

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

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**King County Flood Control Zone District**

Audit Period  
January 1, 2010 through December 31, 2010

Report No. 1007235

Issue Date  
February 21, 2012



WASHINGTON  
**BRIAN SONNTAG**  
STATE AUDITOR



**Washington State Auditor  
Brian Sonntag**

February 21, 2012

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,

A handwritten signature in black ink, appearing to read "Brian Sonntag".

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

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January 1, 2010 through December 31, 2010**

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# Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters in Accordance with *Government Auditing Standards*

## King County Flood Control Zone District January 1, 2010 through December 31, 2010

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

We have audited 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, 2010, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 30, 2012.

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.

### **INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

## **COMPLIANCE AND OTHER MATTERS**

As part of obtaining reasonable assurance about whether the District's financial statements are free of 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*.

This report is intended for the information and use of management, the Board of Supervisors and the King County Council. 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.

A handwritten signature in black ink, appearing to read "Brian Sonntag". The signature is fluid and cursive, with the first name "Brian" and last name "Sonntag" clearly distinguishable.

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

January 30, 2012

# Independent Auditor's Report on Financial Statements

## King County Flood Control Zone District January 1, 2010 through December 31, 2010

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

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, 2010, which collectively comprise the District's basic financial statements as listed on page 5. These financial statements are the responsibility of the District's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the King County Flood Control Zone District, as of December 31, 2010, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 5 through 10 and the budgetary comparison information on page 24 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management

regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink, appearing to read "Brian Sonntag". The signature is fluid and cursive, with the first name "Brian" and last name "Sonntag" clearly distinguishable.

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

January 30, 2012

# Financial Section

## King County Flood Control Zone District

January 1, 2010 through December 31, 2010

### ***REQUIRED SUPPLEMENTAL INFORMATION***

Management's Discussion and Analysis – 2010

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

Statement of Net Assets – 2010

Statement of Activities – 2010

Balance Sheet – Governmental Fund – 2010

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental  
Fund – 2010

Notes to Financial Statements – 2010

### ***REQUIRED SUPPLEMENTAL INFORMATION***

Budgetary Comparison Schedule (Budgetary Basis) – 2010



## 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, 2010. 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, 2010, the assets of the District exceeded its liabilities by \$82.2 million (net assets). Net assets included invested in capital assets of \$42.0 million and unrestricted net assets of \$40.2 million.
- In 2010, the District's total net assets increased by \$23.3 million.
- As of December 31, 2010, the District's governmental fund reported ending balance of \$39.2 million. Approximately, 85 percent or \$33.2 million was unreserved, available for spending at the District's discretion.
- Total net assets at December 31, 2010 were \$82.2 million for government-wide financial statements and \$39.2 million for governmental fund financial statements. Reconciliation is shown on governmental fund balance sheet to account for the difference.

### Overview of the Financial Statements

The District's financial statements are prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units in the United States. The District's financial statements are presented in accordance with Governmental Accounting Standards Board (GASB) No.34. 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 assets presents all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in the District's net assets 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 assets changed during the most recent fiscal year. All changes in net assets 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, for instance revenues pertaining to uncollected taxes.

The District has only governmental activities related to flood control programs and the activities 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 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**

<i>Statement of Net Assets</i>	<b>2010</b>	<b>2009</b>
<b>ASSETS</b>		
Current and other assets	\$45,606,809	\$38,495,184
Capital assets	41,999,739	26,877,383
Total Assets	<u>87,606,548</u>	<u>65,372,567</u>
<b>LIABILITIES</b>		
Current liabilities	5,417,656	6,767,599
Total liabilities	<u>5,417,656</u>	<u>6,767,599</u>
<b>NET ASSETS</b>		
Invested in capital assets	41,999,739	26,877,383
Unrestricted	40,189,153	31,727,585
Total net assets	<u>\$82,188,892</u>	<u>\$58,604,968</u>

The Statement of Net Assets represents information of all of the District's assets, liabilities and net assets. The amount of net assets is the difference between assets and liabilities and over time may serve as a useful indicator of the District's financial position. The District net assets were \$82.2 million at the end of 2010 and 51 percent of the net assets were invested in capital assets. This was an increase of 40 percent or \$23.6 million over the net assets of the previous year. Net assets increased primarily due to an increase in capital assets. Invested in capital assets went up by \$15.1 million or 56 percent in 2010. For further information regarding the increase in capital assets see Note 5 to the financial statements. The increase in net assets in 2010 reflects the District's ability to meet current and future obligations in the course of its activities.

