



FRANCIS & COMPANY PLLC

INDEPENDENT ACCOUNTANT'S COMPILATION REPORT

King County Flood Control Zone District
Seattle, Washington

We have compiled the accompanying financial statements of the governmental activities and each major fund information of King County Flood Control Zone District, a component unit of King County, as of and for the year ended December 31, 2014, which collectively comprise the District's basic financial statements as listed in the table of contents. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or provide any assurance about whether the financial statements are in accordance with accounting principles generally accepted in the United States of America.

The management of the District is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the compilation in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist the management of the District, in presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance that there are not material modifications that should be made to the financial statements.

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, are 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 and for placing the basic financial statements in an appropriate operational, economic, or historical context. Such information has been compiled by us without audit or review and accordingly, we do not express an opinion or provide any assurance on it.

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King County Flood Control Zone District

**Financial Statements for the
Year Ended December 31, 2014**

KING COUNTY FLOOD CONTROL ZONE DISTRICT
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014

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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, 2014. We encourage readers to consider this information in conjunction with the District's financial statements and notes to the financial statements, which follow. A significant change in the presentations of the statements of net position and fund balance sheet is the recognition of deferred outflows and deferred inflows of resources as distinct elements, separate from assets or liabilities, under Governmental Accounting Standards Board (GASB) Statement 65 – *Items Previously Reported as Assets and Liabilities*.

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, 2014, the assets of the District exceeded its liabilities by \$138.14 million on a government-wide basis (net position). Net position included net investment in capital assets of \$93.74 million and unrestricted net position of \$44.40 million.
- In 2014, the District's total net position increased by \$0.83 million.
- As of December 31, 2014, the District's governmental fund had an ending balance of \$43.4 million, which was a decrease of \$10.8 million from the prior year. The governmental fund balances included \$4 million attributable to non-spendable cash advance. The remaining portion of fund balance, \$39.4 million, was unassigned and available to support future operations.

Overview of the Financial Statements

The District's financial statements are presented in accordance with Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, which amends GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments* and other pronouncements. 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 \$138.14 million at the end of 2014, and 67.86 percent of the net position was invested in capital assets. Total net position increased \$.83 million, and investment in capital assets went up by \$11.52 million or 14.02 percent in 2014. For further information regarding the increase in capital assets see Note 5 to the financial statements. The increase in net position in 2014 reflects the District's ability to meet current and future obligations in the course of its activities.

Statement of Net Position	2014	2013
ASSETS		
Current and other assets	\$64,142,955	\$70,740,502
Capital assets	93,740,721	82,217,461
Total Assets	<u>157,883,676</u>	<u>152,957,963</u>
DEFERRED OUTFLOWS OF RESOURCES		
LIABILITIES		
Current liabilities	19,747,304	15,651,726
Total liabilities	<u>19,747,304</u>	<u>15,651,726</u>
DEFERRED INFLOWS OF RESOURCES		
NET POSITION		
Net investment in capital assets	93,740,721	82,217,461
Unrestricted	44,395,651	55,088,776
Total net position	<u>\$138,136,372</u>	<u>\$137,306,237</u>

The District's flood control services are funded by property taxes, which comprise 98.78 percent of total revenues. Total revenue increased by \$11.15 million in 2014 compared to 2013. Expenses increased by \$27.44 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 projects and is included in construction in progress. The overall financial position of the District has improved in 2014 and indicates its ability to meet its ongoing obligations.

Statement of Activities	2014	2013
GENERAL REVENUE		
Property taxes	\$51,877,172	\$41,097,451
Interest income	343,694	323,380
Grant revenue	-	-
Other revenues	295,656	259,879
Unrealized investment gain (loss)	427	(319,167)
Total Revenue	<u>52,516,949</u>	<u>41,361,543</u>
EXPENSES		

Flood controls	51,686,814	24,240,868
Total Expenses	51,686,814	24,240,868
Change in Net Position	830,135	17,120,675
Net Position, Beginning of Year	137,306,237	120,185,562
Net Position, End of Year	<u>\$138,136,372</u>	<u>\$137,306,237</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.

Balance Sheet	2014	2013
Total Assets	\$64,142,955	\$70,740,502
Deferred Outflows of Resources	-	-
Total Liabilities	19,747,304	15,651,726
Deferred Inflows of Resources	991,334	884,501
Fund Balances		
Nonspendable – cash advance	4,000,000	4,000,000
Assigned	-	979,732
Unassigned	39,404,317	49,224,543
Total Fund Balances	<u>\$43,404,317</u>	<u>\$54,204,275</u>

As of December 31, 2014, the District's governmental fund reported ending fund balances of \$43.4 million, of which \$4 million was non-spendable. The non-spendable 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 non-spendable cash advance, see Note 7 to the District's financial statements. The remainder, \$39.4 million, is available for spending in future years at the District's discretion. The total fund balances decreased by \$10.8 million, due to current year's excess of expenditures over revenues.

