



**King County Flood Control Zone District**

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**Financial Statements for the  
Year Ended December 31, 2020**

# Accountant's Compilation Report



FRANCIS & COMPANY<sub>PLLC</sub>

## ACCOUNTANT'S COMPILATION REPORT

King County Flood Control Zone District  
Seattle, Washington

Management is responsible for the accompanying financial statements of King County Flood Control Zone District, as of and for the year ended December 31, 2020, 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.

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 25, 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 responsibility of management. The required supplementary 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.

We are not independent with respect to King County Flood Control Zone District.

Seattle, Washington  
May 11, 2021

**KING COUNTY FLOOD CONTROL ZONE DISTRICT  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2020**

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# Management's Discussion and Analysis

## 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, 2020. 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, 2020, the assets of the District exceeded its liabilities by \$224.8 million on a government-wide basis (net position). Net position included net investment in capital assets of \$148.1 million and unrestricted net position of \$76.7 million.
- In 2020, the District's total net position increased by \$4.8 million.
- As of December 31, 2020, the District's governmental fund had an ending balance of \$75.9 million, which was a decrease of \$18.8 million from the prior year. The governmental fund balances included \$4.0 million attributable to nonspendable cash advance, \$36.5 million committed for carryover of unspent appropriations, and \$7.5 million was assigned for self-insured retention. The remaining portion of fund balance, \$27.9 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 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 gain 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 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 \$224.8 million at the end of 2020, and 65.9 percent of the net position was invested in capital assets. In 2020, the District's total net position increased by \$4.8 million.

Investment in capital assets went up by \$23.4 million or 18.8 percent in 2020. For further information regarding the increase in capital assets see Note 4 to the financial statements. The increase in net position in 2020 reflects the District's ability to meet current and future obligations in the course of its activities.

	2020	2019
<b>Condensed Statement of Net Position</b>		
<b>ASSETS</b>		
Current and other assets	\$ 118,542,721	\$ 120,922,913
Capital assets	148,057,539	124,662,471
Total assets	<u>266,600,260</u>	<u>245,585,384</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
	<u>13,771</u>	<u>-</u>
<b>LIABILITIES</b>		
Current liabilities	41,802,233	25,589,716
Noncurrent liabilities	4,732	-
Total liabilities	<u>41,806,965</u>	<u>25,589,716</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
	<u>4,066</u>	<u>-</u>
<b>NET POSITION</b>		
Net investment in capital assets	148,057,539	124,662,471
Unrestricted	76,745,461	95,333,197
Total net position	<u>\$ 224,803,000</u>	<u>\$ 219,995,668</u>



	2020	2019
<b>Condensed Statement of Activities</b>		
<b>GENERAL REVENUE</b>		
Property taxes	\$ 58,632,467	\$ 57,995,143
Investment earnings, net	1,490,926	2,254,672
Other taxes	270,245	300,053
Unrealized investment (loss)	402,527	854,494
Total Revenue	<u>60,796,165</u>	<u>61,404,362</u>
<b>EXPENSES</b>		
Flood controls	<u>55,988,833</u>	<u>41,647,409</u>
Change in Net Position	<u>4,807,332</u>	<u>19,756,953</u>
Net Position, Beginning of Year	219,995,668	191,111,146
Prior Year Correction	<u>                    </u>	<u>9,127,569</u>
Net Position, Beginning of Year Adjusted	<u>219,995,668</u>	<u>200,238,715</u>
Net Position, End of Year	<u>\$ 224,803,000</u>	<u>\$219,995,668</u>

The District's flood control services are funded by property taxes, which comprise 96.4 percent of total general revenue. Total general revenue decreased by \$0.6 million or 1.0 percent in 2020, primarily due to decreases in investment earnings and gains. Expenses increased by \$14.3 million or 34.4 percent in 2020, primarily due to increases in capital expenditures compared to the prior year. The change in the District's total net position resulted from revenues exceeding expenses. The overall financial position of the District has improved in 2020 and indicates its ability to meet its ongoing obligations.