<i>Statement of Activities</i>	<b>2010</b>	<b>2009</b>
<b>GENERAL REVENUE</b>		
Property taxes	\$35,506,475	\$34,977,844
Interest income	325,907	489,456
Other revenues	221,250	182,842
Total Revenue	<u>36,053,632</u>	<u>35,650,142</u>
<b>EXPENSES</b>		
Flood controls	12,714,154	7,224,073
Total Expenses	<u>12,714,154</u>	<u>7,224,073</u>
Changes in Net Assets	<u>23,339,478</u>	<u>28,426,069</u>
Unadjusted Net Assets, Beginning of Year	58,604,968	30,178,899
Prior year adjustment	244,446	
Adjusted Net Assets, Beginning of Year	<u>58,849,414</u>	
Net Assets, End of Year	<u>\$82,188,892</u>	<u>\$58,604,968</u>

The District does not have program revenues from its flood control services. Approximately 98 percent of the District's total revenues came from property taxes. Expenses increased by \$5.5 million compared to the prior year mainly due to more funds distributed to other jurisdictions for flood projects. The change in the District's total net assets resulted from revenues exceeding expenses, and shows the District's ability to meet its ongoing obligations. Net assets increased by \$23.3 million in 2010 compared to an increase of \$28.4 million in 2009, due to higher expenses in 2010. The overall financial position of the District has improved in 2010.

### **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 unreserved 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><b>Balance Sheet</b></i>	<b>2010</b>	<b>2009</b>
<b>Total Assets</b>	\$45,606,809	\$38,495,184
<b>Total Liabilities</b>	6,377,024	7,668,948
<b>Fund Balances</b>		
Reserved	6,009,629	4,000,000
Unreserved	33,220,156	26,826,236
Total Fund Balances	<u>\$39,229,785</u>	<u>\$30,826,236</u>

As of December 31, 2010, the District's governmental fund reported ending fund balances of \$39.2 million, of which \$6 million was reserved. The reserved fund balance includes a \$4 million advance to the King County Water and Land Resources Division for the District's operating and capital expenditures, and \$2 million was reserved for self insured retention. For more information regarding these items, see Notes 6 and 7 to the District's financial statements. The remainder, \$33.2 million, is available for spending in future years at the District's discretion. The total fund balances increased by \$8.4 million, due to current year's excess of revenues over expenditures of \$8.2 million and a prior year adjustment, which is described in Note 8 to the District's financial statements.

<i><b>Statement of Revenues, Expenditures, and Changes in Fund Balances</b></i>	<b>2010</b>	<b>2009</b>
<b>Total Revenues</b>	\$35,995,613	\$35,374,015
<b>Total Expenditures</b>	27,836,510	22,845,942
<b>Changes in Fund Balances</b>	<u>\$8,159,103</u>	<u>\$12,528,073</u>

Overall governmental fund revenues totaled \$35.9 million for 2010, which represents an increase of 2 percent, or \$0.6 million, over the year ended December 31, 2009. The increase was primarily due to the increase in property tax levied in 2010. Total expenditures increased 22 percent or \$5.0 million from the previous year, primarily due to the increased spending in capital projects. Total revenues exceeded expenditures by \$8.2 million in 2010 compared to \$12.5 million for the year of 2009.

**Budget Variances in the General Fund**

Differences between the original budget and the final amended budget resulted from revisions to capital projects and carryovers from prior years. In addition, the District approved an increase in its administrative costs for working to maintain its ability to levy tax.

The difference between actual and budgeted property taxes revenue was attributable to accounting basis. Property taxes were budgeted based on approved tax levies for 2010, while property taxes reported as actual were total taxes collected in 2010. See the District’s accounting policies in Note 1 to the financial statements. Actual expenditures were less than budget estimates by \$46.0 million primarily because the 2010 budgeted expenditures included \$38 million for carryovers from prior years which were not expended in 2010.

