

**Washington State Auditor's Office**  
**Financial Statements Audit Report**

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**King County Flood Control Zone District**

Audit Period  
January 1, 2012 through December 31, 2012

Report No. 1010739

Issue Date  
**November 18, 2013**



WASHINGTON  
**TROY KELLEY**  
STATE AUDITOR



**Washington State Auditor  
Troy Kelley**

November 18, 2013

Board of Supervisors  
King County Flood Control Zone District  
Seattle, Washington

***Report on Financial Statements***

Please find attached our report on the King County Flood Control Zone District's financial statements.

We are issuing this report in order to provide information on the District's financial condition.

Sincerely,

**TROY KELLEY  
STATE AUDITOR**

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January 1, 2012 through December 31, 2012**

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Independent Auditor's Report on Internal  
Control over Financial Reporting and on  
Compliance and Other Matters Based on an  
Audit of Financial Statements Performed in  
Accordance with *Government Auditing  
Standards*

**King County Flood Control Zone District  
January 1, 2012 through December 31, 2012**

Board of Supervisors  
King County Flood Control Zone District  
Seattle, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the King County Flood Control Zone District, King County, Washington, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 30, 2013. During the year ended December 31, 2012, the District implemented Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*.

***INTERNAL CONTROL OVER FINANCIAL REPORTING***

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **COMPLIANCE AND OTHER MATTERS**

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **PURPOSE OF THIS REPORT**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



**TROY KELLEY**  
STATE AUDITOR

October 30, 2013

# Independent Auditor's Report on Financial Statements

## King County Flood Control Zone District January 1, 2012 through December 31, 2012

Board of Supervisors  
King County Flood Control Zone District  
Seattle, Washington

### **REPORT ON THE FINANCIAL STATEMENTS**

We have audited the accompanying financial statements of the governmental activities and each major fund of the King County Flood Control Zone District, King County, Washington, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 5.

#### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of the King County Flood Control Zone District, as of December 31, 2012, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Matters of Emphasis**

As discussed in Note 1 to the financial statements, in 2012, the District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 through 11 and budgetary comparison information on page 24 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## **OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2013 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



**TROY KELLEY**  
STATE AUDITOR

October 30, 2013

# Financial Section

## King County Flood Control Zone District January 1, 2012 through December 31, 2012

### ***REQUIRED SUPPLEMENTARY INFORMATION***

Management's Discussion and Analysis – 2012

### ***BASIC FINANCIAL STATEMENTS***

Statement of Net Position – 2012

Statement of Activities – 2012

Governmental Fund Balance Sheet – 2012

Governmental Fund Statement of Revenues, Expenditures and Changes in Fund  
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Notes to Financial Statements – 2012

### ***REQUIRED SUPPLEMENTARY INFORMATION***

Budgetary Comparison Schedule (Budgetary Basis) – 2012



## 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, 2012. The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 "Basic Financial Statements and Management's Discussion and Analysis for State and Local Government", issued June 1999. As this information is presented in summary form, it should be read in conjunction with the financial statements and footnotes as a whole.

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 contracts with an independent management consultant to oversee the District's operations and performance and to represent the District on behalf of the Board of Supervisors. 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, 2012, the assets of the District exceeded its liabilities by \$120.2 million on a government-wide basis (net position). Net position included net investment in capital assets of \$64.7 million and unrestricted net position of \$55.5 million.
- In 2012, the District's total net position increased by \$22.0 million.
- As of December 31, 2012, the District's governmental fund had an ending balance of \$54.6 million, which was an increase of \$5.6 million from the prior year. The governmental fund balances included \$4 million attributable to non-spendable cash advance and \$7 million assigned for self-insurance retention. The remaining portion of fund balance, \$43.6 million, was unassigned and available to support future operations.

### Overview of the Financial Statements

The District's financial statements are presented in accordance with Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, which amends GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments* and other pronouncements. The District's basic financial statements include three components: (1) government-wide financial statements; (2) fund financial statements; and (3) notes to the financial statements. Required supplementary information is presented in addition to the basic financial statements.

### Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances in a manner similar to a private sector business. The statements provide short-term and long-term information about the District's financial position, which assists in assessing the District's financial condition at the end of the fiscal year. These statements are

prepared using the flow of economic resources measurement focus and the accrual basis of accounting. All revenues are recognized in the period in which they are earned and expenses are recognized in the period in which they are incurred. The government-wide financial statements include two statements:

- The statement of net position presents all of the District's assets and liabilities, deferred inflows and outflows of resources, and net position. Over time, increases or decreases in the District's net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.
- The statement of activities presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. As a result, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods, such as revenues pertaining to uncollected taxes.

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

#### Fund Financial Statements

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

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

#### Notes to the Financial Statements

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

#### Required Supplementary Information

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

## Government-wide Financial Analysis

The Statement of Net Position presents all of the District's assets, liabilities, deferred inflows and outflows of resources, and net position. The amount of net position is the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Over time, this information may serve as a useful indicator of the District's financial position. The District's net position was \$120.2 million at the end of 2012, and 53.8 percent of the net position was invested in capital assets. There was an increase of 22.4 percent or \$22.0 million over the net position of the previous year. Net position increased primarily due to an increase in capital assets. Investment in capital assets went up by \$16.4 million or 34 percent in 2012. For further information regarding the increase in capital assets see Note 5 to the financial statements. The increase in net position in 2012 reflects the District's ability to meet current and future obligations in the course of its activities.

<i>Statement of Net Position</i>	<b>2012</b>	<b>2011</b>
<b>ASSETS</b>		
Current and other assets	\$63,792,155	\$55,934,773
Capital assets	64,673,022	48,255,277
Total Assets	<u>128,465,177</u>	<u>104,190,050</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
<b>LIABILITIES</b>		
Current liabilities	8,279,615	6,005,491
Total liabilities	<u>8,279,615</u>	<u>6,005,491</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
<b>NET POSITION</b>		
Net investment in capital assets	64,673,022	48,255,277
Unrestricted	55,512,540	49,929,282
Total net position	<u>\$120,185,562</u>	<u>\$98,184,559</u>

The District's flood control services are funded by property taxes, which comprise 98.2 percent of total revenues. Net position increased by \$22.0 million in 2012 compared to an increase of \$16.0 million in 2011. Expenses decreased by \$5.0 million compared to the prior year; this is partly because expenses in 2011 included \$3.2 million for tax levy suppression which did not recur in 2012. The change in the District's total net position resulted from revenues exceeding expenses; a significant portion of this excess was expended on capital projects and is included in construction in progress. The overall financial position of the District has improved in 2012 and indicates its ability to meet its ongoing obligations.

<i>Statement of Activities</i>	<b>2012</b>	<b>2011</b>
<b>GENERAL REVENUE</b>		
Property taxes	\$36,640,598	\$35,800,643
Interest income	341,910	280,578
Grant revenue	9,679	-
Other revenues	342,729	269,091
Total Revenue	<u>37,334,916</u>	<u>36,350,312</u>

**EXPENSES**

Flood controls	15,333,913	20,354,645
Total Expenses	<u>15,333,913</u>	<u>20,354,645</u>
Changes in Net Position	<u>22,001,003</u>	<u>15,995,667</u>
Net Position, Beginning of Year	<u>98,184,559</u>	<u>82,188,892</u>
Net Position, End of Year	<u><u>\$120,185,562</u></u>	<u><u>\$98,184,559</u></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.

<i>Balance Sheet</i>	<b>2012</b>	<b>2011</b>
<b>Total Assets</b>	\$63,792,155	\$55,934,773
<b>Deferred Outflows of Resources</b>		
<b>Total Liabilities</b>	9,165,028	6,927,480
<b>Deferred Inflows of Resources</b>		
<b>Fund Balances</b>		
Nonspendable – cash advance	4,000,000	4,000,000
Assigned	6,980,000	5,103,137
Unassigned	43,647,127	39,904,156
Total Fund Balances	<u><u>\$54,627,127</u></u>	<u><u>\$49,007,293</u></u>

As of December 31, 2012, the District's governmental fund reported ending fund balances of \$54.6 million, of which \$11 million was assigned or non-spendable. The non-spendable fund balance is a \$4 million advance to the King County Water and Land Resources Division for the District's operating and capital expenditures, and the \$7 million was assigned for self insured retention. For more information regarding these items, see Notes 6 and 7 to the District's financial statements. The remainder, \$43.6 million, is available for spending in future years at the District's discretion. The total fund balances increased by \$5.6 million, due to current year's excess of revenues over expenditures.

