trusts or equivalent arrangements. The District considered this new GASB standard and determined it was not applicable.

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. The Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. The District considered this new GASB standard and determined it was not applicable to the District.

In June 2015, the GASB issued Statement No. 76, *Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The Statement establishes the hierarchy of GAAP for state and local governments. The Statement reduces the GAAP hierarchy from four to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature for situations when GAAP does not specify accounting treatment for a transaction or event.

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures*, which requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements, and (2) those that are entered into by other governments that reduce the reporting government's

**KING COUNTY FLOOD CONTROL ZONE DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

tax revenues. This new GASB statement was considered by the District and see the Note 3 to the financial statements.

GASB Statement No. 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14*. GASB statement No. 80 amends the blending requirements for the financial statement presentation of component units incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The District considered this new GASB standard and determined it was not applicable to the District.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements* establishes recognition and measurement requirements for irrevocable split-interest agreements. This new GASB statement was considered by the District and determined it was not applicable.

In March 2016, the GASB issued Statement No. 82, *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73*, which requires the presentation of covered payroll, defined as the payroll on which contributions to a pension plan are based, and ratios that use that measure. The District considered this new GASB standard and determined it was not applicable.

GASB Statement No. 83, *Certain Asset Retirement Obligation*. This new GASB statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. It requires that recognition occur when the liability is both incur and reasonably estimable. It is effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged. The District is currently evaluating of the impact this new GASB statement.

GASB Statement No. 84, *Fiduciary Activities*. This new GASB statement establishes criteria for identifying fiduciary activities of all state and local governments. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. It is effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. The District is currently evaluating of the impact of this new GASB statement.

GASB Statement No. 85, *Omnibus 2018*. This new GASB statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefit. It is effective for periods beginning after June 15, 2018. Earlier application is encouraged. The District is currently evaluating the impact of this new GASB statement.

**KING COUNTY FLOOD CONTROL ZONE DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

GASB Statement No. 86, *Certain Debt Extinguishment Issues*. This new GASB statement provides guidance for transactions in which cash and other monetary assets acquired with only existing resources other than the proceeds of refunding debt are placed in an irrevocable trust for the sole purpose of extinguishing debt. This statement also improves accounting and reporting for prepaid insurance on debt that is extinguished. It is effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged. The District is currently evaluating the impact of this new GASB statement.

GASB Statement No. 87, *Leases*. This new GASB statement establishes a single model for lease accounting based on the foundational principal that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset. It is effective for reporting periods beginning after December 15, 2019. The District is currently evaluating the impact of this new GASB statement.

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. This statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. It is effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged. The District is currently evaluating the impact of this new GASB statement.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. This new GASB statement establishes accounting requirements for interest cost incurred before the end of a construction period. It is effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The District is currently evaluating the impact of this new GASB statement.

GASB Statement No. 90, *Majority Equity Interests – an amendment of GASB Statements No. 14 and No.61*. This new GASB statement defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meet the definition of an investment should be measured using the equity method at fair value. It is effective for reporting beginning after December 15, 2018. Earlier application is encouraged. The District is currently evaluating the impact of this new GASB statement.

**KING COUNTY FLOOD CONTROL ZONE DISTRICT
NOTES TO FINANCIAL STATEMENTS
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Budgetary Information

The District adopts its budget on an annual basis. The budget is based upon the District's goals and its operating and capital programs. Most revenues and expenditures are budgeted on the accrual basis. Capital projects are budgeted on a project basis. Projects are budgeted in their entirety when approved, regardless of anticipated expenditure dates. Each year thereafter, the remaining unexpended portion of each project is budgeted again in the following year.

When the District determines that it is in the best interest of the District to increase or decrease the appropriation of a particular expenditure item, it may do so by resolution approved by its Board of Supervisors.

The budgetary comparison schedule on page 26 contains the original and final budget information. The original budget is the first complete appropriated budget. The final budget is the original budget adjusted by all reserves, allocations, supplemental appropriations, and other legally authorized changes applicable for the year.

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

Cash and Cash Equivalents

Cash and cash equivalents consist of pooled investments in the King County Investment Pool (the Pool). The King County Treasurer acts as custodian for the District's cash. The Pool functions essentially as a demand deposit where the District receives an allocation of its proportionate share of pooled earnings. The District's equity share of the Pool's net position is reported on the balance sheet as cash and cash equivalents and reflects the change in fair value of the corresponding investment securities. See Note 2 Deposits and Investments.

Receivables

Taxes receivable consists of property taxes and related interest and penalties (See Property Taxation Note No. 3). Interest receivable consists of amounts earned on pooled investments at the end of the year.

Cash Advance

Advance to the King County Water and Land Resources Division for the District's operating and capital expenditures is included in the nonspendable fund balance in the governmental fund to indicate that it is not available for appropriation and is not an expendable financial resource.