### **Governmental Fund Financial Analysis**

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

As of December 31, 2020, the District's governmental fund reported ending fund balances of \$75.9 million, of which \$4.0 million was nonspendable, \$36.5 million was committed and \$7.5 million was assigned. The nonspendable fund balance of \$4.0 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 \$36.5 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, \$27.9 million, is available for spending in future years at the District's discretion. The total fund balances decreased by \$18.8 million.

<b>Condensed Balance Sheet</b>		
	<b>2020</b>	<b>2019</b>
<b>Total Assets</b>	\$ 118,542,721	\$ 120,922,913
<b>Deferred Outflows of Resources</b>	-	-
<b>Total Assets and Deferred Outflows of Resources</b>	<u>118,542,721</u>	<u>120,922,913</u>
<b>Total Liabilities</b>	41,747,446	25,589,716
<b>Deferred Inflows of Resources</b>	910,381	664,224
<b>Fund Balances</b>		
Nonspendable - cash advance	4,000,000	4,000,000
Committed	36,529,876	30,433,926
Assigned	7,500,000	7,500,000
Unassigned	<u>27,855,018</u>	<u>52,735,047</u>
<b>Total Fund Balances</b>	<u>\$ 75,884,894</u>	<u>\$ 94,668,973</u>

Overall governmental fund revenues for 2020 totaled \$60.6 million, a decrease of \$0.8 million or 1.4 percent. The decrease was primarily due to decreases in investment income and gains. Total expenditures increased 62.6 percent or \$30.6 million from the previous year, primarily due to an increase in capital project expenditures. The fund balance decreased by \$18.8 million in 2020 compared to an increase of \$12.7 million for 2019.

<b>Condensed Statement of Revenues, Expenditures, and Changes in Fund Balances</b>		
	<b>2020</b>	<b>2019</b>
<b>Total Revenues</b>	\$ 60,587,711	\$ 61,464,780
<b>Total Expenditures</b>	79,371,790	48,800,723
<b>Changes in Fund Balances</b>	<u>\$ (18,784,079)</u>	<u>\$ 12,664,057</u>

#### **Budget Variances in the General Fund**

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

Property tax revenue was on budget for 2020. Property taxes were budgeted based on approved tax levies for 2020, while property taxes reported as actual were total taxes collected in 2020. See the District's accounting policies in Note 1 to the financial statements. Actual expenditures were less than budget estimates by \$137.4 million primarily because the 2020 budgeted expenditures included carryover amounts from prior years which were not completely expended in 2020.

### Capital Assets

The District's capital assets, net of accumulated depreciation, amounted to \$148.1 million as of December 31, 2020. This is an increase of \$23.4 million or 18.8 percent from the previous year. For further information regarding capital assets, see Note 4 to the financial statements.

	<b>Balance 12/31/2020</b>	<b>Balance 12/31/2019</b>
<b>Governmental Activities</b>		
Land	\$ 75,936,189	\$ 71,916,542
Easement	21,984	21,984
Construction in progress	24,301,312	3,123,651
Levees and facilities	54,067,182	54,067,182
Machinery and equipment	18,476	18,476
Less: accumulated depreciation	<u>(6,287,604)</u>	<u>(4,485,364)</u>
<b>Total Capital Assets, Net</b>	<b><u>\$ 148,057,539</u></b>	<b><u>\$ 124,662,471</u></b>

### 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 2021 budget is summarized below:

<b>Property Taxes</b>	<b><u>\$ 58,403,522</u></b>
<b>Expenditures</b>	
District overhead and administration	2,238,637
Maintenance and operations	13,162,592
Construction and improvements	<u>127,846,584</u>
<b>Total expenditures</b>	<b><u>\$ 143,247,813</u></b>

The District's Board has authorized \$58.4 million of property taxes to be levied for 2021, a decrease of 4.9 percent from 2020.

