

King County Flood Control Zone District

**Financial Statements for the
Year Ended December 31, 2017**



FRANCIS & COMPANY PLLC

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, 2017, 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.

Seattle, Washington
May 17, 2018

KING COUNTY FLOOD CONTROL ZONE DISTRICT
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

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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, 2017. 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.

The District adopted the following reporting requirements from the Governmental Accounting Standards Board (GASB) in the 2017 financial statements:

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 required disclosures are presented in Note 5 to the financial statements.

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.

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. Disclosures are presented in Note 6 to the financial statements.

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. GASB Statement No. 76 establishes the hierarchy of GAAP for state and local governments. The 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 tax revenues. The required disclosure is presented in Note 3 to the financial statements.

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 Required Supplementary Information is presented at the end of these financial statements.

Financial Highlights

- As of December 31, 2017, the assets of the District exceeded its liabilities by \$214.19 million on a government-wide basis (net position). Net position included net investment in capital assets of \$141.88 million and unrestricted net position of \$72.3 million.
- In 2017, the District's total net position increased by \$26.97 million.
- As of December 31, 2017, the District's governmental fund had an ending balance of \$71.48 million, which was an increase of \$9.18 million from the prior year. The governmental fund balances included \$4 million attributable to nonspendable cash advance, \$24.12 million committed for carryover of unspent appropriations, and \$7.5 million was assigned for self-insured retention. The remaining portion of fund balance, \$35.86 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 \$214.19 million at the end of 2017, and 66.24 percent of the net position was invested in capital assets. Total net position increased \$26.97 million, and investment in capital assets went up by \$17.95 million or 14.48 percent in 2017. For further information regarding the increase in capital assets see Note 4 to the financial statements. The increase in net position in 2017 reflects the District's ability to meet current and future obligations in the course of its activities.

	2017	2016
Condensed Statement of Net Position		
ASSETS		
Current and other assets	\$92,670,405	\$92,927,832
Capital assets	141,882,266	123,934,062
Total assets	234,552,671	216,861,894
DEFERRED OUTFLOWS OF RESOURCES		
	18,209	-
LIABILITIES		
Current liabilities	20,267,109	29,646,211
Non-current liabilities	88,622	-
Total liabilities	20,355,731	29,646,211
DEFERRED INFLOWS OF RESOURCES		
	30,077	-
NET POSITION		
Net investment in capital assets	141,882,266	123,934,062
Unrestricted	72,302,806	63,281,621
Total net position	\$214,185,072	\$187,215,683

The District's flood control services are funded by property taxes, which comprise 98.44 percent of total revenue. Total revenue did not change significantly in 2017 compared to 2016. Expenses decreased by \$2.27 million 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 2017 and indicates its ability to meet its ongoing obligations.

Condensed Statement of Activities

	2017	2016
Property taxes	\$54,767,662	\$54,794,947
Investment earnings	861,000	627,973
Other taxes	248,957	306,378
Unrealized investment gain (loss)	(242,762)	(91,472)
Total Revenue	<u>55,634,857</u>	<u>55,637,826</u>
EXPENSES		
Flood controls	<u>28,665,468</u>	<u>30,936,022</u>
Change in Net Position	<u>26,969,389</u>	<u>24,701,804</u>
Net Position, End of Year	<u>\$214,185,072</u>	<u>\$187,215,683</u>

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.

Condensed Balance Sheet		
	2017	2016
Total Assets	\$92,670,405	\$92,927,833
Deferred Outflows of Resources	-	-
Total Liabilities	20,267,109	29,646,211
Deferred Inflows of Resources	921,693	977,021
Fund Balances		
Nonspendable – cash advance	4,000,000	4,000,000
Committed	24,125,478	24,217,386
Assigned	7,500,000	7,500,000
Unassigned	35,856,125	26,587,215
Total Fund Balances	<u>\$71,481,603</u>	<u>\$62,304,601</u>

As of December 31, 2017, the District's governmental fund reported ending fund balances of \$71.48 million, of which \$4 million was nonspendable, \$24.12 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 \$24.12 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, \$35.86 million, is available for spending in future years at the District's discretion. The total fund balances increased by \$9.18 million.

