

PRELIMINARY OFFICIAL STATEMENT DATED FEBRUARY 4, 2011

SALE DATE: FEBRUARY 14, 2011
SALE TIME: 9:00 A.M., PACIFIC TIME

RATINGS (APPLIED FOR):
Moody's:
Fitch:
Standard & Poor's:

New Issue
Book-Entry Only

(See "Other Note Information—Ratings.")

In the opinion of Bond Counsel, under existing federal law and assuming compliance with applicable requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issue date of the Notes, interest on the Notes is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals. However, while interest on the Notes also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, interest on the Notes received by corporations is taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations, interest on the Notes received by certain S corporations may be subject to tax, and interest on the Notes received by foreign corporations with United States branches may be subject to a foreign branch profits tax. Receipt of interest on the Notes may have other federal tax consequences for certain taxpayers. See "Legal and Tax Information—Tax Exemption" and "—Certain Other Federal Tax Consequences."

\$40,000,000

KING COUNTY, WASHINGTON

LIMITED TAX GENERAL OBLIGATION BOND ANTICIPATION NOTES, 2011, SERIES A

Dated: Date of Initial Delivery

Due: March 1, 2012

The King County, Washington, Limited Tax General Obligation Bond Anticipation Notes, 2011, Series A (the "Notes"), are issuable only as fully registered obligations and, when issued, will be registered in the name of Cede & Co., as Note owner and nominee for The Depository Trust Company, New York, New York ("DTC"). DTC will act as initial securities depository for the Notes. The Notes will be issued initially in book-entry form only in denominations of \$5,000 or any integral multiple thereof. Purchasers will not receive certificates representing their interest in the Notes purchased. The Notes bear interest payable at maturity, and the principal of and interest on the Notes are payable by the fiscal agent of the State of Washington, currently The Bank of New York Mellon in New York, New York (the "Registrar"). For so long as the Notes remain in a "book-entry only" transfer system, the Registrar will make such payments only to DTC, which, in turn, is obligated to remit such principal and interest to the DTC Participants for subsequent disbursement to Beneficial Owners of the Notes as described herein under Appendix E—Book-Entry System.

The Notes are being issued to provide a portion of the interim financing for the County's Capital Improvement Program for Solid Waste Facilities and the Solid Waste Transfer and Waste Management Plan and to pay the costs of issuing the Notes.

The Notes are not subject to redemption prior to maturity.

\$40,000,000 _____ % Notes due March 1, 2012, to yield _____ %, CUSIP _____

The Notes are general obligations of King County, Washington (the "County"). The County has irrevocably covenanted that, for as long as the Notes are outstanding and unpaid, it will include in its budget and levy an *ad valorem* tax within the constitutional and statutory tax limitations provided by law without a vote of the people upon all property within the County subject to taxation in an amount that will be sufficient, together with all other revenues, taxes and money of the County legally available for such purposes, to pay the principal of and interest on the Notes as they become due. The County has irrevocably pledged its full faith, credit and resources for the annual levy and collection of such taxes and for the prompt payment of the principal of and interest on the Notes as they become due.

The Notes are offered when, as and if issued, subject to approval of legality by Foster Pepper PLLC, Seattle, Washington, Bond Counsel, and certain other conditions. The form of Bond Counsel's opinion is attached hereto as Appendix A. It is anticipated that the Notes will be ready for delivery through the facilities of DTC in New York, New York, or to the Registrar on behalf of DTC by Fast Automated Securities Transfer, on or about March 2, 2011.

This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

Dated: _____

This is a Preliminary Official Statement, subject to correction and change. The County has authorized the distribution of the Preliminary Official Statement to prospective purchasers and others. Upon the sale of the Notes, the County will complete and deliver an Official Statement substantially in this form.

No dealer, broker, sales representative, or other person has been authorized by the County to give any information or to make any representations with respect to the Notes other than those contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by the County. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor will there be any sale of the Notes by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

The information set forth herein has been obtained by the County from County records and from other sources that the County believes to be reliable, but the County does not guarantee the accuracy or completeness of such information. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of the Official Statement nor any sale of the Notes, under any circumstances, create any implication that there has been no change in the affairs of the County since the date hereof.

The County makes no representation regarding the accuracy or completeness of the information provided in Appendix E—Book-Entry System, which has been furnished by DTC.

This Official Statement is not to be construed as a contract or agreement between the County and purchasers or owners of any of the Notes.

Certain statements contained in this Official Statement, including the appendices, reflect not historical facts but forecasts and “forward-looking statements.” No assurance can be given that the future results discussed herein will be achieved, and actual results may differ materially from the forecasts described herein. In this respect, the words “estimate,” “project,” “anticipate,” “expect,” “intend,” “believe,” and similar expressions are intended to identify forward-looking statements. All projections, forecasts, assumptions, and other forward-looking statements are expressly qualified in their entirety by the cautionary statements set forth in this Official Statement.

This Preliminary Official Statement, as of its date, is in a form “deemed final” by the County for purposes of paragraph (b)(1) of Securities and Exchange Commission Rule 15c2-12, except for the omission of offering price, interest rate, selling compensation, principal amount, delivery date, and other terms of the Notes dependent on the foregoing matters.

**KING COUNTY, WASHINGTON
500 FOURTH AVENUE
SEATTLE, WASHINGTON 98104**

KING COUNTY EXECUTIVE

Dow Constantine

METROPOLITAN KING COUNTY COUNCIL

Larry Gossett	Chair
Jane Hague	Vice Chair
Reagan Dunn	Councilmember
Bob Ferguson	Councilmember
Kathy Lambert	Councilmember
Joe McDermott	Councilmember
Julia Patterson	Councilmember
Larry Phillips	Councilmember
Pete von Reichbauer	Councilmember

OTHER ELECTED OFFICIALS

Dan Satterberg	Prosecuting Attorney
Lloyd Hara	Assessor
Sue Rahr	Sheriff
Sherril Huff	Director of Elections

DIRECTOR OF FINANCE AND BUSINESS OPERATIONS DIVISION

Ken Guy

CLERK OF THE COUNCIL

Anne Noris

BOND COUNSEL

Foster Pepper PLLC
Seattle, Washington

FINANCIAL ADVISOR TO THE COUNTY

Seattle-Northwest Securities Corporation
Seattle, Washington

REGISTRAR

The Bank of New York Mellon
New York, New York

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OFFICIAL NOTICE OF SALE

\$40,000,000

KING COUNTY, WASHINGTON

LIMITED TAX GENERAL OBLIGATION BOND ANTICIPATION NOTES, 2011, SERIES A

Electronic bids for the Limited Tax General Obligation Bond Anticipation Notes, 2011, Series A (the "Notes"), of King County, Washington (the "County"), will be received via BiDCOMP/PARITY ("Parity") in the manner described below on

FEBRUARY 14, 2011, AT 9:00 A.M., PACIFIC TIME,

or at such later date or time as may be established by the King County Finance Director (the "Finance Director") and communicated through TM3, the Bond Buyer Wire or the Bloomberg News Network not less than 18 hours prior to the time bids are to be received for the purchase of the Notes. All bids received with respect to the Notes will be considered by the Metropolitan King County Council (the "County Council") at its regularly scheduled meeting on the day bids are received. If the County accepts a bid for the Notes, it will be awarded to the successful bidder and its terms will be approved by the County Council at such meeting.

The Notes will be sold on an all-or-none basis. Bids for the Notes must be submitted electronically via Parity in accordance with its Rules of Participation and this notice, and no bid will be received after the time for receiving bids specified above. For further information about Parity, potential bidders may contact Parity at (212) 849-5021.

By submitting an electronic bid for the Notes, each bidder hereby agrees to the following terms and conditions:

- (i) If any provision in this Official Notice of Sale conflicts with information or terms provided or required by Parity, this Official Notice of Sale, including any amendments issued by public wire, will control.
- (ii) Bids may only be submitted via Parity. The bidder is solely responsible for making necessary arrangements to access Parity for purposes of submitting a bid timely and in compliance with the requirements of this Official Notice of Sale.
- (iii) The County has no duty or obligation to provide or assure access to Parity, and will not be responsible for the proper operation of, or have any liability for, any delays or interruptions of, or any damages caused by, use of Parity.
- (iv) The County is using Parity as a communication mechanism, and not as an agent of the County.
- (v) Upon acceptance of a bid by the County, this Official Notice of Sale and the information that is electronically transmitted through Parity will form a contract between the bidder and the County.

If all bids for the Notes are rejected, the Finance Director may fix a new date and time for the receipt of bids for the Notes by giving notice communicated through TM3, the Bond Buyer Wire or the Bloomberg News Network not less than 18 hours prior to such new date and time. Any notice specifying a new date and/or time for the receipt of bids, following the rejection of bids received or otherwise, will be considered an amendment to this Official Notice of Sale.

A copy of the County's Preliminary Official Statement (with this Official Notice of Sale), dated February 4, 2011, and further information regarding the details of the Notes may be obtained from i-Deal Prospectus, a service of i-Deal LLC, at www.i-dealprospectus.com, or upon request to the King County Finance and Business Operations Division (the "Finance Division") or the County's financial advisor. See "Contact Information."

Contact Information

Finance Division	Nigel Lewis King County (206) 296-1168 <i>nigel.lewis@kingcounty.gov</i>
Financial Advisor	Rob Shelley Seattle-Northwest Securities Corporation Office (206) 628-2879; Day of Sale (206) 601-2249 <i>rshelley@snwsc.com</i>
Bond Counsel	Hugh Spitzer Foster Pepper PLLC (206) 447-8965 <i>spith@foster.com</i>

Description of the Notes

The Notes will be dated the date of their initial delivery. Interest on the Notes will be payable only at maturity. The Notes are not subject to redemption prior to maturity.

The Notes are issuable only as fully registered notes and when issued will be registered in the name of Cede & Co. as Note owner and nominee for DTC. DTC will act as securities depository for the Notes. Purchases of the Notes will be made in book-entry form, in the denomination of \$5,000 or any integral multiple thereof. Purchasers will not receive certificates representing their interest in the Notes purchased. The principal of and interest on the Notes are payable by the fiscal agency for the State of Washington, currently The Bank of New York Mellon in New York, New York (the "Registrar"), to DTC, which in turn is obligated to remit such principal and interest to the DTC participants for subsequent disbursement to beneficial owners of the Notes.

Security

The Notes are general obligations of the County. The County has irrevocably covenanted that, for as long as any of the Notes are outstanding and unpaid, it will include in its budget and levy an *ad valorem* tax within the constitutional and statutory tax limitations provided by law without a vote of the people upon all property within the County subject to taxation in an amount that will be sufficient, together with bond proceeds and all other revenues, taxes and money of the County legally available for such purposes, to pay the principal of and interest on the Notes as they become due. The County has irrevocably pledged its full faith, credit and resources for the annual levy and collection of such taxes and the prompt payment of the principal and interest on the Notes as they become due.

The County always has met principal and interest payments on outstanding bonds and notes when due.

Bidding Information

Bidders are invited to submit bids for the purchase of the Notes fixing the interest rate that the Notes will bear. The interest rate bid must be in a multiple of 1/8 or 1/20 of 1%. Bids will be without condition and may only be submitted electronically via Parity.

No bid will be considered for the Notes that is less than an amount equal to 100% of the par value of the Notes nor more than an amount equal to 104.5% of the par value of the Notes, or for less than the entire offering of the Notes.

Bidders are requested to provide a list of any syndicate members with their bids or within 24 hours of submitting their bids. The County strongly encourages the inclusion of women and minority business enterprise firms in bidding syndicates.

Good Faith Deposit

The successful bidder for the Notes is required to deliver a good faith deposit in the amount of \$400,000 by federal funds wire transfer to the Treasury Section of the King County Finance Division by no later than 90 minutes following the successful bidder's receipt of the verbal award. Wiring instructions will be provided to the successful bidder at the time of the verbal award.

The good faith deposit of the successful bidder for the Notes will be retained by the County as security for the performance of such bid, and will be applied to the purchase price of the Notes on the delivery of the Notes to the successful bidder. Pending delivery of the Notes, the good faith deposit for the Notes may be invested for the sole benefit of the County.

If the Notes are ready for delivery and the successful bidder fails to complete the purchase of the Notes within 30 days following the acceptance of its bid, the good faith deposit will be forfeited to the County, and, in that event, the County Council may accept the next best bid or call for additional proposals.

Insurance

Bids for the Notes will not be conditioned upon obtaining insurance or any other credit enhancement. If the Notes qualify for issuance of any policy of municipal bond insurance or commitment therefor at the option of a bidder, any purchase of such insurance or commitment therefor will be at the sole option and expense of the bidder and any increased costs of issuance of the Notes resulting by reason of such insurance, unless otherwise paid, will be paid by such bidder. Any failure of the Notes to be so insured or of any such policy of insurance to be issued will not in any way relieve the purchaser of its contractual obligations arising from the acceptance of its proposal for the purchase of the Notes.

Award

The Notes will be sold to the bidder making a bid for the Notes that conforms to the terms of the offering and that, on the basis of the lowest net interest cost, is the best bid. For the purpose of comparing bids only, each bid must state the net interest cost of the bid determined in the manner hereinafter stated. The net interest cost will be equal to the total interest cost plus any premium and minus any discount, divided by the bond year dollars.

If there are two or more equal bids for the Notes and those bids are the best bids received, the Finance Director will determine by lot which bid will be presented to the County Council for its consideration. The County reserves the right to reject any or all bids submitted and to waive any formality in the bidding or bidding process. If all bids for an offering are rejected, the Notes may be readvertised for sale in the manner provided by law and as provided above.

Issue Price Information

Upon award of the Notes, the successful bidder for the Notes will advise the County and Bond Counsel of the initial reoffering price to the public of the Notes (the "Initial Reoffering Price"). Simultaneously with or before delivery of the Notes, the successful bidder for the Notes is required to furnish to the County and Bond Counsel a certificate in form and substance acceptable to Bond Counsel:

- (i) confirming the Initial Reoffering Price;
- (ii) certifying that a *bona fide* offering of the Notes has been made to the public (excluding bond houses, brokers and other intermediaries);
- (iii) stating the prices at which a substantial amount (at least 10%) of the Notes was sold to the public (excluding bond houses, brokers and other intermediaries);
- (iv) stating the price at which any portion of the Notes that remains unsold at the date of closing would have been sold on the date the Notes were awarded; and
- (v) stating the offering price of each portion of the Notes sold to institutional or other investors at discount.

Delivery

The County will deliver the Notes (consisting of one certificate) to DTC in New York, New York, or to the Registrar on behalf of DTC by Fast Automated Securities Transfer, prior to the date of closing. Closing will occur within 30 days after the sale date. Settlement will be in federal funds available in Seattle, Washington, on the date of delivery. Delivery is expected to be March 2, 2011.

If, prior to the delivery of the Notes, the interest receivable by the owners of the Notes becomes includable in gross income for federal income tax purposes, or becomes subject to federal income tax other than as described in this Preliminary Official Statement, the successful bidder for the Notes, at its option, may be relieved of its obligation to purchase the Notes, and in that case the good faith deposit accompanying its bid will be returned without interest.

The approving legal opinion of Foster Pepper PLLC, Seattle, Washington, Bond Counsel, will be provided to the purchaser at the time of the delivery of the Notes. Bond Counsel's opinion will express no opinion concerning the accuracy, completeness or sufficiency of this Preliminary Official Statement or other offering material relating to the Notes, nor will there be an opinion of Bond Counsel relating to the undertaking of the County to provide ongoing disclosure pursuant to Securities and Exchange Commission ("SEC") Rule 15c2-12 (the "Rule"). A no-litigation certificate will be included in the closing papers of the Notes.

CUSIP Number

It is anticipated that a CUSIP identification number will be printed on the Notes, but neither the failure to print such number on the Notes nor any error with respect thereto will constitute cause for a failure or refusal by the purchaser of the Notes to accept delivery of and pay for the Notes in accordance with the terms of this Official Notice of Sale.

The successful bidder for the Notes is responsible for obtaining a CUSIP number for the Notes. The charge of the CUSIP Service Bureau will be paid by the successful bidder; however, all expenses for printing the CUSIP number on the Notes will be paid by the County.

Ongoing Disclosure Undertaking

To assist bidders in complying with paragraph (b)(5) of the Rule, the County will undertake, pursuant to the Sale Motion, to provide certain annual financial information and notices of the occurrence of certain events, if material. A description of this undertaking is set forth in this Preliminary Official Statement and will also be set forth in the final Official Statement.

Preliminary Official Statement

The Preliminary Official Statement is in a form that the County expects to deem final for the purpose of paragraph (b)(1) of the Rule, but is subject to revision, amendment and completion in a final Official Statement, which the County will deliver, at the County's expense, to each purchaser through its designated representative not later than seven business days after the County's acceptance of the purchaser's bid, in sufficient quantities to permit the successful bidder to comply with the Rule.

By submitting the successful proposal for the Notes, the purchaser's designated senior representative agrees:

- (i) to provide to the King County Finance Division, in writing, within 24 hours after the acceptance of the bid, pricing and other related information, including the Initial Reoffering Price of the Notes, necessary for completion of the final Official Statement;
- (ii) to disseminate to all members of the underwriting syndicate, if any, copies of the final Official Statement, including any amendments or supplements prepared by the County;
- (iii) to take any and all actions necessary to comply with applicable rules of the SEC and Municipal Securities Rulemaking Board ("MSRB") governing the offering, sale and delivery of the Notes to ultimate purchasers, including the delivery of a final Official Statement to each investor who purchases the Notes; and

- (iv) to file the final Official Statement or cause it to be filed with the MSRB within one business day following its receipt from the County.

Official Statement

At closing, the County will furnish a certificate of an official or officials of the County, stating that, to the best knowledge of such official(s) and relying on the opinions of Bond Counsel where appropriate, as of the date of the Official Statement and as of the date of delivery of the Notes,

- (i) the information (including financial information) regarding the County contained in the Official Statement was and is true and correct in all material respects and did not and does not contain any untrue statement of a material fact or omit any statement or information which is necessary to make the statements therein, in light of the circumstances under which they were made, not misleading (however, the County will make no representation regarding Bond Counsel's form of opinion or the information provided by DTC, The Bank of New York Mellon, or any entity providing bond insurance or other credit facility); and
- (ii) the descriptions and statements, including financial data, of or pertaining to other bodies and their activities contained in the Official Statement have been obtained from sources that the County believes to be reliable and the County has no reason to believe that they are untrue in any material respect.

DATED at Seattle, Washington, this 4th day of February, 2011.

/s/
Clerk of the Metropolitan King County Council

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PRELIMINARY OFFICIAL STATEMENT

\$40,000,000

KING COUNTY, WASHINGTON

LIMITED TAX GENERAL OBLIGATION BOND ANTICIPATION NOTES, 2011, SERIES A

INTRODUCTION

This Official Statement contains certain information concerning the issuance by King County, Washington (the “County”), of \$40,000,000 aggregate principal amount of its Limited Tax General Obligation Bond Anticipation Notes, 2011, Series A (the “Notes”). The Notes are issued under and in accordance with the provisions of chapters 36.67, 39.46 and 39.50 of the Revised Code of Washington (“RCW”) and the County Charter, and are authorized under the provisions of County Ordinance 16994 (the “Note Ordinance”) and Motion _____ of the County Council (the “Sale Motion”).

Information contained herein has been obtained from County officers, employees, records, and other sources the County believes to be reliable. This Official Statement is not to be construed as a contract or agreement between the County and the purchasers or owners of any of the Notes.

Quotations, summaries and explanations of constitutional provisions, statutes, resolutions, ordinances, and other documents in this Official Statement do not purport to be complete and are qualified by reference to the complete text of such documents, which may be obtained from the King County Finance and Business Operations Division (the “Finance Division”), 500 Fourth Avenue, Room 600, Seattle, Washington 98104. Capitalized terms that are not defined herein have the same meanings as set forth in the Note Ordinance.

THE NOTES

Description

The Notes will be dated and bear interest from the date of their initial delivery, will be fully registered as to both principal and interest, and will be in the denomination of \$5,000 or any integral multiple thereof. When issued, the Notes will be registered in the name of Cede & Co. as registered owner and nominee of The Depository Trust Company, New York, New York (“DTC”).

Interest on the Notes will be payable at maturity, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The Notes will mature on March 1, 2012.

The principal of and interest on the Notes are payable by the fiscal agent of the State of Washington (the “State”), currently The Bank of New York Mellon in New York, New York (the “Registrar”). For so long as the Notes remain in a “book-entry only” transfer system, the Registrar is required to make such payments to DTC, which, in turn, is obligated to remit such principal and interest to the DTC participants for subsequent disbursement to the Beneficial Owners of the Notes, as further described herein in Appendix E—Book-Entry System.

No Redemption

The Notes are not subject to redemption prior to maturity.

Book-Entry System

Book-Entry Notes. DTC will act as initial securities depository for the Notes. Individual purchases may be made in book-entry form only, and purchasers will not receive certificates representing their interest in the Notes purchased. The ownership of one fully registered Note in the aggregate principal amount of the Notes will be registered in the name of Cede & Co., as nominee for DTC. So long as Cede & Co. is the registered owner of the Notes, references herein to the registered owners or Note owners will mean Cede & Co. and will

not mean the Beneficial Owners of the Notes. In this Official Statement, the term “Beneficial Owner” will mean the person for whom a DTC participant acquires an interest in the Notes. Neither the County nor the Registrar has any responsibility or obligation to DTC participants or Beneficial Owners with respect to the accuracy of any records maintained by DTC or any DTC participant, the payment by DTC or any DTC participant of any amount in respect of the principal of or interest on the Notes, any notice which is permitted or required to be given to registered owners under the Note Ordinance (except such notices as are required to be given by the County to the Registrar or to DTC), or any consent given or other action taken by DTC as the registered owner. See Appendix E for additional information.

The County makes no representation as to the accuracy or completeness of information in Appendix E provided by DTC. Purchasers of the Notes should confirm its contents with DTC or its participants.

Termination of Book-Entry System. If DTC or its successor (or substitute depository or its successor) resigns from its functions as depository, and no substitute depository can be obtained, or the County determines that the Notes are to be in certificated form, the ownership of the Notes may be transferred to any person, as described in the Note Ordinance, and the Notes will no longer be held in fully immobilized form. In that event, the interest on the Notes will be paid by checks or drafts of the Registrar mailed on the interest payment date to the registered owners of the Notes at the addresses appearing on the Note register maintained by the Registrar on the 15th day of the month preceding the interest payment date, or, if requested in writing by a registered owner of \$1,000,000 or more in principal amount of the Notes prior to the applicable record date, by wire transfer on the interest payment date. Principal of the Notes will be payable at maturity upon presentation and surrender of the Notes by the owners to the Registrar.

Open Market Purchase

The County has reserved the right to purchase any or all of the Notes in the open market at any time at any price.

Defeasance of Notes

If money and/or noncallable Government Obligations (as defined in Chapter 39.53 RCW) maturing at such time or times and bearing interest in amounts sufficient to redeem and retire, refund or defease part or all of the Notes in accordance with their terms are set aside in a special trust account to effect such redemption and retirement, and such money and the principal of and interest on such Government Obligations are irrevocably set aside and pledged for such purpose, then all right and interest of the owners of the defeased Notes in the covenants of the Note Ordinance and in the funds and accounts obligated to the payment of the defeased Notes will cease and become void. The owners of the defeased Notes will have the right to receive payment of the principal of and interest on the defeased Notes from the trust account. The defeased Notes will be deemed no longer outstanding, and the County may apply any money in any other fund or account established for the payment or redemption of the defeased Notes to any lawful purpose it determines.

USE OF PROCEEDS

Purpose

The Notes are being issued to provide a portion of the interim financing for the County’s Capital Improvement Program for Solid Waste Facilities and the Solid Waste Transfer and Waste Management Plan and to pay the costs of issuing the Notes.

Sources and Uses of Funds

The proceeds from the Notes will be applied as follows:

SOURCES OF FUNDS

Par Amount of Notes	\$
Net Reoffering Premium (Discount)	_____
Total Sources of Funds	\$

USES OF FUNDS

Deposit to Project Account	\$
Costs of Issuance*	_____
Total Uses of Funds	<u>\$</u>

* Includes rating agency fees, financial advisory fees, legal fees, printing costs, and other costs of issuing the Notes.

SECURITY AND SOURCES OF PAYMENT FOR THE NOTES

The Notes are general obligations of the County.

The County has irrevocably pledged in the Note Ordinance that each year, for as long as any of the Notes are outstanding and unpaid, it will include in its budget and levy an *ad valorem* tax within the constitutional and statutory tax limitations provided by law without a vote of the electors of the County upon all property within the County subject to taxation in an amount that will be sufficient, together with all other money legally available for such purposes, to pay the principal of and interest on the Notes as they become due. The County has irrevocably pledged its full faith, credit and resources for the annual levy and collection of such taxes and for the prompt payment of the principal of and interest on the Notes as they become due.

DEBT INFORMATION

Debt Repayment Record

The County has met promptly all principal and interest payments on its outstanding bonds and notes. The County never has defaulted on a payment of principal or interest on any of its bonds and notes. Furthermore, the County never has issued refunding bonds for the purpose of avoiding an impending default.

Debt Limitation

The statutory limitation (RCW 39.36.020) on non-voted general obligation debt of counties is 1.5% of the assessed value of all taxable property within the county at the time of issuance. Voter approval is required to exceed this limit. Any election to authorize such debt must have a voter turnout of at least 40% of those who voted in the last State general election, and of those voting, 60% must vote in the affirmative. The combination of voted and non-voted general obligation debt for county purposes must not exceed 2.5% of the assessed value of all taxable property within a county at the time of issuance.

In 1994, the County assumed the rights, powers, functions, and obligations of the Municipality of Metropolitan Seattle ("Metro"), including the development and operation of a regional transit system and the regional collection and treatment of sewage. A county that has assumed a metropolitan municipality, such as the County, may issue non-voted debt for its authorized metropolitan functions in an amount up to 0.75% of the assessed value of taxable property within the metropolitan county. The statutory provisions applicable to a county that has assumed a metropolitan municipality also permit additional voted debt for its authorized metropolitan functions, up to an additional 2.5% of the assessed value of taxable property within the county.

Notwithstanding the higher aggregate statutory limitations for a county that has assumed a metropolitan municipality, the State constitution limits non-voted general obligation debt of a county to 1.5% of the assessed

value of taxable property within the county, and limits all general obligation debt of the county—voted and non-voted debt together—to 5% of the assessed value of taxable property within the county.

