

King County Flood Control Zone District

**Financial Statements for the
Year Ended December 31, 2015**

KING COUNTY FLOOD CONTROL ZONE DISTRICT
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

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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, 2015, and related notes to the financial statements, which collectively comprise the City'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.



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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, 2015. We encourage readers to consider this information in conjunction with the District's financial statements and notes to the financial statements, which follow.

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

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

Financial Highlights

- As of December 31, 2015, the assets of the District exceeded its liabilities by \$162.51 million on a government-wide basis (net position). Net position included net investment in capital assets of \$110.48 million and unrestricted net position of \$52.03 million.
- In 2015, the District's total net position increased by \$16.96 million.
- As of December 31, 2015, the District's governmental fund had an ending balance of \$51.05 million, which was an increase of \$0.87 million from the prior year. The governmental fund balances included \$4 million attributable to non-spendable cash advance, \$19.5 million committed for carryover of unspent appropriations, and \$7.5 million was assigned for self-insured retention. The remaining portion of fund balance, \$20.05 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 \$162.51 million at the end of 2015, and 67.97 percent of the net position was invested in capital assets. Total net position increased \$16.96 million, and investment in capital assets went up by \$16.10 million or 17 percent in 2015. For further information regarding the increase in capital assets see Note 4 to the financial statements. The increase in net position in 2015 reflects the District's ability to meet current and future obligations in the course of its activities.

	2015	2014
Condensed Statement of Net Position		
ASSETS		
Current and other assets	\$80,320,132	\$64,261,969
Capital assets	110,481,375	94,379,777
Total assets	<u>190,801,507</u>	<u>158,641,746</u>
DEFERRED OUTFLOWS OF RESOURCES		
	-	
LIABILITIES		
Current liabilities	<u>28,287,628</u>	<u>13,084,650</u>
Total liabilities	<u>28,287,628</u>	<u>13,084,650</u>
DEFERRED INFLOWS OF RESOURCES		
	-	
NET POSITION		
Net investment in capital assets	110,481,375	94,379,777
Unrestricted	52,032,504	51,177,319
Total net position	<u>\$ 162,513,879</u>	<u>\$145,557,096</u>

The District's flood control services are funded by property taxes, which comprise 99.82 percent of total revenue. Total revenue increased by \$0.84 million in 2015 compared to 2014. Expenses decreased by \$7.87 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 2015 and indicates its ability to meet its ongoing obligations.

Condensed Statement of Activities

	2015	2014
Property taxes	\$53,371,672	\$51,883,612
Interest income	417,397	343,694
Other taxes	366,923	289,216
Loss on sale of capital asset	(602,134)	-
Unrealized investment gain (loss)	(89,439)	107,227
Total Revenue	<u>53,464,419</u>	<u>52,623,749</u>
EXPENSES		
Flood controls	<u>36,507,636</u>	<u>44,372,890</u>
Change in Net Position	<u>16,956,783</u>	<u>8,250,859</u>
Net Position, End of Year	<u>\$162,513,879</u>	<u>\$145,557,096</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	2015	2014
Total Assets	\$80,320,132	\$64,261,969
Deferred Outflows of Resources	-	-
Total Liabilities	28,287,628	13,084,650
Deferred Inflows of Resources	979,224	991,334
Fund Balances		
Nonspendable – cash advance	4,000,000	4,000,000
Committed	19,504,744	-
Assigned	7,500,000	-
Unassigned	20,048,536	46,185,985
Total Fund Balances	<u>\$51,053,280</u>	<u>\$50,185,985</u>

As of December 31, 2015, the District's governmental fund reported ending fund balances of \$51.05 million, of which \$4 million was non-spendable, \$19.5 was committed and \$7.5 million was assigned. 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 6 to the District's financial statements. The committed fund balance of \$19.5 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, \$20.05 million, is available for spending in future years at the District's discretion. The total fund balances increased by \$0.87 million.