**Statement of Revenues, Expenditures, and Changes in Fund Balances**

	<b>2012</b>	<b>2011</b>
<b>Total Revenues</b>	\$37,371,492	\$36,387,690
<b>Total Expenditures</b>	31,751,658	23,397,018
<b>Special item – tax levy suppression</b>	-	(3,213,164)
<b>Changes in Fund Balances</b>	<u><u>\$5,619,834</u></u>	<u><u>\$9,777,508</u></u>

Overall governmental fund revenues totaled \$37.3 million for 2012, which represents an increase of 2.7 percent, or \$1.0 million, over the year ended December 31, 2011. The increase was primarily due to the increase in property tax levied in 2012. Total expenditures increased 35.7 percent or \$8.4 million from the previous year, primarily due to the increased spending in capital projects. Total revenues exceeded expenditures by \$5.6 million in 2012 compared to \$12.9 million for the year of 2011. In 2011, there was also a reduction in fund balances due to tax levy suppression.

**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 taxes revenue was attributable to accounting basis. Property taxes were budgeted based on approved tax levies for 2012, while property taxes reported as actual were total taxes collected in 2012. See the District’s accounting policies in Note 1 to the financial statements. Actual expenditures were less than budget estimates by \$55.4 million primarily because the 2012 budgeted expenditures included carryover amounts from prior years which were not expended in 2012.

**Capital Assets**

The District’s capital assets, net of accumulated depreciation, amounted to \$64.7 million as of December 31, 2012. This is an increase of \$16.4 million or 35 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.

<b>Governmental Activities</b>	<b>Balance 12/31/2012</b>	<b>Balance 12/31/2011</b>
Land	\$38,729,522	\$25,798,708
Construction in progress	18,408,817	17,463,009
Levees and facilities	8,109,008	5,293,890
Machinery and equipment	18,476	18,476
Less: accumulated depreciation	(592,801)	(318,806)
<b>Total Capital Assets, Net</b>	<b>\$64,673,022</b>	<b>\$48,255,277</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 2013 budget (General Fund) is summarized below.

<b>Property Taxes</b>	<b>\$41,346,031</b>
District overhead and administration	592,190
Maintenance and operations	9,913,606
Construction and improvements	38,248,015
Capital reserves (Fund Balance)	(1,715,836)
<b>Total</b>	<b>\$47,037,975</b>

The District’s Board has authorized \$41.34 million of property taxes to be levied for 2013, an increase of one percent over 2012.

## **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.

**KING COUNTY FLOOD CONTROL ZONE DISTRICT  
GOVERNMENT-WIDE FINANCIAL STATEMENTS  
STATEMENT OF NET POSITION  
DECEMBER 31, 2012**

	Primary Government Governmental Activities
<b>ASSETS</b>	
Cash	58,858,901
Taxes receivable	885,413
Interest receivable	38,162
Other receivable	9,679
Cash advance	4,000,000
Capital assets not being depreciated	
Land	38,729,522
Construction in progress	18,408,817
Capital assets net of accumulated depreciation	
Levees and facilities	7,525,445
Machinery and equipment	9,238
<b>TOTAL ASSETS</b>	<b>\$ 128,465,177</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
<b>LIABILITIES</b>	
<b>LIABILITIES</b>	
Accounts payable	\$ 8,279,615
<b>TOTAL LIABILITIES</b>	<b>8,279,615</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
<b>NET POSITION</b>	
Net investment in capital assets	64,673,022
Unrestricted	55,512,540
<b>TOTAL NET POSITION</b>	<b>\$ 120,185,562</b>