Debt Capacity and Debt Service Summary

The assessed value of all property in the County for the 2011 tax year is \$330,414,998,614, resulting in a voted and non-voted total general obligation debt capacity of \$8,260,374,965 (2.5%) for County purposes and an additional \$8,260,374,965 (2.5%) for metropolitan functions. The non-voted general obligation debt capacity within the County's total 2.5% limitation is \$4,956,224,979 (1.5%), of which a maximum of \$2,478,112,490 (0.75%) may be incurred for metropolitan functions.

The following table shows a computation of the County's debt capacity for voted and non-voted general obligation debt for County purposes and for metropolitan functions. The table reflects general obligation debt of the County as of December 31, 2010, adjusted for subsequent County debt issuances and the issuance of the Notes, and is followed by a table that summarizes the debt service requirements of the County.

COMPUTATION OF STATUTORY LEGAL DEBT MARGIN

2010 Assessed Value (2011 Tax Year)	\$ 330,414,998,614
Limited Tax General Obligation Debt Capacity for Metropolitan Functions	
3/4 of 1% of Assessed Value	\$ 2,478,112,490
Outstanding Limited Sales Tax General Obligation Bonds	125,965,000
Outstanding Limited Tax General Obligation Bonds for Metropolitan Functions	27,410,000
Outstanding Limited Tax General Obligation Bonds (Payable from Sewer Revenues)	830,515,000
General Obligation Long-Term Liabilities for Metropolitan Functions	66,058,804
Capital Leases/Installment Purchase Contracts for Metropolitan Functions	-
Less: Amount Legally Available for Payment of all Limited Tax General Obligation Indebtedness for Metropolitan Functions	(10,326,512)
Total Net Limited Tax General Obligation Debt for Metropolitan Functions	<u>\$ 1,039,622,292</u>
Remaining Capacity: LTGO Debt For Metropolitan Functions	<u><u>\$ 1,438,490,198</u></u>
Limited Tax General Obligation Debt Capacity for County Purposes and Metropolitan Functions	
1 1/2 % of Assessed Value	\$ 4,956,224,979
Net Limited Tax General Obligation Debt for Metropolitan Functions (from above)	1,039,622,292
Outstanding Limited Tax General Obligation Bonds for County Purposes	589,235,000
Outstanding Limited Tax General Obligation Bond Anticipation Notes for County Purposes	84,290,000
The Notes	40,000,000
General Obligation Lease Revenue Bonds for County Purposes	395,990,000
General Obligation Long-Term Liabilities for County Purposes	91,205,302
Capital Leases/Installment Purchase Contracts for County Purposes	-
Less: Amount Legally Available for Payment of All Limited Tax General Obligation Indebtedness for County Purposes	(51,463,050)
Net Limited Tax General Obligation Debt for County Purposes	<u>\$ 1,149,257,252</u>
Total Net Limited Tax General Obligation Debt for County Purposes and Metropolitan Functions	<u>\$ 2,188,879,544</u>
Remaining Capacity: LTGO Debt for County Purposes and Metropolitan Functions	<u><u>\$ 2,767,345,435</u></u>
Total General Obligation Debt Capacity for Metropolitan Functions	
2 1/2 % of Assessed Value	\$ 8,260,374,965
Outstanding Unlimited Tax General Obligation Debt for Metropolitan Functions	-
Less: Amount Legally Available for Payment of all Unlimited Tax General Obligation Indebtedness for Metropolitan Functions	-
Net Unlimited Tax General Obligation Debt for Metropolitan Functions	-
Net Limited Tax General Obligation Debt for Metropolitan Functions (from above)	<u>1,039,622,292</u>
Total Net General Obligation Debt for Metropolitan Functions	<u>1,039,622,292</u>
Remaining Capacity: General Obligation Debt for Metropolitan Functions	<u><u>\$ 7,220,752,673</u></u>
Total General Obligation Debt Capacity for County Purposes	
2 1/2 % of Assessed Value	\$ 8,260,374,965
Outstanding Unlimited Tax General Obligation Debt for County Purposes	186,495,000
Less: Amount Legally Available for Payment of all Unlimited Tax General Obligation Indebtedness for County Purposes	(10,449,586)
Net Unlimited Tax General Obligation Debt for County Purposes	<u>\$ 176,045,414</u>
Net Limited Tax General Obligation Debt for County Purposes (from above)	<u>1,149,257,252</u>
Total Net General Obligation Debt for County Purposes	<u>\$ 1,325,302,666</u>
Remaining Capacity: General Obligation Debt for County Purposes	<u><u>\$ 6,935,072,299</u></u>

Source: King County Finance and Business Operations Division—Financial Management Section

AGGREGATE DEBT SERVICE REQUIREMENTS FOR THE COUNTY PAYABLE FROM PROPERTY TAXES
(Fiscal Years Ending December 31)

Year	Unlimited Tax	Limited Tax General Obligation Bonds				GO Lease Revenue	Total LTGO
	General Obligation	General Purpose		Stadia ⁽³⁾	Metropolitan ⁽⁴⁾	Bond Payments	Debt Service
	Bonds Outstanding	Outstanding ⁽¹⁾	The Notes ⁽²⁾				
2011	\$ 24,469,800	\$142,851,183	\$ -	\$ 10,262,875	\$ 59,107,156	\$ 29,855,375	\$ 242,076,589
2012	24,075,000	55,805,098	40,800,000	26,389,810	59,091,075	29,856,856	211,942,839
2013	21,410,950	53,446,417	-	40,341,025	59,047,575	29,855,173	182,690,191
2014	20,010,456	49,948,120	-	27,141,200	64,750,088	29,854,865	171,694,272
2015	18,479,625	50,093,025	-	23,796,500	64,540,363	29,855,042	168,284,930
2016	18,352,675	47,660,888	-	5,130,600	64,524,963	29,856,563	147,173,013
2017	18,718,081	41,995,119	-	-	75,715,763	29,858,181	147,569,063
2018	19,140,931	37,496,574	-	-	75,674,538	29,853,112	143,024,223
2019	18,219,563	38,323,518	-	-	75,627,919	29,853,872	143,805,309
2020	16,777,700	38,170,297	-	-	64,347,781	29,853,605	132,371,684
2021	15,503,275	34,110,333	-	-	64,304,094	29,862,162	128,276,588
2022	15,827,100	31,381,326	-	-	64,225,769	29,859,954	125,467,049
2023	16,157,425	32,299,235	-	-	64,173,281	29,859,445	126,331,961
2024	-	28,333,406	-	-	64,113,744	29,853,009	122,300,158
2025	-	28,291,869	-	-	64,054,881	28,086,402	120,433,152
2026	-	17,826,981	-	-	63,980,506	24,683,243	106,490,730
2027	-	18,803,376	-	-	63,903,113	24,682,576	107,389,064
2028	-	14,421,638	-	-	63,827,975	24,684,881	102,934,494
2029	-	11,979,835	-	-	63,762,056	24,686,184	100,428,075
2030	-	5,408,018	-	-	63,680,691	24,685,134	93,773,843
2031	-	-	-	-	63,612,772	24,687,707	88,300,478
2032	-	-	-	-	63,566,809	20,296,376	83,863,185
2033	-	-	-	-	63,462,734	15,013,393	78,476,127
2034	-	-	-	-	55,587,147	13,236,756	68,823,903
2035	-	-	-	-	42,773,966	13,237,191	56,011,157
2036	-	-	-	-	26,473,678	13,233,698	39,707,376
2037	-	-	-	-	26,473,588	-	26,473,588
2038	-	-	-	-	26,472,506	-	26,472,506
2039	-	-	-	-	26,473,269	-	26,473,269
2040	-	-	-	-	100,000,000	-	100,000,000
Total	\$ 247,142,581	\$778,646,257	\$ 40,800,000	\$133,062,010	\$ 1,797,349,797	\$ 669,200,750	\$ 3,419,058,814

- (1) Includes the Limited Tax General Obligation Bond Anticipation Notes, 2010, due on June 15, 2011, and the Limited Tax General Obligation Bond Anticipation Notes, 2010 Series B and 2010 Series C (Taxable), due on December 1, 2011. Assumes interest rate of 4.0% on the variable rate bonds.
- (2) Preliminary, subject to change. Assumes interest rate of 2.0%.
- (3) These bonds are comprised of both County bonds originally issued for improvements to the Kingdome, that are additionally secured by a pledge of Hotel/Motel Taxes, and County bonds issued for the construction of the Safeco Field baseball stadium, that are additionally secured by a pledge of other special taxes and revenues.
- (4) These bonds are additionally secured by a pledge of certain taxes and revenues of the Metropolitan functions of the County. Includes debt service on the Multi-Modal Limited Tax General Obligation Bonds (Payable From Sewer Revenue), Series 2010A and Series 2010B, at an assumed interest rate of 4%.

Source: King County Finance and Business Operations Division—Financial Management Section

Net Direct and Overlapping Debt Outstanding

The following table lists the net outstanding direct debt of the County as of December 31, 2010, and overlapping debt of the County as of December 31, 2009, both payable by taxes on property within the County, adjusted for subsequent County debt issuances and the issuance of the Notes.

NET DIRECT AND OVERLAPPING DEBT

2010 Assessed Value (2011 Tax Year)	\$ 330,414,998,614
Net Direct Debt ⁽¹⁾	\$ 1,180,230,596
Estimated Overlapping Debt as of December 31, 2009:	
School Districts	\$ 2,919,734,551
City of Seattle	690,490,790
Other Cities and Towns	533,051,821
Port of Seattle	357,315,000
Hospital Districts	309,618,585
Fire Districts	56,893,442
Sewer Districts	-
Vashon Maury Park	289,236
King County Library System	126,598,054
Library Capital Facilities	9,070,263
Parks and Recreation Service District	1,666,933
Total Estimated Overlapping Debt	<u>\$ 5,004,728,675</u>
Total Net Direct and Estimated Overlapping Debt	<u><u>\$ 6,184,959,271</u></u>
County Debt Ratios:	
Net Direct Debt to Assessed Value	0.36%
Net Direct and Overlapping Debt to Assessed Value	1.87%
2010 Population (estimated)	1,933,400
Per Capita Net Direct Debt	\$610
Per Capita Net Direct and Overlapping Debt	\$3,199
Per Capita Assessed Value	\$170,898

(1) Total Net General Obligation Debt per Debt Capacity Schedules, as of December 31, 2010:

Total Net General Obligation Debt for County Purposes	\$ 1,325,302,666
Total Net General Obligation Debt for Metropolitan Purposes	<u>1,039,622,292</u>
Total Net General Obligation Debt	\$ 2,364,924,958
General Obligation Debt that is serviced by Proprietary-Type Funds*	(47,445,835)
General Obligation Debt issued for Kingdome Improvements*	(75,567,376)
General Obligation Debt issued for Public Facilities Districts*	(13,842,764)
General Obligation Debt issued for Component Units*	(8,216,095)
General Obligation Debt issued for Metropolitan Functions*	<u>(1,039,622,292)</u>
Net Direct Debt*	\$ 1,180,230,596

* Payments of the debt service on these bonds are payable first from other revenues of the County.

Source: King County Finance and Business Operations Division—Financial Management Section

FUTURE FINANCING PLANS

The County expects to issue up to \$200 million of limited tax general obligation debt through the end of 2011. The proceeds of these debt issues will primarily be used to provide interim or permanent financing for the wastewater division's capital improvement program, road improvements, open space acquisition, and various facility and technology projects.

In addition, when and if market conditions allow refunding of any outstanding bonds for the purpose of realizing debt service savings, the County may pursue such refundings.

PROPERTY TAX INFORMATION

Authorized Property Taxes

The County is authorized to levy both "regular" property taxes and "excess" property taxes.

Regular Property Taxes. The County may impose regular property taxes for general municipal purposes, including the payment of debt service on limited tax general obligation bonds and for road district purposes. Such regular property taxes are subject to rate limitations and amount limitations, as described below, and to the uniformity requirement of Article VII, Section 1 of the State Constitution, which specifies that a taxing district must levy the same rate on similarly classified property throughout the district. Aggregate property taxes vary within the County because of its different overlapping taxing districts.

The information in this Official Statement relating to regular property tax limitations and requirements is based on existing statutes and constitutional provisions. Changes in such laws could alter the impact of other interrelated tax limitations on the County.

- (i) *Maximum Rate Limitations.* The County may levy regular property taxes for two purposes: for general municipal purposes and for road district purposes. Each purpose is subject to a rate limitation. The general municipal purposes levy is limited to \$1.80 per \$1,000 of assessed value, and the County currently is levying \$1.14534 per \$1,000. The road district levy, which is levied in unincorporated areas of the County for road construction and maintenance and other County services provided in the unincorporated areas, is limited to \$2.25 per \$1,000, and the County currently is levying \$2.19730 per \$1,000. Additional statutory provisions limit the increase in the aggregate amount of taxes levied. See "Regular Property Tax Increase Limitation."

The County is authorized to increase its general municipal purposes levy to a maximum of \$2.475 per \$1,000 of assessed value if the total combined levies for both general and road district purposes do not exceed \$4.05 per \$1,000 and if no other taxing district has its levy reduced as a result of the increased County levy (RCW 84.52.043).

The \$1.80 per \$1,000 limitation on the general purposes levy is exclusive of the following regular property taxes:

- (a) a voted levy for emergency medical services, limited to \$0.50 per \$1,000 (authorized by RCW 84.52.069),
- (b) a voted levy to finance affordable housing for very low income households, limited to \$0.50 per \$1,000 (authorized by RCW 84.52.105, although the County has not sought approval from voters for this levy),
- (c) a non-voted levy for conservation futures, limited to \$0.0625 per \$1,000 (authorized by RCW 84.34.230), and
- (d) a non-voted levy for transit-related purposes, limited to \$0.075 per \$1,000 (authorized by RCW 84.52.140).

The County's levy rate for conservation futures in 2011 is \$0.05191 per \$1,000 of assessed value. Emergency medical services is in its second year of a six-year levy with a rate of \$0.30000 per \$1,000 of assessed value for the 2011 tax year. The County's levy rate for transportation in 2011 is \$0.06884 per \$1,000 of assessed value for the 2010 tax year. The Veterans and Family Human Services temporary six-year lid lift approved by voters in 2005 is levied at a rate of \$0.04708 per \$1,000 of assessed value for the 2011 tax year. The Regional and Rural Parks lid lift and a companion lid lift for the Woodland Park Zoo/Open Space and Trails approved by voters in 2007 are currently levied at a rate of \$0.05821 per \$1,000 of assessed value for each. Also included in the County's levy rate is another temporary lid lift at \$0.03528 for the Automated Fingerprint Identification System approved for six years by voters in 2006. For a discussion of the levy lid lift, see "Regular Property Tax Increase Limitation."

- (ii) *One Percent Aggregate Regular Property Tax Levy Limitation.* Aggregate regular property tax levies by the State and all taxing districts except port districts and public utility districts are subject to a rate limitation of 1% of the true and fair value of property (or \$10.00 per \$1,000) by Article VII, Section 2 of the State Constitution and by RCW 84.52.050.
- (iii) *\$5.90/\$1,000 Aggregate Regular Property Tax Levy Limitation.* Within the 1% limitation described above, aggregate regular property tax levies by all taxing districts except the State, port districts and public utility districts are subject to a rate limitation of \$5.90 per \$1,000 of assessed value (or 0.59%) by RCW 84.52.043(2). This limitation is exclusive of excess levies authorized by Article VII, Section 2, of the State Constitution; levies for emergency medical services, affordable housing for very low income households, transportation, and acquiring conservation futures; a portion of certain levies by metropolitan park districts and by fire protection districts; and levies imposed by ferry districts.

If aggregate regular property tax levies exceed the 1% or \$5.90 per \$1,000 limitations, then, in order to bring the aggregate levy into compliance, levies requested by "junior" taxing districts within the area affected are reduced or eliminated according to a detailed prioritized list (RCW 84.52.010). Junior taxing districts are defined by RCW 84.52.043 as all taxing districts other than the State, counties, cities, towns, road districts, port districts, and public utility districts.

- (iv) *Regular Property Tax Increase Limitation.* The regular property tax increase limitation (RCW 84.55) limits the total dollar amount of regular property taxes levied by an individual taxing district to the amount of such taxes levied in the highest of the three most recent years multiplied by a limit factor, plus an adjustment to account for taxes on new construction at the previous year's rate. The limit factor is defined as the lesser of 101% or 100% plus inflation, but if the inflation rate is less than 1%, the limit factor can be increased to 101%, if approved by a majority plus one vote of the governing body of the taxing district, upon a finding of substantial need. In addition, the limit factor may be increased, regardless of inflation, if such increase is authorized by the governing body of the taxing district upon a finding of substantial need and is also approved by the voters at a general or special election within the taxing district. Such election must be held less than 12 months before the date on which the proposed levy will be made, and any tax increase cannot be greater than described above under "Maximum Rate Limitations." The approval of a majority of the voters would be required for the limit factor to be increased. The new limit factor will be effective for taxes collected in the following year only.

RCW 84.55.092 allows the property tax levy to be set at the amount that would be allowed if the tax levy for taxes due in each year since 1986 had been set at the full amount allowed under RCW 84.55. This is sometimes referred to as "banked" levy capacity. The County currently has approximately \$7 million of such banked capacity.

With a majority vote of its electors, a taxing district may levy for the following year, within the statutory rate limitations described above, more than what otherwise would be allowed by the tax increase limitation, as allowed by RCW 84.55.050. This is known as a "levy lid lift," which has the effect of increasing the taxing district's levy "base" when calculating permitted levy increases in subsequent years. The new base can apply for a limited or unlimited period, except that if the levy lid

lift was approved for the purpose of paying debt service on bonds, the new base can apply for no more than nine years. After the expiration of any limited purpose or limited duration specified in the levy lid lift, the levy is calculated as if the taxing district had levied only up to the limit factor in the interim period.

Since the regular property tax increase limitation applies to the total dollar amount levied rather than to levy rates, increases in the assessed value of all property in the taxing district (excluding new construction) that exceed the growth in taxes allowed by the limit factor result in decreased regular tax levy rates, unless voters authorize a higher levy.

Excess Property Taxes. The County also may impose “excess” property taxes, which are not subject to limitation, when authorized by a 60% majority popular vote, as provided in Article VII, Section 2, of the State Constitution and RCW 84.52.052. To be valid, such popular vote must have a minimum voter turnout of 40% of the number who voted at the last County general election, except that one-year excess tax levies also are valid if the number of voters approving the excess levy is at least 60% of a number equal to 40% of the number who voted at the last County general election. Excess levies also may be imposed without a popular vote when necessary to prevent the impairment of the obligation of contracts.

Component Units with Taxing Authority. In 2007, the County Council created a County-wide flood control zone district and a County-wide ferry district, with rates of \$0.10976 and \$0.00360, respectively, for the 2011 tax year. The boundaries of each district are coterminous with the boundaries of the County, and the members of the County Council serve (at least initially) as the legislative body for each district, but under State law each district is a separate taxing district with independent taxing authority.

Pursuant to Ordinance 16742, adopted in January 2010, the County Council created a transportation benefit district (“TBD”) with boundaries comprised of the unincorporated limits of the County. Pursuant to State law, the members of the County Council serve as the governing body of the TBD, which is a separate taxing district with independent taxing authority. The TBD is not authorized to levy regular property taxes but may levy excess property taxes for a one-year period for any purpose or over multiple years to provide for the retirement of voter-approved general obligation bonds, issued for capital purposes, in either case only when authorized by the voters. The TBD has not sought voter approval for any such excess levies.

Assessed Value Determination

The county assessor (the “Assessor”) determines the value of all real and personal property throughout the County that is subject to *ad valorem* taxation, with the exception of certain public service properties for which values are determined by the State Department of Revenue. The Assessor is an elected official whose duties and methods of determining value are prescribed and controlled by statute and by detailed regulations promulgated by the State Department of Revenue.

For tax purposes the assessed value of property is 100% of its true and fair value. Since 1996, all property in the County has been subject to on-site appraisal and revaluation every six years, and is revalued each year based on annual market adjustments. Personal property is valued each year based on affidavits filed by the property owner. The property is listed by the Assessor on a roll at its current assessed value and the roll is filed in the Assessor’s office. The Assessor’s determinations are subject to revision by the County Board of Appeals and Equalization and, if appealed, subject to further revision by the State Board of Tax Appeals. At the end of the assessment year, in order to levy taxes payable the following year, the County Council receives the Assessor’s final certificate of assessed value of property within the County.

The following table presents the assessed value of the County for the last seven years.

KING COUNTY ASSESSED VALUE		
<u>Tax Year</u>	<u>Amount</u>	<u>Percentage Change From Previous Year</u>
2011	\$ 330,414,998,614	(3.4)%
2010	341,971,517,465	(11.6)
2009	386,889,727,909	13.5
2008	340,995,439,577	14.1
2007	298,755,199,059	10.4
2006	270,571,110,868	8.7
2005	248,911,782,339	5.5

Source: King County Department of Assessments

Tax Collection Procedure

Property taxes are levied in specific amounts by the County Council, and the rate for all taxes levied for all taxing districts in the County is determined by the Assessor based upon the assessed value of the property within the various taxing districts. The Assessor extends the tax levied within each taxing district on a tax roll that contains the total amounts of taxes levied and to be collected and assigns a tax account number to each tax lot. The tax roll is delivered to the Finance Division Manager, who is responsible for the billing and collection of taxes due for each account. All taxes are due and payable on April 30 of each tax 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 (except that the half to be paid on April 30 may be paid at any time prior to October 31 if accompanied by penalties and interest accrued until the date of payment).

The methods of giving notice of payment of taxes due, collecting taxes, accounting for the taxes collected, dividing the collected taxes among the various taxing districts, and giving notice of delinquency are covered by detailed statutes. Personal property taxes levied by the County Council are secured by a lien on the personal property assessed. A federal tax lien filed before the County Council levies the personal property taxes is senior to the County's personal property tax lien. In addition, only if a federal civil judgment lien is recorded is it senior to real property taxes incurred after the lien has been recorded. In all other respects, and subject to the possible "homestead exemption" described below, the lien on property taxes is senior to all other liens or encumbrances of any kind on real or personal property subject to taxation. By law, the County may commence foreclosure on a tax lien on real property after three years have passed since the first delinquency. The State's courts have not decided if the homestead law (chapter 6.13 RCW) gives the occupying homeowner a right to retain the first \$125,000 proceeds of the forced sale of a family residence or other "homestead" property for delinquent general property taxes. The United States Bankruptcy Court for the Western District of Washington has held that the homestead exemption applies to the lien for property taxes, while the State Attorney General has taken the position that it does not.

The following table shows the County's property tax collection record.

**PROPERTY TAX COLLECTION RECORD
ALL COUNTY FUNDS (\$000)**

Tax Year	Original Amount Levied*	Amount Collected Year of Levy	Percentage Collected Year of Levy (%)	Percentage Collected As of 12/31/2010 (%)
2010	\$ 587,009	\$ 569,405	97.00	97.00
2009	574,243	560,309	97.57	98.92
2008	556,427	542,193	97.44	99.07
2007	500,298	491,209	98.18	99.75
2006	471,552	461,947	97.96	99.50
2005	449,835	439,226	97.64	99.35

* Excludes those portions of the Emergency Medical Services Levy collected within the cities of Seattle and Milton, which are paid to those cities.

Source: King County Finance and Business Operations Division—Financial Management Section

Principal Taxpayers

The following table lists the ten largest taxpayers in the County and the assessed value of their real and personal property for the 2011 tax collection year.

**LARGEST TAXPAYERS IN THE COUNTY
2011 TAX COLLECTION YEAR**

Taxpayer	Assessed Value	AV as Percentage of County's AV (%)
Boeing	\$ 3,154,560,396	0.95
Microsoft	2,562,588,753	0.78
Puget Sound Energy/Gas/Electric	1,581,646,687	0.48
Qwest Corporation Inc.	838,896,985	0.25
AT&T Mobility LLC	747,951,601	0.23
T-Mobile	660,825,472	0.20
Alaska Airlines	622,026,924	0.19
W2007 Seattle (formerly Archon Group LP)	522,085,486	0.16
Union Square LLC	427,548,222	0.13
Wright Runstad & Company	353,747,057	0.11
Total Assessed Value of Top Ten Taxpayers	\$ 11,471,877,583	3.47
Total Assessed Value of All Other Taxpayers	318,943,121,031	96.53
2010 Assessed Value for Taxes Due in 2011	\$ 330,414,998,614	100.00

Source: King County Department of Assessments

Allocation of Tax Levies

The following table sets forth the allocation of 2010 and 2011 County-wide, Emergency Medical Services and unincorporated County levies.

ALLOCATION OF 2010 AND 2011 TAX LEVIES

County-wide Levy Assessed Value ⁽¹⁾	2011 Original Taxes Levied (in thousands)	2011 Levy Rate (\$ per thousand)	2010 Original Taxes Levied (in thousands)	2010 Levy Rate (\$ per thousand)
\$ 330,414,998,614				
Items Within Operating Levy ⁽²⁾				
General Fund	\$ 278,188	0.84638	\$ 274,311	0.80597
Veteran's Relief	2,557	0.00778	2,539	0.00746
Human Services	5,739	0.01746	5,640	0.01657
Intercounty River Improvement	49	0.00015	50	0.00015
Limited G.O. Bonds Debt Service	24,582	0.07479	22,850	0.06714
Automated Fingerprint Identification System ⁽³⁾	11,596	0.03528	15,557	0.04571
Parks Levy ⁽⁴⁾	38,264	0.11642	37,103	0.10902
Veterans and Family Human Services ⁽⁵⁾	15,473	0.04708	15,207	0.04468
Transportation ⁽⁶⁾	22,625	0.06884	22,124	0.06501
Total Operating Levy	\$ 399,073	1.21418	\$ 395,381	1.16171
Conservation Futures Levy ⁽⁷⁾				
Conservation Futures Levy	\$ 10,008	0.03045	\$ 9,734	0.02860
Farmland and Park Debt Service	7,053	0.02146	7,004	0.02058
Total Conservation Futures Levy	\$ 17,061	0.05191	\$ 16,738	0.04918
Unlimited Tax G.O. Bonds (Voter-approved Excess Levy)	\$ 23,501	0.07207	\$ 25,044	0.07410
Total County-wide Levy	\$ 439,635	1.33816	\$ 437,163	1.28499
EMS Assessed Value ⁽¹⁾				
\$210,298,172,753				
EMS Levy ⁽⁸⁾	\$ 98,623	0.30000	\$ 102,119	0.30000
Unincorporated County Assessed Value ⁽¹⁾				
\$39,449,376,050				
Unincorporated County Levy ⁽⁹⁾	\$ 86,111	2.19730	\$ 84,684	1.93572
Total County Tax Levies	\$ 624,369	3.83546	\$ 623,966	3.52071

(1) Assessed value for taxes payable in 2011.