Statement of Revenues, Expenditures, and Changes in Fund Balances

	2014	2013
Total Revenues	\$52,410,117	\$41,362,455
Total Expenditures	63,210,075	41,785,307
Changes in Fund Balances	<u>(10,796,958)</u>	<u>(\$422,852)</u>

Overall governmental fund revenues for 2014 totaled \$52.41 million, which represents an increase of 26.71 percent, or \$11.05 million over 2013. The increase was primarily due to the increase in property tax levied in 2014. Total expenditures increased 51.27 percent or \$21.42 million from the previous year, primarily due to the increased spending in capital projects. The fund balance decreased by \$10.80 million in 2014 compared to a decrease of \$.42 million for the year of 2013.

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.

The difference between actual and budgeted property tax revenue was attributable to accounting basis. Property taxes were budgeted based on approved tax levies for 2014, while property taxes reported as actual were total taxes collected in 2014. See the District's accounting policies in Note 1 to the financial statements. Actual expenditures were less than budget estimates by \$72.13 million primarily because the 2014 budgeted expenditures included carryover amounts from prior years which were not expended in 2014.

Capital Assets

The District's capital assets, net of accumulated depreciation, amounted to \$93.74 million as of December 31, 2014. This is an increase of \$11.52 million or 14.02 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 12/31/2014	Balance 12/31/2013
Governmental Activities		
Land	\$50,177,981	\$46,189,015
Construction in progress	32,420,636	28,767,758
Levees and facilities	12,435,717	8,109,008
Machinery and equipment	18,476	18,476
Less: accumulated depreciation	(1,312,089)	(866,796)
Total Capital Assets, Net	\$93,740,721	\$82,217,461

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 2015 budget (General Fund) is summarized below.

Property Taxes	\$53,399,857
District overhead and administration	644,213
Maintenance and operations	9,222,891
Construction and improvements	57,852,175
Total	\$67,719,279

The District's Board has authorized \$53.40 million of property taxes to be levied for 2015, an increase of 2.48 percent over 2014.

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, 2014**

	Primary Government
	Governmental Activities
ASSETS	
Cash	\$ 59,118,481
Taxes receivable	991,334
Interest receivable	33,140
Cash advance	4,000,000
Capital assets not being depreciated (Note 5)	
Land	50,177,981
Construction in progress	32,420,636
Capital assets net of accumulated depreciation (Note 5)	
Levees and facilities	11,140,256
Machinery and equipment	1,848
TOTAL ASSETS	157,883,676
DEFERRED OUTFLOWS OF RESOURCES	-
LIABILITIES	
Accounts payable	19,747,304
TOTAL LIABILITIES	19,747,304
DEFERRED INFLOWS OF RESOURCES	-
NET POSITION	
Net investment in capital assets	93,740,721
Unrestricted	44,395,651
TOTAL NET POSITION	\$ 138,136,372

**KING COUNTY FLOOD CONTROL ZONE DISTRICT
GOVERNMENT-WIDE FINANCIAL STATEMENTS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2014**

		Program Revenues			
		Operating	Capital	Net	
	Expenses	Charges for Services	Grants and Contributions	Grants and Contributions	Governmental Activities
PRIMARY GOVERNMENT					
Flood controls	\$ 51,686,815				\$ 51,686,815
Total primary government					51,686,815
GENERAL REVENUES					
Taxes:					
Property taxes					51,877,172
Leasehold excise taxes					245,293
Other revenues					50,364
Investment earnings					343,694
Unrealized investment (loss)					427
Total general revenues					52,516,950
CHANGE IN NET POSITION					830,135
NET POSITION, BEGINNING OF THE YEAR					137,306,237
NET POSITION, END OF THE YEAR					\$ 138,136,372

**KING COUNTY FLOOD CONTROL ZONE DISTRICT
BALANCE SHEET
GOVERNMENTAL FUND
DECEMBER 31, 2014**

	General Fund
ASSETS AND OUTFLOWS OF RESOURCES	
Cash	\$ 59,118,481
Taxes receivable	991,334
Interest receivable	33,140
Other receivable	0
Cash advance	4,000,000
TOTAL ASSETS	64,142,955
DEFERRED OUTFLOWS OF RESOURCES	
	-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	64,142,955
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	
LIABILITIES	
Accounts payable	19,747,304
TOTAL LIABILITIES	19,747,304
DEFERRED INFLOWS OF RESOURCES	
Unavailable revenue - property tax	991,334
TOTAL DEFERRED INFLOWS OF RESOURCES	991,334
FUND BALANCES	
Nonspendable - cash advance	4,000,000
Restricted	-
Committed	-
Assigned	-
Unassigned	39,404,317
TOTAL FUND BALANCES	43,404,317
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 64,142,955
Total fund balances - governmental fund	43,404,317
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	93,740,721
Property taxes levied but unavailable in the governmental fund which were reported as property tax revenue in the statement of activities	991,334
TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES	\$ 138,136,372