Condensed Statement of Revenues, Expenditures, and Changes in Fund Balances		
	2017	2016
Total Revenues	\$55,712,810	\$55,640,030
Total Expenditures	46,535,808	44,388,709
Changes in Fund Balances	<u>\$ 9,177,002</u>	<u>\$11,251,321</u>

Overall governmental fund revenues for 2017 totaled \$55.71 million, which represents a slight increase over 2016. Total expenditures increased 4.8 percent or \$2.15 million from the previous year, primarily due to a increase in capital project expenditures. The fund balance increased by \$9.18 million in 2017 compared to an increase of \$11.25 million for the year of 2016.

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 2017. Property taxes were budgeted based on approved tax levies for 2017, while property taxes reported as actual were total taxes collected in 2017. See the District's accounting policies in Note 1 to the financial statements. Actual expenditures were less than budget estimates by \$107.7 million primarily because the 2017 budgeted expenditures included carryover amounts from prior years which were not expended in 2017.

Capital Assets

The District's capital assets, net of accumulated depreciation, amounted to \$141.88 million as of December 31, 2017. This is an increase of \$17.95 million or 14.48 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 12/31/2017	Balance 12/31/2016
Governmental Activities		
Land	\$67,937,062	\$63,672,606
Construction in progress	51,437,136	42,497,992
Levees and facilities	25,047,481	19,603,462
Machinery and equipment	18,476	18,476
Less: accumulated depreciation	(2,557,889)	(1,858,474)
Total Capital Assets, Net	\$141,882,266	\$123,934,062

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 2018 budget (General Fund, as approved on November 13, 2017) is summarized below:

Property Taxes	<u>\$55,685,024</u>
District overhead and administration	792,853
Maintenance and operations	11,333,238
Construction and improvements	<u>53,216,697</u>
Total	<u>\$65,342,788</u>

The District's Board has authorized \$55.68 million of property taxes to be levied for 2018, an increase of 1 percent over 2017.

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, 2017**

	Primary Government Governmental Activities
ASSETS	
Cash	\$ 87,656,905
Taxes receivable	921,693
Other receivable	91,807
Cash advance	4,000,000
Capital assets not being depreciated (Note 4)	
Land	67,937,062
Construction in progress	51,437,136
Capital assets net of accumulated depreciation (Note 4)	
Levees and facilities	22,508,068
Machinery and equipment	-
TOTAL ASSETS	234,552,671
DEFERRED OUTFLOWS OF RESOURCES (NOTE 1)	
Deferred outflows related to pensions	18,209
TOTAL DEFERRED OUTFLOWS OF RESOURCES	18,209
LIABILITIES	
Current liabilities:	
Accounts payable and accrued liabilities	20,267,109
Non-current liabilities:	
Net pension liability	88,622
TOTAL LIABILITIES	20,355,731
DEFERRED INFLOWS OF RESOURCES (NOTE 1)	
Deferred inflows related to pensions	30,077
TOTAL DEFERRED INFLOWS OF RESOURCES	30,077
NET POSITION	
Net investment in capital assets	141,882,266
Unrestricted	72,302,806
TOTAL NET POSITION	\$ 214,185,072

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, 2017**

	Expenses	Program Revenues		Net Governmental Activities
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
PRIMARY GOVERNMENT				
Flood controls	\$ 28,665,468			\$ 28,665,468
Total primary government				28,665,468
GENERAL REVENUES				
Taxes:				
Property taxes				54,767,662
Leasehold excise taxes				231,942
Other taxes				17,015
Investment earnings, net of fees				861,000
Unrealized investment income (loss)				(242,762)
Total general revenues				55,634,857
CHANGE IN NET POSITION				26,969,389
NET POSITION, BEGINNING OF THE YEAR				187,215,683
NET POSITION, END OF THE YEAR				\$ 214,185,072