**KING COUNTY FLOOD CONTROL ZONE DISTRICT
NOTES TO FINANCIAL STATEMENTS
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Capital Assets

Capital assets, which include land, construction in progress, levees and facilities, and machine and equipment, are reported in the government-wide financial statements. Construction in progress reports all costs associated with projects being developed. As projects are completed, the related costs are reclassified as levees and facilities.

Capital assets are defined by the District as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost if purchased or constructed.

Donated capital assets are recorded at estimated fair market value at the date of donation. Costs for additions or improvements to capital assets are capitalized when they increase the effectiveness or efficiency of the asset. Expenditures for maintenance and repairs are charged to expenses as incurred. It is the District's policy not to capitalize interest on construction of governmental capital assets.

Depreciation of capital assets is recorded using the straight-line method over the following estimated useful lives:

Levees and Facilities	30 to 75 years
Machinery and Equipment	5 to 7 years

Deferred Inflows of Resources

Concepts Statement No. 4, Elements of Financial Statements, defines a deferred inflow of resources as an acquisition of net assets by the government that is applicable to a future reporting period. As of December 31, 2018, the District had deferred inflows of resources of \$912,799 in the governmental fund balance sheet.

Classification of Net Position

In the government-wide financial statements, net positions are classified in the following three components:

Net Investment in capital assets – This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowing that are attributable to the acquisition, construction or improvement of those assets.

Restricted – This component of net position consists of external constraints imposed by creditors (through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation, that restrict the use of net assets.

**KING COUNTY FLOOD CONTROL ZONE DISTRICT
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Unrestricted – This component of net position consists of net positions that do not meet the definition of “restricted” or “invested in capital assets, net of related debt”.

As of December 31, 2018, the District reported \$156,216,647 of net investment in capital assets and unrestricted net position of \$82,666,229.

Fund Balance Classification and Details

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

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

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

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

Assigned fund balances are amounts constrained by the District’s intent that they will be used for specific purposes. The District has adopted its policy to delegate the authority to assign amounts to be used for specific purposes to its Executive Committee.

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

As of December 31, 2018, the District had non-spendable funds of \$4,000,000 advanced to King County for payment of reimbursable operating and capital expenditures, \$27,169,811 of committed funds for carryover of unspent appropriations, and \$7,500,000 of assigned funds for self-insured retention relating to its excess liability insurance policy. Unassigned funds as of December 31, 2018 was \$43,083,619.

The District’s spending policy of its general fund is restricted, assigned, unassigned, and committed. Restricted fund balances are spent first according to the purposes for which restricted funds are received.

Unassigned funds are spent after committed and assigned funds have been exhausted.

**KING COUNTY FLOOD CONTROL ZONE DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

Income Tax

As a public governmental corporation, the District is exempt from federal income taxes.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

NOTE 2 - DEPOSITS AND INVESTMENTS

In accordance with State law, the District's governing body has entered into a formal inter-local agreement with the District's *ex officio* treasurer, King County, to have all of its funds not required for immediate expenditure to be invested in the King County Investment Pool (the Pool).

The Pool is not registered with the Securities and Exchange Commission (SEC) as an investment company. Oversight is provided by the King County Executive Finance Committee (EFC), which serves the role of the County Finance Committee as defined in RCW 36.48.070. All investments are subject to written policies and procedures adopted by the EFC.

The District receives an allocation of its proportionate share of pooled earnings. Unrealized gains and losses due to changes in the fair values are not distributed to the District. However, the unrealized gain or loss is recognized in the statement of revenues, expenditures and changes in fund balances at year-end in accordance with accounting standards. As of December 31, 2018, the District had unimpaired pooled investments of \$100,268,976 at fair value.

Fair Value Hierarchy

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

The following is a summary of inputs in valuing the District's investments as of December 31, 2018:

**KING COUNTY FLOOD CONTROL ZONE DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

Fair Value Measurements Using

Investments at Fair Value Level	Fair Value 12/31/18	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobserv- able Inputs (Level 3)
Governmental Agencies	26,764,221		26,764,221	
Commercial Paper	7,818,761		7,818,761	
Corporate notes	14,334,395		14,334,395	
U.S. Agency Mortgage-backed Securities	100,241		100,241	
Treasury Securities	39,795,489	39,795,489		
Subtotals	88,813,107	39,795,489	49,017,618	-
Investments measured at amortized costs (not subject to Fair Value Hierarchy)				
Repurchase Agreements	1,509,720			
State government Investment Pool	9,964,149			
Subtotal investments measured at cost	11,473,869			
Total investments in Investment Pool	100,286,976			

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

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

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

**KING COUNTY FLOOD CONTROL ZONE DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

Impaired Investment Pool

The King County Executive Finance Committee approved the bifurcation of the investment pool as of September 1, 2008. This separated the impaired investments into their own pool distinct from the main pool of performing investments. The reasons for bifurcating the pool were to: (1) ensure the yield on the performing assets is not negatively impacted by the impaired investments; (2) enhance transparency about the value of the performing pool and the impaired pool; (3) ease the implementation of the restructuring processes for the impaired investments.