### 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 3<sup>rd</sup> Ave, Room 1200, Seattle, Washington 98104.

# Statement of Net Position

**KING COUNTY FLOOD CONTROL ZONE DISTRICT  
GOVERNMENT-WIDE FINANCIAL STATEMENTS  
STATEMENT OF NET POSITION  
DECEMBER 31, 2020**

	Note Reference	<u>Primary Government</u> Governmental Activities
<b>ASSETS</b>		
Cash and cash equivalents		\$ 113,297,677
Taxes receivable		1,155,318
Other receivable		89,726
Cash advance		4,000,000
Capital assets not being depreciated	<b>Note 4</b>	
Land		75,936,189
Easements		21,984
Construction in progress		24,301,312
Capital assets net of accumulated depreciation	<b>Note 4</b>	
Levees, facilities and machinery		47,798,054
<b>TOTAL ASSETS</b>		<b>266,600,260</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred outflows related to pension plans	<b>Notes 1, 5</b>	13,771
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>		<b>13,771</b>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable and other accrued liabilities		41,747,446
Accrued compensated absences		54,787
<b>TOTAL CURRENT LIABILITIES</b>		<b>41,802,233</b>
Noncurrent liabilities:		
Net Pension Liability	<b>Note 5</b>	4,732
<b>TOTAL NONCURRENT LIABILITIES</b>		<b>4,732</b>
<b>TOTAL LIABILITIES</b>		<b>41,806,965</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred inflows related to pension plans	<b>Notes 1, 5</b>	4,066
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>		<b>4,066</b>
<b>NET POSITION</b>		
Net investment in capital assets	<b>Note 1</b>	148,057,539
Unrestricted net position		76,745,461
<b>TOTAL NET POSITION</b>		<b>\$ 224,803,000</b>

# Statement of Activities

**KING COUNTY FLOOD CONTROL ZONE DISTRICT  
GOVERNMENT-WIDE FINANCIAL STATEMENTS  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2020**

	Program Revenues			Net Governmental Activities
	Expenses	Charges for Services	Operating Grants and Contribution	
<b>PRIMARY GOVERNMENT</b>				
Flood controls	\$ 55,988,833			\$ 55,988,833
Total primary government				55,988,833
General Revenue				
Taxes:				
Property taxes				58,632,467
Leasehold excise taxes				236,225
Other taxes				34,020
Investment earnings, net of investment expenses				1,490,926
Unrealized investment income (loss)				402,527
Total general revenues and special item				60,796,165
<b>CHANGE IN NET POSITION</b>				4,807,332
<b>NET POSITION, BEGINNING OF THE YEAR</b>				219,995,668
<b>NET POSITION, END OF THE YEAR</b>				\$ 224,803,000

**Balance Sheet**  
**Governmental Fund**



**KING COUNTY FLOOD CONTROL ZONE DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUND  
DECEMBER 31, 2020**

	Reference	General Fund
<b>ASSETS AND OUTFLOWS OF RESOURCES</b>		
Cash and cash equivalents		\$ 113,297,677
Taxes receivable		1,155,318
Other receivable		89,726
Cash advance		4,000,000
<b>TOTAL ASSETS</b>		<b>118,542,721</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
		-
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>		<b>118,542,721</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>		
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities		41,747,446
<b>TOTAL CURRENT LIABILITIES</b>		<b>41,747,446</b>
<b>TOTAL LIABILITIES</b>		<b>41,747,446</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Unavailable revenue - property tax	Note 1	910,381
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>		<b>910,381</b>
<b>FUND BALANCES</b>		
	Note 1	
Nonspendable - cash advance		4,000,000
Restricted		-
Committed		36,529,876
Assigned		7,500,000
Unassigned		27,855,018
<b>TOTAL FUND BALANCES</b>		<b>75,884,894</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>		<b>\$ 118,542,721</b>
Total fund balances - governmental fund		\$ 75,884,894
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		148,057,539
Accrued compensated absences not reported in governmental fund		(54,787)
GASB 68 deferred outflows not reported in governmental fund		13,771
GASB 68 net pension liability and deferred inflows not reported in governmental fund		(8,798)
Property taxes levied but unavailable in the governmental fund which were reported as property tax revenue in the statement of activities		910,381
<b>TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES</b>		<b>\$ 224,803,000</b>

Statement of  
Revenues, Expenditures, and  
Changes in Fund Balance  
Governmental Fund