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

**KING COUNTY FLOOD CONTROL ZONE DISTRICT
BALANCE SHEET
GOVERNMENTAL FUND
DECEMBER 31, 2017**

	General Fund
ASSETS AND OUTFLOWS OF RESOURCES	
Cash	\$ 87,656,905
Taxes receivable	921,693
Other receivable	91,807
Cash advance	4,000,000
TOTAL ASSETS	92,670,405
DEFERRED OUTFLOWS OF RESOURCES	-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	92,670,405
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	
LIABILITIES	
Accounts payable and accrued liabilities	20,267,109
TOTAL LIABILITIES	20,267,109
DEFERRED INFLOWS OF RESOURCES	
Unavailable revenue - property tax	921,693
TOTAL DEFERRED INFLOWS OF RESOURCES	921,693
FUND BALANCES	
Nonspendable - cash advance	4,000,000
Restricted	-
Committed	24,125,478
Assigned	7,500,000
Unassigned	35,856,125
TOTAL FUND BALANCES	71,481,603
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 92,670,405
Total fund balances - governmental fund	71,481,603
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	141,882,266
GASB 68 Deferred Outflows not reported in the governmental fund	18,209
GASB 68 Liabilities and Deferred Inflows not reported in the governmental fund	(118,699)
Property taxes levied but unavailable in the governmental fund which were reported as property tax revenue in the statement of activities	921,693
TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES	\$ 214,185,072

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, 2017**

	General Fund
REVENUES	
Property taxes, net of refund of \$134,822	\$ 54,822,989
Leasehold excise taxes	231,942
Other taxes	17,015
Investment income	883,626
Unrealized investment income (loss)	(242,762)
Total revenues	55,712,810
EXPENDITURES	
Current operating:	
Administrative and other operating expenses	526,042
Contracted labor and services	9,335,682
Investment expenses	22,627
Capital projects expenditures	36,651,457
Total expenditures	46,535,808
CHANGE IN FUND BALANCES	9,177,002
TOTAL FUND BALANCES, BEGINNING OF THE YEAR	62,304,601
TOTAL FUND BALANCES, END OF THE YEAR	71,481,603
Change in fund balances - governmental fund	9,177,002
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	17,948,204
Prior year property taxes collected which are not reported as current year revenue in the statement of activities	(55,327)
Net change in expenses for GASB 68 pension recognition	(100,490)
TOTAL CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	\$ 26,969,389

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

**KING COUNTY FLOOD CONTROL ZONE DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

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, 2017**

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 required disclosures are presented in Note 5 to the financial statements.

**KING COUNTY FLOOD CONTROL ZONE DISTRICT
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DECEMBER 31, 2017**

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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 Required Supplementary Information is presented at the end of these financial statements.

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.

**KING COUNTY FLOOD CONTROL ZONE DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

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 33 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

Cash consists 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 as a demand deposit account where the District receives an allocation of its proportionate share of pooled earnings. Interest earnings distributed to the District are used for the District's operations. The cash balance at the fiscal year end is reported at fair market value of pooled 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 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.

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.

**KING COUNTY FLOOD CONTROL ZONE DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

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

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all state sponsored pension plans and additions to/deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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, 2017, the District had deferred inflows of resources of \$921,693 in the governmental fund balance sheet.

Deferred inflows representing the District's proportionate share of amounts reportable under the GASB pension guidance are included in the government-wide statement of net position.

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

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or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation, that restrict the use of net assets.

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, 2017, the District reported \$141,882,266 of net investment in capital assets and unrestricted net position of \$72,302,806.

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, 2017, the District had non-spendable funds of \$4,000,000 advanced to King County for payment of reimbursable operating and capital expenditures, \$24,125,478 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, 2017 was \$35,856,125.

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.

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

Compensated Absences

Eligible District employees earn 12 days of sick leave and 12 to 30 days of vacation per year. An unlimited amount of sick leave and a maximum of 60 days of vacation may be carried over at year-end. An employee leaving employment at the District is entitled to be paid for unused vacation and, if leaving employment due to death or retirement, for 35 percent of the value of unused sick leave. For reporting purposes, the District does not accrue sick leave.

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) pursuant to RCW 36.29.020. All investments are subject to written policies and procedures adopted by the EFC.

The Pool functions as a demand deposit account where 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, 2017, the District had unimpaired pooled investments of \$87,655,491 at fair value.