See Notes to Financial Statements

**KING COUNTY FLOOD CONTROL ZONE DISTRICT  
GOVERNMENT-WIDE FINANCIAL STATEMENTS  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Program Revenues			Net Governmental Activities
	Expenses	Charges for Services	Operating Grants and Contributions	
<b>PRIMARY GOVERNMENT</b>				
Flood Controls	\$(15,333,913)			\$ (15,333,913)
Total primary government				(15,333,913)
<b>GENERAL REVENUES</b>				
Taxes:				
Property taxes				36,640,598
Leasehold excise taxes				234,426
Other revenues				36,185
Grant revenue				9,679
Investment earnings				341,910
Unrealized investment (loss)				72,118
Total general revenues				37,334,916
<b>CHANGE IN NET POSITION</b>				<b>22,001,003</b>
<b>NET POSITION, BEGINNING OF THE YEAR</b>				<b>98,184,559</b>
<b>NET POSITION, END OF THE YEAR</b>				<b>\$ 120,185,562</b>

See Notes to Financial Statements



**KING COUNTY FLOOD CONTROL ZONE DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUND  
DECEMBER 31, 2012**

	General Fund
<b>ASSETS AND OUTFLOWS OF RESOURCES</b>	
Cash	\$ 58,858,901
Taxes receivable	885,413
Interest receivable	38,162
Other receivable	9,679
Cash advance	4,000,000
<b>TOTAL ASSETS</b>	<b>63,792,155</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<b>-</b>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>63,792,155</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	
<b>LIABILITIES</b>	
Accounts payable	8,279,615
Deferred revenue	885,413
<b>TOTAL LIABILITIES</b>	<b>9,165,028</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<b>-</b>
<b>FUND BALANCES</b>	
Nonspendable - cash advance	4,000,000
Restricted	-
Committed	-
Assigned	6,980,000
Unassigned	43,647,127
<b>TOTAL FUND BALANCES</b>	<b>54,627,127</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b>\$ 63,792,155</b>
Total fund balances - governmental fund	54,627,127
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	64,673,022
Property taxes levied but not collected reported as deferred revenue in the governmental fund while reported as property tax revenue in the statement of net position, regardless of the timing of cash flows	885,413
<b>TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES</b>	<b>\$ 120,185,562</b>

See Notes to Financial Statements

**KING COUNTY FLOOD CONTROL ZONE DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	General Fund
<b>REVENUES</b>	
Property taxes, net of refund of \$95,374	\$ 36,677,174
Leasehold excise taxes	234,426
Other revenues	36,185
Interest income	341,910
Grant revenue	9,679
Unrealized investment (loss)	72,118
Total revenues	37,371,492
<b>EXPENDITURES</b>	
Current operating:	
Administrative and other operating expenses	479,981
Contracted labor and services	6,605,201
Investment expenses	20,043
Capital projects expenditures	24,646,433
Total expenditures	31,751,658
Excess of revenues over expenditures	5,619,834
<b>CHANGE IN FUND BALANCES</b>	<b>5,619,834</b>
<b>TOTAL FUND BALANCES, BEGINNING OF THE YEAR</b>	<b>49,007,293</b>
<b>TOTAL FUND BALANCES, END OF THE YEAR</b>	<b>54,627,127</b>
Change in fund balances - governmental fund	5,619,834
Amounts reported for governmental activities in the statement of activities (page 8) are different because:	
Governmental fund reported capital projects expenditures as expenditures. However, certain capital projects expenditures were reclassified as capital assets in the statement of net position. This is amount capitalized in the current year, net of accumulated depreciation.	16,421,440
Governmental fund reported capital purchases as current operating expenditures. However, certain operating expenditures were capitalized as capital assets in the statement of net position. This is depreciation expense associated with capital purchases made in prior year not included on Governmental Fund.	(3,695)
Property taxes collected from prior year revenue accrued on Government Wide Financial Statements. However, they were not recognized as revenue in the statement of activities in current year.	(36,576)
<b>TOTAL CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES</b>	<b>\$ 22,001,003</b>

See Notes to Financial Statements

**KING COUNTY FLOOD CONTROL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012**

**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 newly created District took over several King County flood districts to improve the County's aging and inadequate flood protection facilities and improve countywide flood warnings and flood prediction capacity.