(2) The operating levy tax rate is limited statutorily to \$1.80 per \$1,000 of assessed value.

(3) The Automated Fingerprint Identification System levy is a regular property tax to be assessed for six years beginning in 2006 at a levy rate of not more than \$0.05680 per \$1,000 of assessed value, as authorized by RCW 84.55.050 and a proposition approved by a majority of voters in the County.

(4) The Parks Levy was renewed as a two-part regular property tax (parks and open space/trails/zoo) to be assessed for six years beginning in 2008 at a levy rate of \$0.05 per \$1,000 of assessed value for both parts for the first year, increasing thereafter by the September CPI-W, as authorized by RCW 84.55.050 and approved by a majority of the voters in the County.

(5) The Veterans and Family Human Services Levy is a regular property tax levy to be assessed for six years beginning in 2006 at a rate not to exceed \$0.05 per \$1,000 of assessed value, as authorized by RCW 84.55.050 and a proposition approved by a majority of voters in the County.

(6) The Transportation Levy is not counted against the operating levy tax rate limitation of \$1.80 per \$1,000 of assessed value.

(7) The Conservation Futures Levy tax rate is limited statutorily to \$0.0625 per \$1,000 of assessed value.

(8) The Emergency Medical Services levy was approved by voters in the County in 2007 for a six-year period with collection beginning in 2008.

(9) The tax rate is limited statutorily to a maximum of \$2.25 per \$1,000 of assessed value.

Source: King County Department of Assessments

KING COUNTY

General

As a general purpose government, the County provides roads, solid waste disposal, flood control, certain airport facilities, public health and other human services, park and recreation facilities, courts, law enforcement, agricultural services, property tax assessment and collection, fire inspection, planning, zoning, animal control, and criminal detention and rehabilitative services. Certain services are provided on a County-wide basis and certain services only to unincorporated areas.

In 1994, the County assumed Metro's rights, powers, functions, and obligations, including the development and operation of a regional transit system and the regional collection and treatment of sewage. Metro's transit function became part of the County's Transportation Department, and the sewer utility function was integrated into the County's Department of Natural Resources. The administrative functions of Metro were merged with those of the County in the appropriate departments.

Organization of the County

The County is organized under the executive-council form of government and operates under a Home Rule Charter adopted by a vote of the electorate in 1968. The County Executive, the County Council, the Prosecuting Attorney, the Assessor, the Director of Elections, and the Sheriff are all elected to four-year terms.

The County Executive. The County Executive serves as the chief executive officer of the County. The County Executive presents to the County Council annual statements of the financial and governmental affairs of the County, budgets and capital improvement plans. The County Executive signs, or causes to be signed on behalf of the County, all deeds, contracts and other instruments. All County employees other than those appointed by the County Council, Prosecuting Attorney, Assessor, Director of Elections, or Sheriff report to the County Executive.

The County Council. The Metropolitan King County Council (the "County Council") is the policy-making legislative body of the County. County Council members are elected by district to four-year staggered terms and serve on a full-time basis. The County Council sets tax levies, makes appropriations, and adopts and approves the annual operating budget for the County.

The Superior and District Courts. The State Constitution provides for the existence of county superior courts as the courts of general jurisdiction. The County currently has 53 superior court judges who are elected to four-year terms. Pursuant to local court rule, the King County Superior Judges appoint the Chief Administrative Officer who is supervised by the Presiding Judge. Superior court employees report to the Chief Administrative Officer, except for superior court commissioners, special masters, referees, and each judge's bailiff.

The State Constitution authorizes the legislature to create other courts of limited jurisdiction. Exercising this authority, the State Legislature has established district courts as one form of courts of limited jurisdiction. The County has 21 district court judges who are elected to four-year terms. Pursuant to the district court local rule, County district court employees report to the district court chief administrative officer, who is under the supervision of the Chief Presiding Judge and reports to the district court executive committee.

County's Budget Process

Beginning for 2011, revenue forecasts are being developed by the new Office of Economic and Financial Analysis. The forecasts developed by this office are submitted to the King County Forecast Council for approval. The Forecast Council consists of the County Executive, two County Councilmembers, and the Director of the Office of Performance, Strategy and Budget (formerly the Office of Management and Budget).

The County's Office of Performance, Strategy and Budget, under the direction of the County Executive, has the responsibility for (i) preparation and management of the annual operating and capital budgets, (ii) expenditure and revenue policy, and (iii) planning and growth management. The budget must be presented to the County Council on or before September 27 of each year. The County Council holds public hearings and may increase or decrease proposed appropriations. Any changes in the budget must be within

the revenues and reserves estimated as available, or the revenue estimates must be changed by an affirmative vote of at least six members of the County Council. The County Executive has general and line-item veto power over appropriation ordinances approved by the County Council. The appropriation ordinance establishes the budgeted level of authorized expenditures that may not be exceeded without County Council approval of supplemental appropriation ordinances. The County Executive, within the restrictions of any provisos of the appropriation ordinances, may establish and amend line-item budgets as long as the total budget for each appropriation unit does not exceed the budgeted level of authorized expenditures.

Finance and Business Operations Division

The Finance and Business Operations Division is comprised of five sections. The Treasury Section manages the receipt and investment of assigned revenues due to the County or to other agencies for which the Section performs the duties of treasurer. The Financial Management Section is responsible for the accounting and disbursing of assigned public funds. The other sections are responsible for administering the County's payroll and benefits and for managing the County's procurement and contracting practices.

Auditing

Legal compliance and fiscal audits of all County agencies are conducted by examiners from the State Auditor's office. The County is audited annually. The most recent State Auditor's Report is for the year ending December 31, 2009, and is incorporated into the County's 2009 Comprehensive Annual Financial Report.

The County's Comprehensive Annual Financial Report in its entirety may be accessed on the internet at the following link, which is not incorporated into this Official Statement by reference:

<http://www.kingcounty.gov/operations/Finance/FMServices/CAFR.aspx>

or from the Financial Management Section at King County Finance and Business Operations Division, 500 Fourth Avenue, Room 600, Seattle, Washington 98104. See Appendix B—Excerpts from the County's 2009 Comprehensive Annual Financial Report.

County Employees

The number of full and part-time employees of the County at year-end is shown below:

COUNTY EMPLOYEES		
Year	Full-time	Part-time
2010	13,658	1,202
2009	13,799	1,739
2008	13,762	621
2007	13,649	892
2006	13,565	1,487
2005	13,721	983

Source: King County Finance and Business Operations Division—Financial Management Section

The County has collective bargaining agreements with 31 unions representing almost 12,000 employees. There have been no strikes or work stoppages during the last ten years.

Retirement Programs

Full-time employees are covered by one of the following retirement systems:

NUMBER OF EMPLOYEES AS OF DECEMBER 31, 2010	RETIREMENT SYSTEM
93	City of Seattle*
743	State of Washington—Law Enforcement Officers and Fire Fighters Retirement System (“LEOFF”)
339	State of Washington—Public Safety Employees Retirement System (“PSERS”)
All Others	State of Washington—Public Employees Retirement System (“PERS”)

* Primarily Seattle-King County Health Department employees.

Source: King County Finance and Business Operations Division—Financial Management and Payroll Systems and Operations Sections

The County administers payroll deductions under these retirement programs and remits the deductions, together with County contributions, to the respective retirement systems annually. The County’s employer contribution rates and amounts for the fiscal year ended December 31, 2010, were as follows:

	PERS Plan 1*	PERS Plan 2*	PERS Plan 3*	LEOFF Plan 1*	LEOFF Plan 2*	PSERS Plan 2*	SCERS
Contribution Rate	5.31%	5.31%	5.31%	0.16%	5.24%	7.85%	8.03%
Contribution Amount (000s)	\$2,197	\$37,286	\$6,083	\$1	\$4,035	\$2,039	\$596

* The employer rate includes an employer administrative expense fee of 0.16%.

The County has met its funding obligations to these systems when they have come due. While the County’s contributions represent its full current liability under the retirement systems, any unfunded pension benefit obligations could be reflected in future years as higher contribution rates. The funded status from the most recent actuarial report for each system is shown in the following table:

RETIREMENT SYSTEM FUNDED STATUS (dollar amounts in millions)							
	Administered by	Most Recent Actuarial Valuation Report	Actuarial Accrued Liability (a)	Actuarial Valuation of Assets (b)⁽²⁾	UAAL (a-b)⁽³⁾	Funded Ratio (b/a)	Plan Status
PERS - Plan 1	WSDRS ⁽¹⁾	As of 6/30/09	13,945	9,776	4,169	70%	Closed in 1977
PERS - Plan 2/3	WSDRS ⁽¹⁾	As of 6/30/09	15,701	18,260	(2,560)	116%	Open
PSERS - Plan 2	WSDRS ⁽¹⁾	As of 6/30/09	54	69	(15)	128%	Open
LEOFF - Plan 1	WSDRS ⁽¹⁾	As of 6/30/09	4,477	5,612	(1,135)	125%	Closed in 1977
LEOFF - Plan 2	WSDRS ⁽¹⁾	As of 6/30/09	4,349	5,564	(1,215)	128%	Open
SCERS	City of Seattle	As of 1/1/10	2,654	1,645	1,009	62%	Open

(1) Washington State Department of Retirement Systems

(2) Asset valuations for State of Washington-administered plans incorporate the smoothing of investment gains and losses; asset valuations for the SCERS system reflect the market value of assets at the time of valuation.

(3) Unfunded Actuarial Accrued Liability.

Source: Washington State Office of the State Actuary and the City of Seattle

For more information on employee benefit plans, see Appendix B—Excerpts from the County’s 2009 Comprehensive Annual Financial Report.

Other Post-Employment Benefits

The King County Health Plan (the “Health Plan”) is a single-employer defined-benefit healthcare plan administered by the County. The Health Plan provides medical, prescription drug, vision, and other

unreimbursed medical benefits to eligible retirees and employees. Law Enforcement Officers' and Fire Fighters' Retirement System Plan 1 ("LEOFF 1") retirees are not required to contribute to the Health Plan. LEOFF participants who joined the system by September 30, 1977, are Plan 1 members. Entry into LEOFF 1 is now closed. All other retirees are required to pay the COBRA rate associated with the elected plan. The County's liability for other post-employment benefits ("OPEB") is limited to the direct Health Plan subsidy associated with LEOFF 1 retirees and the implicit rate subsidy for other Health Plan retiree participants, which is the difference between (i) what retirees pay for their health insurance as a result of being included with active employees for rate-setting purposes, and (ii) the estimated required premiums if their rates were set based on claims experience of the retirees as a group separate from active employees. For the fiscal year ended December 31, 2009, the County contributed an estimated \$5.007 million to the Health Plan. The County's contribution was entirely to fund "pay-as-you-go" costs under the Health Plan and not to prefund benefits. The County's annual OPEB cost (expense), which is calculated based on the annual required contribution of the County, was \$12.836 million for the fiscal year ended December 31, 2009.

For additional information regarding the County's OPEB liability, see Appendix B—Excerpts from the County's 2009 Comprehensive Audited Financial Report.

Risk Management and Insurance

The County has a separate division that is responsible for claims handling, insurance and loss control programs. The County has implemented a program of self-insurance to cover its (i) general and automobile liability, (ii) Health Department professional malpractice, (iii) police professionals, and (iv) public officials' errors and omissions. The County has excess liability coverage that currently provides \$97.5 million in limits above a \$3.5 million per occurrence self-insured retention for the above exposures.

Insurance policies currently in force covering major exposure areas are as follows:

<u>COVERAGE</u>	<u>LIMITS</u>
Combined Property Damage and Extra Expense for covered County property (includes \$100 million earthquake, \$250 million flood, and \$250 million terrorism)	\$500 million
Airport Liability	\$300 million
Airport Property Damage and Extra Expense for covered airport property (includes \$50 million earthquake, \$100 million flood, and \$100 million terrorism)	\$160 million
Fiduciary Liability	\$10 million
Employee Dishonesty	\$2.5 million
Police Helicopter Program	\$50 million
Excess Workers' Compensation	Statutory above \$2,500,000 deductible per occurrence
Marine Policies	\$50 million

The cash balance in the Insurance Fund was \$84.9 million as of December 31, 2009. The estimated liability for probable self-insurance losses (reported and unreported) recorded in the fund as of December 31, 2009, was \$62.6 million.

In addition to funding reserves for known and incurred, but not reported, cases, the County has adopted a plan to create catastrophic loss reserves to respond to large, non-recurring losses. As of December 31, 2009, \$9.3 million of the \$84.9 million cash balance in the Insurance Fund has been designated for catastrophic loss reserves.

County Fund Accounting

The County uses fund accounting to ensure compliance with finance-related legal requirements. The funds of the County are divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Most of the basic services provided by the County are financed through its governmental funds. The County's governmental funds are comprised of a General Fund and several individual Special Revenue, Debt Service and capital project funds. The proprietary funds are generally used to account for services for which the County charges customers a fee while the fiduciary funds are used to account for resources held for the benefit of parties outside the County.

The County's obligation to pay debt service on its outstanding general obligation bonds is ultimately a pledge of property taxes and other revenues collected in both the General Fund and in the Limited Tax General Obligation Bond Debt Service Fund, in the case of its limited tax general obligation bonds. Therefore, while the revenue information presented in the following section is for all of the County's governmental funds, the focus of the Management Discussion of Financial Results is confined to the General Fund.

Major Revenue Sources (Governmental Funds Only)

The County's two major revenue sources for general County purposes are taxes and intergovernmental revenues. The General, Special Revenue and Debt Service Funds received approximately 97.9% of taxes and 94.8% of intergovernmental revenues in 2009. Taxes and intergovernmental revenues provided approximately 77% of the total revenue in the governmental funds of the County. Additional sources of revenue are licenses and permits, charges for services, fines and forfeits, and miscellaneous revenues.

Taxes. The following table lists various taxes collected and deposited in the governmental funds of the County excluding the Flood Control Zone District Funds and the Ferry District Fund. A detailed description of each type of tax follows the table.

<p style="text-align: center;">TAXES COLLECTED AS OF DECEMBER 31 (\$000)</p>					
Source	2009	2008	2007	2006	2005
Real and Personal Property Tax	\$ 567,955	\$ 546,064	\$ 497,799	\$ 467,745	\$ 446,100
Retail Sales and Use Tax*	126,769	135,224	106,143	96,467	90,069
Penalty and Interest on Property Taxes	17,679	15,740	15,611	15,323	14,901
Hotel/Motel Tax	16,892	20,702	20,493	18,233	15,702
Real Estate Excise tax	7,918	10,051	18,745	23,560	21,606
E-911 Excise Tax	16,483	16,152	15,513	15,436	14,615
Public Facilities District-Related Taxes	34,673	38,673	39,129	36,235	34,151
Other Taxes	12,777	15,064	19,049	16,953	15,154
Total	\$ 801,146	\$ 797,670	\$ 732,482	\$ 689,952	\$ 652,298

* Excludes revenue generated by the 0.9% levy to support public transportation.

Source: *King County Finance and Business Operations Division—Financial Management Section*

REAL AND PERSONAL PROPERTY TAX. The method of determining the assessed value of real and personal property, the County's taxing authority, tax collection procedures, tax collection information, and the allocation of such taxes are provided in "Property Tax Information" herein.

RETAIL SALES AND USE TAX. As of December 31, 2009, a sales and use tax of 9.5% was charged on all gross retail sales in the County within the boundaries of the Regional Transit Authority and 8.6% outside the boundaries (excluding food products for off-premise consumption and certain other exempt items). The resulting tax revenues are allocated 6.5% to the State, 0.9% to the County to support public transportation, 0.15% to the County and 0.85% to a city or town if the area is incorporated, or 1% to the County in unincorporated areas, 0.1% to cities within the County and to the County for criminal justice purposes, 0.9% collected within the boundaries of the Regional Transit Authority to fund the Regional Transit Authority, and 0.1% to the County for the purpose of providing chemical dependency or mental

health treatment services and for the operation of therapeutic court programs. The State Legislature, and the voters through the initiative process, have changed the base of the sales and use tax on occasion, and this may occur again in the future. See “Initiatives and Referenda.”

PENALTY AND INTEREST ON PROPERTY TAXES. Interest of 12% per annum is charged on all delinquent real and personal property taxes until the taxes are paid. There is an 11% penalty in addition to the 12% interest rate on delinquent taxes: 3% is assessed on the amount of tax delinquent on June 1 of the year in which the tax is due and 8% is assessed on the total amount of delinquent tax on December 1 of the year in which the tax is due. The amount of penalty and interest collected is credited to the County’s General Fund.

HOTEL/MOTEL TAX. Under the authority of State legislation, the County levies a 2% excise tax on all transient lodging within the County. The tax is collected by the State through its sales tax program and distributed to the County. The revenue has been used for the payment of certain of the County’s general obligation bonds.

This tax raised approximately \$16.9 million in 2009 and approximately \$20.7 million in 2008. The first \$5.3 million generated by this tax has always been dedicated to payment of debt service related to the former County stadium, which was imploded in 2000. From January 1, 2001, through December 31, 2012, the taxes collected in excess of \$5.3 million are allocated 30% to the payment of stadium-related debt service and 70% to cultural purposes. From January 1, 2013, through December 1, 2015, all such taxes are to be used to retire the debt on the former County stadium. From January 1, 2016, through December 31, 2020, all such taxes are to be retained by the State and to be used primarily to pay the debt service on bonds issued by the State to finance a new football stadium and exhibition hall.

REAL ESTATE EXCISE TAX. The County imposes a real estate excise tax of 0.5% on property sales in unincorporated areas. This tax raised about \$7.9 million in 2009 and \$10.1 million in 2008. The County’s tax is in addition to the current State real estate excise tax of 1.28%. A portion of the revenue is used for the payment of certain of the County’s general obligation bonds.

E-911 EXCISE TAX. The County has levied a tax on all telephone access lines since 1984, to provide enhanced emergency telephone service throughout the entire County.

PUBLIC FACILITIES DISTRICT TAXES. The County levies additional taxes to pay the debt service on bonds issued by the County to provide funds for the construction of a baseball stadium and parking facilities by the Washington State Major League Baseball Stadium Public Facilities District. These taxes include additional food and beverage and car rental taxes, as well as a tax on stadium admissions. The County also receives a tax credit of 0.017% of the general sales taxes collected in the County which otherwise would be paid to the State.

OTHER TAXES. Other taxes include an automobile rental sales and use tax, business taxes, a leasehold excise tax, timber harvest tax, and gambling taxes.

Intergovernmental Revenue. The following table lists various intergovernmental revenues. A detailed description of each type of intergovernmental revenue follows the table.

VARIOUS INTERGOVERNMENTAL REVENUES
AS OF DECEMBER 31
(\$000)

Source	2009	2008	2007	2006	2005
Grants	\$ 191,203	\$ 174,361	\$ 167,068	\$ 190,228	\$ 181,867
Revenue Sharing	11,025	10,660	11,072	11,081	11,115
Gas Tax	14,177	14,734	15,594	15,298	14,435
Liquor Tax and Profits	1,719	1,694	1,749	1,718	1,445
Intergovernmental Payments	320,935	291,906	250,074	235,639	205,971
Public Facilities District-Related					
Lottery Allocation	4,995	4,803	4,618	4,441	4,270
Other Intergovernmental Revenues	10,330	9,042	7,608	6,765	6,318
Total	\$ 554,384	\$ 507,200	\$ 457,783	\$ 465,170	\$ 425,421

Source: King County Finance and Business Operations Division—Financial Management Section

GRANTS. In 2009, operating, health, public employment, and capital improvement grants from the federal government, either directly or indirectly through the State or local governmental agencies, contributed an estimated \$141.3 million in intergovernmental revenues to the County. As the following schedule shows, this comprised 73.9% of total 2009 grants. A total of 26.1% of estimated grant revenue was from the State.

2009 AND 2008 GRANT REVENUE
BY SOURCE AND FUNCTION
(\$000)

	2009		2008	
	Actual	Item as a Percent of Total Actual	Actual	Item as a Percent of Total Actual
Federal				
General Government Services	\$ 3,073	1.6%	\$ 1,827	1.0%
Law, Safety and Justice	17,841	9.3	20,695	11.9
Physical Environment	6,136	3.2	5,440	3.1
Transportation	25,332	13.3	21,951	12.6
Economic Environment	28,289	14.8	21,803	12.5
Mental and Physical Health	60,392	31.6	55,712	32.0
Culture and Recreation	219	0.1	0	0.0
Total Federal	141,282	73.9%	127,428	73.1%
State				
General Government Services	310	0.2	0	0.0
Law, Safety and Justice	6,504	3.4	5,545	3.2
Physical Environment	6,624	3.5	4,234	2.4
Transportation	1,232	0.6	511	0.3
Economic Environment	2,079	1.1	1,482	0.9
Mental and Physical Health	33,124	17.3	35,161	20.1
Culture and Recreation	48	0.0	0	0.0
Total State	49,921	26.1%	46,933	26.9%
Total Grants	\$ 191,203	100.0%	\$ 174,361	100.0%

Source: King County Finance and Business Operations Division—Financial Management Section

REVENUE SHARING. In 1996, the State Legislature passed the Public Health Improvement Plan, which included a new framework for allocating public health responsibility between the State and local governments and established a new financing mechanism for allocating funds to fulfill those responsibilities. The State began distributing motor vehicle excise taxes (“MVET”) to the County for public health purposes in 1996. In 1999, Washington voters replaced the MVET, imposed by RCW 46.16, with a flat \$30 license fee. In 2009, \$9.6 million in MVET replacement funds were received by the County for public health purposes.

GAS TAX. Counties are entitled to 19.2287% of the 23 cents of the State motor vehicle fuel tax collected by the State, less amounts for State supervision and studies and amounts withheld for the County Road Administration Board (RCW 46.68.090(2)(h)). The motor vehicle fuel tax is allocated to counties by the County Road Administration Board according to a formula based on population, needs and financial resources. The County received 9.9022% of the tax distributed to counties in 2009.

In addition, the County Road Administration Board program allocates funds to the County for the construction of arterial streets in urban areas. The State’s County Arterial Preservation Program receives 1.9565% of the 23 cents of the State motor vehicle fuel tax (RCW 46.68.090(2)(i)). The County received 4.456% and 4.435% of these funds in 2008 and 2009, respectively, based on the County’s share of State-wide arterial preservation funds.

Effective July 1, 2005, the State Legislature increased the state motor vehicle fuel tax by three cents per gallon state-wide and allowed 8.33% of the three cents for counties. This translates to approximately a 1/4-cent increase for counties beginning in 2005. An additional 1/4-cent increase became effective for counties on July 1, 2006.

LIQUOR TAX AND PROFITS. A county’s share of State Liquor Excise Taxes and State Liquor Board profits is based on four variables: (i) the county’s unincorporated population, (ii) total unincorporated population in the balance of the State, (iii) liquor sales, and (iv) Liquor Board profits. Counties are entitled to 10% of the Liquor Board profits which, together with 20% of the money made available from the liquor excise tax, is allocated among the counties on the basis of each county’s proportion of the total unincorporated population in the State. See “Initiatives and Referenda.”

INTERGOVERNMENTAL PAYMENTS. These are payments made to one unit of government for performing a service that is a statutory responsibility of another unit of government. In 2009, these payments were primarily related to the County’s provision of mental health, public health, law enforcement, jail, and flood control services.

PUBLIC FACILITIES DISTRICT LOTTERY ALLOCATION. The State granted authority to the State Lottery Commission to issue two to four scratch games with sports themes per year. Since 1996, lottery revenues of \$3 million, plus an additional 4% per year, have been allocated to the County and committed to debt service on the limited tax general obligation bonds issued by the County for the baseball stadium.

OTHER INTERGOVERNMENTAL REVENUE. Other sources of intergovernmental revenue include distributions from the State for criminal justice purposes and criminal justice costs related to aggravated murder cases, vessel registration fees and other miscellaneous items.

Investment Policy

A summary of the County’s investment policy, including the definitions of certain terms used herein, is included as Appendix C.

Operating Deficits

If a County fund experiences an operating deficit, that fund is able to borrow from the County’s portion of the King County Investment Pool (the “Investment Pool”). All such borrowings must comply with the procedures established by the Executive Finance Committee (the “Committee”). Interest accrues on borrowed amounts at the interest rate(s) earned by the Investment Pool during the term of such borrowing. County policies with respect to such borrowings do not require that funds be repaid prior to the end of the County’s fiscal year. Such borrowings are infrequent as the County has systems in place to ensure, on a planning basis, that funds on hand are sufficient to meet operating requirements. At no time in at least the past five years was there an operating deficit in the Current Expense Fund.

Financial Results

The following tables provide a comparative balance sheet and comparative statement of revenues, expenditures and changes in fund balance for the County's General Fund and a comparative statement of revenues, expenditures and changes in fund balance for the General Government Funds (Current Expense, Special Revenue and Debt Service) (notes for that statement are on the succeeding page).