See Accountant's Compilation Report and Notes to Financial Statements

**KING COUNTY FLOOD CONTROL ZONE DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2014**

	General Fund
REVENUES	
Property taxes, net of refund of \$88,963	\$ 51,770,340
Leasehold excise taxes	245,293
Other revenues	50,363
Interest income	343,694
Unrealized investment (loss)	427
Total revenues	52,410,117
EXPENDITURES	
Current operating:	
Administrative and other operating expenses	407,901
Contracted labor and services	7,025,406
Investment expenses	21,111
Capital projects expenditures	55,755,657
Total expenditures	63,210,075
Excess of revenues over expenditures	(10,799,958)
CHANGE IN FUND BALANCES	(10,799,958)
TOTAL FUND BALANCES, BEGINNING OF THE YEAR	54,204,275
TOTAL FUND BALANCES, END OF THE YEAR	43,404,317
Change in fund balances - governmental fund	(10,799,958)
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 accumulated depreciation.	11,526,956
Governmental fund reported capital purchases as current operating expenditures. However, certain operating expenditures were capitalized as capital assets in the statement of net position. This is depreciation expense associated with capital assets not included on Governmental Fund.	(3,695)
Property taxes levied but unavailable in the governmental fund which were reported as property tax revenue in the statement of activities	106,832
TOTAL CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	\$ 830,135

See Accountant's Compilation Report and Notes to Financial Statements

**KING COUNTY FLOOD CONTROL ZONE DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

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) 86.1, 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

The District's financial statements are presented in accordance with GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, and GASB Statement No. 65, Items Previously Reported as Assets and Liabilities. GASB Statement No. 63 and No. 65 amend GASB Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments and other pronouncements by incorporating deferred outflows and inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position rather than net assets.

Government-wide financial statements report information on all of the non-fiduciary activities of the District, the primary government, consisting of a

**KING COUNTY FLOOD CONTROL ZONE DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

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. 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.

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

**KING COUNTY FLOOD CONTROL ZONE DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

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 20 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. 4). 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.

**KING COUNTY FLOOD CONTROL ZONE DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

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 Outflows of Resources

Concepts Statement No. 4, Elements of Financial Statements, defines a deferred outflow of resources as a consumption of net assets by the government that is applicable to a future reporting period. As of December 31, 2014, the District had no deferred outflows of resources.

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, 2014, the District had deferred inflows of resources of \$991,334.

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. As of December 31, 2014, the District had \$93,740,721 of investment in capital assets and no related debt.

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. The District had no restricted net position as of December 31, 2014.

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

**KING COUNTY FLOOD CONTROL ZONE DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

related debt". The District had unrestricted net position of \$44,395,651 as of December 31, 2014.

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. As of December 31, 2014, the District had a \$4,000,000 reserve for advance payment of reimbursable operating and capital expenditures.

Restricted fund balances are amounts that can be spent only for specific purposes stipulated by donors, grantors, creditors or by law. As of December 31, 2014, the District had no restricted fund balances.

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. As of December 31, 2014, the District had no committed fund balances.

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. As of December 31, 2014, the District had no assigned fund balance.

Unassigned fund balances are amounts not classified as non-spendable, restricted, committed or assigned in the general fund. The District reported unassigned fund balance of \$39,404,317 as of December 31, 2014.

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.

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

**KING COUNTY FLOOD CONTROL ZONE DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

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 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

NOTE 3 - DEPOSITS AND INVESTMENTS

In accordance with state investment laws, the District has entered into an 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, 2014, the District had unimpaired pooled investments of \$59,100,159 at fair value.

Impaired Investments – As of December 31, 2014, all impaired commercial paper investments have completed enforcement events. The King County impaired investment pool (Impaired Pool) held one commercial paper asset where the Impaired Pool accepted an exchange offer and is receiving the cash flows from the investment's underlying securities. The Impaired Pool also held the residual investments in four commercial paper assets that were part of completed enforcement events, where the Impaired Pool accepted the cash-out option. The District's share of the impaired investment pool principal was \$4,469 and the fair value of these investments was \$2,678.

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As of December 31, 2014, the Pool's average duration was 1.23 years. As a means of limiting its exposure to rising interest rates, securities purchased in the Pool must have a final maturity, or weighted average life, no longer than five years. While the Pool's market value is calculated on a monthly basis, unrealized gains or losses are not distributed. The Pool distributes earnings monthly using an amortized cost methodology.