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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, 2017:

Fair Value Measurements Using				
Investments at Fair Value Level	Fair Value 12/31/17	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobserv- able Inputs (Level 3)
Governmental Agencies	29,527,119		29,527,119	
Commercial Paper	4,731,348		4,731,348	
Corporate notes	13,843,575		13,843,575	
U.S. Agency Mortgage-backed Securities	87,618		87,618	
Treasury Securities	32,243,264	32,243,264		
Subtotals	80,432,924	32,243,264	48,189,660	-
Investments measured at amortized costs (not subject to Fair Value Hierarchy)				
Repurchase Agreements	1,937,762			
Local Government Investment Pool	5,284,805			
Subtotal investments measured at cost	7,222,567			
Total investments in Investment Pool	87,655,491			

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

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benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data including market research publications.

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

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, four 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 three commercial paper investments (Cheyne, Mainsail and Rhinebridge), the County accepted a cash-out option in 2008, based on the results of three separate restructuring auctions conducted by the designated "receiver" of each commercial paper asset.

As of December 31, 2017, the District's share of the impaired investment pool principal was \$2,101 and the fair value of these investments was \$1,414.

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As of December 31, 2017, the Pool's average duration was 1.02 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, 2017, the District's investment in the Pool was not rated by a nationally recognized statistical rating organization (NRSP). In compliance with state statutes, the Pool policies authorize investments in U.S. Treasury securities,

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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.

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. \$55,133,688 was levied for 2017 and \$54,822,989 was collected during 2017, including delinquent taxes from previous years. The District had taxes receivable of \$921,693 as of December 31, 2017.

King County Tax Abatements

District tax revenues were reduced under agreements entered into by King County. The County has not determined the District's share of abatements at this time.

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NOTE 4 - CAPITAL ASSETS

Capital assets activities for the year ended December 31, 2017 were as follows:

	Balance 12/31/2016	Increases	Decreases	Balance 12/31/2017
Governmental Activities				
Capital assets, not being depreciated:				
Land	\$ 63,672,606	\$ 4,264,456		\$ 67,937,062
Construction in progress	42,497,991	14,383,163	(5,444,018)	51,437,136
Total capital assets, not being depreciated	106,170,597	18,647,619	(5,444,018)	119,374,198
 Capital assets, being depreciated:				
Levees and facilities	19,603,463	5,444,018	-	25,047,481
Machinery and equipment	18,476	-	-	18,476
Total capital assets, being depreciated	19,621,939	5,444,018	-	25,065,957
 Less accumulated depreciation for:				
Levees and facilities	(1,839,998)	(699,415)	-	(2,539,413)
Machinery and equipment	(18,476)		-	(18,476)
Total accumulated depreciation	(1,858,474)	(699,415)	-	(2,557,889)
 Total capital assets, being depreciated, net	17,763,465	4,744,603	-	22,508,068
 Total capital assets, net	<u>\$ 123,934,062</u>	<u>\$23,392,222</u>	<u>\$ (5,444,018)</u>	<u>\$ 141,882,266</u>

Land is acquired in the name of the King County in accordance with the Inter-Local Agreement. As of December 31, 2017, the District reported a total amount of \$67,937,062 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, 2017, transfers have not taken place. In addition, the District had flood control construction in progress totaling \$51,437,136. No depreciation is calculated for construction in progress. Construction in progress represents all costs associated with projected being developed.

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As projects are completed, the related costs are reclassified as levees and facilities. During 2017, \$5,444,018 was transferred from construction in progress to levees and facilities. Total depreciation expense of \$699,415 was charged to the flood control function of the District in 2017.

NOTE 5 - PENSION PLANS

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* for the year 2017:

Aggregate Pension Amounts – All Plans	
Pension liabilities	\$88,622
Pension assets	-
Deferred outflows of resources	\$18,209
Deferred inflows of resources	\$30,077
Pension expense/expenditures	\$107,433

State Sponsored Pension Plans

The District has one employee, and this employee participates in PERS Plan 2/3 administered by the Washington State Department of Retirement Systems, under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans. The state Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

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

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

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

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Public Employees' Retirement System (PERS)**

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

PERS Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977. The District has no employees participating in PERS Plan 1.

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.