As authorized by the Revised Code of Washington (RCW) 86.1, the King County Council is the District's Board of Supervisors, the governing body. The Board is staffed by the Executive Director, an outside management consultant who oversees overall performance and who represents the District on behalf of the Board of Supervisors.

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

**Government-Wide and Fund Financial Statements**

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

Government-wide financial statements report information on all of the non-fiduciary activities of the District, the primary government, consisting of a statement of net position and a statement of activities. The District reports its governmental activities, which normally are supported by property taxes. The

District does not have business-type activities, which rely to a significant extent on fees and charges for support.

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

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

### **Measurement Focus and Basis of Accounting**

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

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

### **Budgetary Information**

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

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

The budgetary comparison schedule on page 20 contains the original and final budget information. The original budget is the first complete appropriated budget. The final budget is the original budget adjusted by all reserves, allocations, supplemental appropriations, and other legally authorized changes applicable for the year.

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

### **Cash**

Cash consists of pooled investments in the King County Investment Pool (the Pool). The King County Treasurer acts as custodian for the District's cash. The Pool functions as a demand deposit account where the District receives an allocation of its proportionate share of pooled earnings. Interest earnings distributed to the District are used for the District's operations. The cash balance at the fiscal year end is reported at fair market value of pooled investments.

### **Taxes Receivable and Deferred Revenue**

Property taxes levied but not collected for the current year are recorded on the balance sheet as taxes receivable and deferred revenue in the governmental fund financial statements. Property taxes are recognized as revenue when collected in cash, at which time taxes receivable and deferred revenue are reduced by the amount collected. The amount of taxes receivable at year-end that would be collected soon enough to be available to pay liabilities of the current period is immaterial. At year-end, all uncollected property taxes are reported on the balance sheet as taxes receivable – delinquent accounts as well as deferred revenue.

In the government-wide financial statements, the District recognizes the deferred revenue related to the current period, net of the allowance for uncollectible property taxes, as property tax revenue. The District had no such allowance for uncollectible at December 31, 2012.

### **Cash Advance**

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

### **Capital Assets**

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

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

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

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

### **Deferred Outflows of Resources**

Concepts Statement No. 4, Elements of Financial Statements, defines a deferred outflow of resources as a consumption of net assets by the government that is applicable to a future reporting period. As of December 31, 2012, the District had no deferred outflows of resources.

### **Deferred Inflows of Resources**

Concepts Statement No. 4, Elements of Financial Statements, defines a deferred inflow of resources as an acquisition of net assets by the government that is applicable to a future reporting period. As of December 31, 2012, the District had no deferred inflows of resources.

### **Classification of Net Position**

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

*Net Investment in capital assets* – This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowing that are attributable to the acquisition, construction or improvement of those assets. As of December 31, 2012, the District had \$64,673,022 of investment in capital assets and no related debt.

*Restricted* – This component of net position consists of external constraints imposed by creditors (through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation, that restrict the use of net assets. The District had no restricted net position as of December 31, 2012.

*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”. The District had unrestricted net position of \$55,512,540 as of December 31, 2012.

### **Fund Balance Classification and Details**

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

Non-spendable fund balances are amounts that cannot be spent because they are either in a non-spendable form or are legally/contractually required to be maintained intact, including inventories, prepaid expenses, advances, etc. As of December 31, 2012, the District had a \$4,000,000 reserve for advance payment of reimbursable operating and capital expenditures.

Restricted fund balances are amounts that can be spent only for specific purpose stipulated by donors, grantors, creditors or by law. As of December 31, 2012, the District had no restricted fund balances.

Committed fund balances are amounts that are constrained for a specific purpose determined by a formal action of the District's Board of Supervisors, the District's highest level of decision-making authority. The same action is required to remove or change the constraint as it did to impose the constraint. As of December 31, 2012, the District had no committed fund balances.