**KING COUNTY FLOOD CONTROL ZONE DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2020**

	<b>General Fund</b>
<b>REVENUES</b>	
Property taxes, net of refund of \$65,545	\$ 58,386,310
Leasehold excise taxes	236,225
Other taxes	34,020
Investment income	1,528,630
Unrealized investment income (loss)	402,527
<b>TOTAL REVENUES</b>	<b>60,587,711</b>
<b>EXPENDITURES</b>	
Current operating:	
Administrative and other operating expenses	1,876,681
Contracted labor and services	10,556,101
Investment expenses	37,703
Capital projects expenditures	66,901,305
<b>TOTAL EXPENDITURES</b>	<b>79,371,790</b>
<b>CHANGE IN FUND BALANCES</b>	<b>(18,784,079)</b>
<b>TOTAL FUND BALANCES, BEGINNING OF THE YEAR</b>	<b>94,668,973</b>
<b>TOTAL FUND BALANCES, END OF THE YEAR</b>	<b>\$ 75,884,894</b>
Change in fund balances - governmental fund	\$ (18,784,079)
Amounts reported for governmental activities in the statement of activities (page 8) are different because:	
Governmental fund reported capital projects expenditures as expenditures. However, certain capital projects expenditures were reclassified as capital assets in the statement of net position. This is amount capitalized in the current year, net of depreciation expenses.	23,395,068
Net change in accrued expenses for compensated absences not reported in governmental fund but reported in government-wide financial statements	(54,787)
Expense adjustment related to GASB 68; net pension obligation	4,972
Prior year property taxes collected which are not reported as current year revenue in the statement of activities	246,158
<b>TOTAL CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES</b>	<b>\$ 4,807,332</b>

# Notes to the Financial Statements

**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 are primarily supported by property taxes.

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

The District's flood control activities are funded by property taxes, which are not considered to be program revenues. Taxes and other items 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, claims and judgments are recorded only when payment is due.

### **Governmental Accounting Standards Board (GASB) Pronouncements**

GASB Statement No. 87, *Leases*. This new GASB statement establishes a single model for lease accounting based on the foundational principle that leases are financing of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset. It is effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged. The District is currently evaluating the impact of this new GASB statement.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. This new GASB statement establishes accounting requirements for interest cost incurred before the end of a construction period. It is effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged. The District is currently evaluating the impact of this new GASB statement.

GASB Statement No. 91, *Conduit Debt Obligations*. This new GASB statement defines conduit debt obligation and requires issuers to disclose information about the conduit debt obligations organized by type of commitment and improve comparability by removing the diversity in current practice. This statement also includes note disclosures that help inform users of the potential impact of commitments on financial resources. It is effective for reporting beginning after December 15, 2020. Earlier application is encouraged. The District is currently evaluating the impact of this new GASB statement.

GASB Statement No. 92, *Omnibus 2020*. This new GASB statement addresses a variety of topics including issues related to reinsurance recoveries and terminology used to refer to derivative instruments, intra-entity transfers, postemployment benefit arrangements, and the measurement of liabilities (and assets, if any) associated with asset retirement obligations in a government acquisition. It is effective for periods beginning after June 15, 2020. Earlier application is encouraged and is permitted by topic. The District is currently evaluating the impact of this new GASB statement.

GASB Statement No. 93, *Replacement of Interbank Offered Rates*. This statement removes interbank offered rate (IBOR) as an appropriate benchmark interest rate and identifies a Security Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of an interest rate swap. The removal of LIBOR is effective for reporting periods ending after December 31, 2020. All other requirements are effective for reporting periods beginning after June 15, 2020. Earlier application is encouraged. The District is currently evaluating the impact of this new GASB statement.

### **Budgetary Information**

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

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

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

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

### **Cash and Cash Equivalents**

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

### **Receivables**

Taxes receivable consists of property taxes and related interest and penalties (See Property Taxation Note 3). Interest receivable consists of amounts earned on pooled investments at the end of the year.

### **Cash Advance**

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

### **Capital Assets**

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

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

Donated capital assets are recorded at acquisition 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/Inflows of Resources**

Deferred outflows of resources represent a consumption of net position that applies to future periods and will not be recognized as an outflow of resources (expense/expenditure) until that time.

As of December 31, 2020, the District had deferred outflows of resources relating to pension plans of \$13,771, which consist of contributions made subsequent to the measurement date and the District’s proportionate share of deferred outflows related to those plans. Pension plan contributions made subsequent to the measurement date are recognized as a reduction of the net pension liability in the following year. Deferred outflows of resources for the net difference between projected and actual earnings on plan investments are amortized over a closed five-year period. The remaining deferred outflows of resources related to pension plans are amortized over the expected service lives of all employees provided with pensions through the plans. See Note 5 for more information on pension plans.