**GENERAL FUND
COMPARATIVE BALANCE SHEET
(Years Ended December 31) (\$000)**

	2009	2008	2007	2006	2005
ASSETS					
Cash and cash equivalents	\$ 37,283	\$ 43,815	\$ 86,877	\$ 122,561	\$ 124,658
Taxes receivable - delinquent	7,597	6,460	5,789	5,949	6,158
Accounts receivable	80,868	73,817	75,941	71,717	66,081
Estimated uncollectible accounts receivable	(73,009)	(64,742)	(67,510)	(63,944)	(59,007)
Interest receivable	14,323	18,941	26,150	10,415	9,470
Due from other funds	7,063	11,282	9,921	9,907	11,111
Interfund short-term loans receivable	2,859	11,548	4,475	7,612	19,124
Due from other governments	40,263	37,377	43,230	35,549	37,441
Estimated uncollectible due from other governments	(78)	(157)	(264)	(738)	(272)
Advances to other funds	3,800	3,800	3,800	3,800	3,800
TOTAL ASSETS	\$ 120,969	\$ 142,141	\$ 188,409	\$ 202,828	\$ 218,564
LIABILITIES AND FUND BALANCE					
Liabilities					
Accounts payable	\$ 6,371	\$ 8,792	\$ 8,400	\$ 10,138	\$ 7,001
Due to other funds	1,883	3,456	8,079	7,222	3,213
Interfund short-term loans payable	589	0	0	0	0
Due to other governments	167	234	3,086	1,351	398
Wages payable	15,028	19,075	14,388	13,149	12,803
Taxes payable	180	112	200	152	122
Deferred revenues	13,035	11,781	11,706	11,402	11,443
Obligations under reverse repurchase agreements	0	0	0	13,228	36,495
Custodial accounts	1,290	866	1,002	1,222	1,598
Advances from other funds	0	600	900	1,200	1,500
Total Liabilities	\$ 38,543	\$ 44,916	\$ 47,761	\$ 59,064	\$ 74,573
Fund Balance					
Reserved for encumbrances	\$ 3,306	\$ 7,087	\$ 10,130	\$ 11,193	\$ 7,545
Reserved for advances to other funds	3,800	3,800	3,800	3,800	3,800
Reserved for animal services	151	66	562	503	450
Reserved for crime victim compensation program	77	95	65	66	268
Reserved for drug enforcement program	2,682	1,587	780	147	100
Reserved for antiprofitteering program	95	95	95	195	295
Reserved for dispute resolution	170	157	105	93	83
Reserved for inmate welfare	2,115	1,326	954	466	432
Reserved for laptop replacement	0	0	292	292	353
Reserved for real property title assurance	25	25	25	25	25
Reserved for criminal justice	2,494	1,826	10,538	7,439	5,342
Unreserved; designated for:					
Capital projects	2,496	5,268	4,534	3,636	7,013
Reappropriation	711	280	588	0	3,550
Net unrealized gains	0	0	0	0	0
Contingencies	0	0	15,903	15,704	15,276
Children and family services programs	0	1,848	2,294	3,890	2,842
Unreserved and undesignated	64,304	73,765	89,983	96,315	96,617
Total Fund Balance	\$ 82,426	\$ 97,225	\$ 140,648	\$ 143,764	\$ 143,991
TOTAL LIABILITIES AND FUND BALANCE	\$ 120,969	\$ 142,141	\$ 188,409	\$ 202,828	\$ 218,564

Source: King County Finance and Business Operations Division—Financial Management Section

GENERAL FUND
COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
(Years Ended December 31) (\$000)

	2009	2008	2007	2006	2005
REVENUES					
Property taxes	\$ 265,665	\$ 258,417	\$ 250,348	\$ 239,421	\$ 233,330
Penalties and interest - delinquent taxes	17,679	15,740	15,611	15,323	14,901
Sales, excise and other taxes	90,615	109,596	119,823	108,591	100,795
Licenses and permits	8,338	7,045	7,133	6,770	6,397
Federal grants	12,020	10,475	11,615	9,020	10,423
State grants	2,388	2,278	2,307	2,217	2,160
Entitlements and shared revenues	10,549	9,592	8,571	7,741	7,374
Intergovernmental services	76,148	68,055	63,975	64,170	56,842
Charges for services	121,533	108,400	110,413	101,952	96,793
Fines and forfeits	9,903	9,064	9,292	7,809	6,122
Interest earnings	7,969	15,313	17,706	23,191	15,498
Rents and royalties	11,333	10,821	11,530	10,425	9,838
Other miscellaneous revenues	2,947	2,693	3,668	1,872	3,492
TOTAL REVENUES	\$ 637,087	\$ 627,489	\$ 631,992	\$ 598,502	\$ 563,965
EXPENDITURES					
Current					
Personal services	\$ 426,732	\$ 415,311	\$ 390,241	\$ 366,693	\$ 338,273
Supplies	13,887	13,771	13,759	12,977	10,909
Contract services and other charges	68,273	88,068	85,855	79,200	70,207
Contributions	1,992	1,944	4,105	1,832	1,629
Interfund service support	80,636	78,135	72,010	68,154	61,629
Debt service	289	0	0	0	1
Capital outlay	1,535	607	2,396	1,948	1,987
TOTAL EXPENDITURES	\$ 593,344	\$ 597,836	\$ 568,366	\$ 530,804	\$ 484,635
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 43,743	\$ 29,653	\$ 63,626	\$ 67,698	\$ 79,330
OTHER FINANCING SOURCES (USES)					
Sale of capital assets	\$ 92	\$ 139	\$ 570	\$ 75	\$ 73
Transfers in	2,223	5,272	72	236	252
Transfers out	(55,724)	(78,487)	(67,384)	(68,235)	(57,607)
TOTAL OTHER FINANCING SOURCES (USES)	\$ (53,409)	\$ (73,076)	\$ (66,742)	\$ (67,924)	\$ (57,282)
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	\$ (9,666)	\$ (43,423)	\$ (3,116)	\$ (226)	\$ 22,048
FUND BALANCE - JANUARY 1 (RESTATED)	92,092	140,649	143,765	143,991	121,943
FUND BALANCE - DECEMBER 31	\$ 82,426	\$ 97,226	\$ 140,649	\$ 143,765	\$ 143,991

Source: King County Finance and Business Operations Division—Financial Management Section

GENERAL GOVERNMENT FUNDS
COMPARATIVE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE ⁽¹⁾
(Years Ended December 31) (\$000)

	2009	2008	2007	2006	2005
REVENUES					
Taxes	\$ 837,991	\$ 830,891	\$ 703,810	\$ 656,957	\$ 622,837
Licenses and permits	24,116	23,384	30,765	24,654	22,477
Intergovernmental revenues	525,820	477,595	428,014	414,789	391,977
Charges for services	232,161	219,761	230,251	213,719	214,038
Fines and forfeits	10,142	9,454	9,612	8,084	6,362
Interest earnings	12,985	24,274	24,417	31,776	20,520
Miscellaneous revenues	25,498	24,467	28,794	23,637	21,044
TOTAL REVENUES	\$ 1,668,713	\$ 1,609,826	\$ 1,455,663	\$ 1,373,616	\$ 1,299,255
EXPENDITURES					
Current					
General government services ⁽²⁾	\$ 111,240	\$ 112,908	\$ 109,959	\$ 101,903	\$ 115,632
Law, safety and justice ⁽³⁾	553,875	534,237	496,374	466,949	429,411
Physical environment ⁽⁴⁾	86,807	73,732	46,709	42,817	41,620
Transportation ⁽⁵⁾	96,417	87,999	77,668	74,728	63,063
Economic environment ⁽⁶⁾	89,676	84,002	83,554	78,552	73,987
Mental and physical health ⁽⁷⁾	451,055	415,840	381,745	361,252	339,361
Culture and recreation ⁽⁸⁾	43,977	41,822	36,219	32,153	27,174
Total Current	\$ 1,433,047	\$ 1,350,540	\$ 1,232,228	\$ 1,158,354	\$ 1,090,248
Debt Service ⁽⁹⁾					
Redemption of long-term debt	\$ 64,981	\$ 78,796	\$ 86,935	\$ 79,942	\$ 75,985
Interest and other debt service costs	35,705	38,565	41,616	46,574	51,193
Payment to escrow agent	21,050	14,946	12,000	17,993	0
Total Debt Service	\$ 121,736	\$ 132,307	\$ 140,551	\$ 144,509	\$ 127,178
Capital Outlay ⁽¹⁰⁾					
Capital projects	\$ 0	\$ 32	\$ 49	\$ 31	\$ 963
Capitalized expenditures	12,887	12,697	9,250	10,077	8,460
Capitalized expenditures - capital leases	0	0	0	0	184
Total Capital Outlay	\$ 12,887	\$ 12,729	\$ 9,299	\$ 10,108	\$ 9,607
TOTAL EXPENDITURES	\$ 1,567,670	\$ 1,495,576	\$ 1,382,078	\$ 1,312,971	\$ 1,227,033
EXCESS OF REVENUES OVER (UNDER)					
EXPENDITURES	\$ 101,043	\$ 114,250	\$ 73,585	\$ 60,645	\$ 72,222
OTHER FINANCING SOURCES (USES)					
General obligation bonds issued	\$ 0	\$ 0	\$ 0	\$ 1,568	\$ 0
General long-term debt - capital leases	0	0	0	0	184
Refunding bonds issued	42,869	0	54,565	38,330	22,510
Premium on bonds sold	3,423	0	2,973	1,633	2,112
Sale of capital assets	1,395	732	2,773	151	791
Transfers in	73,314	90,754	71,551	65,973	46,722
Transfers out	(117,650)	(168,299)	(129,766)	(120,634)	(102,346)
Payment to refunded bond escrow agent	(46,067)	0	(57,133)	(39,579)	(24,360)
TOTAL OTHER FINANCING SOURCES (USES)	\$ (42,716)	\$ (76,813)	\$ (55,037)	\$ (52,558)	\$ (54,387)
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER)					
EXPENDITURES AND OTHER USES	\$ 58,327	\$ 37,437	\$ 18,548	\$ 8,087	\$ 17,835
FUND BALANCE - JANUARY 1 - RESTATED	\$ 374,081	\$ 336,644	\$ 318,096	\$ 310,034	\$ 292,199
FUND BALANCE - DECEMBER 31	\$ 432,408	\$ 374,081	\$ 336,644	\$ 318,121	\$ 310,034

FOOTNOTES TO TABLE:

- (1) Includes General Fund, Special Revenue Funds and Debt Service Funds, and excludes Capital Project, Enterprise and Internal Service Funds.
- (2) Legislative operations, executive operations, licensing, recording, election, special programs, personnel administration, facilities management, appraisal and assessments, financial accounting and budgeting, purchasing services, and real property management.
- (3) Law enforcement, jail operations, prosecution, superior, district and juvenile courts, judicial administration, public defense, emergency services, and probation services.
- (4) Surface water management, animal control, flood control, and resource planning.
- (5) Road construction and maintenance and traffic planning.
- (6) Youth work training, public employment, veterans services, aging, planning and community development, housing and community development, and handicapped services.
- (7) Public health operations, medical examiner services, alcoholism and substance abuse services, and community mental health and mental retardation programs.
- (8) Parks and recreation services, park development cooperative extension services and arts programs.
- (9) General long-term principal and interest and other debt service costs.
- (10) Capital project and other capital expenditures, of which some will be capitalized in the general fixed asset account group.

Source: King County Finance and Business Operations Division—Financial Management Section

Management Discussion of Financial Results

Revenues. Revenues to the General Fund grew relatively slowly between 2008 and 2009. Revenues from property taxes and other sources such as contract payments increased, while revenues from sales taxes decreased due to the national recession and the effect of annexations. Two factors accounted for the slow General Fund revenue growth in 2009: the effects of the national and regional recessions and tax limitation measures. The Puget Sound area's economy performed better than the State or the nation as a whole, but still experienced the most severe recession since the early 1970s. As of November 2010, the seasonally adjusted unemployment rate was 9.1% in the Seattle metropolitan area, compared with 9.2% for the State and 9.6% for the nation. The region's relatively better performance was driven by the strength of major industry sectors, including aerospace, software, and health services.

General Fund revenues for 2010 are not yet final, but should be close to levels anticipated in the last forecast (September 2010). No mid-year General Fund expenditure reductions were made in 2010, although a hiring freeze was in place throughout the year to save money and create vacancies for the 2011 budget process.

Tax Limitation Legislation. Future property tax revenue growth will remain low due to State legislation limiting annual property tax revenue growth to the lesser of inflation or 1%, plus new construction, without voter approval. See "Property Tax Information" above.

Annexations and Incorporations. In 2009, the State Legislature expanded a credit against the State sales tax for annexing cities that is expected to aid the County's efforts to move all urban unincorporated residents into cities. Under both the previous and the expanded legislation, cities that annex areas with over 10,000 residents are eligible for the credit, which is effectively a sales tax rate of 0.1%, applied in both the newly annexed area and within the prior city boundaries. Annexations of over 20,000 residents are eligible for a credit of 0.2%. The credit is available for a period of ten years, although the date by which an annexation must occur is 2015. Other provisions in the new legislation give incentives to cities to annex additional areas, even if they are already getting a sales tax credit for a previous annexation.

In the August 2009 election, 55% of voters approved the annexation of a significant portion of North Highline to the City of Burien. This annexation became effective on April 1, 2010. The annexation area has approximately 14,350 residents.

In November 2009, approximately 35,000 residents of the Juanita, Finn Hill, and Kingsgate neighborhoods approved annexation to the City of Kirkland. Although a measure to assume Kirkland's bonded indebtedness narrowly failed, the Kirkland City Council agreed to the annexation without this condition. The annexation will be effective as of June 1, 2011.

Also in November 2009, the residents of the Panther Lake neighborhood approved annexation to the City of Kent. The proposed annexation area has approximately 20,000 residents. This annexation became effective on July 1, 2010.

Annexation of the Fairwood neighborhood in southeast King County to Renton was on the November 2010 ballot. The measure failed by a margin of 57.6% to 42.4%. Annexations of the remainder of the North Highline neighborhood between Burien and Seattle, the West Hill neighborhood between Seattle and Renton, and several small areas in northeast King County are currently being considered.

With continued urbanization of unincorporated areas in the County and the implementation of the State's Growth Management Act, more areas are expected to pursue annexation to existing cities or incorporation as new cities. The fiscal impacts of annexation and incorporation on the County depend on the revenue-generating capacity of an area compared with its service demands. Many of the remaining unincorporated urban areas of the County do not have significant commercial activity and sales tax revenues, although these areas do have relatively high service demands.

The County routinely reviews fiscal impact studies of potential incorporations, negotiates cost-reimbursable contracts for new cities desiring to contract with the County for services, and makes budget adjustments consistent with the anticipated loss of sales tax revenue.

Fund Balances. The financial policies of the County require that appropriate levels of undesignated balances be established based on the specific characteristics and purposes of each fund.

The County's fiscal policies provide that the undesignated balance for the General Fund be maintained between 6% and 8% of estimated annual revenues. This fund balance has been maintained above 6% each year without exception over the last two decades. The 2011 Adopted Budget approved by the County Council on November 15, 2010, continues to meet this balance requirement.

The County also continues to maintain a \$15.7 million balance in the Rainy Day Reserve Fund, which was first established outside of the General Fund in 2008. Use of this fund requires a declaration of emergency by the County Council. This reserve is maintained in the 2011 Adopted Budget.

Enterprise Funds. The County has four enterprises that fund operations from sources other than the General Fund: the Transit, Water Quality, Solid Waste, and Airport Enterprise Funds. Each enterprise functions under different fiscal policies designed to make it self-sustaining with minimal risk that General Fund subsidies will be necessary during financial hardship.

2011 Budget

The County Executive submitted his 2011 Proposed Budget to the County Council on September 27, 2010. The General Fund budget totals \$612.8 million and the total budget is \$5.16 billion (the latter figure includes the biennial budget for Transit and most other Department of Transportation entities).

The General Fund budget faced about a \$59.2 million gap between the cost of continuing current programs and the revenue estimates developed and approved by the new King County Forecast Council. The gap was filled by eliminating about \$40 million of projected spending, adding approximately \$7 million of additional revenues (mostly contract revenues from cities), and recognizing changes in cost drivers, such as inflation being lower than previously expected. The County Executive's new effort to find operational efficiencies accounted for several million dollars of the savings, including programs to reduce energy use, expand the use of on-call jurors for the Superior Court, and automate the packaging of prescription medications in the jail health program. Approximately 462 positions are eliminated in the Proposed Budget, with most coming from agencies supported by the General Fund.

The County Council placed a measure on the November 2010 ballot asking voters to approve a 0.2% increase in the County sales tax, as authorized under State law. If approved, this measure would have generated about \$34 million for the General Fund in 2011. An additional \$23 million would have gone to cities within the County, apportioned by population. Revenue received by the County would have been devoted to restoring

reductions in criminal justice programs, including human services programs that support the criminal justice system. In addition, portions of the funding would have been used to construct a new courthouse for the juvenile justice system. The 2011 Proposed Budget did not assume passage of this proposal. The measure failed by a margin of 54.9% to 45.1%.

The County's new labor strategy has created significant savings for 2011. The County Executive froze salaries for all senior managers and has asked the County's unions to forego cost-of-living adjustments ("COLAs") for 2011. Several unions agreed to do so in advance of the submittal of the 2011 Proposed Budget, and these savings were used to restore some positions and services that were going to be cut. Ultimately, over 90% of County employees or their bargaining representatives agreed to forego COLAs in 2011. The resulting savings (\$23.1 million County-wide, including \$6.0 million in the General Fund) were used by the County Council to restore some of the positions and services that had been proposed for reduction.

The County Council adopted the 2011 Budget on November 15, 2010, a week ahead of schedule. General Fund spending totals approximately \$621.3 million, an increase over the 2011 Proposed Budget resulting from the application of COLA savings (previously held in a non-appropriated reserve) and a few increased fees. The total budget, including the biennial budget for the Department of Transportation, is about \$5.13 billion.

King County Investment Pool

The King County Investment Pool invests cash reserves for all County agencies and approximately 100 special districts and other public entities such as fire, school, sewer and water districts and other public authorities. It is one of the largest investment pools in the State, with an asset balance of about \$4.1 billion. On average, County agencies comprise 40% of the Investment Pool and outside districts 60%, with assets of the County's Sewer System comprising approximately 5% of the balance in the Investment Pool.

The Committee establishes County investment policies and oversees the investment portfolio to ensure that specific investments comply with both those investment policies and State law. The Investment Pool is only allowed to invest in certain types of highly-rated securities, including certificates of deposit, U.S. treasury obligations, federal agency obligations, municipal obligations, repurchase agreements and commercial paper.

As a result of unprecedented turmoil and uncertainty in global credit markets surfacing in late August 2007, the County halted all purchases of commercial paper. In early September 2007, the County commissioned an outside financial consultant, Public Financial Management ("PFM"), to review the Investment Pool's remaining investments in commercial paper and make recommendations going forward. PFM validated the County's strategy of halting the purchase of any new commercial paper and recommended holding remaining assets to their maturity dates, while monitoring new developments in the commercial paper markets.

In early 2008, the Investment Pool held four impaired commercial paper investments in its portfolio with an outstanding par value of \$207 million. For three of the four impaired investments (Cheyne, Rhinebridge and Mainsail), the County participated in restructuring auctions in 2008 and has recovered a total of \$75.2 million, or about 50% of the adjusted par value of these securities. Since December 2008, the County has been receiving monthly *pro rata* cash payments from the receiver of Victoria, the County's last remaining impaired commercial paper investment, totaling approximately \$20.7 million through January 2011. These cash payments have reduced the County's outstanding principal value in Victoria from \$52.9 million (adjusted par value) to \$32.2 million.

In September 2009, the County completed the restructuring process for Victoria and, based on consultations with legal and financial experts representing the County, elected to participate in an "Exchange Offer" in which the County's *pro rata* share of assets in Victoria are transferred to a new company titled VFNC Trust. The financial analysis indicated that the Exchange Offer may result in a potential recovery in the range of \$26.3 million to \$40.4 million, which accounts for cash collected to date and the bulk of anticipated monthly cash flow payments expected over the next five to six years (with some cash receipts extended beyond this time). The VFNC Trust investment will replace Victoria in the "impaired pool," and it will continue to be separated from the larger "performing pool." The impaired pool was established in 2008 by the County to help account for the recovery of funds from the various restructuring auctions and post-auction residual cash payments.

The County has asked PFM to conduct quarterly reviews of all assets in the Investment Pool. In its most recent assessment, dated December 30, 2010, PFM concluded that “the County’s Investment Pool appears to provide ample liquidity, is well diversified, and is of sound credit quality.” The most recent portfolio review can be obtained at the following web site link:

<http://www.kingcounty.gov/operations/Finance/Treasury/InvestmentPool.aspx>

Standard & Poor’s Rating Services, Inc. (“S&P”) first rated the Investment Pool in 2005 and granted the Investment Pool its highest rating of AA+Af. In mid-January 2008, S&P took the temporary action of suspending its rating of the Investment Pool with the understanding that the County could request a restored rating by separating any impaired investments into an impaired pool, which the County subsequently completed. S&P has since modified its rating criteria for investment pools, and the County is reconsidering the benefits and costs associated with a pool rating. The County is also in the process of upgrading its investment system software, which will be a component of any new pool rating. The County will make a final decision regarding pursuit of a new pool rating after it completes the installation of the new investment system software, expected in the first quarter of 2011.

INITIATIVES AND REFERENDA

Under the State Constitution, Washington voters may initiate legislation (either directly to the voters, or to the Legislature and then, if not enacted, to the voters) and require the Legislature to refer legislation to the voters through the power of referendum. Any law approved through the power of initiative by a majority of the voters may not be amended or repealed by the Legislature within a period of two years following enactment, except by a vote of two-thirds of all the members elected to each house of the Legislature. After two years, the law is subject to amendment or repeal by the Legislature in the same manner as other laws. The State Constitution may not be amended by initiative.

Initiatives and referenda are submitted to the voters upon receipt of a petition signed by at least 8% (initiative) and 4% (referenda) of the number of voters registered and voting for the office of Governor at the preceding regular gubernatorial election.

In recent years, several state-wide initiative petitions to repeal or reduce the growth of taxes and fees, including County taxes, have garnered sufficient signatures to reach the ballot. Some of those tax and fee initiative measures have been approved by the voters and, of those, some remain in effect while others have been invalidated by the courts. Tax and fee initiative measures continue to be filed, but it cannot be predicted whether any such initiatives might gain sufficient signatures to qualify for submission to the Legislature and/or the voters or, if submitted, whether they ultimately would become law.

Under the County Charter, County voters may initiate County legislation, including modifications to existing legislation, and through referendum may prevent legislation passed by the County Council from becoming law. The County Charter also permits legislation to be proposed by at least one half of the cities in the County.

Future Initiatives and Legislative Action

Additional initiative petitions may be filed in the future. The County cannot predict whether any such initiatives will qualify to be submitted to the voters or, if submitted, will be approved. Likewise, the County cannot predict what actions the Legislature might take, if any, regarding any future initiatives approved by the voters.

LEGAL AND TAX INFORMATION

Litigation

There is no litigation pending questioning the validity of the Notes or the power and authority of the County to issue the Notes.

The County is party to litigation in its normal course of business. The excerpts from the County's 2009 Comprehensive Annual Financial Report attached as Appendix B include Note 17 concerning non-tort legal matters. As to tort litigation, the County and its agencies are a party to litigation involving tort claims. Information under the heading "King County—Risk Management and Insurance" herein describes the County's self insurance program and the insurance policies that cover pending tort litigation. The County expects that the amount of the Insurance Fund and County insurance coverage, together with routinized budget practices, are sufficient to cover all costs associated with known tort litigation pending. Although the County cannot predict the amount of damages that may be payable, if any, in its litigation, the County does not believe that any pending litigation would materially adversely affect the ability of the County to pay when due the principal of or interest on the Notes.

Recent Developments in Non-Tort Litigation

The following provides additional information concerning two lawsuits identified in Note 17 to the excerpts from the County's 2009 Comprehensive Annual Financial Report attached as Appendix B.

Dolan v. King County. In this case, a public defender sued the County on behalf of a class of employees alleging that he should have been enrolled in the State retirement system. The Pierce County Superior Court (the "Court") has certified a class of approximately 400 public defender attorneys and staff who had worked for four nonprofit public defender entities under contract with the County within three years prior to filing the complaint (*i.e.*, since January 24, 2003). The County has vigorously defended the action, denying liability and damages.

On February 9, 2009, the Court issued a written opinion stating that "the Plaintiff and the class he represents should be enrolled in the PERS Retirement System." On April 19, 2009, the Court certified that its February 9, 2009, written decision involved "a controlling issue of law as to which there is substantial ground for a difference of opinion" and indicated that "immediate review by an appellate court" would assist the Court in resolving the litigation. The Court also stayed further action in the matter in the superior court. The County filed a motion for discretionary review with the State Supreme Court on May 8, 2009. The State Supreme Court granted the County's motion for discretionary review, and the parties have submitted their briefing to the Court. Oral argument was heard on October 28, 2010.

Cedar River Water and Sewer District v. King County. In August 2008, the Cedar River and Soos Creek Water and Sewer Districts filed a lawsuit in the Pierce County Superior Court alleging that certain Sewer System expenditures constitute a breach of the basic sewage disposal agreement and violate the King County Charter and the local government accounting statute, RCW 43.09.210. Plaintiffs are asking that these expenditures be repaid by the County general fund to the Water Quality Enterprise Fund and from the Water Quality Enterprise Fund to the Plaintiffs and participating defendants. The County disagrees with the districts' allegations and is vigorously defending this lawsuit. Thus far, the parties have filed multiple motions and cross-motions for partial summary judgment which, when taken together, would decide each of the issues in the case. The Court has ruled in favor of the County on two of the motions. As to the other issues, the Court ruled that there are issues of fact which must be resolved at trial. Trial is scheduled to commence on February 7, 2011.

Although the County cannot estimate the amount of damages that may be payable pursuant to this litigation, if any, the County does not believe that the amount of any such damages would materially adversely affect the ability of the County to make payments on the Bonds when due.

Approval of Counsel

Legal matters incident to the authorization, issuance and sale of the Notes by the County are subject to the approving legal opinion of Foster Pepper PLLC, Bond Counsel. A form of the opinion of Bond Counsel with respect to the Notes is attached hereto as Appendix A. The opinion of Bond Counsel is given based on factual representations made to Bond Counsel, and under existing law, as of the date of the initial delivery of the Notes, and Bond Counsel assumes no obligation to revise or supplement its opinion to reflect any facts or circumstances that may thereafter come to its attention, or any changes in law that may thereafter occur. The opinion of Bond Counsel is an expression of its professional judgment on the matters expressly addressed in its

opinion and does not constitute a guarantee of result. Bond Counsel will be compensated only upon the issuance and sale of the Notes.

Conflicts of Interest

The fees of Bond Counsel are contingent upon the sale of the Notes. From time to time, Bond Counsel represents the Financial Advisor on transactions unrelated to the issuance of the Notes.

Tax Exemption

Exclusion from Gross Income. In the opinion of Bond Counsel, under existing federal law and assuming compliance with applicable requirements of the Code that must be satisfied subsequent to the issue date of the Notes, interest on the Notes is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals.

Continuing Requirements. The County is required to comply with certain requirements of the Code after the date of issuance of the Notes in order to maintain the exclusion of the interest on the Notes from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of proceeds of the Notes and the facilities financed or refinanced with proceeds of the Notes, limitations on investing gross proceeds of the Notes in higher yielding investments in certain circumstances, and the requirement to comply with the arbitrage rebate requirement to the extent applicable to the Notes. The County has covenanted in the Note Ordinance to comply with those requirements, but if the County fails to comply with those requirements, interest on the Notes could become taxable retroactive to the date of issuance of the Notes. Bond Counsel has not undertaken and does not undertake to monitor the County's compliance with such requirements.

Corporate Alternative Minimum Tax. While interest on the Notes also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, under Section 55 of the Code, tax-exempt interest, including interest on the Notes, received by corporations is taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations (as defined for federal income tax purposes). Under the Code, alternative minimum taxable income of a corporation will be increased by 75% of the excess of the corporation's adjusted current earnings (including any tax-exempt interest) over the corporation's alternative minimum taxable income determined without regard to such increase. A corporation's alternative minimum taxable income, so computed, that is in excess of an exemption of \$40,000, which exemption will be reduced (but not below zero) by 25% of the amount by which the corporation's alternative minimum taxable income exceeds \$150,000, is then subject to a 20% minimum tax.