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

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

**KING COUNTY FLOOD CONTROL ZONE DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2017 were as follows:

PERS Plan 2/3			
Actual	Contribution	Employer 2/3	Employee 2*
Rates			
January – June 2017:			
PERS Plan 2/3		6.23%	6.12%
PERS Plan 1 UAAL		4.77%	
Administrative Fee		0.18%	
Employee PERS Plan 3			varies
Total		11.18%	6.12%
July – December 2017:			
PERS Plan 2/3		7.49%	7.38%
PERS Plan 1 UAAL		5.03%	
Administrative Fee		0.18%	
Employee PERS Plan 3			Varies
Total		12.70%	7.38%

* For employees participating in JBM, the contribution rate was 15.30% for January – June 2017 and 18.45% for July - December 2017.

The District's actual PERS plan contributions were \$0 to PERS Plan 1 and \$15,492 to PERS Plan 2/3 for the year ended December 31, 2017.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2017 with a valuation date of June 30, 2017. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study* and the *2015 Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2017 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2017. Plan liabilities were rolled

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forward from June 30, 2016, to June 30, 2017, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 3.0% total economic inflation; 3.75% salary inflation
- **Salary increases:** In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.5%

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

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

- How terminated and vested member benefits are valued was corrected.
- How the basic minimum COLA in PERS Plan 1 is valued for legal order payees was improved.
- For all plans, the average expected remaining service lives calculation was revised.

Discount Rate

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

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

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NOTES TO FINANCIAL STATEMENTS
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Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.5 percent was determined using a building-block-method. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns over various time horizons.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2017, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.70%
Tangible Assets	5%	4.90%
Real Estate	15%	5.80%
Global Equity	37%	6.30%
Private Equity	23%	9.30%
	100%	

Sensitivity of the Net Pension Liability/(Asset)

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

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1			
PERS 2/3	\$ 238,756	\$ 88,622	\$ (34,391)

**KING COUNTY FLOOD CONTROL ZONE DISTRICT
NOTES TO FINANCIAL STATEMENTS
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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 December 31, 2017, the District reported a total pension liability of \$88,622 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	\$
PERS 2/3	\$ 88,622

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

	Proportionate Share 6/30/16	Proportionate Share 6/30/17	Change in Proportion
PERS 1			
PERS 2/3	N/A	.002551%	.002551%

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

The collective net pension liability (asset) was measured as of June 30, 2017, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2017, with update procedures used to roll forward the total pension liability to the measurement date.

**KING COUNTY FLOOD CONTROL ZONE DISTRICT
NOTES TO FINANCIAL STATEMENTS
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Pension Expense

For the year ended December 31, 2017, the District recognized pension expense as follows:

	Pension Expense
PERS 1	
PERS 2/3	\$ 107,433
TOTAL	\$ 107,433

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 8,980	\$ 2,915
Net difference between projected and actual investment earnings on pension plan investments	-	23,624
Changes of assumptions	941	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	3,538
Contributions subsequent to the measurement date	8,288	-
TOTAL	\$ 18,209	\$ 30,077

**KING COUNTY FLOOD CONTROL ZONE DISTRICT
NOTES TO FINANCIAL STATEMENTS
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Deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. 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:	PERS 2/3
2018	\$ 562
2019	562
2020	562
2021	562
2022	562
Thereafter	1,123

NOTE 6 - POSTEMPLOYMENT HEALTH CARE PLAN

The District is required to accrue other postemployment benefits (OPEB) expense related to its participation in the King County Health Plan based on an estimated annual required contribution (ARC) of 1.21% of covered payroll. The ARC includes the current period's service cost and an amount to amortize unfunded actuarial accrued liabilities.

Plan Description The King County Health Plan (the Health Plan) is a single-employer defined-benefit health care plan administered by the County. The Health Plan provides medical, prescription drug, vision, and other unreimbursed medical benefits to eligible retirees. The Health Plan does not issue a separate stand-alone financial report, but is included in the financial statement of King County. The King County CAFR may be downloaded from the King County website at www.kingcounty.gov.

Funding Policy District retirees are required to pay the COBRA rate associated with the elected plan.

Annual OPEB Cost and Net OPEB Obligation The basis for the District's annual OPEB cost (expense) is the annual required contribution (ARC). The ARC represents a level of funding that, if paid on an ongoing basis, the actuary projects will cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The County has not determined the District's share of the liabilities, deferred outflows of resources or deferred inflows of resources at this time.