**Capital Assets**

The District’s capital assets, net of accumulated depreciation, amounted to \$42.0 million as of December 31, 2010. This is an increase of \$15.1 million or 56 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 12/31/2010</b>	<b>Balance 12/31/2009</b>
Land	\$17,508,667	\$10,409,137
Construction in progress	19,317,354	16,468,246
Levees and facilities	5,293,890	-
Machinery and equipment	18,476	-
Less: accumulated depreciation	(138,648)	-
<b>Total Capital Assets, Net</b>	<u>\$41,999,739</u>	<u>\$26,877,383</u>

**Economic Factors and Next Year’s Budget**

The District adopts its budget on an annual basis. The budget is based on the District’s goals and its operating and capital programs. The 2011 budget is summarized below.

<b>Property Taxes</b>	\$36,070,313
District overhead and administration	473,000
Maintenance and operations	7,107,188
Construction and improvements	26,345,464
Fund balance reserve	<u>3,575,580</u>
<b>Total Expenditures and Fund Balance Reserve</b>	<u>\$37,501,232</u>

The District's Board has authorized \$36.0 million of property taxes to be levied for 2011, an increase of .08 percent over 2010. Falling property values and a state-imposed cap on combined property taxes that local governments can collect had put the District in danger of losing property tax revenue. Legislation has been proposed in the House and Senate to temporarily exempt the District from the state-imposed cap on property levies.

The District's Board has also asked the District Advisory Committee to review the 2011 budget and provide recommendations for reprioritizing the 2011-2016 capital improvement plan to balance the capital budget after the impacts of levy suppression are known. The Board directed that the District may not spend more than \$10 million from the capital budget for 2011 until the Advisory Committee reports its recommendations for revision to the capital budget in the first quarter of 2011.

In 2011 budget, the District has set aside \$3.6 million of fund balance as a reserve for self insured retention.

### **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 ASSETS  
DECEMBER 31, 2010**

	Primary Government	
	Governmental Activities	Total
<b>ASSETS</b>		
Cash and cash equivalents	\$ 40,647,441	\$ 40,647,441
Taxes receivable	959,368	959,368
Cash advance	4,000,000	4,000,000
Capital assets not being depreciated		
Land	17,508,667	17,508,667
Construction in progress	19,317,354	19,317,354
Capital assets net of accumulated depreciation		
Levees and facilities	5,157,090	5,157,090
Machinery and equipment	16,628	16,628
<b>TOTAL ASSETS</b>	<b>\$ 87,606,548</b>	<b>\$ 87,606,548</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable	\$ 5,417,656	\$ 5,417,656
Total liabilities	5,417,656	5,417,656
<b>NET ASSETS</b>		
Invested in capital assets	41,999,739	41,999,739
Unrestricted	40,189,153	40,189,153
Total net assets	82,188,892	82,188,892
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 87,606,548</b>	<b>\$ 87,606,548</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, 2010**

	Program Revenues			Net Governmental Activities
	Expenses	Charges for Services	Operating Grants and Contributions	
<b>PRIMARY GOVERNMENT</b>				
Flood Controls	\$(12,714,154)			\$ (12,714,154)
Total primary government	\$(12,714,154)			(12,714,154)
<b>GENERAL REVENUES</b>				
Taxes:				
Property taxes				35,506,475
Leasehold excise taxes				224,441
Other revenues				28,138
Investment earnings				325,907
Unrealized investment (loss)				(31,329)
Total general revenues				36,053,632
<b>CHANGE IN NET ASSETS</b>				23,339,478
<b>UNADJUSTED NET ASSETS, BEGINNING OF THE YEAR</b>				58,604,968
Prior year adjustment				244,446
<b>ADJUSTED NET ASSETS, BEGINNING OF THE YEAR</b>				58,849,414
<b>NET ASSETS, END OF THE YEAR</b>				\$ 82,188,892