A small business corporation is exempt from the corporate alternative minimum tax for any taxable year beginning after December 31, 1997, if its average annual gross receipts during the three-taxable-year period beginning after December 31, 1993, did not exceed \$5,000,000, and its average annual gross receipts during each successive three-taxable-year period thereafter ending before the relevant taxable year did not exceed \$7,500,000.

Tax on Certain Passive Investment Income of S Corporations. Under Section 1375 of the Code, certain excess net passive investment income, including interest on the Notes, received by an S corporation (a corporation treated as a partnership for most federal tax purposes) that has Subchapter C earnings and profits at the close of the taxable year may be subject to federal income taxation at the highest rate applicable to corporations if more than 25% of the gross receipts of such S corporation is passive investment income.

Foreign Branch Profits Tax. Interest on the Notes may be subject to the foreign branch profits tax imposed by Section 884 of the Code when the Notes are owned by, and effectively connected with a trade or business of, a United States branch of a foreign corporation.

Possible Consequences of Tax Compliance Audit. The Internal Revenue Service (the "IRS") has established a general audit program to determine whether issuers of tax-exempt obligations, such as the Notes, are in compliance with requirements of the Code that must be satisfied in order for interest on those obligations to

be, and continue to be, excluded from gross income for federal income tax purposes. Bond Counsel cannot predict whether the IRS would commence an audit of the Notes. Depending on all the facts and circumstances and the type of audit involved, it is possible that commencement of an audit of the Notes could adversely affect the market value and liquidity of the Notes until the audit is concluded, regardless of its ultimate outcome.

Certain Other Federal Tax Consequences

Notes Not “Qualified Tax Exempt Obligations” for Financial Institutions. Section 265 of the Code provides that 100% of any interest expense incurred by banks and other financial institutions for interest allocable to tax exempt obligations acquired after August 7, 1986, will be disallowed as a tax deduction. However, if the tax exempt obligations are obligations other than private activity bonds, are issued by a governmental unit that, together with all entities subordinate to it, does not reasonably anticipate issuing more than \$10,000,000 of tax exempt obligations (other than private activity bonds and other obligations not required to be included in such calculation) in the current calendar year, and are designated by the governmental unit as “qualified tax exempt obligations,” only 20% of any interest expense deduction allocable to those obligations will be disallowed.

The County is a governmental unit that, together with all subordinate entities, reasonably anticipates issuing more than \$10,000,000 of tax exempt obligations (other than private activity bonds and other obligations not required to be included in such calculation) during the current calendar year and has **not** designated the Notes as “qualified tax exempt obligations” for purposes of the 80% financial institution interest expense deduction. Therefore, no interest expense of a financial institution allocable to the Notes is deductible for federal income tax purposes.

Reduction of Loss Reserve Deductions for Property and Casualty Insurance Companies. Under Section 832 of the Code, interest on the Notes received by property and casualty insurance companies will reduce tax deductions for loss reserves otherwise available to such companies by an amount equal to 15% of tax exempt interest received during the taxable year.

Effect on Certain Social Security and Retirement Benefits. Section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take receipts or accruals of interest on the Notes into account in determining gross income.

Other Possible Federal Tax Consequences. Receipt of interest on the Notes may have other federal tax consequences as to which prospective purchasers of the Notes may wish to consult their own tax advisors.

Continuing Disclosure Undertaking

To meet the requirements of United States Securities and Exchange Commission (“SEC”) Rule 15c2-12(b)(5) (the “Rule”), as applicable to a participating underwriter for the Notes, the County will undertake (the “Undertaking”) for the benefit of holders of the Notes to provide or cause to be provided, either directly or through a designated agent, to the Municipal Securities Rulemaking Board (“MSRB”), in an electronic format as prescribed by the MSRB, accompanied by identifying information as prescribed by the MSRB, timely notice (not in excess of ten business days after the occurrence of the event) of the occurrence of any of the following events with respect to the Notes:

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults, if material;
- (iii) unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) substitution of credit or liquidity providers, or their failure to perform;
- (vi) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Notes;
- (vii) modifications to the rights of holders of the Notes, if material;

- (viii) Bond calls (other than scheduled mandatory redemptions of Term Bonds), if material, and tender offers for the Bonds;
- (ix) defeasances;
- (x) release, substitution, or sale of property securing repayment of the Notes, if material;
- (xi) rating changes;
- (xii) bankruptcy, insolvency, receivership, or similar event of the County (a “Bankruptcy Event”);
- (xiii) the consummation of a merger, consolidation, or acquisition involving the County or the sale of all or substantially all of the assets of the County, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material, and
- (xiv) appointment of a successor or additional trustee or the change of name of a trustee, if material.

A Bankruptcy Event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the County in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the County, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

Amendment of Undertaking. The Undertaking is subject to amendment after the primary offering of the Notes without the consent of any holder of any Note, or of any broker, dealer, municipal securities dealer, participating underwriter, rating agency or the MSRB, under the circumstances and in the manner permitted by the Rule.

The County will give notice to the MSRB of the substance (or provide a copy) of any amendment to the Undertaking and a brief statement of the reasons for the amendment.

Termination of Undertaking. The County’s obligations under the Undertaking will terminate upon the legal defeasance of all of the Notes. In addition, the County’s obligations under the Undertaking will terminate if those provisions of the Rule which require the County to comply with the Undertaking become legally inapplicable in respect of the Notes for any reason, as confirmed by an opinion of nationally recognized bond counsel or other counsel familiar with federal securities laws delivered to the County, and the County provides timely notice of such termination to the MSRB.

Remedy for Failure to Comply with Undertaking. If the County or any other obligated person fails to comply with the Undertaking, the County will proceed with due diligence to cause such noncompliance to be corrected as soon as practicable after the County learns of that failure. No failure by the County or other obligated person to comply with the Undertaking will constitute a default in respect of the Notes. The sole remedy of any holder of a Note will be to take such actions as that holder deems necessary, including seeking an order of specific performance from an appropriate court, to compel the County or other obligated person to comply with the Undertaking.

Prior Compliance. The County has entered into written undertakings under the Rule with respect to all of its obligations subject thereto. In 2008, the County filed its 2007 CAFR on August 5th, five days later than the seven-month deadline included in its undertakings. With this exception, the County believes that it has complied with the obligations contained within its undertakings and is currently in compliance with all such undertakings.

OTHER NOTE INFORMATION

Ratings

The County has applied to Moody's Investors Service, Fitch Ratings and Standard & Poor's, a Division of The McGraw-Hill Companies, for ratings on the Notes. The ratings will reflect only the views of the rating agencies, and an explanation of the significance of the ratings may be obtained from each rating agency. There is no assurance that the ratings will be retained for any given period of time or that the ratings will not be revised downward or withdrawn entirely by the rating agencies if, in their judgment, circumstances so warrant. Any such downward revision or withdrawal of the ratings will be likely to have an adverse effect on the market price of the Notes.

Financial Advisor

The County has retained Seattle-Northwest Securities Corporation, Seattle, Washington, as financial advisor (the "Financial Advisor") in connection with the preparation of the County's financing plans and with respect to the authorization and issuance of the Notes. The Financial Advisor is not obligated to undertake and has not undertaken to make any independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information contained in the Official Statement. Seattle-Northwest Securities Corporation is a full service investment banking firm that provides financial advisory and underwriting services to state and local governmental entities in the Pacific Northwest. While under contract to the County, the Financial Advisor may not participate in the underwriting of any County debt.

Purchaser of the Notes

The Notes are being purchased by _____ (the "Purchaser") at a price of \$_____, and will be reoffered at a price of \$_____, as set forth on the cover of this Official Statement. The Purchaser may offer and sell the Notes to certain dealers (including dealers depositing Notes into investment trusts) and others at prices lower than the initial offering price set forth on the inside cover hereof, and such initial offering price may be changed from time to time, by the Purchaser. After the initial public offering, the public offering price may be varied from time to time.

Official Statement

All forecasts, estimates and other statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not intended to be construed as a contract or agreement between the County and the purchasers or holders of any of the Notes. The information contained in this Official Statement is presented for the guidance of prospective purchasers of the Notes described herein. The information has been compiled from official sources and, while not guaranteed by the County, is believed to be correct.

At the time of the delivery of the Notes, one or more officials of the County will furnish a certificate stating that to the best of his or her knowledge and belief at the time of delivery of the Notes, this Official Statement and supplemental information furnished by the County did not and does not contain any untrue statements of material fact or omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading in any material respect.

The County has authorized the execution and delivery of this Official Statement.

KING COUNTY, WASHINGTON

By: _____
Ken Guy
Director of Finance and Business Operations Division

APPENDIX A
FORM OF BOND COUNSEL OPINION

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FOSTER PEPPER PLLC

[FORM OF APPROVING LEGAL OPINION]

King County, Washington

Re: King County, Washington, \$_____

Limited Tax General Obligation Bond Anticipation Notes, 2011, Series A

We have served as bond counsel to King County, Washington (the "County"), in connection with the issuance of the above referenced notes (the "Notes"), and in that capacity have examined such law and such certified proceedings and other documents as we have deemed necessary to render this opinion. As to matters of fact material to this opinion, we have relied upon representations contained in the certified proceedings and other certifications of public officials furnished to us, without undertaking to verify the same by independent investigation.

The Notes are issued by the County pursuant to Ordinance No. 16994 and Motion No. _____ (together, the "Note Legislation") to provide a portion of the interim financing for the County's Capital Improvement Program for Solid Waste Facilities and the Solid Waste Transfer and Waste Management Plan and to pay the costs of issuance and sale of the Notes, all as set forth in the Note Legislation.

Reference is made to the Notes and the Note Legislation for the definitions of capitalized terms used and not otherwise defined herein.

We have not been engaged to review and thus express no opinion concerning the completeness or accuracy of any official statement, offering circular or other sales or disclosure material relating to the issuance of the Notes or otherwise used in connection with the Notes.

Under the Internal Revenue Code of 1986, as amended (the "Code"), the County is required to comply with certain requirements after the date of issuance of the Notes in order to maintain the exclusion of the interest on the Notes from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of Note proceeds and the facilities financed or refinanced with Note proceeds, limitations on investing gross proceeds of the Notes in higher yielding investments in certain circumstances and the arbitrage rebate requirement to the extent applicable to the Notes. The County has covenanted in the Note Legislation to comply with those requirements, but if the County fails to comply with those requirements, interest on the Notes could become taxable retroactive to the date of issuance of the Notes. We have not undertaken and do not undertake to monitor the County's compliance with such requirements.

Based upon the foregoing, as of the date of initial delivery of the Notes to the purchaser thereof and full payment therefor, it is our opinion that under existing law:

1. The County is a duly organized and legally existing corporate body politic under the laws of the State of Washington;

2. The Notes have been duly authorized and executed by the County and are issued in full compliance with the provisions of the Constitution and laws of the State of Washington and the ordinances and motions of the County relating thereto;

3. The Notes constitute valid and binding general obligations of the County payable from annual ad valorem taxes to be levied within the constitutional and statutory tax limitations provided by law without a vote of the electors of the County on all of the taxable property within the County, except only to the extent that enforcement of payment may be limited by bankruptcy, insolvency or other laws affecting creditors' rights and by the application of equitable principles and the exercise of judicial discretion in appropriate cases; and

4. Assuming compliance by the County after the date of issuance of the Notes with applicable requirements of the Code, the interest on the Notes is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals; however, while interest on the Notes also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, interest on the Notes received by corporations is to be taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations, interest on the Notes received by certain S corporations may be subject to tax, and interest on the Notes received by foreign corporations with United States branches may be subject to a foreign branch profits tax. We express no opinion regarding any other federal tax consequences of receipt of interest on the Notes.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur.

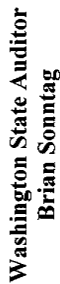
We bring to your attention the fact that the foregoing opinions are expressions of our professional judgment on the matters expressly addressed and do not constitute guarantees of result.

Respectfully submitted,

APPENDIX B

EXCERPTS FROM THE COUNTY'S 2009 COMPREHENSIVE ANNUAL FINANCIAL REPORT

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September 10, 2010

Council
King County
Seattle, Washington

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of King County, Washington, as of and for the year ended December 31, 2009, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Building Development and Management Corporations fund which represent 11 percent, -0.6 percent, and 2 percent, respectively of the assets, net assets and revenues of the governmental activities, and 6 percent and 0 percent, respectively, of the assets, net assets and revenues of the business-type activities. We also did not audit the financial statements of the Water Quality Enterprise Fund, a major fund, which additionally represents 66 percent, 25 percent and 27 percent, respectively, of the assets, net assets, and revenues of the business-type activities. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Building Development and Management Corporations fund and the Water Quality Enterprise Fund, is based on the report of the other auditors.

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. The financial statements of the Building Development and Management Corporations Fund and Water Quality Enterprise Fund were not audited in accordance with *Government Auditing Standards*. 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 and the report of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the

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governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of King County, Washington, as of December 31, 2009, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General and Public Health funds, 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 will also issue our report dated September 10, 2010, on our consideration of the County'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 3 through 19, infrastructure modified approach information on pages 125 through 127 and information on postemployment benefits other than pensions on page 127 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We and the other auditors 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.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying information is listed as combining financial statements and supplemental information on pages 129 through 232B. This information is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has been subjected to auditing procedures applied in the audit of the basic financial statements and, in our opinion, based on our audit and the report of the other auditors, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The information identified in the table of contents as the Introductory and Statistical Sections is presented for purposes of additional analysis and is not a required part of the basic financial statements of the County. Such information has not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Sincerely,

Bill Dantz

BRIAN SONNTAG, CGFM
STATE AUDITOR

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of King County's Comprehensive Annual Financial Report (CAFR) presents a narrative overview and analysis of the financial activities of the County for the year ended December 31, 2009. We encourage readers to consider this information in conjunction with that furnished in the letter of transmittal, which can be found preceding this narrative, and with the County's financial statements and notes to the financial statements, which follow.

FINANCIAL HIGHLIGHTS – PRIMARY GOVERNMENT

- As of December 31, 2009, the assets of the County exceeded its liabilities by \$4,267.9 million (net assets). Because all of the County's net assets are either invested in capital assets or restricted as to use, the combined unrestricted net assets showed a \$311.0 million deficit at the end of the year.
- In 2009 the County's total net assets increased by 4.7 percent or \$190.3 million. The governmental net assets increased by 6.4 percent or \$124.1 million, and the business-type net assets increased by 3.1 percent or \$66.2 million.
- As of December 31, 2009, the County's governmental funds reported combined ending fund balances of \$521.6 million. Approximately 74 percent or \$386.4 million is unreserved fund balance available for spending at the government's discretion within the purposes specified for the County's funds.
- At the end of 2009 the unreserved, undesignated fund balance for the General Fund was \$64.3 million, amounting to 10.8 percent of total General Fund expenditures for 2009. Total fund balance for the General Fund decreased 10.5 percent or \$9.7 million for the year.
- The County's total bonded debt increased by 12.5 percent or \$471.9 million in 2009 due to new bond issuance of \$80.8 million offset by \$137.3 million of debt service principal payments.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the County's basic financial statements, which include three components: (1) government-wide financial statements; (2) fund financial statements; and (3) notes to the financial statements. This report also contains required supplementary information and other supplementary information in addition to the basic financial statements.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with an overview of the County's finances in a manner similar to a private sector business. The statements provide short-term and long-term information about the County's financial position, which assists in assessing the County'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. This means they follow methods that are similar to those used by most businesses, taking into account all revenues and expenses connected with the fiscal year, even if cash involved has not been received or paid. The government-wide financial statements include two statements:

The **statement of net assets** presents all of the County's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in the County's net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The **statement of activities** presents information showing how the County'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, such as revenues pertaining to uncollected taxes and expenses pertaining to earned but unused vacation and sick leave.

Both of the government-wide financial statements have separate sections for three different types of County programs or activities:

Governmental activities. The activities in this section are principally supported by taxes and intergovernmental revenues. Most of the County's basic services fall into this category, including general government; law, safety and justice; physical environment; transportation; economic environment; mental and physical health; culture and recreation; and debt service. Also included within the governmental activities are the 2009 operations of the County's flood control zone district and ferry district. Although legally separate from the County, these component units are blended with the primary government (King County) because of their governance relationship with the County. Four Washington state nonprofit corporations, each of which are single-purpose entities that were created to assist the County in the development and construction of public buildings, are reported as blended component units of the County. A single internal service fund, the Building Development and Management Corporations Fund, is used to blend the four nonprofit corporations' activities and balances with the primary government.

Business-type activities. These functions are intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. These business-type activities include the operation of the County's public transportation system, wastewater treatment facilities, solid waste disposal facilities, airport, and other services.

Discretely presented component units. The government-wide financial statements include not only King County itself as the primary government, but also six legally separate entities for which the County is financially accountable: the Harborview Medical Center (HMC), the Washington State Major League Baseball Stadium Public Facilities District (PFD), the Cultural Development Authority (CDA) of King County, doing business as 4Culture, Flood Control Zone District, King County Ferry District, and four Washington state nonprofit corporations each of which are single-purpose entities that were created to assist the County in the development and construction of public buildings. Financial information for the first three of these component units is reported separately from the financial information presented for the primary government itself in a single, aggregated presentation in the government-wide financial statements. Individual financial statements for the HMC, the PFD, and the CDA can be found immediately following the fiduciary funds financial statements in the Basic Statements section of this report.

Fund Financial Statements

The fund financial statements are designed to report information about groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

All of the funds of the County can be divided into three categories: **governmental funds**, **proprietary funds**, and **fiduciary funds**.

Governmental funds. Most of the services provided by the County are accounted for in governmental funds. Governmental funds are used to account for essentially the same functions that are reported as governmental activities in the government-wide financial statements. Unlike the government-wide financial statements, however, the governmental funds 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 County.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds 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 funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The County maintains a general fund and several other individual governmental funds organized according to their type (special revenue, debt service, and capital projects). Two governmental funds, the General Fund and the Public Health Fund, are considered to be major funds for financial reporting purposes. Each of the major funds is presented in a separate column in the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor funds is provided in the form of combining and subcombining statements in the Governmental Funds section of this report, following the Basic Statements section.

The County adopts an annual budget appropriated at the department/division level for the General Fund and at the fund level for the Public Health Fund. A budgetary comparison statement has been provided for each of the two major governmental funds.

The basic governmental funds financial statements can be found immediately following the government-wide statements.

Proprietary funds. Proprietary funds are generally used to account for services for which the County charges customers a fee. Proprietary funds provide the same type of information as shown in the government-wide financial statements, only in more detail. Like the government-wide financial statements, proprietary funds financial statements use the accrual basis of accounting. The basic proprietary funds financial statements can be found immediately following the governmental funds financial statements.

The County maintains the following two types of proprietary funds:

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The proprietary funds financial statements provide separate information for the Water Quality Enterprise and the Public Transportation Enterprise, both considered to be major funds of the County for financial reporting purposes. All other enterprise funds are aggregated into a single presentation within the proprietary funds financial statements.

Internal service funds are used to report activities that provide services to the County's other programs and activities on a cost reimbursement basis. The County uses internal service funds to account for its motor pool, information and telecommunications services, facilities management, risk management, employee benefits, building development and construction, and financial and various other administrative services. These services predominantly benefit governmental rather than business-type functions and have been included within governmental activities in the government-wide financial statements. One internal service fund that provides equipment and fleet maintenance and procurement for the Water Quality Enterprise is included within the business-type activities in the government-wide financial statements but is combined with all other internal service funds into a single aggregated presentation in the proprietary funds financial statements.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds include the investment trust funds, used to report investment activity conducted by the County on behalf of legally separate entities, such as special districts and public authorities that are not part of the County's reporting entity, and the agency funds. Since the resources of these funds are not available to support the County's own programs, they are not reflected in the government-wide financial statements. The accounting for fiduciary funds is much like that used for proprietary funds. The basic fiduciary funds financial statements can be found immediately following the proprietary funds 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 individual component unit financial statements in the Basic Statements section of this report.

Other information

Required supplementary information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information on infrastructure assets reported using the modified approach. The required supplementary information immediately follows the notes to the financial statements in the Basic Statements section of this report.

Combining Statements. The combining and subcombining statements, referred to earlier, are presented in separate sections immediately following the required supplementary information.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Analysis of Net Assets

Net assets may serve over time as a useful indicator of a government's financial position. As indicated in the condensed financial information on the following page, which was derived from the government-wide Statement of Net Assets, the County's combined net assets (governmental and business-type activities) were \$4,267.9 million at the end of 2009. This is an increase of 4.7 percent or \$190.3 million over the net assets of the previous year, as restated.

Governmental activities. Although net assets of the County's governmental activities increased 6.4 percent (\$124.1 million) to \$2,049.5 million, all of the net assets are either subject to external restrictions as to how they may be used, or are invested in capital assets (e.g., land, buildings, infrastructure, right-of-way, equipment, and work in progress) less any related outstanding debt used to acquire those assets. Consequently, unrestricted net assets for governmental activities

showed a \$276.2 million deficit at the end of 2009. This is a \$58.6 million decrease in the deficit in unrestricted net assets from that of fiscal year-end 2008.

	Net Assets (in thousands)					
	Governmental Activities			Business-type Activities		
	2009	2008	2009	2008	2009	2008
Assets						
Current and other assets	\$ 1,004,062	\$ 1,012,265	\$ 1,173,751	\$ 924,301	\$ 2,177,813	\$ 1,936,566
Capital assets	2,446,938	2,538,928	4,869,586	4,467,868	7,516,524	7,006,796
Total Assets	3,451,000	3,551,193	6,043,337	5,392,169	9,694,337	8,943,362
Liabilities						
Long-term liabilities	1,406,265	1,444,180	3,472,369	2,937,263	4,878,434	4,381,443
Other liabilities	195,239	181,632	352,557	302,689	647,796	484,321
Total Liabilities	1,601,504	1,625,812	3,824,926	3,239,952	5,526,430	4,865,764
Net Assets						
Invested in capital assets, net of related debt	1,851,259	1,805,977	1,603,232	1,697,903	3,454,491	3,503,880
Restricted	474,425	454,219	649,946	564,854	1,124,373	1,019,073
Unrestricted	(276,188)	(334,815)	(34,769)	(110,540)	(310,957)	(445,355)
Total net assets	\$ 2,049,496	\$ 1,925,381	\$ 2,218,411	\$ 2,152,217	\$ 4,267,907	\$ 4,073,598

This deficit does not mean that the County's governmental activities do not have resources available to pay their obligations in the coming year. The increase in net assets for governmental activities in 2009 reflects the County's ability, on an annual basis, to meet its current obligations in those activities including the related debt service requirements. The deficit in unrestricted net assets is the result of the governmental activities having long-term commitments that are greater than currently available resources. Specifically, the County's governmental activities include general obligation debt of \$322.0 million, \$69.6 million less than at the end of 2008, for which no corresponding assets are recorded but for which future revenues are obligated.

Of the amount of debt with no corresponding assets, 66.7 percent or \$214.6 million is related to assets that are recorded on the books of two of the County's three discretely presented component units: the Washington State Major League Baseball Stadium PFD (\$67.8 million), and the Harborview Medical Center (\$146.8 million). As discretely presented component units, these entities are not part of the primary government or incorporated into this analysis. The remainder of the debt, for which there are no corresponding assets, consists of \$86.3 million associated with the Kingdome facility which was demolished in 2000, and \$21.1 million used to finance assets that have been contributed by the County to other programs and services that benefit the citizens of the County.

Business-type activities. There was an increase of 3.1 percent to \$2,218.4 million in the net assets of business-type activities. Of the total net assets for business-type activities, 72.3 percent or \$1,603.2 million is invested in capital assets (e.g., land, buildings, vehicles, plant assets, equipment, and work in progress), net of related debt. The business-type activities use these capital assets to provide services to their customers; consequently, these assets are not available for future spending. The resources needed to repay the debt incurred to acquire these assets must be provided from other sources since the capital assets themselves cannot

be liquidated for these liabilities. Another 29.3 percent of the total net assets of business-type activities is restricted as to use for capital construction (\$402.4 million), debt service (\$211.7 million), and regulatory assets and environmental liabilities (\$35.9 million). The remaining negative 1.6 percent or negative \$34.8 million is unrestricted net assets. Any balance in the unrestricted net assets for business-type activities cannot be used to reduce the unrestricted net asset deficit in governmental activities.

The combination of the \$276.2 million deficit in the governmental activities unrestricted net assets and the \$34.8 million deficit in the business-type activities unrestricted net assets resulted in the deficit of \$311.0 million in total unrestricted net assets for the County as a whole.

Analysis of Changes in Net Assets

The increase in the County's total net assets in 2009 resulted from revenues exceeding related expenses and reflects the County's ability to meet its ongoing obligations including its debt service requirements. Approximately 42.8 percent of the County's total revenues came from taxes, primarily Property taxes and the Retail sales and use taxes. Charges for various goods and services provided 41.8 percent of the total revenues, while 14.3 percent was derived from operating and capital grants and contributions, including state and federal assistance. The County's expenses cover a range of services, the largest of which were for law, safety and justice; mental and physical health; public transportation; and water quality.

The condensed financial information on the following page is derived from the government-wide Statement of Activities and reflects how the County's net assets changed during 2009.

Governmental activities. Governmental activities accounted for 65.2 percent of the total growth in net assets of the County, resulting in an increase in the County's governmental activities net assets of \$124.1 million. Program revenues for governmental activities total \$854.1 million and include the amount paid by those who directly benefit from the programs (\$571.7 million), and by other governments and organizations that subsidized certain programs with operating grants and contributions (\$206.8 million), and capital grants and contributions (\$75.6 million). In 2009 the cost of all governmental activities was \$1,608.6 million. The County paid for the \$734.5 million remaining public benefit portion of governmental activities with \$624.4 million in property taxes, \$179.1 million in retail sales and use taxes, and \$74.3 million in other revenues, including other taxes and interest earnings. As discussed earlier, all of the increase in governmental activities net assets was either restricted as to use or used to acquire capital assets for use in providing services.

The growth in net assets of governmental activities of \$124.1 million is primarily due to the following factors: the collection of revenues (mostly taxes) to fund repayments of long-term debt (\$65.0 million); the collection of revenues for the acquisition of capital assets (\$7.0 million); donations of capital assets (primarily infrastructure) to the county (\$57.4 million); taxes collected by Special Revenue Funds (\$3.1 million) by Automated Fingerprint Identification System, \$10.3 million by Emergency Medical Services, \$12.2 million by the Flood Control Zone District, \$14.1 million by the Ferry District, and \$19.8 million by Mental Illness and Drug Dependency Fund) in excess of the services provided in 2009 (\$59.5 million). In addition, the book value of capital assets sold, retired, or transferred (\$39.2 million) and depreciation expense (\$28.7 million) were negative factors in the change in net assets.