**KING COUNTY FLOOD CONTROL ZONE DISTRICT
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NOTE 7- 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 2017.

NOTE 8 - 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 \$44,352,704 to the District during 2017, and \$19,969,083 was due to the County as of December 31, 2017. The District has advanced \$4,000,000 to the County for prepayment of reimbursable costs. The net outstanding payable to the County was \$15,969,083.

**KING COUNTY FLOOD CONTROL ZONE DISTRICT
BUDGETARY COMPARISON SCHEDULE
DECEMBER 31, 2017**

	Original Budget	Revised Budget	YTD Actual	% of Budget	Remaining Balance
REVENUES					
Property taxes	\$ 54,107,486	\$ 54,107,486	54,822,989	101%	\$ (715,503)
Other taxes			248,957		\$ (248,957)
Investment income, net of fees			860,999		\$ (860,999)
Increase(decrease)in fair value of investments			(242,762)		\$ 242,762
Total revenue	54,107,486	54,107,486	55,690,183	103%	(1,582,697)
EXPENDITURES					
Administration and management	692,090	692,090	526,042	76%	166,048
Intergovernmental services	10,912,177	11,159,377	9,335,682	84%	1,823,695
Capital program expenditures	59,859,737	142,363,026	36,651,457	26%	105,711,569
Total expenditures	71,464,004	154,214,493	46,513,181	30%	\$ 107,701,312
Adjustment from budgetary basis to GAAP basis			-		
CHANGES IN FUND BALANCE	(17,356,518)	(100,107,007)	9,177,002		
FUND BALANCE, AS OF JANUARY 1, 2017			62,304,601		
FUND BALANCE, AS OF DECEMBER 31, 2017			71,481,603		

Schedule I - Breakdown of Administration and Management

Management & Support (Executive Director services, Clerk, County staff, Communication, phone and other administrative support)	\$ 273,645	\$ 273,645	265,751	97%	\$ 7,894
Rent and equipment	11,593	11,593	-	0%	11,593
Legal	95,061	95,061	50,808	53%	44,253
Accounting	97,718	97,718	97,667	100%	51
Auditing	19,570	19,570	18,573	95%	997
Other professional services/Consulting fees	92,700	92,700	93,039	100%	(339)
Expenses (Mileage, parking, postage, copies)	17,389	17,389	203	1%	17,186
Insurance	84,414	84,414	-	0%	84,414
Total	\$ 692,090	\$ 692,090	526,042	76%	\$ 166,048

Schedule II - Breakdown of Capital Program Expenditures

River basins	\$ 42,773,253	\$ 98,363,687	22,220,195	23%	\$ 76,143,492
Subregional opportunity fund	5,743,771	16,644,808	4,565,045	27%	12,079,763
Seattle project	3,810,756	5,214,392	218,396	4%	4,995,996
Maintenance and others	7,531,957	22,140,139	9,647,821	44%	12,492,318
Total	\$ 59,859,737	\$ 142,363,026	36,651,457	26%	\$ 105,711,569

See independent accountant's compilation report.

KING COUNTY FLOOD CONTROL ZONE DISTRICT
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Washington State Department of Retirement Systems - PERS 2/3
As of December 31, 2017
Last 10 Fiscal Years*

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Employer's proportion of the net pension liability (asset) %										0.002551%
Employer's proportionate share of the net pension liability \$										88,622
TOTAL \$										88,622
Covered payroll (1) \$										130,476
Employer's proportionate share of the net pension liability as a percentage of covered payroll %										67.92%
Plan fiduciary net position as a percentage of the total pension liability %										90.97%

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

KING COUNTY FLOOD CONTROL ZONE DISTRICT
SCHEDULE OF EMPLOYER CONTRIBUTIONS
Washington State Department of Retirement Systems - PERS 2/3
As of December 31, 2017
Last 10 Fiscal Years*

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Statutorily or contractually required contributions	\$									15,492
Contributions in relation to the statutorily or contractually required contributions	\$									(15,492)
Contribution deficiency (excess)	\$									
Covered payroll (1)	\$									130,746
Contributions as a percentage of covered payroll	%									11.85%

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