See notes to financial statements



**KING COUNTY FLOOD CONTROL ZONE DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUND  
DECEMBER 31, 2010**

	General	Total Governmental Funds
<b>ASSETS</b>		
Cash and cash equivalents	\$ 40,647,441	\$ 40,647,441
Taxes receivable	959,368	959,368
Cash advance	4,000,000	4,000,000
<b>TOTAL ASSETS</b>	<b>\$ 45,606,809</b>	<b>\$ 45,606,809</b>
<b>LIABILITIES AND FUND BALANCES</b>		
<b>LIABILITIES</b>		
Accounts payable	\$ 5,417,656	\$ 5,417,656
Deferred revenue	959,368	959,368
Total liabilities	6,377,024	6,377,024
<b>FUND BALANCES</b>		
Reserved	6,009,629	6,009,629
Unreserved	33,220,156	33,220,156
Total fund balances	39,229,785	39,229,785
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 45,606,809</b>	<b>\$ 45,606,809</b>
Total fund balances - governmental fund		39,229,785
Amounts reported for governmental activities in the statement of net assets (page 7) are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental fund		41,999,739
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 assets, regardless of the timing of cash flows		959,368
<b>TOTAL NET ASSETS OF GOVERNMENTAL ACTIVITIES</b>		<b>\$ 82,188,892</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, 2010**

	General	Total Governmental Funds
<b>REVENUES</b>		
Property taxes	\$ 35,448,456	\$ 35,448,456
Leasehold excise taxes	224,441	224,441
Other revenues	28,138	28,138
Investment earnings	325,907	325,907
Unrealized investment (loss)	(31,329)	(31,329)
<b>Total revenues</b>	<b>35,995,613</b>	<b>35,995,613</b>
<b>EXPENDITURES</b>		
Current operating:		
Professional fees	503,878	503,878
Leased labor and services	5,674,675	5,674,675
Other operating expenses	16,807	16,807
Investment expenses	13,086	13,086
Capital projects expenditures	21,628,064	21,628,064
<b>Total expenditures</b>	<b>27,836,510</b>	<b>27,836,510</b>
<b>CHANGE IN FUND BALANCES</b>	<b>8,159,103</b>	<b>8,159,103</b>
<b>UNADJUSTED FUNB BALANCES, BEGINNING OF THE YEAR</b>		<b>30,826,236</b>
Prior year adjustment		244,446
<b>ADJUSTED FUND BALANCES, BEGINNING OF THE YEAR</b>		<b>31,070,682</b>
<b>FUND BALANCES, END OF THE YEAR</b>		<b>39,229,785</b>
Change in fund balances - governmental fund		8,159,103
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 assets. This is amount capitalized in the current year, net of accumulated depreciation.		15,105,728
Governmental fund reported capital purchases as current operating expenditures. However, certain operating expenditures were capitalized as capital assets in the statement of net assets. This is amount capitalized, net of accumulated depreciation in the current year.		16,628
Property taxes levied but not collected reported as deferred revenue in governmental fund. However, they were recognized as revenue in the statement of activities. This is amount recognized in the statement of activities in the current year.		58,019
<b>TOTAL CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES</b>		<b>\$ 23,339,478</b>

See notes to financial statements

**KING COUNTY FLOOD CONTROL ZONE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010**

**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. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*.

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 assets and a statement of activities. The District reports its governmental activities, which normally are supported by 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

**KING COUNTY FLOOD CONTROL ZONE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010**

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 does not generate program revenues from its flood control activities. 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, the only fund the District has. 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 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 other similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

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. Property tax revenue is the lone exception for which GASB requires collectibility within 60 days of the end of the current year to be deemed available. The District considers other revenues as available if they are collected within 60 days after year-end. Expenditures are generally recorded when a liability is incurred, as under accrual accounting.

**Budget**

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

Each year thereafter, the remaining unexpended portion of each project is budgeted again in the following year.

**KING COUNTY FLOOD CONTROL ZONE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
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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 the Board.

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

**Cash and Cash Equivalents**

Cash and cash equivalents consist of pooled investments. The District participates in the King County Investment Pool (the Pool) maintained by the King County Treasury Operation Section. The District's cash balances not required for immediate expenditures are invested in the Pool. 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.

**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, 2010.

**Cash Advance**

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

**Capital Assets**

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

**KING COUNTY FLOOD CONTROL ZONE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010**

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

**Net Assets**

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

*Invested in capital assets* – This component of net assets 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, 2010, the District had \$41,999,739 of invested in capital assets and no related debt.