Changes in Net Assets
(in thousands)

	Governmental Activities			Business-Type Activities			Total
	2009	2008	2007	2009	2008	2007	2008
Revenues							
Program revenues							
Charges for services	\$ 571,453	\$ 538,951	\$ 632,427	\$ 581,870	\$ 1,204,080	\$ 1,120,821	\$ 1,120,821
Operating grants and contributions	204,826	188,597	90,570	72,458	297,574	261,055	261,055
Capital grants and contributions	74,592	78,259	38,020	43,155	113,612	121,414	121,414
General revenues							
Property taxes	624,448	599,583	-	-	624,448	599,583	599,583
Retail sales and use taxes	179,077	193,827	376,968	432,934	556,045	626,761	626,761
Other taxes	54,234	57,297	-	-	54,234	57,297	57,297
Unrestricted interest earnings	20,029	34,897	13,558	22,850	33,387	57,747	57,747
Total revenues	1,731,859	1,691,411	1,151,343	1,153,267	2,883,402	2,844,278	2,844,278
Expenses ^(a)							
General government ^(b)	128,051	148,271	-	-	128,051	148,271	148,271
Law, safety and justice	602,191	580,105	-	-	602,191	580,105	580,105
Physical environment	84,732	73,638	-	-	84,732	73,638	73,638
Transportation	119,169	115,090	-	-	119,169	115,090	115,090
Economic environment	105,515	99,839	-	-	105,515	99,839	99,839
Mental and physical health	458,184	421,355	-	-	458,184	421,355	421,355
Culture and recreation	51,788	56,285	-	-	51,788	56,285	56,285
Interest and other debt service costs	54,010	51,455	-	-	54,010	51,455	51,455
Airport	-	-	24,725	15,842	-	24,725	15,842
Public transportation	-	-	673,436	667,651	673,436	667,651	667,651
Solid waste	-	-	91,347	110,348	91,347	110,348	110,348
Water quality	-	-	287,792	257,249	287,792	257,249	257,249
Other enterprise activity	-	-	7,153	7,540	7,153	7,540	7,540
Total expenses	1,608,440	1,568,058	1,084,453	1,038,430	2,493,073	2,426,458	2,426,458
Increase in net assets before transfers	123,219	123,373	67,090	94,637	190,309	218,010	218,010
Transfers	896	2,858	(896)	(2,858)	-	-	-
Increase in net assets	124,115	126,231	66,194	91,779	190,309	218,010	218,010
Net assets, beginning of year (restated) ^(c)	1,925,381	1,799,150	2,152,217	2,060,438	4,077,598	3,859,588	3,859,588
Net assets, end of year	\$ 2,049,496	\$ 1,925,381	\$ 2,218,411	\$ 2,152,217	\$ 4,267,907	\$ 4,077,598	\$ 4,077,598

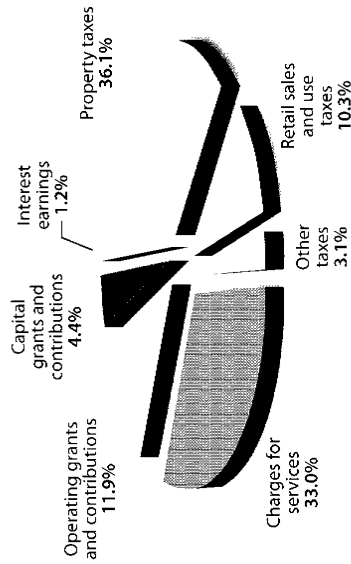
(a) Expenses for all functions include the allocation of indirect expenses from the general government function. The amount of indirect general government expenses allocated to each function is shown in a separate column in the County's Comprehensive Statement of Activities outside the column that reflects the operating expenses incurred for each function. As a result of this allocation, the \$128.1 million in General government expense above consists of \$152.5 million in direct program expenses and loss on the disposal (transfer) of capital assets of \$36.5 million reduced by a net allocation of \$60.9 million to other County functions.

(b) General government expenses includes loss on sale/disposal/transfer of capital assets of \$36.5 million and \$91.6 million in 2009 and 2008, respectively.

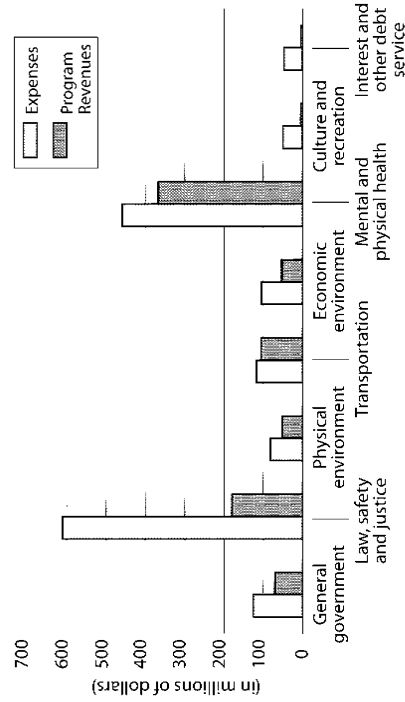
(c) Net assets, beginning of year has been restated, see Note 17, "Restrictions, Reserves, Designations, and Changes in Equity" - Restatements of Beginning Balances.

The charts below illustrate the County's revenues by source and its expenses and program revenues by function for its governmental activities:

Revenues by Source — Governmental Activities
2009



Expenses and Program Revenues — Governmental Activities
2009



Charges for services provided 33.0 percent, and property taxes 36.1 percent, of total revenues for governmental activities. One of the most significant expense amounts is for Law, safety and justice, a function that requires the greatest usage of general government revenues. The primary revenue sources for Mental and physical health are charges for services and operating grants and contributions, which paid for 80.1 percent of the activities of that function. In 2009 Transportation received \$57.3 million in infrastructure and right-of-way capital assets from developers, which enabled program revenues to fall short of expenses by only \$10.3 million. These capital contributions accounted for 46.1 percent of the 2009 increase in governmental activities net assets.

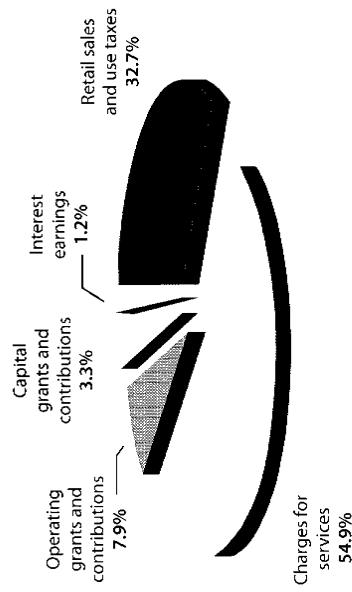
A comparison of the cost of services by function for the County's governmental activities is shown below, along with the revenues used to cover the net expenses of the governmental activities (in thousands):

(Expenses) Net of Program Revenues	
General government	\$ (54,064)
Law, safety and justice	(426,628)
Physical environment	(31,134)
Transportation	(10,307)
Economic environment	(48,881)
Mental and physical health	(91,002)
Culture and recreation	(44,662)
Interest and other debt service costs	(47,891)
Total expenses	<u>(734,569)</u>
General revenues	
Property taxes	624,448
Retail sales and use taxes	179,077
Other taxes	54,234
Unrestricted interest earnings	20,029
Transfers from Business-type	896
Increase in net assets	<u>\$ 124,115</u>

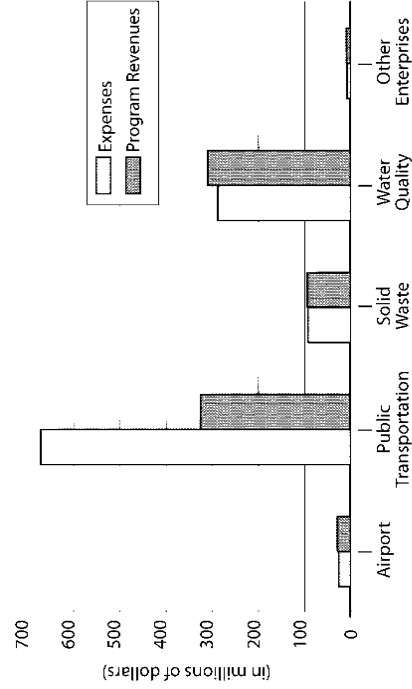
Business-type activities. Business-type activities increased the County's net assets by \$66.2 million in 2009, accounting for 34.8 percent of the total growth in net assets of the County. Total revenues for business-type activities were \$1,151.5 million. The cost of all business-type activities for 2009 was \$1,084.5 million. Of that amount, 70.2 percent or \$761.0 million was funded from program revenues, including \$632.4 million in charges for services, \$90.6 million from other governments and organizations that subsidized certain programs with operating grants, and \$38.0 million in capital grants and contributions. The Public Transportation program operations are subsidized by retail sales and use tax revenues, which amounted to \$377 million in 2009. In addition, business-type activities earned \$13.6 million in unrestricted interest earnings.

The charts on the following page illustrate the County's business-type revenues by source and business-type expenses and program revenues by function:

**Revenues by Source — Business-type Activities
2009**



**Expenses and Program Revenues — Business-type Activities
2009**



FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

As noted earlier, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

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

As of December 31, 2009, the County's governmental funds reported combined ending fund balances of \$521.6 million, an increase of \$5.0 million in comparison with the prior year. Approximately 74 percent (\$386.4 million) constitutes unreserved fund balance which is available for spending in the coming year at the County's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed to the liquidation of outstanding contracts and purchase orders of the prior fiscal year (\$89.6 million), to pay debt service (\$19.8 million), for prepayments (\$8.1 million), and for a variety of other restricted purposes (\$17.8 million).

Overall governmental fund revenues totaled approximately \$1,747.7 million for 2009, which represents an increase of 3.3 percent, or \$56.6 million, over the fiscal year ended December 31, 2008. The increase was primarily due to growth in Property taxes (up \$23.6 million), intergovernmental revenues (up \$50.7 million), and Charges for services (up \$11.5 million) while four revenue sources declined in 2009 from the 2008 level: Retail sales and use taxes (down \$14.8 million), Business and other taxes (down \$5.0 million), Interest earnings (down \$12.3 million), and Miscellaneous revenues (down \$0.6 million). In 2009, expenditures for governmental funds totaled \$1,832.3 million, an increase of 7.6 percent or \$129.6 million from the previous fiscal year. Current expenditures were up 7.4 percent or \$108.7 million from the previous fiscal year. Debt service expenditures (excluding the payment to escrow agent) were up \$35.3 million (29.5 percent), and Capital outlay expenditures were down \$20.5 million (19.4 percent). Total expenditures for governmental funds exceeded revenues by \$84.5 million in 2009 compared to \$11.5 million for the 2008 fiscal year. The change in fund balances in 2009 of \$5.0 million included a change of \$58.6 million in Non-major Special Revenue Funds and a decrease of \$53.3 million in Capital Projects Funds. The \$58.6 million change in fund balances of Non-major Special Revenue Funds included \$10.3 million in the Emergency Medical Services Fund, \$12.7 million in the Flood Control Zone District, \$14.1 million in the King County Ferry District, and \$19.8 million in the Mental Illness and Drug Dependency Fund.

The **General Fund** is the chief operating fund for the County. At the end of the fiscal year, total fund balance for the General Fund was \$82.4 million. Unreserved fund balance, the amount considered available to spend, totaled \$67.5 million. Of that amount, \$3.2 million has been designated and is not considered available to spend. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 11.4 percent of total General Fund expenditures, a decrease from the 13.6 percent of a year ago. Total fund balance represents 13.9 percent of total General Fund expenditures, a decrease from the 16.3 percent of a year ago and a substantial decrease from the 24.7 percent as of the end of 2007.

The fund balance of the County's General Fund decreased \$9.7 million during 2009, while the fund balance decrease in 2008 was \$43.4 million. Revenues were up \$9.6 million (1.5 percent) in 2009, expenditures declined \$4.5 million (0.75 percent) and Other Financing Uses declined

\$22.8 million. While property tax revenues increased by \$7.2 million, intergovernmental revenues were down \$10.7 million and charges for services were up \$13.1 million, several other business and other taxes down \$1.9 million, and interest earnings down \$7.3 million), which resulted in the net increase in revenues in 2009 from the 2008 level of \$9.6 million. Expenditures were down \$4.5 million due to transfer of the Children and Family Services Program from the General Fund to a new special revenue fund which had expenditures of \$15.2 million in 2008. Excluding that factor expenditures would have been up \$10.7 million in 2009 (due to an increase of \$11.5 million in expenditures in the Law, safety, and justice function including increased expenditures of \$4.1 million in the Sheriff's Office and \$12.1 million in Adult and Juvenile Detention).

The **Public Health Fund**, a special revenue fund, is used to account for health service centers located throughout the County and other public health programs that promote health and prevent disease to King County residents. At the end of 2009 it had a total fund balance of \$4.3 million (down \$44 thousand in 2009), of which \$2.8 million was unreserved and available for spending. While revenues were up \$5.1 million in 2009 from the 2008 level (including an increase of \$2.5 million in intergovernmental revenues and \$2.9 million in charges for services) expenditures were up \$2.1 million in 2009 and other financing sources were down \$1.1 million resulting in a decrease in fund balance of \$44 thousand in 2009 vs. \$2.0 million in 2008.

Proprietary Funds

The County's proprietary funds provide the same type of information found in the government-wide financial statements for business-type activities. This information is presented on the same basis of accounting, but provides more detail.

As previously discussed in the business-type activities, the County's net assets increased by \$49.5 million as a result of operations in the proprietary funds adjusted to reflect the consolidation of internal service fund activities related to the enterprise funds. Of the two major proprietary funds, the Public Transportation Enterprise provided \$29.4 million of this increase while the net assets of the Water Quality Enterprise increased by \$8.0 million. In 2009, net assets of the I-Net Enterprise declined by \$710 thousand.

The **Public Transportation Enterprise** accounts for the operations, maintenance, capital improvements, and expansion of public transportation and related facilities in the County. At the end of 2009 the Public Transportation Enterprise had total net assets of \$1,454.1 million of which 67.6 percent or \$983.4 million was invested in capital assets, net of related debt; 28.7 percent or \$416.9 million was restricted as to use for capital purposes and bond reserves; and 3.7 percent or \$53.8 million was unrestricted and available for spending. Net assets of Metro Transit increased in 2009 and 2008. The increase was \$29.4 million (2.1%) in 2009 and \$47.8 million (3.5%) in 2008. The change in 2009 is primarily attributed to an increase in cash balances held for future capital investments, including fleet replacements, as well as debt service. On December 31, 2009, cash balances were used to support interfund loans of \$131.5 million to other County agencies. The reserve for future fleet replacement continued to be replenished consistent with existing policies and in anticipation of upcoming fleet replacements. In 2008, the increase in net assets was attributed to growth in cash balances held for future fleet replacement and for future capital investments.

The **Water Quality Enterprise** accounts for the operations, maintenance, capital improvements, and expansion of the County's water pollution control facilities. Total net assets in the Water Quality Enterprise were \$543.8 million at the end of 2009 of which 75.5 percent or \$410.6 million was invested in capital assets, net of related debt; 40.7 percent or \$221.2 million was restricted for debt service and regulatory assets and environmental liabilities; and the remaining

negative 16.2 percent or \$(88.0) million was unrestricted. Water Quality operating revenues increased by 8.0 percent to \$306.9 million, while operating expenses net of depreciation increased by 4.8 percent to \$103.1 million. Water Quality collected a monthly sewage treatment charge of \$31.90 per Residential Customer Equivalent (RCE) in 2009, up from \$27.95 in 2008. The negative unrestricted net assets balance was reduced to \$(88.0) million at the end of 2009 from \$(176.4) million at the end of 2008.

General Fund Budgetary Highlights

The County's final General Fund budget differs from the original budget in that it reflects an increase in appropriations of \$32.0 million during the year due to 2009 supplemental budget appropriations for General Fund support for law, safety and justice. However, actual budgetary basis expenditures (including encumbrances) were \$20.9 million greater than the original budget. This resulted in an underutilization of the total final appropriation authority by \$11 million, including \$4.9 million of underexpenditures in Law, safety and justice and \$4.8 million in Transfers out. During the year total budgetary basis revenues were less than budgetary estimates by \$834 thousand with a net impact of reducing fund balance by \$9.7 million in 2009.

CAPITAL ASSETS, INFRASTRUCTURE, AND DEBT ADMINISTRATION

Capital assets

The King County primary government's investment in capital assets for its governmental and business-type activities as of December 31, 2009, amounts to \$7.5 billion (net of accumulated depreciation). Capital assets include land, right-of-way, conservation easements and development rights, buildings, improvements other than buildings, roads and bridges infrastructure, vehicles, machinery, computers and other equipment, and construction work-in-progress. The total increase in the investment in capital assets over the previous year was 7.3 percent (4.2 percent increase for governmental activities and 9 percent increase for business-type activities).

Major capital asset events during 2009 included the following:

- Construction continued on the new Brightwater Treatment Plant and the associated conveyance system. This project comprised the bulk of the 17 percent increase in business-type work in progress during the year. Construction activities are simultaneously ongoing in the treatment plant, the conveyance systems (pools and conveyance pipes), and ancillary facilities. The treatment plant is scheduled for completion and to begin operations in 2011 with the conveyance systems to be completed in 2012.
- Significant construction activity is also occurring in the Public Transportation and Solid Waste enterprises. Public transportation continued to make improvements at bus bases, transit centers, and park-and-ride facilities. For the Solid Waste Enterprise improvements to existing transfer stations and development of landfill ancillary systems continued.
- For governmental activities, significant construction activity came from additions and upgrades to parks facilities, development and improvements to the trail system, renovations and upgrades to various county buildings, and technology related projects. The Harborview Medical Center 9th & Jefferson building was completed. This building provides labs for the King County Medical Examiner, houses the King County Superior Court Civil Commitment Court, and also provides space for several other County agencies.

A summary of the 2009 capital assets activity is shown below. More detailed information on the County's capital assets can be found in Note 6 – Capital Assets.

King County's Capital Assets (in millions)		Business-type Activities				Total
		2009	2008	2009	2008	
Land	\$ 798.8	\$ 771.5	\$ 360.4	\$ 347.0	\$ 1,159.2	\$ 1,118.5
Buildings*	731.7	546.5	790.8	758.7	1,522.5	1,305.2
Improvements other than buildings*	27.1	16.6	1,440.5	1,325.1	1,467.6	1,341.7
Infrastructure	943.1	909.5	-	-	943.1	909.5
Equipment*	77.9	72.3	511.4	528.7	589.3	601.0
Construction in progress	68.3	222.6	1,766.5	1,508.3	1,834.8	1,730.9
Total	\$ 2,646.9	\$ 2,539.0	\$ 4,869.6	\$ 4,467.8	\$ 7,516.5	\$ 7,006.8

* Net of depreciation

Infrastructure

The County has elected to use the modified approach in reporting roads and bridges. Under the modified approach, asset condition is reported rather than recording depreciation. The rating scales for pavements (roads) and bridges are further explained in the required supplementary information which follows the notes to the basic financial statements.

The County performs condition assessments on its network of roads through the King County Pavement Management System, which generates a Pavement Condition Index (PCI) for each segment of arterial and local access road in the network. The PCI is a numerical index on a 100-point scale that represents the pavement's functional condition based on the quantity, severity, and type of visual distress. Condition assessments are undertaken every three years.

It is the policy of the King County Road Services Division to maintain at least 80.0 percent of the road system at a PCI of 40 or better. In the most recent condition assessments, 91.1 percent of the arterial roads in the County and 89.1 percent of the local access roads in the County had a PCI rating at 40 and above. The majority of roads that fall below the established rating are local access roads that are situated in rural areas. The amount budgeted in 2009 for road preservation and maintenance was \$44.6 million. The amount actually expended was \$60 million. Underspending of the budgeted amount is a result of the removal of roads from the project list because of conflicts with anticipated utility work, cost efficiencies related to relatively few roads to be resurfaced in remote locations, and fewer weather-related work reductions or stoppages.

The County currently maintains 182 bridges. Physical inspections to uncover deficiencies are carried out at least every two years and documented. There is also an annual evaluation to determine which bridges are due for replacement or rehabilitation using a 10-point priority scale based on various factors of bridge condition. A key element in the priority scale is the sufficiency rating, which is a numerical rating (on a 100-point scale) of a bridge based on its structural adequacy and safety, essentially for public use, and its serviceability and functional obsolescence. The policy of the King County Road Services Division is to maintain bridges in such a manner that no more than 12 (6.5 percent) will have a sufficiency rating of 20 or less. The most current complete assessment showed 8 bridges at or below this threshold. The amount budgeted in 2009 for bridge preservation and maintenance was \$13.4 million, while

the actual amount expended was \$10.5 million. Underspending of the budgeted amount is due to the construction schedule of certain projects extending beyond the budget year.

Debt Administration

At the end of 2009, King County Primary Government has a total of \$4,241.0 million in bonds and notes outstanding for its governmental and business-type activities. Of this amount, \$2,073.6 million is comprised of debt backed by the full faith and credit of the County. The \$2,167.4 million remainder of the County's bonded debt represents bonds secured solely by specified revenue sources.

**King County's Outstanding Debt
General Obligation and Revenue Bonds
(In millions)**

	Governmental Activities		Business-Type Activities		Total	
	2009	2008	2009	2008	2009	2008
General obligation bonds	\$ 724.3	\$ 725.7	\$ 915.7	\$ 638.1	\$ 1,644.0	\$ 1,363.8
General obligation bond anticipation notes	27.1	48.8	-	-	27.1	48.8
Lease revenue bonds ^(a)	402.5	408.6	-	-	402.5	408.6
Revenue bonds	-	-	2,167.4	1,947.9	2,167.4	1,947.9
Total	<u>\$ 1,153.9</u>	<u>\$ 1,183.1</u>	<u>\$ 3,083.1</u>	<u>\$ 2,586.0</u>	<u>\$ 4,241.0</u>	<u>\$ 3,769.1</u>

(a) Lease revenue bonds were issued in accordance with the provisions of Revenue Ruling 63-20 and Revenue Procedure 82-26. Under the lease agreements, the County's obligation to pay rent is a limited tax general obligation.

The total bonded debt increased over the previous year by 12.5 percent or \$471.9 million (a 2.5 percent or \$29.2 million decrease for governmental activities and 19.4 percent or \$501.1 million increase for business-type activities). The decrease of bonded debt outstanding in governmental activities was primarily due to \$71.3 million of debt service payments in 2009. Business-type activities' bonded debt increased primarily due to the issuance of \$250 million of sewer revenue bonds and \$300 million of limited general obligation bonds payable by sewer revenues to finance the capital needs of the Water Quality Enterprise.

During 2009 the County refinanced some of its existing debt through advance refunding to take advantage of favorable interest rates. It refinanced \$50.0 million of general obligation bonds (payable from public transportation sales tax) that is expected to decrease future aggregate debt service payments by \$7.1 million over the life of the bonds. The County also refinanced \$47.6 million of various general obligation bonds that is expected to decrease future aggregate debt service payments by \$5.2 million over the life of the bonds.

Using excess proceeds from special taxes and revenues, the County completed a partial defeasance of general obligation (baseball stadium) bonds that is expected to decrease debt service payments by \$21.2 million.

The County maintains a rating of "Aa1" from Moody's, a rating of "AAA" from Standard & Poor's, and a rating of "AA+" from Fitch for its limited tax general obligation debt. For its unlimited tax general obligation debt, the County has a rating of "Aaa" from Moody's, a

rating of "AAA" from Standard & Poor's, and a rating of "AAA" from Fitch. The ratings for its Water Quality Enterprise's revenue debt are "Aa3" from Moody's and "AA+" from Standard & Poor's.

State statutes limit the amount of general obligation debt that the County may issue to 2 1/2 percent of its total assessed valuation for general county purposes and 2 1/2 percent for metropolitan functions. The current debt limitation of total general obligations for general county purposes is \$8,549.3 million which is significantly higher than the County's outstanding net general obligation long-term liabilities of \$1,176.4 million. For metropolitan functions, the debt limitation is \$8,549.3 million and the County's outstanding net general obligation debt is \$953.6 million.

Additional information on King County's long-term debt can be found in Note 14 – Debt.

ECONOMIC OUTLOOK AND 2010 BUDGET

Economic factors have a direct impact on the County's revenues and the demand for services. The County's revenue sources include taxes, charges for services, and intergovernmental revenues. The largest single source is taxes, which comprise approximately one-third of total revenues and consist primarily of taxes on real property. Property taxes tend to be stable because the County establishes assessed value from the preceding four years of real estate sales. Other tax sources, such as retail sales tax, are more volatile and directly influenced by economic conditions in the region.

Property assessed valuation in 2009 for taxes collected in 2010 decreased by 11.6 percent compared to increases of 13.5 percent and 14.2 percent in 2008 and 2007, respectively. Unemployment in King County was 8.0 percent in 2009 compared with 4.3 in 2008. Median household income in the county is estimated to have decreased 1.9 percent from 2007 to 2008 and decreased 2.9 percent from 2008 to 2009. County taxable sales decreased in both 2008 and 2009 affecting several funds, most notably the General Fund and Public Transportation. These and other factors were considered in the budget enacted for 2010.

By law, the County is required to adopt a balanced budget. The 2010 budget, adopted by the County Council in November 2009, totals \$5.0 billion, which includes annual, biennial, and the current year portion of multi-year capital improvement budgets. Of this amount, \$629.2 million is appropriated for the General Fund; \$1.8 billion (\$393.7 million annual and \$1,407.4 million biennial) is appropriated for enterprise funds including public transportation, solid waste and wastewater treatment; and \$1.16 billion (\$892.8 million annual and \$271.5 million biennial) is appropriated for special revenue funds including public health, mental health, emergency medical services, human services, and road funds. The budget also includes \$751.4 million committed to capital improvements for wastewater treatment, transit, roads, solid waste and other major public facilities. The general fund current expense budget maintained a six percent budgetary undesignated fund balance as a percentage of revenues.

Other considerations

King County will continue to face numerous challenges including volatile energy prices, rising employee and programmatic healthcare costs, the cost of providing services to urban unincorporated areas, and the need to raise sufficient revenues to support utility, transit system and general government activities.

Property taxes are the largest revenue source in the County general fund at 40 percent of general fund revenues. The Council-approved property tax levy is limited to one percent growth each year plus the property tax on new construction.

Three large annexations become effective in 2010 and 2011. Effective April 1, 2010, the southern portion of North Highline became part of the City of Burien. In July 2010, the Panther Lake area became part of the City of Kent, and effective July 1, 2011, the Juanita, Finn Hill and Kingsgate areas will become part of the City of Kirkland.