For the bifurcation, three impaired commercial paper investments were placed into an impaired investment pool (Impaired Pool). The Impaired Pool holds one commercial paper asset (Victoria), in which the County accepted an exchange offer in 2009 and is receiving cash flows from the investment's underlying securities. For the other two commercial paper investments (Cheyne and Rhinebridge), the County accepted a cash-out option in 2008, based on the results of the separate restructuring auctions conducted by the designated "receiver" of each commercial paper asset.

As of December 31, 2018, all impaired commercial paper investments have completed enforcement events. The District's share of the impaired investment pool principal was \$1,408 and the fair value of these investments was \$997.

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As of December 31, 2018, the Pool's average duration was .94 years. As a means of limiting its exposure to rising interest rates, securities purchased in the Pool must have a final maturity, or weighted average life, no longer than five years. While the Pool's market value is calculated on a monthly basis, unrealized gains or losses are not distributed to participants. The Pool distributes earnings monthly using an amortized cost methodology.

Credit Risk is the chance that an issuer will fail to pay principal or interest in a timely manner, or that negative perceptions of the issuer's ability to make these payments will cause the price of the investment to decline. As of December 31, 2018, the District's investment in the Pool was not rated by a nationally recognized statistical rating organization (NRSPO). In compliance with state statutes, the Pool policies authorize investments in U.S. Treasury securities, U.S. agency securities and mortgage-backed securities, municipal securities (rated at least "A" by two NRSROs), commercial paper (rated at least the equivalent of "A-1" by two NRSROs), certificates of deposits issued by qualified public depositories, repurchase agreements, and the Local Government Investment Pool managed by the Washington State Treasurer's office.

**KING COUNTY FLOOD CONTROL ZONE DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 3 - PROPERTY TAXATION

The District is authorized to levy property taxes to fund flood-related services and capital projects. The King County Assessor determines the tax levied against each property in each taxing district. The King County Treasury Operation Section Manager is responsible for billing and collecting taxes. On January 1, at the time of assessment, an enforceable lien is attached to the property for property taxes. Tax bills are mailed on February 14th. All taxes are due and payable on April 30th of each year, but if the amount due from a taxpayer exceeds fifty dollars, one-half may be paid on April 30th and the balance is due no later than October 31st of that year. All taxes collected are distributed to the District and kept in the custody of the King County Treasury Division.

In the governmental fund, property taxes levied for the current year are recorded on the balance sheet as taxes receivable and unavailable revenue – property tax at the beginning of the year. Property taxes are recognized as revenue when collected in cash at which time taxes receivable and unavailable revenue – property taxes are reduced by the amount of the collection. The amount of taxes receivable at year end that would be collected soon enough to be used to pay liabilities of the current period is not material. At year-end, all uncollected property taxes are reported on the balance sheet as taxes receivable – delinquent and deferred inflow of resources. For the government-wide financial statements, the deferred inflow of resources related to the current period, net of the allowance for uncollectible property taxes, is reclassified to revenue. No allowance for uncollectible tax is established because delinquent taxes are considered fully collectible.

The District is permitted by law to levy a tax rate of 1 percent or \$10 per \$1,000 assessed value. \$57,041,494 was levied for 2018 and \$56,512,460 was collected during 2018, including delinquent taxes from previous years. The District had taxes receivable of \$912,799 as of December 31, 2018.

Tax Abatements

As of December 31, 2018, King County provides tax abatements through three programs – the Current Use Programs, Historic Preservation Program and the Single-family Dwelling Improvement Program. All of these programs are property tax abatements. The property tax system in the state of Washington is budget-based, which means the taxing authority determines a budget or dollar amount and adjusts the rates for the taxpayers based on the assessed valuation of their property. The tax abatements did not result in a reduction or loss of revenue because, pursuant to state law, these taxes were effectively reallocated to other property taxpayers. King County has not determined the District's share of abatements at this time.