*Restricted* – This component of net assets 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 assets as of December 31, 2010.

*Unrestricted* – This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt". The District had unrestricted net assets of \$40,189,153 as of December 31, 2010.

**Fund Reserves and Designations**

In the governmental fund financial statements, the reserved fund balance represents amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. As of December 31, 2010, the District had a \$4 million reserve for advance payment of reimbursable operating and capital expenditures and a \$2 million reserve for self insured retention.

**KING COUNTY FLOOD CONTROL ZONE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010**

**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 - CASH AND CASH EQUIVALENTS**

In accordance with state investment laws, the District has entered into an inter-local agreement with the District's *ex officio* treasurer, King County Treasurer to invest all of its funds not required for immediate expenditure 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, expenses and changes in net assets at year-end in accordance with accounting standards. As of December 31, 2010, the District had pooled investments of \$40,526,277 at cost and \$40,641,877 at fair value.

Impaired Investments – As of December 31, 2010, 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; and the residual investments in four commercial paper assets that were part of completed enforcement events, where the Impaired Pool accepted the cash out option. The District's share of the impaired investment pool principal was \$10,168 and the fair value of these investments was \$5,564.

*Interest Rate Risk* is the risk that changes in interest rates will adversely affect the fair value of an investment. As of December 31, 2010, the Pool's average

**KING COUNTY FLOOD CONTROL ZONE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010**

duration was 0.71 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, 2010, 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 is authorized to invest 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 30 of each year, but if the amount due from a taxpayer exceeds fifty dollars, one-half may be paid then and the balance no later than October 31 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. \$35,608,887 was levied for 2010 and \$35,550,868 was collected during 2010, including delinquent taxes from previous years. The District had taxes receivable of \$959,368 as of December 31, 2010.



**KING COUNTY FLOOD CONTROL ZONE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010**

**NOTE 5 - CAPITAL ASSETS**

Capital assets activities for the year ended December 31, 2010 were as follows:

<b>Governmental Activities</b>	<b>Balance 12/31/2009</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance 12/31/2010</b>
<b>Capital assets, not being depreciated:</b>				
Land	\$10,409,137	\$7,099,530	-	\$17,508,667
Construction in progress	16,468,246	8,142,998	(\$5,293,890)	19,317,354
<b>Total capital assets, not being depreciated</b>	<b>26,877,383</b>	<b>15,242,528</b>	<b>(5,293,890)</b>	<b>36,826,021</b>
<b>Capital assets, being depreciated:</b>				
Levees and facilities	-	5,293,890	-	5,293,890
Machinery and equipment	-	18,476	-	18,476
<b>Total capital assets, being depreciated</b>	<b>-</b>	<b>5,312,366</b>	<b>-</b>	<b>5,312,366</b>
<b>Less accumulated depreciation for:</b>				
Levees and facilities	-	(136,800)	-	(136,800)
Machinery and equipment	-	( 1,848)	-	(1,848)
<b>Total accumulated depreciation</b>	<b>-</b>	<b>(138,648)</b>	<b>-</b>	<b>(138,648)</b>
<b>Total capital assets, being depreciated, net</b>	<b>-</b>	<b>5,173,718</b>	<b>-</b>	<b>5,173,718</b>
<b>Total capital assets, net</b>	<b>\$26,877,383</b>	<b>\$20,416,246</b>	<b>\$(5,293,890)</b>	<b>\$41,999,739</b>

Land is acquired in the name of the King County in accordance with the Inter-local Agreement. As of December 31, 2010, the District reported a total amount of \$17,508,667 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, 2010, transfers have not been taken place. In addition, the District had flood control construction in progress totaling \$19,317,354. 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 2010, \$5,293,890 was transferred from work in progress to levees as the projects were fully completed. Total depreciation expense of \$138,647 was charged to the flood control function of the District in 2010.

**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 Risk Management Office in order to reduce the exposure from liability and accidental loss of property and human resources.