Deferred inflows of resources represent an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time.

As of December 31, 2020, the District had deferred inflows of resources of \$910,381 in the governmental fund balance sheet for unavailable property tax revenues. The District considers revenues to be unavailable if they are not collected within 60 days after year-end.

As of December 31, 2020, the District reported deferred inflows of resources related to pension plans of \$4,066 in the statement of financial position, which consist of the District’s proportionate share of the pension plan deferred inflows. Deferred inflows of resources for the net difference between projected and actual earnings on plan investments are amortized over a closed five-year period. The remaining deferred inflows of resources related to pension plans are amortized over the average expected service lives of all employees provided with pensions through the plan. See Note 5 for more information on pension plans.

**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, 2020, the District reported \$148,057,539 of net investment in capital assets and unrestricted net position of \$76,745,461.

## **Pensions**

For purposes of measuring the net pension liability or asset, 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.

## **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*.

Nonspendable fund balances are amounts that cannot be spent because they are either in a nonspendable 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 nonspendable, restricted, committed or assigned in the general fund.

As of December 31, 2020, the District had nonspendable funds of \$4,000,000 advanced to King County for payment of reimbursable operating and capital expenditures, \$36,529,876 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, 2020 was \$27,855,018.

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 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 as an investment company. Oversight is provided by the King County Executive Finance Committee (EFC), which serves the role of the County Finance Committee as defined in RCW 36.48.070. All investments are subject to written policies and procedures adopted by the EFC.

The District receives an allocation of its proportionate share of pooled earnings. Unrealized gains and losses due to changes in the fair values are not distributed to the District. However, the unrealized gain or loss is recognized in the statement of revenues, expenditures and changes in fund balances at year-end in accordance with accounting standards. As of December 31, 2020, the District had unimpaired pooled investments of \$113,297,111.

### 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, 2020:

<b>Investments at Fair Value Level</b>	<b>Fair Value 12/31/20</b>	<b>Fair Value Measurements Using</b>		
		<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Unobserv- able Inputs (Level 3)</b>
Governmental Agencies	\$ 66,488,355	\$ -	\$ 66,488,355	\$ -
Commercial Paper	6,353,836	-	6,353,836	-
Corporate notes	6,353,836	-	6,353,836	-
U.S. Agency Mortgage-backed Securities	2,883	-	2,883	-
Treasury Securities	16,675,936	16,675,936	-	-
<b>Subtotals</b>	<b>95,874,846</b>	<b>16,675,936</b>	<b>79,198,910</b>	<b>-</b>
<b>Investments measured at amortized costs (not subject to Fair Value Hierarchy)</b>				
Repurchase Agreements	2,023,231			
State government Investment Pool	15,399,034			
<b>Subtotal investments measured at cost</b>	<b>17,422,265</b>			
<b>Total investments in Investment Pool</b>	<b>\$ 113,297,111</b>			

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

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

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

#### Impaired Investment Pool

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

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

As of December 31, 2020, all impaired commercial paper investments have completed enforcement events. The District's share of the impaired investment pool principal was \$907, and the fair value of these investments was \$565.

*Interest Rate Risk* is the risk that changes in interest rates will adversely affect the fair value of an investment. As of December 31, 2020, the Pool's average duration was 1.2 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, 2020, 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 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. \$58,839,186 was levied for 2020 and \$58,386,310 was collected during 2020, including delinquent taxes from previous years. The District had taxes receivable of \$1,155,318 as of December 31, 2020.

#### **Tax Abatements**

As of December 31, 2020, King County provides tax abatements through three programs – the Current Use Programs, Historic Preservation Program and the Single-family Dwelling Improvement Program. All of these programs are property tax abatements. The property tax system in the state of Washington is budget-based, which means the taxing authority determines a budget or dollar amount and adjusts the rates for the taxpayers based on the assessed valuation of their property. The tax abatements did not result in a reduction or loss of revenue because, pursuant to state law, these taxes were effectively reallocated to other property taxpayers. King County has not determined the District's share of abatements at this time.