**KING COUNTY FLOOD CONTROL ZONE DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 4 - CAPITAL ASSETS

Capital assets activities for the year ended December 31, 2018 were as follows:

	Balance 12/31/2017	Increases	Decreases	Balance 12/31/2018
Governmental Activities				
Capital assets, not being depreciated:				
Land	\$ 64,558,548	\$ 6,720,877		\$ 71,279,425
Construction in progress	56,267,887	12,396,892	(16,571,226)	52,093,553
Total capital assets, not being depreciated	<u>120,826,435</u>	<u>19,117,769</u>	<u>(16,571,226)</u>	<u>123,372,978</u>
Capital assets, being depreciated:				
Levees and facilities	19,603,463	16,571,226	-	36,174,689
Machinery and equipment	18,476	-	-	18,476
Total capital assets, being depreciated	<u>19,621,939</u>	<u>16,571,226</u>	<u>-</u>	<u>36,193,165</u>
Less accumulated depreciation for:				
Levees and facilities	(2,493,447)	(837,573)	-	(3,331,020)
Machinery and equipment	(18,476)		-	(18,476)
Total accumulated depreciation	<u>(2,511,923)</u>	<u>(837,573)</u>	<u>-</u>	<u>(3,349,496)</u>
 Total capital assets, being depreciated, net	 <u>17,110,016</u>	 <u>15,733,653</u>	 <u>-</u>	 <u>32,843,669</u>
 Total capital assets, net	 <u>\$ 137,936,451</u>	 <u>\$ 34,851,422</u>	 <u>\$ (16,571,226)</u>	 <u>\$ 156,216,647</u>

Land is acquired in the name of the King County in accordance with the Inter-Local Agreement. As of December 31, 2018, the District reported a total amount of \$71,279,425 as land, which represents costs funded by the District. The Inter-local Agreement provides for King County and the District to facilitate necessary transfers of land and other capital assets to the District. As of December 31, 2018, transfers have not taken place. In addition, the District had flood control construction in progress totaling \$52,093,553. No depreciation is calculated for construction in progress. Construction in progress represents all costs associated with projected being developed. As projects are completed, the related costs are reclassified as levees and facilities.

Total depreciation expense of \$837,573 was charged to the flood control function of the District in 2018.

**KING COUNTY FLOOD CONTROL ZONE DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 5 - RISK MANAGEMENT AND CONTINGENCIES

The District's risk-of-loss exposures include exposure to liability, accidental loss of real and personal property as well as human resources. The District's operations involve a variety of high-risk activities including, but not limited to, construction and maintenance activities. The District manages these risks with assistance from King County in order to reduce the exposure from liability and accidental loss of property and human resources. The risk management costs through King County are reimbursable by the District.

The District also has excess liability insurance coverage with Alliant Insurance Services that covers the District, its board members, employees and staff. The total coverage amount is \$100 million with a self-insured retention of \$7.5 million. Under this type of policy the District is responsible for the administration of all claims, which would be managed by King County on its behalf.

There were no claims against the District during the year 2018.

NOTE 6 - COMMITMENT

Since April 2008, the District has entered into an inter-local agreement with King County for administering and implementing flood protection projects and services. The District pays the County for all actual costs incurred for providing the services under this agreement. The County billed \$53,264,868 to the District during 2018, and \$22,142,186 was due to the County as of December 31, 2018. The District has advanced \$4,000,000 to the County for prepayment of reimbursable costs. The net outstanding payable to the County was \$18,142,186.

In addition, an employee at King County Council (the Council) provides exclusively executive director services in addition to clerk's services to the District during 2018. The District was charged labor costs and overhead. The total expenses billed to the District by the Council was \$174,892. Also, the District reimburses any reimbursable expenditures paid on behalf of the District to manage its activities. At December 31, 2018, the District reported \$383,468 due to the Council.

**KING COUNTY FLOOD CONTROL ZONE DISTRICT
BUDGETARY COMPARISON SCHEDULE (BUDGETARY BASIS)
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Original Budget	Revised Budget	Actual	% of Budget	Remaining Balance
REVENUES					
Property taxes	\$ 55,685,024	\$ 55,685,024	56,512,460	101%	\$ (827,436)
Other taxes			308,782		\$ (308,782)
Investment income, net of investment expenses			1,539,805		\$ (1,539,805)
Total revenue	55,685,024	55,685,024	58,361,047	105%	(2,676,023)
EXPENDITURES					
Administration and management	792,853	792,853	774,817	98%	18,036
Intergovernmental services	11,333,238	11,515,838	8,793,875	76%	2,721,963
Capital program expenditures	53,216,697	149,812,487	38,835,260	26%	110,977,227
Total expenditures	65,342,788	162,121,178	48,403,952	30%	\$ 113,717,226
Excess of revenues over expenditures	(9,657,764)	(106,436,154)	9,957,095		
Adjustment from budgetary basis to GAAP basis			63,832		
CHANGES IN FUND BALANCE	(9,657,764)	(106,436,154)	10,020,927		
FUND BALANCE, AS OF JANUARY 1, 2018			71,732,503		
FUND BALANCE, AS OF DECEMBER 31, 2018			81,753,430		

Elements of adjustment from budgetary basis to GAAP basis:

Recognition of unrealized investment gain	63,832
Adjustment from budgetary basis to GAAP basis	63,832

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