REQUESTS FOR INFORMATION

This financial report is designed to provide an overview of the County's financial activities for all those with an interest in the government's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to the Chief Accountant/Manager, Financial Management Section, 500 Fourth Ave., Room 653, Seattle, WA 98104.



Basic Statements

STATEMENT OF NET ASSETS
DECEMBER 31, 2009
 (IN THOUSANDS)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
ASSETS				
Cash and cash equivalents	\$ 820,789	\$ 792,327	\$ 1,613,116	\$ 226,646
Investments	10,159	-	10,159	37,901
Receivables, net	196,618	189,288	385,906	120,062
Due from primary government	-	-	-	1,082
Internal balances	(47,996)	47,996	-	-
Inventories	2,283	22,273	24,556	7,172
Prepayments and other assets	13,708	9,362	23,070	1,759
Capital assets				
Land	798,833	360,442	1,159,275	40,010
Infrastructure	943,117	-	943,117	-
Buildings	9,002	1,253,002	2,462,004	872,314
Improvements other than buildings	23,916	2,381,894	2,405,810	39,576
Furniture, machinery and equipment	202,745	1,571,883	1,774,628	331,512
Accumulated depreciation	(390,941)	(2,464,315)	(2,855,256)	(456,575)
Work in progress	48,347	1,766,480	1,814,827	14,893
Deferred charges	8,501	36,199	44,700	-
Deposits with other governments	-	-	-	600
Receivables - environmental remediation	-	51,946	51,946	-
Other utility assets	-	24,340	24,340	-
Other assets	-	-	-	10,530
TOTAL ASSETS	3,651,000	6,043,337	9,694,337	1,252,282
LIABILITIES				
Accounts payable and other current liabilities	76,937	103,089	200,026	65,738
Due to component unit	1,092	-	1,092	-
Accrued liabilities	37,955	93,468	131,423	34,053
Notes payable	27,322	100,000	127,322	-
Unearned revenues	31,943	20,650	52,593	7,772
Rate stabilization	-	35,150	35,150	-
Noncurrent liabilities				
Due within one year	170,709	75,498	246,207	4,596
Due in more than one year	1,235,556	3,396,671	4,632,227	53,007
TOTAL LIABILITIES	1,601,504	3,824,926	5,426,430	165,166
NET ASSETS				
Invested in capital assets, net of related debt	1,851,259	1,603,232	3,454,491	803,441
Restricted for:				
Capital projects	133,042	402,393	535,435	-
Debt service	72,270	211,685	283,955	-
General government	12,258	-	12,258	-
Low, safety and justice	74,667	-	74,667	-
Physical environment	31,785	-	31,785	-
Transportation	30,252	-	30,252	-
Economic environment	31,792	-	31,792	-
Mental and physical health	74,728	-	74,728	-
Culture and recreation	13,631	-	13,631	-
Regulatory assets and environmental liabilities	-	35,870	35,870	-
Expendable	-	-	-	39,285
Nonexpendable	-	-	-	25,263
Unrestricted	(276,188)	(347,697)	(623,885)	219,127
TOTAL NET ASSETS	2,049,496	2,218,411	4,267,907	1,087,116

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

KING COUNTY, WASHINGTON
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2009
 (IN THOUSANDS)

	Primary Government				Net (Expense) Revenue and Changes in Net Assets				Component Units Total
	Governmental Activities	Business-type Activities	Total		Governmental Activities	Business-type Activities	Total		
Functions/Programs									
Primary government:									
Governmental activities	\$ 188,943	\$ (40,915)	\$ 148,028	\$ 1.03	\$ (54,014)	\$ -	\$ (54,014)	\$ (45,040)	\$ -
Low, safety & justice	576,041	29,150	605,191	-	(426,638)	-	(426,638)	(31,134)	-
Physical environment	83,024	908	83,932	6,091	(31,134)	-	(31,134)	(1,134)	-
Economic environment	102,760	1,755	104,515	22,553	(48,881)	-	(48,881)	(1,002)	-
Mental & physical health	453,998	5,184	459,182	292,518	(91,002)	-	(91,002)	(71,002)	-
Culture & recreation	51,002	796	51,798	6,488	(44,662)	-	(44,662)	(1,002)	-
Capital assets	54,010	-	54,010	881	(47,891)	-	(47,891)	(1,002)	-
Debt service costs	1,452,250	(20,543)	1,431,707	296,826	(754,569)	-	(754,569)	(1,002)	-
Total primary government	3,651,000	6,043,337	9,694,337	6,043	(754,569)	-	(754,569)	(1,002)	-
Business-type activities:									
Public transportation	24,421	324	24,745	6,499	-	6,499	6,499	2,529	-
Public housing	458,426	15,000	473,426	27,035	-	(352,451)	(352,451)	(359,441)	-
Solid waste	89,014	2,333	91,347	603	-	1,599	1,599	1,599	-
Water utilities	284,970	2,332	287,302	1,843	-	21,659	21,659	21,659	-
Waste management	3,978	26	4,004	3,671	-	1,716	1,716	1,716	-
Roads, Communications Services	-	20,653	20,653	3,070	-	(152,436)	(152,436)	(152,436)	-
Total business-type activities	2,283,000	1,333,000	3,616,000	1,333	(754,569)	1,333	(621,236)	(1,002)	-
Total primary government	3,651,000	6,043,337	9,694,337	6,043	(754,569)	1,333	(621,236)	(1,002)	-
Component units									
General revenues	\$ (67,973)	\$ 18,448	\$ (49,525)	\$ 2,684	\$ -	\$ -	\$ -	\$ -	\$ (3,367)
Property taxes	-	-	-	-	624,446	-	624,446	-	-
Retail sales and use taxes	-	-	-	-	179,077	-	179,077	-	-
Intergovernmental	-	-	-	-	17,479	-	17,479	-	-
Permit and license fees	-	-	-	-	20,009	1,559	21,568	33,587	5,874
Interest earnings	-	-	-	-	896	-	896	-	-
Transfer	-	-	-	-	-	-	-	-	-
Total general revenues and transfers	399,650	1,559	401,209	4,163	878,651	1,559	880,210	33,587	5,874
Change in net assets	124,115	66,174	190,289	-	124,115	66,174	190,289	2,555	-
Net assets - January 1, 2009 (Revised)	1,925,381	2,152,217	4,077,598	-	1,925,381	2,152,217	4,077,598	1,844,531	-
Net assets - December 31, 2009	2,049,496	2,218,411	4,267,907	-	2,049,496	2,218,411	4,267,907	1,846,086	-

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

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2009
(IN THOUSANDS)**

	GENERAL FUND	PUBLIC HEALTH FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS				
Cash and cash equivalents	\$ 37,283	\$ 243	\$ 537,459	\$ 574,985
Taxes receivable - delinquent	7,497	-	10,900	18,497
Accounts receivable, net	7,859	704	23,814	32,379
Other receivables, net	-	-	676	676
Interest receivable	14,323	-	-	14,323
Due from other funds	7,003	4,519	49,390	61,002
Interfund short-term loans receivable	2,809	-	16,266	19,125
Due from other governments, net	40,185	24,732	50,985	116,102
Inventory of supplies	-	655	-	655
Prepayments	-	-	-	-
Advances to other funds	3,800	-	8,120	8,120
TOTAL ASSETS	\$ 120,969	\$ 31,083	\$ 697,612	\$ 849,664

	\$	6,371	\$	17,007	\$	40,791	\$	64,169
LIABILITIES AND FUND BALANCE								
Liabilities								
Account payable		1,883		2,536		59,846		64,365
Due to other funds		599		-		67,378		67,864
Interfund short-term loans payable		-		-		-		-
Due to other governments		167		-		7,697		7,864
Due to component unit		-		-		1,082		1,092
Interest payable		-		-		1,692		1,692
Wages payable		15,028		4,059		7,070		26,157
Taxes payable		180		-		57		237
Bonds payable		-		-		3,160		3,160
Deferred revenues		13,035		1,544		39,027		53,606
Notes and contracts payable		-		-		27,322		27,322
Custodial accounts		1,290		1,530		7,301		10,121
Advances from other funds		-		-		300		300
Total liabilities		38,543		26,776		267,773		328,042

Fund balances:				
Reserved	14,915	1,477	118,872	135,264
Unreserved				
Designated, reported in				
General Fund	3,207	256	41,914	3,207
Public Health Fund				286
Special Revenue Funds				41,914
Undesignated, reported in				
General Fund	64,304	2,574	210,705	64,304
Public Health Fund				2,574
Special Revenue Funds				210,705
Debt Service Fund				36,704
Capital Projects Funds				26,694
Total fund balances	\$ 82,426	\$ 4,307	\$ 434,889	\$ 521,622
TOTAL LIABILITIES AND FUND BALANCES	\$ 120,969	\$ 31,083	\$ 697,612	

Amounts reported for governmental activities in the statement of net assets are different because:

Amounts reported for governmental activities in the statement of net assets are all capital assets used in governmental activities are not financial resources and are not reported in the funds.

Other long-term assets are not available to pay for current-period expenditures and are deferred in the funds.

Governmental activities internal service funds assets and liabilities are included and are deferred in the funds.

Long-term liabilities, including bonds payable, are not due and payable in the governmental activities in the statement of net assets.
the current period and therefore are not reported in the funds.

Net assets of governmental activities

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

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2009
{(IN THOUSANDS)}

	GENERAL FUND	HEALTH FUND	GOVERNMENTAL FUNDS	GOVERNMENTAL FUNDS
REVENUES				
Taxes				
Property taxes	\$ 265,665	\$ -	\$ 356,188	\$ 621,853
Retail sales and use taxes	83,004	-	96,073	179,077
Business and other taxes	7,611	-	28,944	36,555
Penalties and interest - delinquent taxes	17,679	-	-	17,679
License and permits	8,338	10,936	51,039	24,333
Intergovernmental revenues	101,105	129,791	313,450	544,346
Charges for services	121,533	13,633	107,361	242,527
Fines and forfeits	9,903	-	239	10,142
Interest earnings	7,949	-	7,755	15,724
Miscellaneous revenues	14,280	5,808	35,408	55,496
TOTAL REVENUES	637,087	160,168	950,477	1,747,732

EXPENDITURES			
Current			
General government	103,404	-	40,211
Law, safety and justice	454,874	-	105,185
Physical environment	4,813	-	102,991
Transportation	-	-	124,880
Economic environment	530	-	104,615
Mental and physical health	27,899	190,394	241,913
Culture and recreation	-	-	49,168
Debt Service	-	-	117,736
Principal	289	36	36,887
Interest and other debt service costs	-	-	37,212
Refunding bond issuance costs	-	-	226
Payment to escrow agent	-	-	21,050
Capital outlay	1,535	379	85,161
TOTAL EXPENDITURES	593,344	190,809	1,048,109
Excess (deficiency) of revenues over (under) expenditures	43,743	(30,641)	(84,530)

OTHER FINANCING SOURCES (USES)				
Transfers in	2,223	30,647	138,230	171,100
Transfers out	(55,724)	(79)	(115,912)	(171,715)
General government debt issued	-	-	84,810	84,810
Premium on bonds sold	-	-	5,831	5,831
Refunding bonds issued	-	-	42,869	42,869
Sale of capital assets	92	29	2,598	2,719
Payment to refunded bond escrow agent	-	-	(46,067)	(46,067)
TOTAL OTHER FINANCING SOURCES (USES)	(53,409)	30,597	112,359	89,547
Net changes in fund balances	(9,666)	(44)	14,727	5,017
und balances - January 1, 2009 (Restated)	92,092	4,351	420,162	516,605
und balances - December 31, 2009	\$ 82,426	\$ 4,307	\$ 434,889	\$ 521,622

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

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2009**
(IN THOUSANDS)

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances – total governmental funds \$ 5,017

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

56,477

The net effect of various miscellaneous transactions involving capital assets (e.g., sales, trade-ins, and donations) is to increase net assets.

16,708

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.

2,922

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

51,368

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

(13,745)

The net revenues and expenses of certain activities of internal service funds are reported with governmental activities.

5,368

Change in net assets of governmental activities

\$ 124,115

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

**GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2009**
(IN THOUSANDS)

	BUDGETED AMOUNTS			ACTUAL	VARIANCE
	ORIGINAL	FINAL			
REVENUES					
Taxes					
Property taxes	\$ 264,165	\$ 264,165	\$ 265,665	\$	1,500
Retail sales and use taxes	93,344	93,344	83,004	(10,340)	
Business and other taxes	9,147	9,147	7,611	(1,536)	
Penalties and interest - delinquent taxes	15,000	15,000	17,679	2,679	
Licenses and permits	9,080	9,080	8,338	(742)	
Intergovernmental revenues	96,668	96,668	101,105	4,437	
Charges for services	120,196	120,196	121,533	1,337	
Fines and forfeits	9,834	9,834	9,903	69	
Interest earnings	8,728	8,728	8,936	208	
Miscellaneous revenues	14,883	14,883	14,195	(688)	
Sale of capital assets	50	50	92	42	
Transfers in	23	23	2,223	2,200	
TOTAL REVENUES	641,118	641,118	640,284	(834)	
EXPENDITURES					
Current					
General government services	106,393	104,938	104,260	678	
Law, safety and justice	430,135	461,754	456,855	4,899	
Physical environment	4,688	4,475	4,813	(338)	
Economic environment	712	705	530	175	
Mental and physical health	28,755	28,806	27,975	831	
Debt service					
Principal	34	31	-	31	
Interest and other debt service costs	3	3	-	3	
Capital outlay	1,728	1,920	1,928	(8)	
Transfers out	59,272	61,047	56,296	4,751	
TOTAL EXPENDITURES	631,720	663,679	652,657	11,022	
Deficiency of revenues under expenditures (budgetary basis)	\$ 9,398	\$ (22,561)	(12,373)	\$ 10,188	
Adjustment from budgetary basis to GAAP basis			2,707 ^(a)		
Net change in fund balance			(9,666)		
Fund balance - January 1, 2009 (Restated)			92,092		
Fund balance - December 31, 2009			<u>\$ 82,426</u>		
[a] Elements of adjustment from budgetary basis to GAAP basis:					
Adjustments to revenues					
Recognition of unrealized loss on investments on a GAAP basis			\$ (967)		
Recognition of donation revenue on a GAAP basis			85		
Adjustments to expenditures					
Circumstances, not included in GAAP basis expenditures			3,306		
Budgeted transfers out reported as a reduction of advance on a GAAP basis			300		
Non-budgeted interest and other debt service costs			(289)		
Budgeted transfer out			272		
Adjustment from budgetary basis to GAAP basis			<u>\$ 2,707</u>		

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

PUBLIC HEALTH FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2009
 (IN THOUSANDS)

	BUDGETED AMOUNTS			VARIANCE
	ORIGINAL	FINAL	ACTUAL	
REVENUES				
Licenses and permits	\$ 14,235	\$ 14,235	\$ 10,936	\$ (3,299)
Intergovernmental revenues	123,346	126,430	129,791	3,361
Charges for services	14,781	13,367	13,633	266
Miscellaneous revenues	8,831	8,956	5,808	(3,148)
Transfers in	31,056	30,474	30,647	173
Sale of capital assets	-	-	29	29
Total revenues	<u>191,749</u>	<u>193,462</u>	<u>190,844</u>	<u>(2,618)</u>
EXPENDITURES				
Current				
Mental and physical health	190,732	191,885	191,198	687
Debt service	40	40	36	4
Interest and other debt service costs	943	1,047	379	668
Capital outlay	491	491	79	412
Transfers out	-	-	-	-
Total expenditures	<u>192,206</u>	<u>193,463</u>	<u>191,692</u>	<u>1,771</u>
Deficiency of revenues under expenditures (budgetary basis)	\$ (457)	\$ (1)	(848)	\$ (847)
Adjustment from budgetary basis to GAAP basis - encumbrances	-	-	804	804
Net change in fund balance	-	-	(44)	(44)
Fund balance – January 1, 2009	-	-	4,351	4,351
Fund balance – December 31, 2009	-	-	<u>\$ 4,307</u>	<u>\$ (44)</u>

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

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2009
 (IN THOUSANDS)
 (PAGE 1 OF 2)

	BUSINESS-TYPE ACTIVITIES			
	PUBLIC TRANSPORTATION	WATER QUALITY	OTHER ENTERPRISE FUNDS	INTERNAL SERVICE FUNDS
ASSETS				
Current assets				
Cash and cash equivalents	\$ 48,080	\$ 21,625	\$ 60,133	\$ 242,673
Restricted cash and cash equivalents	17,533	169,998	4,335	191,866
Investments	-	-	-	4,978
Accounts receivable	17,276	25,639	6,933	603
Estimated uncollectible accounts receivable	(7)	-	(86)	(95)
Due from other funds	709	5,118	2,240	8,067
Due from other governments, net	83,132	-	217	83,349
Inventory of supplies	15,335	5,384	-	1,765
Prepayments and other assets	1,227	-	1,329	1,633
Total current assets	<u>182,684</u>	<u>227,316</u>	<u>75,121</u>	<u>485,721</u>
Noncurrent assets				
Restricted assets				
Cash and cash equivalents	230,359	172,197	60,134	462,690
Accounts receivable	1,747	384	4,779	5,269
Due from other funds	1,577	-	272	1,849
Interfund loans receivable	131,475	-	-	131,475
Due from other governments	46,432	-	3,521	49,953
Assessments receivable	792	-	-	792
Notes receivable and other assets	809	-	-	808
Total restricted assets	<u>412,017</u>	<u>172,581</u>	<u>68,406</u>	<u>653,004</u>
Capital assets				
Land	164,124	153,290	43,028	360,442
Buildings	355,319	802,805	94,778	1,253,002
Improvements other than buildings	339,969	1,427,387	216,638	2,381,994
Accumulated depreciation and amortization	(1,089,864)	(1,151,861)	(213,115)	(2,455,820)
Work in progress	117,626	1,607,537	41,317	1,766,480
Total capital assets	<u>1,123,223</u>	<u>3,463,099</u>	<u>260,877</u>	<u>4,857,199</u>
Other noncurrent				
Regulatory assets - environmental remediation	7,697	-	-	7,697
Other utility assets	-	51,946	-	51,946
Deferred charges	1,065	24,360	180	24,360
Other assets	301	34,954	-	35,255
Total other noncurrent	<u>9,063</u>	<u>111,260</u>	<u>180</u>	<u>120,533</u>
Total noncurrent assets	<u>1,444,303</u>	<u>3,763,940</u>	<u>329,463</u>	<u>5,640,706</u>
TOTAL ASSETS	<u><u>1,726,987</u></u>	<u><u>3,994,656</u></u>	<u><u>404,584</u></u>	<u><u>6,126,427</u></u>

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

**STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2009
(IN THOUSANDS)
(PAGE 2 OF 2)**

	BUSINESS-TYPE ACTIVITIES			INTERNAL SERVICE FUNDS
	PUBLIC TRANSPORTATION	WATER QUALITY	OTHER ENTERPRISE FUNDS	TOTAL
LIABILITIES				
Current liabilities				
Accounts payable	\$ 39,146	\$ 57,105	\$ 9,655	\$ 105,906
Estimated claim settlements	-	-	-	95,474
Due to other funds	917	3,692	4,513	8,922
Interfund loans	520	70,096	309	70,925
Interfund short-term loans payable	-	82,633	-	82,633
Wages payable	17,610	3,154	1,777	22,541
Compensated absences payable	7,431	387	123	7,941
Environmental remediation	-	3,126	-	3,126
Unearned income	58	-	919	977
Unearned interest	17,123	-	3,727	20,850
Revenue bonds payable	-	32,090	-	32,090
General obligation bonds payable	8,265	2,530	4,815	15,610
Assessments payable	-	-	-	15
Capital leases payable	89	7,771	-	7,860
State revolving loan payable	-	100,000	-	100,000
Notes payable	-	-	7,809	7,809
Landfill closure and post-closure care liability	-	-	2,362	2,362
Other liabilities	-	-	35,309	35,309
Total current liabilities	91,158	362,396	48,863	482,417
Noncurrent liabilities				
Retainage payable	-	15,756	-	15,756
Deferred revenue	-	35,156	-	35,156
Compensated absences payable	43,019	9,906	5,194	58,119
Other postemployment benefits	3,448	503	423	4,374
Advances from other funds	3,500	-	-	3,500
General obligation bonds payable	125,945	730,515	47,591	904,051
Revenue bonds payable	-	2,135,275	-	2,135,275
Capital leases payable	2,148	(13,276)	1,732	(9,396)
Assessments payable	3,279	-	-	3,279
State revolving loans payable	-	133,394	-	133,394
Landfill closure and post-closure care liability	-	-	100,341	100,341
Estimated claim settlements	346	41,482	5,423	47,251
Other noncurrent liabilities	181,725	3,088,487	140,704	3,410,916
Total noncurrent liabilities	272,863	3,451,083	196,013	3,919,959
NET ASSETS				
Invested in capital assets, net of related debt	983,457	410,649	206,739	1,600,845
Restricted for:				
Capital projects	590,429	-	11,964	602,393
Regulatory, assets and environmental liabilities	26,443	185,242	-	211,685
Unrestricted	53,775	(87,988)	(10,132)	(44,345)
TOTAL NET ASSETS	\$ 1,454,104	\$ 543,773	\$ 208,571	\$ 2,206,448
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds	-	-	-	11,963
Net assets of business-type activities	\$ 1,454,104	\$ 543,773	\$ 208,571	\$ 2,218,441

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

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2009
(IN THOUSANDS)**

	BUSINESS-TYPE ACTIVITIES			INTERNAL SERVICE FUNDS
	PUBLIC TRANSPORTATION	WATER QUALITY	OTHER ENTERPRISE FUNDS	TOTAL
OPERATING REVENUES				
Net fees	\$ -	\$ -	\$ 2,913	\$ 2,913
Radio services	-	-	3,670	3,670
Solid waste disposal charges	-	-	87,788	87,788
Administrative services	-	-	12,547	12,547
Hangar, building, and site rentals and leases	-	-	792	792
Reimbursement for services to tenant	-	-	-	-
Passenger	175,866	-	-	175,866
Special service contracts	7,588	-	-	7,588
Sewage disposal fees	-	256,160	-	256,160
Other service revenues	21,553	50,696	52	72,301
Total operating revenues	205,007	306,856	111,114	622,977
OPERATING EXPENSES				
Personal services	382,982	39,318	49,368	471,668
Materials and supplies	40,891	10,091	6,527	57,509
Contract services and other charges	18,204	16,115	25,917	60,236
Utilities	5,280	10,713	3,767	19,760
Purchased transportation	46,098	-	-	46,098
Internal services	55,036	26,881	14,405	96,322
Landfill closure and post-closure care	-	-	488	488
Depreciation and amortization	116,451	91,595	15,513	223,559
Total operating expenses	684,942	194,713	115,985	995,640
OPERATING INCOME (LOSS)	(479,935)	(112,143)	(4,871)	(596,949)
NONOPERATING REVENUES				
Sales tax	376,968	-	-	376,968
Intergovernmental	90,570	-	-	90,570
Interest earnings	6,839	4,776	1,840	13,455
DNR administration	-	-	3,009	3,009
Rental income	-	-	1,262	1,262
Miscellaneous	163	674	4316	5,153
Total nonoperating revenues	474,540	5,450	10,427	490,417
NONOPERATING EXPENSES				
Interest	2,362	69,893	2,538	74,793
DNR administration	-	-	3,492	3,492
(Gain) Loss on disposal of capital assets	(10,217)	19,996	751	10,530
Environmental remediation	-	1,565	-	1,565
Miscellaneous	-	3,196	1,366	4,562
Total nonoperating expenses	(7,855)	94,650	8,147	94,942
Income (loss) before contributions and transfers	2,460	22,943	(2,591)	22,812
Capital grants and contributions	27,035	1,843	9,219	38,097
Transfers in	-	-	60	60
Transfers out	(65)	(140)	(790)	(995)
CHANGE IN NET ASSETS	29,440	24,646	5,898	59,984
NET ASSETS - JANUARY 1, 2009 (RESTATED)	1,424,664	519,127	202,673	2,146,464
NET ASSETS - DECEMBER 31, 2009	\$ 1,454,104	\$ 543,773	\$ 208,571	\$ 2,218,441
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds	-	-	-	6,210
Change in net assets of business-type activities	\$ 1,454,104	\$ 543,773	\$ 208,571	\$ 2,218,441

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

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2009
 (IN THOUSANDS)
 (PAGE 1 OF 2)

	BUSINESS-TYPE ACTIVITIES				INTERNAL SERVICE FUNDS
	PUBLIC TRANSPORTATION	WATER QUALITY	OTHER ENTERPRISE FUNDS	TOTAL	
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash received from customers	\$ 216,241	\$ 316,985	\$ 113,914	\$ 647,140	\$ 438,351
Cash payments to suppliers for goods and services	(179,949)	(3,323)	(3,323)	(186,595)	(35,488)
Cash payments for employee services	(377,743)	(37,810)	(48,529)	(464,082)	(80,389)
Other receipts	-	-	4,555	4,555	6,004
Other payments	-	-	(4,857)	(4,857)	-
Net cash provided (used) by operating activities	(340,471)	231,711	11,591	(97,169)	41,625
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Operating grants and subsidies received	441,439	-	-	441,439	1,114
Advances to other funds received	300	-	-	300	-
Interfund loan principal payment from other funds	(139,829)	-	-	(139,829)	(2,829)
Interest paid on short-term loans	208,420	(2,242)	-	206,178	-
Interfund loan principal received	-	82,633	-	82,633	(1,059)
Interfund loan principal paid	-	(184,041)	-	(184,041)	2,364
Transfers in	(55)	(140)	60	(95)	1,002
Transfers out	-	-	(799)	(799)	-
Net cash provided (used) by noncapital financing activities	519,448	(103,750)	(730)	414,948	1,417
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition of capital assets	(104,976)	(450,268)	(28,217)	(583,461)	(59,324)
Principal paid on general obligation bonds	(8,285)	(3,905)	(4,714)	(16,904)	(175)
Proceeds from new revenue bond issue	-	550,000	-	550,000	-
Interest paid on general obligation bonds	(6,367)	(25,342)	(2,466)	(34,175)	(17)
Principal paid on revenue bonds	-	(30,540)	-	(30,540)	(6,185)
Interest paid on revenue bonds	(85)	(90,789)	-	(90,874)	(19,775)
Principal paid on capital leases	(1,000)	-	-	(1,000)	(85)
Assessment principal and penalties received	431	-	-	431	(19)
Interest paid on notes payable	-	(853)	-	(853)	-
Principal paid on state loans	-	(7,228)	-	(7,228)	-
Interest paid on state loans	-	(2,123)	-	(2,123)	-
Proceeds from new state loans	19,243	1,843	6,577	27,663	135
Capital grants and contributions	-	(13,065)	(5,017)	(18,082)	487
Other capitalized payments	14,136	-	-	14,136	-
Proceeds from disposal of capital assets	(86,073)	(53,082)	(33,826)	(172,981)	(84,873)
Net cash used by capital and related financing activities	-	-	-	-	-
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest on investments (including unrealized gains/losses reported as cash and cash equivalents)	6,362	4,776	1,840	12,978	5,360
Purchase of investments	-	-	-	-	(6,236)
Net cash provided (used) by investing activities	6,362	4,776	1,840	12,978	(876)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	99,286	79,635	(21,129)	157,796	(42,707)
CASH AND CASH EQUIVALENTS - JANUARY 1, 2009	196,688	284,185	145,747	626,618	296,424
CASH AND CASH EQUIVALENTS - DECEMBER 31, 2009	\$ 295,972	\$ 363,820	\$ 124,622	\$ 784,414	\$ 253,717

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

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2009
 (IN THOUSANDS)
 (PAGE 2 OF 2)

	BUSINESS-TYPE ACTIVITIES				INTERNAL SERVICE FUNDS
	PUBLIC TRANSPORTATION	WATER QUALITY	OTHER ENTERPRISE FUNDS	TOTAL	
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES					
Operating income (loss)	\$ (479,935)	\$ 112,143	\$ (4,871)	\$ (372,663)	\$ 21,970
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES					
Depreciation and amortization	116,451	91,595	15,513	223,559	16,723
Landfill closure and post-closure care	-	-	488	488	-
Other nonoperating revenue/expense	-	-	3,729	3,729	-
Changes in assets - (increase) decrease	458	(4,053)	(4,911)	(8,506)	(6,698)
Accounts receivable, net	(1,211)	(1,211)	3,289	867	(58)
Due from other agencies, net	13,706	-	564	14,270	(182)
Inventory of supplies	(355)	188	(183)	(350)	(135)
Prepayments	(4,879)	(35)	-	(4,914)	1,499
Changes in liabilities - increase (decrease)	12,639	12,735	(1,406)	23,968	2,503
Accounts payable	350	741	(110)	981	(1,453)
Due to other funds	-	2,713	-	2,713	40
Retainage payable	-	13,403	-	13,403	-
Warranty liability	612	413	61	1,086	(17)
Taxes payable	25	-	29	54	(18)
Unearned revenues	(2,910)	-	(231)	(3,141)	(62)
Claims and judgments payable	-	-	-	-	(2,600)
Estimated claim settlements	-	-	-	-	7,143
Compensated absences	3,415	922	631	4,968	1,087
Other postemployment benefits	1,171	167	146	1,484	248
Customer deposits and other liabilities	-	-	853	853	1,085
Total adjustments	139,464	119,588	16,462	275,514	17,655
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ (340,471)	\$ 231,711	\$ 11,591	\$ (97,169)	\$ 41,625

NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

Water Quality Fund and Internal Service Funds received contributions of capital assets from general government in the amount of \$632 thousand and \$1,251 thousand, respectively.
 Public Transportation Fund and Other Enterprise Fund issued capital bonds. The bond proceeds received, \$51,448 thousand and \$3,268 thousand, respectively, were placed in escrow for the defeasance of \$50,015 thousand and \$3,233 thousand, respectively, of outstanding bond principal.