**NOTE 4 - CAPITAL ASSETS**

Capital assets activities for the year ended December 31, 2020 were as follows:

	Balance 12/31/2019	Increases	Decreases	Balance 12/31/2020
<b>Governmental Activities</b>				
<b>Capital assets, not being depreciated:</b>				
Land	\$ 71,916,542	\$ 4,019,647	\$ -	\$ 75,936,189
Easements	21,984	-	-	21,984
Construction in progress	3,123,651	21,177,661	-	24,301,312
<b>Total capital assets, not being depreciated</b>	<b>75,062,177</b>	<b>25,197,308</b>	<b>-</b>	<b>100,259,485</b>
<b>Capital assets, being depreciated:</b>				
Levees and facilities	54,067,182	-	-	54,067,182
Machinery and equipment	18,476	-	-	18,476
<b>Total capital assets, being depreciated</b>	<b>54,085,658</b>	<b>-</b>	<b>-</b>	<b>54,085,658</b>
<b>Less accumulated depreciation for:</b>				
Levees and facilities	(4,466,888)	(1,802,240)	-	(6,269,128)
Machinery and equipment	(18,476)	-	-	(18,476)
<b>Total accumulated depreciation</b>	<b>(4,485,364)</b>	<b>(1,802,240)</b>	<b>-</b>	<b>(6,287,604)</b>
Total capital assets, being depreciated, net	49,600,294	(1,802,240)	-	47,798,054
<b>Total capital assets, net</b>	<b>\$ 124,662,471</b>	<b>\$ 23,395,068</b>	<b>\$ -</b>	<b>\$ 148,057,539</b>

Land is acquired in the name of the King County in accordance with the Inter-Local Agreement. As of December 31, 2020, the District reported a total amount of \$75,936,189 as land, which represents historical costs contributed by the District through property tax levied since the formation of the District. The Inter-local Agreement facilitates necessary transfers of land and other capital assets to the District by the King County. As of December 31, 2020, transfers have not taken place.

As of December 31, 2020, the District reported easements totaling \$21,984. This amount represents acquired rights of use over the property of others for the purposes of constructing levees and facilities outside the District's pre-existing right of way limits.

In addition, the District reported flood control construction in progress totaling \$24,301,312 at December 31, 2020. The amount represents capitalizable costs associated with asset-generated projects being developed that have been funded through the property taxes levied by the District. No depreciation



is calculated for construction in progress. As projects are completed, the related costs are reclassified as levees and facilities.

Total depreciation expense of \$1,802,240 was charged to the flood control function of the District in 2020.

**NOTE 5 – PENSION PLANS**

The following table represents the aggregate pension amounts for all plans for the year 2020:

<b>Aggregate Pension Amounts – All Plans</b>	
Pension liabilities	\$4,732
Pension assets	\$ -
Deferred outflows of resources	\$13,771
Deferred inflows of resources	\$ 4,066
Pension expense/expenditures	\$(1,561)

**State Sponsored Pension Plans**

Substantially all the District’s full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans. The state Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available 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 98504-8380

Or the DRS CAFR may be downloaded from the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov).

## **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 had no employees participating in PERS Plan 1 in 2020.

**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.

Required  
Supplementary  
Information

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.

### 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 2020 were as follows:

<b>PERS Plan 2/3</b>		
<b>Actual Contribution Rates</b>	<b>Employer 2/3</b>	<b>Employee 2*</b>
January – August 2020	-	-
PERS Plan 2/3	7.92%	7.90%
PERS Plan 1 UAAL	4.76%	-
Administrative Fee	0.18%	-
Employee PERS Plan 3	-	Varies
<b>Total</b>	<b>12.86%</b>	<b>7.41%</b>
September – December 2020	-	-
PERS Plan 2/3	7.92%	7.90%
PERS Plan 1 UAAL	4.87%	-
Administrative Fee	0.18%	-
Employee PERS Plan 3	-	Varies
<b>Total</b>	<b>12.97%</b>	<b>7.90%</b>

The District’s actual PERS plan contributions were \$3,412 to PERS Plan 2/3 for the year ended December 31, 2020.