Condensed Statement of Revenues, Expenditures, and Changes in Fund Balances		
	2015	2014
Total Revenues	\$54,316,580	\$52,516,916
Total Expenditures	53,449,286	56,535,206
Changes in Fund Balances	\$867,294	\$(4,018,290)

Overall governmental fund revenues for 2015 totaled \$54.32 million, which represents an increase of 3.4 percent, or \$1.80 million over 2014. The increase was primarily due to the increase in property tax levied in 2015. Total expenditures decreased 5.5 percent or \$3.09 million from the previous year, primarily due to a decrease in capital project expenditures. The fund balance increased by \$0.87 million in 2015 compared to a decrease of \$4.02 million for the year of 2014.

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 2015, while property taxes reported as actual were total taxes collected in 2015. See the District's accounting policies in Note 1 to the financial statements. Actual expenditures were less than budget estimates by \$89.42 million primarily because the 2015 budgeted expenditures included carryover amounts from prior years which were not expended in 2015.

Capital Assets

The District's capital assets, net of accumulated depreciation, amounted to \$110 million as of December 31, 2015. This is an increase of \$16.10 million or 17 percent from the previous year. These capital assets include land, construction in progress, levees and facilities, and machinery and equipment. For further information regarding capital assets, see Note 5 to the financial statements.

	Balance	Balance
Governmental Activities	12/31/2015	12/31/2014
Land	\$56,042,109	\$50,177,981
Construction in progress	44,724,153	37,215,103
Levees and facilities	11,128,710	8,109,008
Machinery and equipment	18,476	18,476
Less: accumulated depreciation	(1,432,073)	(1,140,791)
Total Capital Assets, Net	<u>\$110,481,375</u>	<u>\$94,379,777</u>

Economic Factors and Next Year's Budget

The District adopts its budget on an annual basis. The budget is based on the District's goals and its operating and capital programs. The 2016 budget (General Fund) is summarized below.

Property Taxes	<u>\$54,107,486</u>
District overhead and administration	661,932
Maintenance and operations	9,736,100
Construction and improvements	26,113,456
Total	<u>\$36,511,488</u>

The District's Board has authorized \$54.11 million of property taxes to be levied for 2016, an increase of 1.3 percent over 2015.

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, 2015**

	Primary Government
	Governmental Activities
ASSETS	
Cash	\$ 75,277,856
Taxes receivable	979,224
Other receivable	63,052
Cash advance	4,000,000
Capital assets not being depreciated (Note 5)	
Land	56,042,109
Construction in progress	44,724,153
Capital assets net of accumulated depreciation (Note 5)	
Levees and facilities	9,715,113
Machinery and equipment	-
TOTAL ASSETS	190,801,507
DEFERRED OUTFLOWS OF RESOURCES	-
LIABILITIES	
Accounts payable	28,287,628
TOTAL LIABILITIES	28,287,628
DEFERRED INFLOWS OF RESOURCES	-
NET POSITION	
Net investment in capital assets	110,481,375
Unrestricted	52,032,504
TOTAL NET POSITION	\$ 162,513,879

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, 2015**

	Program Revenues			Net Governmental Activities
	Expenses	Charges for Services	Operating Grants and Contributions	
PRIMARY GOVERNMENT				
Flood controls	\$ 36,507,636			\$ 36,507,636
Total primary government				36,507,636
GENERAL REVENUES				
Taxes:				
Property taxes				53,371,672
Leasehold excise taxes				340,593
Other taxes				26,330
Loss on sale of capital asset				(602,134)
Investment earnings				417,397
Unrealized investment (loss)				(89,439)
Total general revenues				53,464,419
CHANGE IN NET POSITION				16,956,783
NET POSITION, BEGINNING OF THE YEAR				145,557,096
NET POSITION, END OF THE YEAR				\$ 162,513,879