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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, 2014, 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 depositaries, repurchase agreements, and the Local Government Investment Pool managed by the Washington State Treasurer's office.

NOTE 4 - 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 14. 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 tax 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. \$51,966,136 was levied for 2014 and \$51,859,303 was collected during 2014, including delinquent taxes from previous years. The District had taxes receivable of \$991,334 as of December 31, 2014.

**KING COUNTY FLOOD CONTROL ZONE DISTRICT
NOTES TO FINANCIAL STATEMENTS
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NOTE 5 - CAPITAL ASSETS

Capital assets activities for the year ended December 31, 2014 were as follows:

	Balance 12/31/2013	Increases	Decreases	Balance 12/31/2014
Governmental Activities				
Capital assets, not being depreciated:				
Land	\$46,189,015	\$ 3,988,966	\$ -	\$ 50,177,981
Construction in progress	28,767,758	7,979,587	(4,326,709)	32,420,636
Total capital assets, not being depreciated	<u>74,956,773</u>	<u>11,968,554</u>	<u>(4,326,709)</u>	<u>82,598,617</u>
Capital assets, being depreciated:				
Levees and facilities	8,109,008	4,326,709	-	12,435,717
Machinery and equipment	18,476	-	-	18,476
Total capital assets, being depreciated	<u>8,127,484</u>	<u>4,326,709</u>	<u>-</u>	<u>12,454,193</u>
Less accumulated depreciation for:				
Levees and facilities	(853,863)	(441,598)	-	(1,295,461)
Machinery and equipment	(12,933)	(3,695)	-	(16,628)
Total accumulated depreciation	<u>(866,796)</u>	<u>(445,292)</u>	<u>-</u>	<u>(1,312,089)</u>
 Total capital assets, being depreciated, net	 <u>7,260,688</u>	 <u>3,881,417</u>	 <u>-</u>	 <u>11,142,104</u>
 Total capital assets, net	 <u><u>\$82,217,461</u></u>	 <u><u>\$ 15,849,970</u></u>	 <u><u>\$(4,326,709)</u></u>	 <u><u>\$ 93,740,721</u></u>

Land is acquired in the name of King County in accordance with the Inter-local Agreement. As of December 31, 2014, the District reported a total amount of \$50,177,981 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, 2014, transfers have not taken place. In addition, the District had flood control construction in progress totaling \$32,420,636. No depreciation is calculated for construction in progress. Construction in progress reports all costs associated with projects being developed. As projects are completed, the related costs are reclassified as levees and facilities. During 2014, \$4,326,709 was transferred from construction in progress to levees and facilities. Total depreciation expense of \$445,292 was charged to the flood control function of the District in 2014.

**KING COUNTY FLOOD CONTROL ZONE DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 6 - 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 has \$100 million in excess liability insurance coverage through Alliant Insurance Services. The policy covers the District, its board members, employees and staff for liabilities up to \$92.5 million in limits subject to a \$7.5 million self-insured retention.

There were no claims against the District during the year 2014.

NOTE 7 - 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 \$62,781,064 to the District during 2014, and \$19,681,069 was due to the County as of December 31, 2014. The District has advanced \$4,000,000 to the County for prepayment of reimbursable costs. The net outstanding payable to the County was \$15,681,069.

**KING COUNTY FLOOD CONTROL ZONE DISTRICT
BUDGETARY COMPARISON SCHEDULE (BUDGETARY BASIS)
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Original Budget	Final Budget	Actual	Variance
REVENUES				
Property taxes	\$ 41,720,640	\$ 41,720,640	\$ 51,770,340	\$ 10,049,700
Other taxes			245,293	245,293
Other revenues			50,363	50,363
Interest Income			343,694	343,694
Total Revenue	41,720,640	41,720,640	52,409,690	10,689,050
EXPENDITURES				
Administration and management	628,256	576,906	407,901	(169,005)
Intergovernmental services	9,433,661	9,737,415	7,025,406	(2,712,009)
Capital program expenditures	66,641,353	125,005,633	55,755,657	(69,249,976)
Total Expenditures	76,703,270	135,319,954	63,188,964	(72,130,990)
Excess of revenues over expenditures			(10,779,274)	
Adjustment from budgetary basis to GAAP basis			(20,684)	
Excess of revenues over expenditures			(10,799,958)	
FUND BALANCES, BEGINNING OF THE YEAR			54,204,275	
FUND BALANCES, END OF THE YEAR			\$ 43,404,317	

Element of adjustment from budgetary basis to GAAP basis:

Recognition of unrealized investment loss	427
Less: Investment expenses	(21,111)
Adjustment from budgetary basis to GAAP basis	(20,684)

See accountant's compilation report.