**KING COUNTY FLOOD CONTROL ZONE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010**

The costs of insurance procured by the Risk Management Office are reimbursed by the District. Insurance claims handled through the King County self-insured fund are billed to the District, as are payments to insurance carriers. Claim payments made, up to the deductible limit, are expensed by the District when paid by the Risk Management Office.

The District has \$100 million in excess liability insurance coverage through the County liability insurance program. The policy covers the District, its board members, employees and staff for liabilities up to \$97.5 million in limits subject to a \$3.5 million self insured retention. The District's Board has approved a reserve of \$3.6 million in the 2011 budget.

There were no claims against the District as of December 31, 2010.

**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 \$27,302,739 to the District during 2010, and \$5,321,896 was due to the County as of December 31, 2010. The District has advanced \$4,000,000 to the County for prepayment of reimbursable costs. The net outstanding payable to the County was \$1,321,896.

**NOTE 8 - PRIOR YEAR ADJUSTMENT**

King County used an incorrect cost burden rate in calculating overhead costs to the District in 2008 and 2009. As a result, the County overcharged the District \$244,446 through 2009. The error was identified in 2010 and the overcharged amount was paid back to the District. Beginning balances of net assets and fund balances in the government-wide and governmental fund financial statements were adjusted to reflect the correction.

**NOTE 9 - SUBSEQUENT EVENT**

Property tax revenue is a primary revenue resource for the District, approximately 98 percent of the District's total revenues. Falling property values and a state-imposed cap on combined property taxes that local governments can collect had put the District in danger of losing property tax revenue. Legislation has been proposed in the House and Senate to temporarily exempt the District from the state-imposed cap on property tax levies. Under the proposed legislation, the District would still be subject to a constitutional limit of property taxes of 1 percent or \$10 per \$1,000 of assessed value.

**KING COUNTY FLOOD CONTROL ZONE DISTRICT  
BUDGETARY COMPARISON SCHEDULE (BUDGETARY BASIS)  
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Original Budget	Final Budget	Actual	Variance
<b>REVENUES</b>				
Property taxes	35,718,954	35,718,954	\$ 35,448,456	\$ (270,498)
Leasehold excise taxes	-	-	224,441	224,441
Other revenues	-	-	28,138	28,138
Investment earnings, net of investment expenses	212,544	212,544	312,821	100,277
<b>Total revenues</b>	<b>35,931,498</b>	<b>35,931,498</b>	<b>36,013,856</b>	<b>82,358</b>
<b>EXPENDITURES</b>				
Current operating:				
Professional fees and other expenses	463,500	606,477	520,685	(85,792)
Leased labor and services	6,414,163	7,153,872	5,674,675	(1,479,197)
Capital project expenditures	29,088,137	66,084,504	21,628,064	(44,456,440)
<b>Total expenditures</b>	<b>35,965,800</b>	<b>73,844,853</b>	<b>27,823,424</b>	<b>(46,021,429)</b>
Excess of revenues over expenditures (budgetary basis)			8,190,432	
Adjustment from budgetary basis to GAAP basis				(31,329)
Excess of revenues over expenditures			8,159,103	
UNADJUSTED FUND BALANCES, BEGINNING OF THE YEAR			30,826,236	
Prior year adjustment			244,446	
<b>ADJUSTED FUND BALANCES, BEGINNING OF THE YEAR</b>			<b>31,070,682</b>	
<b>FUND BALANCES, END OF THE YEAR</b>			<b>\$ 39,229,785</b>	
Element of adjustment from budgetary basis to GAAP basis:				
Recognition of unrealized (loss) on investment pool on a GAAP basis				(31,329)
Adjustment from budgetary basis to GAAP basis				<u>\$ (31,329)</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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**Deputy Chief of Staff**  
**Chief Policy Advisor**  
**Director of Audit**  
**Director of Performance Audit**  
**Director of Special Investigations**  
**Director for Legal Affairs**  
**Director of Quality Assurance**  
**Local Government Liaison**  
**Communications Director**  
**Public Records Officer**  
**Main number**  
**Toll-free Citizen Hotline**

**Brian Sonntag, CGFM**  
**Ted Rutt**  
**Doug Cochran**  
**Jerry Pugnetti**  
**Chuck Pfeil, CPA**  
**Larisa Benson**  
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