**Actuarial Assumptions**

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2020 with a valuation date of June 30, 2019. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary’s (OSA) *2013-2018 Experience Study* and the *2019 Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2019 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2020. Plan liabilities were rolled forward from June 30, 2019, to June 30, 2020, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 2.75% total economic inflation; 3.50% salary inflation
- **Salary increases:** In addition to the base 3.50% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.4%

Mortality rates were developed using the Society of Actuaries' Pub. H-2020 mortality rates, which vary by member status, as the base table. The OSA applied age offsets for each system, as appropriate, to better tailor the mortality rates to the demographics of each plan. OSA applied the long-term MP-2017 generational improvement scale, also developed by the Society of Actuaries, to project mortality rates for every year after the 2010 base table. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

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

- OSA updated its demographic assumptions based on the results of its latest demographic experience study. See OSA's 2013-2018 Demographic Experience Study at [leg.wa.gov/osa](http://leg.wa.gov/osa).
- OSA updated the Early Retirement Factors and Joint-and-Survivor factors used in its model to match the ones implemented by DRS on October 1, 2020. These factors are used to value benefits for members who elect to retire early and for survivors of members that die prior to retirement.
- The valuation includes liabilities and assets for Plan 3 members purchasing Total Allocation Portfolio annuities when determining contribution rates and funded status.

OSA changed its method of updating certain data items that change annually, including the public safety duty-related death lump sum and Washington state average wage. OSA set these values at 2018 and will project them into the future using assumptions until the next Demographic Experience Study in 2025. See [leg.wa.gov/osa](http://leg.wa.gov/osa) for more information on this method change.

## Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.4 percent.

To determine that rate, an asset sufficiency test was completed to test whether each pension plan's fiduciary net position was sufficient to make all projected future benefit payments for current plan members. Based on OSA's assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.4 percent was used to determine the total liability.

## Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.4 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 (CMA's) and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the CMA's and their target asset allocation to simulate future investment returns at various future times.

## Estimated Rates of Return by Asset Class

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, 2020, 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.

<b>Asset Class</b>	<b>Target Allocation</b>	<b>% Long-Term Expected Real Rate of Return Arithmetic</b>
Fixed Income	20%	2.20%
Tangible Assets	7%	5.10%
Real Estate	18%	5.80%
Global Equity	32%	6.30%
Private Equity	23%	9.30%
	<b>100%</b>	

**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 7.4 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 (6.4 percent) or 1-percentage point higher (8.4 percent) than the current rate.

	<b>1% Decrease (6.4%)</b>	<b>Current Discount Rate (7.4%)</b>	<b>1% Increase (8.4%)</b>
PERS 2/3	\$2,444	\$4,732	\$(15,618)

**Pension Plan Fiduciary Net Position**

Detailed information about the State’s pension plans’ fiduciary net position is available in the separately issued DRS financial report.

**Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At June 30, 2020, the District reported a total pension liability of \$4,732 for its proportionate share of the net pension liabilities as follows:

	<b>Liability (or Asset)</b>
PERS 2/3	\$4,732

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

	<b>Proportionate Share 6/30/19</b>	<b>Proportionate Share 6/30/20</b>	<b>Change in Proportion</b>
PERS 2/3	-	-	-

The collective net pension liability (asset) was measured as of June 30, 2020, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2019, with update procedures used to roll forward the total pension liability to the measurement date.



## Pension Expense

For the year ended December 31, 2020, the District recognized pension expense as follows:

	Pension Expense
PERS 2/3	\$(1,561)

## Deferred Outflows of Resources and Deferred Inflows of Resources

As of December 31, 2020, 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	\$ 1,694	\$ 593
Net difference between projected and actual investment earnings on pension plan investments	\$ -	\$ 240
Changes of assumptions	\$ 67	\$ 3,233
Changes in proportion and differences between contributions and proportionate share of contributions	\$8,598	\$ -
Contributions subsequent to the measurement date	\$ 3,412	\$ -
<b>TOTAL</b>	<b>\$13,771</b>	<b>\$ 4,066</b>

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, 2021. 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
2021	\$ (576)
2022	\$ 918
2023	\$1,471
2024	\$1,813
2025	\$1,216
Thereafter	\$1,452

**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 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 2020.

**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 \$76,880,463 to the District during 2020, and \$41,494,921 was due to the County as of December 31, 2020. The District has advanced \$4,000,000 to the County for prepayment of reimbursable costs.