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

**KING COUNTY FLOOD CONTROL ZONE DISTRICT
BALANCE SHEET
GOVERNMENTAL FUND
DECEMBER 31, 2015**

	General Fund
ASSETS AND OUTFLOWS OF RESOURCES	
Cash	\$ 75,277,856
Taxes receivable	979,224
Other receivable	63,052
Cash advance	4,000,000
TOTAL ASSETS	80,320,132
DEFERRED OUTFLOWS OF RESOURCES	
	-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	80,320,132
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	
LIABILITIES	
Accounts payable	28,287,628
TOTAL LIABILITIES	28,287,628
DEFERRED INFLOWS OF RESOURCES	
Unavailable revenue - property tax	979,224
TOTAL DEFERRED INFLOWS OF RESOURCES	979,224
FUND BALANCES	
Nonspendable - cash advance	4,000,000
Restricted	-
Committed	19,504,744
Assigned	7,500,000
Unassigned	20,048,536
TOTAL FUND BALANCES	51,053,280
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 80,320,132
Total fund balances - governmental fund	51,053,280
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	110,481,375
Property taxes levied but unavailable in the governmental fund which were reported as property tax revenue in the statement of activities	979,224
TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES	\$ 162,513,879

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, 2015**

	General Fund
REVENUES	
Property taxes, net of refund of \$73,826	\$ 53,383,782
Leasehold excise taxes	340,593
Other taxes	26,330
Interest income	417,397
Proceeds from sale of capital asset	237,917
Unrealized investment (loss)	(89,439)
Total revenues	54,316,580
EXPENDITURES	
Current operating:	
Administrative and other operating expenses	666,522
Contracted labor and services	8,045,763
Investment expenses	22,492
Capital projects expenditures	44,714,509
Total expenditures	53,449,286
CHANGE IN FUND BALANCES	867,294
TOTAL FUND BALANCES, BEGINNING OF THE YEAR	50,185,986
TOTAL FUND BALANCES, END OF THE YEAR	51,053,280
Change in fund balances - governmental fund	867,294
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	16,941,650
Governmental fund reports proceeds from sale of capital asset. However, government-wide fund reflects the net cost of the asset sold to report loss on sale	(840,051)
Prior year property taxes collected which are not reported as current year revenue in the statement of activities	(12,110)
TOTAL CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	\$ 16,956,783

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

**KING COUNTY FLOOD CONTROL ZONE DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

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

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. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided

**KING COUNTY FLOOD CONTROL ZONE DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

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 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, 2015**

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, 2015**

Capital assets are defined by the District as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs for additions or improvements to capital assets are capitalized when they increase the effectiveness or efficiency of the asset. Expenditures for maintenance and repairs are charged to expenses as incurred. It is the District's policy not to capitalize interest on construction of governmental capital assets.

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

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

Deferred Inflows of Resources

Concepts Statement No. 4, Elements of Financial Statements, defines a deferred inflow of resources as an acquisition of net assets by the government that is applicable to a future reporting period. As of December 31, 2015, the District had deferred inflows of resources of \$979,224.

Classification of Net Position

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

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

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

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, 2015, the District reported \$110,481,375 of net investment in capital assets and unrestricted net position of \$52,032,504.

**KING COUNTY FLOOD CONTROL ZONE DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

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, 2015, the District had non-spendable funds of \$4,000,000 advanced to King County for payment of reimbursable operating and capital expenditures, \$19,504,744 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, 2015 was \$20,048,536.

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.

**KING COUNTY FLOOD CONTROL ZONE DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

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 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, 2015, the District had unimpaired pooled investments of \$75,256,888 at fair value.

Impaired Investments – As of December 31, 2015, 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 \$3,366 and the fair value of these investments was \$2,113.

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As of December 31, 2015, the Pool's average duration was .93 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.

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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, 2015, the District's investment in the Pool was not rated by a nationally recognized statistical rating organization (NRSPO). In compliance with state statutes, the Pool policies authorize investments in U.S. Treasury securities, U.S. agency securities and mortgage-backed securities, municipal securities (rated at least "A" by two NRSROs), commercial paper (rated at least the equivalent of "A-1" by two NRSROs), certificates of deposits issued by qualified public depositories, repurchase agreements, and the Local Government Investment Pool managed by the Washington State Treasurer's office.