Assigned fund balances are amounts constrained by the District's intent that they will be used for specific purposes. The District has adopted its policy to delegate the authority to assign amounts to be used for specific purposes to its Executive Committee. As of December 31, 2012, the District reported \$6,980,000 assigned fund balance, resulting from a self-insured retention.

Unassigned fund balances are amounts not classified as non-spendable, restricted, committed or assigned in the general fund. The District reported an unassigned fund balance of \$43,647,127 as of December 31, 2012.

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 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

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

### NOTE 3 - DEPOSITS AND INVESTMENTS

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

The Pool is not registered with the Securities and Exchange Commission (SEC) as an investment company. Oversight is provided by the King County Executive Finance Committee (EFC) pursuant to RCW 36.29.020. All investments are subject to written policies and procedures adopted by the EFC.

The Pool functions as a demand deposit account where the District receives an allocation of its proportionate share of pooled earnings. Unrealized gains and losses due to changes in the fair values are not distributed to the District. However, the unrealized gain or loss is recognized in the statement of revenues, expenditures and changes in fund balances at year-end in accordance with accounting standards. As of December 31, 2012, the District had unimpaired pooled investments of \$58,855,833 at fair value.

Impaired Investments – As of December 31, 2012, 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 three 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 \$6,219 and the fair value of these investments was \$3,068.

*Interest Rate Risk* is the risk that changes in interest rates will adversely affect the fair value of an investment. As of December 31, 2012, the Pool's average duration was 1.36 years. As a means of limiting its exposure to rising interest rates, securities purchased in the Pool must have a final maturity, or weighted average life, no longer than five years. While the Pool's market value is calculated on a monthly basis, unrealized gains or losses are not distributed. The Pool distributes earnings monthly using an amortized cost methodology.

*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, 2012, the District's investments in the Pool were 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 4 - PROPERTY TAXATION**

The District is authorized to levy property taxes to fund flood-related services and capital projects. The King County Assessor determines the tax levied against each property in each taxing district. The King County Treasury Operation Section Manager is responsible for billing and collecting taxes. On January 1, at the time of assessment, an enforceable lien is attached to the property for property taxes. Tax bills are mailed on February 14. All taxes are due and payable on April 30th of each year, but if the amount due from a taxpayer exceeds fifty dollars, one-half may be paid on April 30th and the balance 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 deferred revenue at the beginning of the year. Property taxes are recognized as revenue when collected in cash at which time taxes receivable and deferred revenue are reduced by the amount collected. At year-end, all uncollected property taxes are reported on the balance sheet as taxes receivable – delinquent and deferred revenue. For the government-wide financial statements, the deferred revenue 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. \$36,735,972 was levied for 2012 and \$36,772,548 was collected during 2012, including delinquent taxes from previous years. The District had taxes receivable of \$885,413 as of December 31, 2012.

**NOTE 5 - CAPITAL ASSETS**

Capital assets activities for the year ended December 31, 2012 were as follows:

	Balance 12/31/2011	Increases	Decreases	Balance 12/31/2012
<b>Governmental Activities</b>				
<b>Capital assets, not being depreciated:</b>				
Land	\$25,798,708	\$12,930,814	-	\$38,729,522
Construction in progress	17,463,009	5,120,349	(4,174,541)	18,408,817
<b>Total capital assets, not being depreciated</b>	<b>43,261,717</b>	<b>18,051,163</b>	<b>(4,174,541)</b>	<b>57,138,339</b>
<b>Capital assets, being depreciated:</b>				
Levees and facilities	5,293,890	2,815,118	-	8,109,008
Machinery and equipment	18,476	-	-	18,476
<b>Total capital assets, being depreciated</b>	<b>5,312,366</b>	<b>2,815,118</b>	<b>-</b>	<b>8,127,484</b>
<b>Less accumulated depreciation for:</b>				
Levees and facilities	(313,263)	(270,300)	-	(583,563)
Machinery and equipment	(5,543)	(3,695)	-	(9,238)
<b>Total accumulated depreciation</b>	<b>(318,806)</b>	<b>(273,995)</b>	<b>-</b>	<b>(592,801)</b>
<b>Total capital assets, being depreciated, net</b>	<b>4,993,560</b>	<b>2,541,123</b>	<b>-</b>	<b>7,534,683</b>
<b>Total capital assets, net</b>	<b>\$48,255,277</b>	<b>\$20,592,286</b>	<b>(4,174,541)</b>	<b>\$64,673,022</b>