In addition, an employee at King County Council (the Council) provides exclusively executive director services through October 2020, in addition to clerk's services provided to the District during all of 2020. The District was charged labor costs and overhead. The total expenses billed to the District by the Council was \$333,686. Also, the District reimburses any reimbursable expenditures paid on the behalf of the District to manage the District activities. At December 31, 2020, the District reported \$0 due to the Council.

**KING COUNTY FLOOD CONTROL ZONE DISTRICT  
BUDGETARY COMPARISON SCHEDULE (BUDGETARY BASIS)  
FOR THE YEAR ENDED DECEMBER 31, 2020**

	Original Budget	Revised Budget	Actual	% of Budget	Remaining Balance
<b>REVENUES</b>					
Property taxes	\$ 58,405,697	\$ 58,405,697	\$ 58,386,310	100%	\$ 19,387
Other taxes			270,245		(270,245)
Investment income, net of investment expenses			1,490,927		(1,490,927)
<b>Total revenue</b>	<b>58,405,697</b>	<b>58,405,697</b>	<b>60,147,481</b>	<b>103%</b>	<b>(1,741,784)</b>
<b>EXPENDITURES</b>					
Administration and management	913,238	913,238	1,876,681	205%	(963,443)
Intergovernmental services	13,464,210	13,739,210	10,556,101	77%	3,183,109
Capital program expenditures	84,227,923	202,107,438	66,901,305	33%	135,206,133
<b>Total expenditures</b>	<b>98,605,371</b>	<b>216,759,886</b>	<b>79,334,087</b>	<b>37%</b>	<b>\$ 137,425,799</b>
Excess of revenues over expenditures	(40,199,674)	(158,354,189)	(19,186,606)		
Adjustment from budgetary basis to GAAP basis			402,527		
<b>CHANGES IN FUND BALANCE</b>	<b>\$ (40,199,674)</b>	<b>\$ (158,354,189)</b>	<b>(18,784,079)</b>		
<b>FUND BALANCE, AS OF JANUARY 1, 2020</b>			<b>94,668,973</b>		
<b>FUND BALANCE, AS OF DECEMBER 31, 2020</b>			<b>\$ 75,884,894</b>		

**Elements of adjustment from budgetary basis to GAAP basis:**

Recognition of unrealized investment gain	\$ 402,527
<b>Adjustment from budgetary basis to GAAP basis</b>	<b>\$ 402,527</b>

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

**KING COUNTY FLOOD CONTROL ZONE DISTRICT**  
**Schedule of Proportionate Share of the Net Pension Liability**  
**PERS 2/3**  
**As of June 30 2020**  
**Last 10 Fiscal Years\***

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
<u>Employer's proportion of the net pension liability (asset)</u>	%	0.00%	0.00%	0.00%	0.00%					
<u>Employer's proportionate share of the net pension liability</u>	\$	0	0	0	0					
<b>TOTAL</b>	\$									
<u>Covered payroll</u>	\$	0	0	0	0					
<u>Employer's proportionate share of the net pension liability as a percentage of covered payroll</u>	%									
<u>Plan fiduciary net position as a percentage of the total pension liability</u>	%	0.00%	0.00%	0.00%	0.00%					

**Notes to Schedule:**

\*First payroll issued in November 2020.

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

**KING COUNTY FLOOD CONTROL ZONE DISTRICT**  
**Schedule of Employer Contributions**  
**PERS 2/3**  
**For the year ended December 31, 2020**  
**Last 10 Fiscal Years\***

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
<u>Statutorily or contractually required contributions</u>	\$ 3,412	0	0	0						
<u>Contributions in relation to the statutorily or contractually required contributions</u>	\$ 3,412	0	0	0						
<u>Contribution deficiency (excess)</u>	\$ 0	0	0	0						
<u>Covered payroll</u>	\$ 26,307	0	0	0						
<u>Contributions as a percentage of covered payroll</u>	% 12.97%	0.00%	0.00%	0.00%						

**Notes to Schedule:**

\*Until a full 10-year trend is compiled, only information for those years available is presented.

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