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 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. \$53,371,672 was levied for 2015 and \$53,383,782

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was collected during 2015, including delinquent taxes from previous years. The District had taxes receivable of \$979,224 as of December 31, 2015.

NOTE 4 - CAPITAL ASSETS

Capital assets activities for the year ended December 31, 2015 were as follows:

Governmental Activities	Balance 12/31/2014	Increases	Decreases	Balance 12/31/2015
Capital assets, not being depreciated:				
Land	\$ 50,177,981	\$ 6,704,179	\$ (840,051)	\$ 56,042,109
Construction in progress	37,215,103	10,528,752	(3,019,702)	44,724,153
Total capital assets, not being depreciated	87,393,084	17,232,931	(3,859,753)	100,766,262
Capital assets, being depreciated:				
Levees and facilities	8,109,008	3,019,702	-	11,128,710
Machinery and equipment	18,476	-	-	18,476
Total capital assets, being depreciated	8,127,484	3,019,702	-	11,147,186
Less accumulated depreciation for:				
Levees and facilities	(1,124,163)	(289,434)	-	(1,413,597)
Machinery and equipment	(16,628)	(1,848)	-	(18,476)
Total accumulated depreciation	(1,140,791)	(291,282)	-	(1,432,073)
Total capital assets, being depreciated, net	6,986,693	2,728,420	-	9,715,113
Total capital assets, net	\$ 94,379,777	\$ 19,961,351	\$(3,859,753)	\$ 110,481,375

Land is acquired in the name of the King County in accordance with the Inter-Local Agreement. As of December 31, 2015, the District reported a total amount of \$56,042,109 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, 2015, transfers have not taken place. In addition, the district had flood control construction in progress totaling \$44,724,153. No

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depreciation is calculated for construction in progress. Construction in progress reports all costs associated with projected being developed.

As projects are completed, the related costs are reclassified as levees and facilities. During 2015, \$3,019,702 was transferred from construction in progress to levees and facilities. Total depreciation expense of \$291,282 was charged to the flood control function of the District in 2015.

NOTE 5 - RISK MANAGEMENT AND CONTINGENCIES

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

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

There were no claims against the District during the year 2015.

NOTE 6 - COMMITMENT

Since April 2008, the District has entered into an inter-local agreement with King County for administering and implementing flood protection projects and services. The District pays the County for all actual costs incurred for providing the services under this agreement. The County billed \$52,447,829 to the District during 2015, and \$28,121,488 was due to the County as of December 31, 2015. The District has advanced \$4,000,000 to the County for prepayment of reimbursable costs. The net outstanding payable to the County was \$24,121,488.

**KING COUNTY FLOOD CONTROL ZONE DISTRICT
BUDGETARY COMPARISON SCHEDULE (BUDGETARY BASIS)
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Original Budget	Final Budget	Actual	Variance
REVENUES				
Property taxes	\$ 53,399,857	\$ 53,399,857	\$ 53,383,782	\$ (16,075)
Other taxes			366,923	366,923
Interest Income, net investment expenses			394,905	394,905
Total Revenue	53,399,857	53,399,857	54,145,610	745,753
EXPENDITURES				
Administration and management	568,463	704,687	666,522	(38,165)
Intergovernmental services	9,222,891	9,335,891	8,045,763	(1,290,128)
Capital program expenditures	57,927,925	132,567,667	44,714,509	(87,853,158)
Total Expenditures	67,719,279	142,608,245	53,426,794	(89,181,451)
Excess of revenues over expenditures			718,816	
Adjustment from budgetary basis to GAAP basis			148,478	
Excess of revenues over expenditures			867,294	
FUND BALANCES, BEGINNING OF THE YEAR			50,185,986	
FUND BALANCES, END OF THE YEAR			\$ 51,053,280	

Element of adjustment from budgetary basis to GAAP basis:

Proceeds from sale of capital asset	237,917
Recognition of unrealized investment loss	(89,439)
Adjustment from budgetary basis to GAAP basis	<u>148,478</u>

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