Land is acquired in the name of the King County in accordance with the Inter-local Agreement. As of December 31, 2012, the District reported a total amount of \$38,729,522 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, 2012, transfers have not taken place. In addition, the District had flood control construction in progress totaling \$18,408,817. No depreciation is calculated for construction in progress. As disclosed in Note 1 to the 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. During 2012, \$2,815,118 was transferred from construction in progress to levees and facilities, which included \$2,813,777 of prior year construction in progress. Total depreciation expense of \$273,995 was charged to the flood control function of the District in 2012.

**NOTE 6 - RISK MANAGEMENT AND CONTIGENCIES**

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

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

There were no claims against the District during the year 2012.

**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 \$34,248,394 to the District during 2012, and \$8,201,746 was due to the County as of December 31, 2012. The District has advanced \$4,000,000 to the County for prepayment of reimbursable costs. The net outstanding payable to the County was \$4,201,746.

**NOTE 8 - SUBSEQUENT EVENTS**

Subsequent events for the District have been evaluated through May 17, the date these financial statements were able to be issued.

**KING COUNTY FLOOD CONTROL ZONE DISTRICT  
BUDGETARY COMPARISON SCHEDULE (BUDGETARY BASIS)  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Original Budget	Final Budget	Actual	Variance
<b>REVENUES</b>				
Property taxes	\$ 36,926,478	\$ 36,926,478	\$ 36,677,174	\$ (249,304)
Other taxes			234,426	234,426
Other revenues			45,864	45,864
Interest Income			341,910	341,910
<b>Total Revenue</b>	<b>36,926,478</b>	<b>36,926,478</b>	<b>37,299,374</b>	<b>372,896</b>
<b>EXPENDITURES</b>				
Administration and management	548,000	548,000	479,981	(68,019)
Intergovernmental services	8,368,689	9,027,919	6,605,201	(2,422,718)
Capital program expenditures	30,164,910	77,538,208	24,646,433	(52,891,775)
<b>Total Expenditures</b>	<b>39,081,599</b>	<b>87,114,127</b>	<b>31,731,615</b>	<b>(55,382,512)</b>
Excess of revenues over expenditures			5,567,759	
Adjustment from budgetary basis to GAAP basis			52,075	
Excess of revenues over expenditures			5,619,834	
<b>FUND BALANCES, BEGINNING OF THE YEAR</b>			<b>49,007,293</b>	
<b>FUND BALANCES, END OF THE YEAR</b>			<b>\$ 54,627,127</b>	

Element of adjustment from budgetary basis to GAAP basis:

Recognition of unrealized investment gain	72,118
Less: Investment expenses	<u>(20,043)</u>
Adjustment from budgetary basis to GAAP basis	<u><u>52,075</u></u>



## **ABOUT THE STATE AUDITOR'S OFFICE**

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The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

Our mission is to work with our audit clients and citizens as an advocate for government accountability. As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

The State Auditor's Office employees are located around the state to deliver services effectively and efficiently.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments and fraud, whistleblower and citizen hotline investigations.

The results of our work are widely distributed through a variety of reports, which are available on our Web site and through our free, electronic subscription service.

We take our role as partners in accountability seriously. We provide training and technical assistance to governments and have an extensive quality assurance program.

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**Chief of Staff**  
**Director of Performance and State Audit**  
**Director of Local Audit**  
**Deputy Director of State Audit**  
**Deputy Director of Local Audit**  
**Deputy Director of Local Audit**  
**Deputy Director of Quality Assurance**  
**Deputy Director of Communications**  
**Local Government Liaison**  
**Public Records Officer**  
**Main number**  
**Toll-free Citizen Hotline**

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**Doug Cochran**  
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