Public Transportation Fund received contributions of capital assets from other governments in the amount of \$5,123 thousand. In addition to cash receipts of \$2,794 thousand, Public Transportation Fund received \$18,500 thousand of capital assets from other governments and organizations and transferred out capital assets with the net book value of \$4,608 thousand.

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

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2009
 (IN THOUSANDS)

	INVESTMENT TRUST FUNDS	AGENCY FUNDS
ASSETS		
Cash and cash equivalents	\$ -	\$ 122,717
Assets held in trust - external investment pool	-	2,465,575
Assets held in trust - external impaired investment pool	-	9,146
Investments	2,522,919	4,711
Assets held in trust - individual investment accounts	-	51,461
Taxes receivable - delinquent	-	79,098
Accounts receivable	-	5,911
Interest receivable	3,263	-
Assessments receivable	-	8,082
Notes and contracts receivable	-	53
TOTAL ASSETS	2,526,182	2,746,754
LIABILITIES		
Warrants payable	-	92,981
Accounts payable	-	569
Wages payable	-	3,961
Custodial accounts - County agencies	-	57,380
Due to special districts/other governments	-	2,591,863
TOTAL LIABILITIES	-	\$ 2,746,754
NET ASSETS		
Held in trust for pool/individual investment account participants	\$ 2,526,182	

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

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2009
 (IN THOUSANDS)

	INVESTMENT TRUST FUNDS
ADDITIONS	
Contributions	\$ 7,610,337
Net investment earnings (losses)	
Interest	41,467
Decrease in the fair value of investments	(5,348)
TOTAL ADDITIONS	7,646,456
DEDUCTIONS	
Distributions	7,541,547
Change in net assets	104,909
Net assets - January 1, 2009	2,421,273
Net assets - December 31, 2009	\$ 2,526,182

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

STATEMENT OF NET ASSETS
COMPONENT UNITS
DECEMBER 31, 2009
 (IN THOUSANDS)

	Harborview Medical Center	WSMLB Stadium Public Facilities District	Cultural Development Authority	Total
ASSETS				
Cash and cash equivalents	\$ 211,420	\$ 5,546	\$ 9,680	\$ 226,646
Investments	-	-	37,901	37,901
Receivables, net	119,292	8	762	120,062
Due from primary government	-	-	1,082	1,082
Inventories	7,172	-	-	7,172
Prepayments	1,747	12	-	1,759
Capital assets				
Land	1,586	38,424	-	40,010
Buildings	387,428	489,886	-	877,314
Improvements other than buildings	12,946	26,630	-	39,576
Furniture, machinery and equipment	331,447	65	-	331,512
Accumulated depreciation	(324,552)	(132,023)	-	(456,575)
Work in progress	14,693	-	-	14,693
Deposits with other governments	600	-	-	600
Other assets	10,530	-	-	10,530
Total assets	<u>774,309</u>	<u>428,548</u>	<u>49,425</u>	<u>1,252,282</u>
LIABILITIES				
Accounts payable and other current liabilities	65,210	33	495	65,738
Accrued liabilities	34,053	-	-	34,053
Unearned revenues	284	-	7,488	7,772
Noncurrent liabilities	-	-	-	-
Due within one year	893	3,271	432	4,596
Due in more than one year	12,347	38,217	2,443	53,007
Total liabilities	<u>112,787</u>	<u>41,521</u>	<u>10,858</u>	<u>165,166</u>
NET ASSETS				
Invested in capital assets, net of related debt	421,948	381,493	-	803,441
Restricted for:				
Expendable	20,734	-	18,551	39,285
Nonexpendable	2,372	-	22,891	25,263
Unrestricted	216,468	5,534	(2,875)	219,127
Total net assets	<u>\$ 661,522</u>	<u>\$ 387,027</u>	<u>\$ 38,567</u>	<u>\$ 1,087,116</u>

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

KING COUNTY, WASHINGTON
STATEMENT OF ACTIVITIES
COMPONENT UNITS
FOR THE YEAR ENDED DECEMBER 31, 2009
 (IN THOUSANDS)

	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Harborview Medical Center	WSMLB Stadium Public Facilities District	Cultural Development Authority	Total
Function/Programs							
Component units:							
Harborview Medical Center	\$ 675,175	\$ 670,573	\$ 2,934	\$ 2,804	\$ 6,136	\$ -	\$ 6,136
WSMLB Stadium	13,547	-	-	-	-	-	-
Cultural Development Authority	9,251	211	10,514	-	-	-	(10,879)
Total component units	<u>\$ 697,973</u>	<u>\$ 673,452</u>	<u>\$ 18,448</u>	<u>\$ 2,804</u>	<u>\$ 6,136</u>	<u>\$ 1,474</u>	<u>\$ 1,474</u>
General revenues							
Interest earnings	-	-	-	5,312	27	285	5,824
Change in net assets	-	-	-	11,448	(10,829)	1,789	2,555
Net assets - January 1, 2009	-	-	-	649,874	387,879	34,808	1,084,561
Net assets - December 31, 2009	-	-	-	<u>\$ 661,522</u>	<u>\$ 387,027</u>	<u>\$ 38,567</u>	<u>\$ 1,087,116</u>

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

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009
(DOLLARS IN THOUSANDS)**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Reporting Entity

The reporting entity "King County" consists of King County Government as the primary government; the Harborview Medical Center (HMC), the Washington State Major League Baseball Stadium Public Facilities District (PFD), and the Cultural Development Authority of King County (CDA) as "discretely presented" component units. "Blended" component units include the King County Ferry District, the Flood Control Zone District, and four Building Development and Management Corporations. Most funds in this report pertain to the entity King County Government or component units. Certain agency funds, referred to as Agency Funds – Special Districts/Other Governments, pertain to the County's custodianship of assets belonging to independent governments and special districts. Under the County's Home Rule Charter, the King County Executive is the ex officio treasurer of all special districts of King County, other than cities and towns and the Port of Seattle. Pursuant to County ordinance, the Director of the Finance and Business Operations Division (FBO) is responsible for the duties of the comptroller and treasurer. Money received from or for the special districts is deposited in a central bank account. The Director of the FBO invests or disburses money pursuant to the instructions of the respective special districts.

Component Units – Discretely Presented

Harborview Medical Center (HMC)

The Harborview Medical Center (HMC), a 413 licensed-bed hospital with extensive ambulatory services, is located in Seattle, Washington. HMC is managed by the University of Washington (UW). The HMC Board of Trustees is appointed by the County Executive. The County Director of the Finance and Business Operations Division is the Treasurer of HMC. HMC staff members are employees of UW. The management contract between the HMC Board of Trustees and the UW Board of Regents recognizes the Trustees' desire to maintain HMC as a means of meeting the King County Government's obligation to provide the community with a resource for health services, and UW's desire that HMC be maintained as a continuing resource for education, training, and research. The general conditions of the management contract specify that King County retains title to all real and personal property acquired for King County with HMC capital or operating funds. The Trustees determine major institutional policies and retain control of programs and fiscal matters. The Trustees agree to secure UW's recommendations on any changes to the above. The Trustees are accountable to the public and King County Government for all financial aspects of HMC's operation and agree to maintain a fiscal policy that keeps the operating program and expenditures of HMC within the limits of operating income.

HMC is a component unit of the County for the following reasons: (1) it is a separate legal entity having its own corporate powers; (2) the County Executive appoints HMC's Board of Trustees, who may be removed only for statutorily defined causes and subject to legal appeal; and (3) although the County cannot impose its will on HMC, the unit creates a financial burden on the County because the County is responsible for the issuance and debt service of all general obligation bonds for HMC capital improvements. HMC's financial presentation is on the discrete component unit basis because the County and HMC's governing bodies are not substantively the same, and HMC does not provide services solely to King County. HMC

NOTE 1 – CONTINUED

financial data is as of its fiscal year-end, June 30, 2009, rather than the County's fiscal year-end of December 31, 2009.

Although the primary classification of HMC in this report is that of a component unit, the County is the issuer of HMC's general obligation bonds. Therefore, Note 14 "Debt," reports on all the general obligation bonds issued by the County as of December 31, 2009, including bonds reported by HMC as a component unit as of June 30, 2009.

HMC hires independent auditors other than the County's independent auditors and prepares its own audited financial statements. These statements may be obtained from the Finance Section of the Harborview Medical Center, 325 9th Ave., Seattle, Washington, 98104.

Washington State Major League Baseball Stadium Public Facilities District (PFD)

The Washington State Major League Baseball Stadium Public Facilities District (PFD) is the agency created by the Metropolitan King County Council (Ordinance 12000) on October 24, 1995, as authorized under chapter 36.100 Revised Code of Washington (RCW). The PFD operates as a municipal corporation of the State of Washington and was formed to site, design, build, and operate a major league baseball park. The PFD is governed by a seven-member board of directors, four of whom are appointed by the County Executive. The other three are appointed by the Governor of the State of Washington. The County, as the ex officio treasurer for the PFD, maintains several funds to account for construction, debt redemption, and special revenue collection. Construction was financed by 1997 general obligation bond issues and contributions from the Baseball Club of Seattle. Debt service on the bonds is supported by sales and use taxes, special lottery proceeds, special license plate sales, and an admissions tax. The stadium was completed in 1999 and is reported as an asset of the PFD.

The PFD is a component unit of the County for the following reasons: (1) it is a separate legal entity; (2) a majority of its board of directors (4 of 7) are appointed by the County Executive; and (3) there exists an indirect financial burden relationship between the PFD and the County since the County issued the bonds for the construction of the stadium, thereby making the County ultimately responsible for the debt. The PFD's financial statements are discretely presented because the two governing boards are not substantively the same, and the PFD does not provide services solely to King County government.

The PFD reports on a fiscal year-end consistent with the King County primary government. It issues its own financial statements, which are audited by the State Auditor. These statements may be obtained from the Public Facilities District, PO Box 94445, Seattle, Washington 98124.

Cultural Development Authority of King County (CDA)

The Cultural Development Authority of King County (CDA), dba 4Culture, is a public authority organized pursuant to chapter 35.21 RCW and King County Ordinance 14682. The CDA commenced operations on January 1, 2003, and began doing business as "4Culture" effective April 4, 2004. The CDA was created to support, advocate for and preserve the cultural resources of the region in a manner that fosters excellence, vitality, and diversity.

The CDA is located in Seattle, Washington and is governed by a 15-member board of directors and five ex officio members. The directors are appointed by the County Executive and confirmed by the County Council. The CDA receives various funds from King County and other sources that are designated for arts, cultural and public art use, including a portion of the revenue generated by the King County lodging tax and one percent of King County expenditures for certain construction projects.

NOTE 1 – CONTINUED

The CDA is a component unit of the County for the following reasons: (1) it is a separate legal entity (public authority); (2) the CDA's board of directors is appointed by the County Executive (from a non-restrictive pool of candidates) and confirmed by the County Council; and (3) the County is able to impose its will on the CDA, for example, the County has the power to remove a director from the CDA board and the power to dissolve the CDA. The CDA's financial presentation is as a discrete component unit because the County and CDA's governing bodies are not substantively the same and the CDA does not provide services solely to King County.

The CDA reports on a fiscal year-end consistent with the King County primary government. It issues its own financial statements, which are audited by the State Auditor. These statements may be obtained from the Cultural Development Authority of King County at 4Culture, 101 Prefontaine Place South, Seattle, Washington 98104.

Component Units – Blended**King County Ferry District**

The King County Ferry District (KCFD) was created under the authority of chapter 36.54 RCW to expand local transportation options through water taxi services. By statute, the King County Council serves as the Board of Supervisors for the KCFD.

The KCFD is a component unit of the County for the following reasons: (1) it is a legally separate entity established as a quasi-municipal corporation and independent taxing authority; (2) King County, in effect, appoints the voting majority of the KCFD board because the County Council members are the ex officio supervisors of the KCFD; and (3) the County can impose its will on the KCFD. The KCFD financial presentation is on a blended basis because the two governing boards are substantively the same. The KCFD does not issue independently audited financial statements. Financial statements for the KCFD are included with other Nonmajor Special Revenue Funds in the Governmental Funds section of this CAFR.

Flood Control Zone District

The Flood Control Zone District (FCZD) was created under the authority of chapter 86.15 RCW to manage, plan, and construct flood control facilities within district boundaries. By statute, the King County Council serves as the Board of Supervisors for the FCZD.

The FCZD is a component unit of the County for the following reasons: (1) it is a legally separate entity established as a quasi-municipal corporation and independent taxing authority; (2) King County, in effect, appoints the voting majority of the FCZD board because the County Council members are the ex officio supervisors of the FCZD; and (3) the County can impose its will on the FCZD. The FCZD financial presentation is on a blended basis because the two governing boards are substantively the same. The FCZD does not issue independently audited financial statements. Financial statements for the FCZD are included with other Nonmajor Special Revenue Funds in the Governmental Funds section of this CAFR.

Building Development and Management Corporations

King County has project lease agreements with four Washington state nonprofit corporations each of which are single-purpose entities that were created to assist the County in the development and construction of public buildings. Each agreement provided for the design and construction of a specific building to be financed with bonds, the majority of which are tax-exempt, issued on behalf of the County by each of the corporations in accordance with

NOTE 1 – CONTINUED

I.R.S. Revenue Ruling 63-20 and Revenue Procedure 82-26. Under the agreements, the buildings are to be leased by the County from the nonprofit corporations under guaranteed monthly rent payments throughout the term of the lease or until the debt is retired, after which ownership transfers to the County.

These nonprofit corporations are recognized as component units of the County in accordance with GASB Statement 14. Although they have independently appointed boards, the nature and significance of their relationships with the County's primary government are such that their exclusion would cause the King County reporting entity's financial statements to be misleading or incomplete. Because they provide services (develop and manage office facilities) exclusively to the County, these corporations are reported using the blended method. A single internal service fund, the Building Development and Management Corporations Fund, is used to blend the four nonprofit corporations' activities and balances with the primary government.

The nonprofit corporations and the related buildings under their management include: 1) CDP- King County III for the King Street Center building; 2) Broadway Office Properties for the Patricia Steel Memorial building; 3) Goat Hill Properties for the Goat Hill Parking Garage and the Chinook Building; and 4) NIB Properties for the Ninth and Jefferson Building. Separately issued and independently audited financial statements may be obtained from the National Development Council, 1425 4th Avenue, Suite 608, Seattle, WA 98101.

Joint Venture

The Seattle-King County Workforce Development Council (WDC) is a joint venture between King County and the City of Seattle. It was established as a nonprofit corporation in the State of Washington on July 1, 2000, as authorized under the Workforce Investment Act of 1998. It functions as the United States Department of Labor pass-through agency to receive the employment and training funds for the Seattle-King County area. The King County Executive and the Mayor of the City of Seattle, serving as the chief elected officials (CEO) of the local area, have the joint power to appoint the members of the WDC board of directors and the joint responsibility for administrative oversight. An ongoing financial responsibility exists because of potential liability to grantees for disallowed costs. If expenditure of funds is disallowed by a grantor agency, the WDC can recover the funds from (in order): (1) the agency creating the liability; (2) the insurance carrier; (3) future program years; and (4) as a final recourse, from King County and the City of Seattle, each being responsible for one-half of the disallowed amount. As of December 31, 2009, there are no outstanding program eligibility issues that might lead to a liability on the part of King County.

The WDC contracts with King County to provide programs related to dislocated workers, welfare to work, and workforce centers. For 2009 the WDC reimbursed King County approximately \$3.8 million for the Work Training Program and \$2.5 million for the Dislocated Worker Program in eligible program costs.

Separately issued and independently audited financial statements may be obtained from the Workforce Development Council, 2003 Western Avenue, Suite 250, Seattle, Washington 98121-2162.

Related Organizations

The King County Library System (KCLS), the Library Capital Facility District (LCFD), and the King County Housing Authority (KCHA) are legally separate entities, though each organization is related to King County. The County Council appoints a majority of the board of the KCLS and the KCHA and selected Council members make up the 3-member board of the LCFD. There is

NOTE 1 – CONTINUED

no evidence that the Council can influence the programs and activities of these organizations or that they create a significant financial benefit or burden to the County. For these reasons, they are related organizations. The County serves as the treasurer for the KCLS and the LCDF, providing services such as tax collection and warrant issuance. Due to this fiduciary relationship, these districts are reported as agency funds to distinguish them from County funds.

Government-wide and Fund Financial Statements

The government-wide financial statements (the Statement of Net Assets and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Exceptions to this general rule include interfund services provided and used between functions which are not eliminated because to do so would misstate both the expenses of the purchasing function and the program revenues of the selling function. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Indirect expenses that have been allocated from general government to various functional activities are reported in a separate column. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment; and grants and contributions that are restricted to meeting the operation or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are they are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported in separate columns in the fund financial statements.

Bases of Accounting, Measurement Focus, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. 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 similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with, or contradict guidance of, the Governmental Accounting Standards Board (GASB). Governments also have the option of following subsequent private sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The County has elected not to follow subsequent private sector guidance.

NOTE 1 – CONTINUED

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. User fees (sewage fees, passenger fares, disposal charges, etc.) charged by the County's enterprise funds for the use of its business-type facilities and charges for services of internal service funds are classified as operating revenues. Rental income is operating revenue to the Airport enterprise whose principal operation is leasing real property. The corresponding costs of service provision and delivery, including direct administration costs, depreciation or amortization of capital assets, and other allocations of future costs to current year operations (e.g. landfill post-closure, other postemployment benefits), comprise operating expenses. All other revenues and expenses not meeting this definition are reported as nonoperating.

When both restricted and unrestricted resources are available for use, it is the County's policy to use restricted resources first.

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. For this purpose, the County considers revenues, such as retail sales and use taxes, to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. Debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when the payments are due.

Major Governmental Funds

The County reports two major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government except those required to be accounted for in other funds.

The Public Health Fund is used to finance health service centers located throughout King County and public health programs. The Public Health Fund supports clinical health services/primary care assurance, management and business practice, population and environmental health services, and targeted community health services.

Major Proprietary Funds

The County reports two major proprietary funds:

The Public Transportation Enterprise accounts for the operations, maintenance, capital improvements, and expansion of public transportation facilities in King County under the King County Metro Transit Division. Primary revenue sources include sales tax and passenger service fees. Construction and fleet replacement are funded through sales tax, bond issuance, and federal grants.

The Water Quality Enterprise accounts for the operations, maintenance, capital improvements, and expansion of the County's water pollution control facilities under the King County Wastewater Treatment Division. The enterprise has two major treatment plants, the West Point Treatment Plant in Seattle and the South Treatment Plant in Renton, as well as two smaller facilities, the Carnation and the Vashon Island Treatment Plants. Major construction projects

NOTE 1 – CONTINUED

are funded through operating revenue, grants, state loans, and issuance of fixed and variable rate revenue bonds, commercial paper, and general obligation bonds.

Nonmajor Governmental Funds

Special Revenue Funds are used to account for a variety of County programs including alcohol and substance abuse, the arts, an automated fingerprint identification system, community development, road maintenance, emergency medical services, enhanced 911 emergency telephone system, local hazardous waste management, mental health services, parks, surface water management, and other services.

Debt Service Funds are used by the County to account for the accumulation of resources for, and the payment of, principal and interest on the County's general obligation bonds.

Capital Projects Funds are used to account for the acquisition, construction, and improvement of major capital assets and other capital-related activities such as infrastructure preservation, major maintenance of building facilities, office space leasing, storm management projects, technology systems, arts and historic preservation, and other projects.

Nonmajor Proprietary Funds

Enterprise Funds are used to account for the County's business-type operations, including the King County International Airport, solid waste disposal facilities, and other services.

Internal Service Funds are used to account for the provision of motor pool, data processing, risk management, construction and facilities management, financial, employee benefits program, and other services provided by one department or agency to other departments or agencies of the County on a cost reimbursement basis. The Wastewater Equipment Rental Fund was established to serve the Water Quality Enterprise. This fund is reported under business-type activities in the government-wide statements.

Fiduciary Funds

Investment Trust Funds are used to report investment activity conducted by King County on behalf of legally separate entities such as special districts and public authorities that are not part of the County's reporting entity.

King County recognizes two major classifications of Agency Funds: (1) those used with the operations of county government such as Undistributed Taxes Fund and Accounts Payable Clearing Fund; and (2) those which account for cash received and disbursed in the County's capacity as *ex officio* treasurer or collection agent for special districts and other governments such as school districts and fire districts.

Terminology**Expenditure Functions**

General Government Services – Provided by the legislative and administrative branches of the government entity for the benefit of the public or governmental body as a whole. This function includes the County Council, County Executive, Office of Management and Budget, Office of Information Resources Management, Records and Licensing Services, Elections, and Assessments.

NOTE 1 – CONTINUED

Law, Safety and Justice – Essential to the safety of the public, including expenditures for law enforcement, detention and/or correction, judicial operations, protective inspections, emergency services, and juvenile services. This function includes the Sheriff's Office, Prosecuting Attorney, Superior Court, District Court, Public Defense, Judicial Administration, Adult and Juvenile Detention, and Emergency Medical Services.

Physical Environment – Provided to achieve a satisfactory living environment for the community and the individual. This function includes Natural Resources, River Improvement, Animal Control, Surface Water Management, and River and Flood Control Construction.

Transportation – Provided by the governmental entity for the safe and adequate flow of vehicles and pedestrians that includes expenditures for road and street construction, maintenance, transportation facilities and systems, and general administration. This function includes Road Services, Arterial Highway Development, Renton Maintenance Facilities, and county road construction.

Economic Environment – Provided for the development and improvement of the welfare of the community and individual; includes expenditures for employment opportunity and development, veterans' services, childcare services, and services for the aging and disabled. This function includes Veterans' Relief, Youth Employment Programs, Office of Aging, Women's Programs, Development and Environmental Services, and Planning and Community Development.

Mental and Physical Health – Provided to promote healthy people and healthy communities by preventing and treating mental, physical, and environmentally induced illnesses. This function includes expenditures for community mental health, communicable diseases, environmental health, public health clinics and programs, alcoholism treatment, drug abuse prevention, programs for the mentally disabled and mentally ill, the medical examiner, hospitals, and jail health services. This function also includes regional hazardous waste management.

Culture and Recreation – Provided to increase the individual's understanding and enjoyment that includes expenditures for education, libraries, community events, parks, and cultural facilities. This function includes Parks, Cooperative Extension Service, and various Park Capital Project Funds.

Debt Service – Accounts for the redemption of general long-term debt principal and interest and other debt service costs in the General, Special Revenue, Debt Service, and Capital Projects Funds and payments to escrow agents other than refunding bond proceeds.

Capital Outlay – Accounts for expenditures related to capital projects and expenditures for capital assets acquired by outright purchase and by capital lease financing agreements.

Certain Accounts are Grouped on the Statement of Net Assets:

- The asset account Receivables, net combines Taxes receivable – delinquent; Accounts receivable, net; Other receivables, net; Interest receivable; Notes and contracts receivable; and Due from other governments, net.
- The asset account Deferred charges combines Deferred – environmental remediation costs; Deferred charges – issuance costs, and Due from employees.

NOTE 1 – CONTINUED

- The liability account *Accounts payable and other current liabilities* combines *Accounts payable*, *Due to other governments*, *Taxes payable*, *Contracts payable*, *Custodial accounts*, and other liabilities.
- The liability account *Accrued liabilities* combines *Wages payable* and *Interest payable*.
- The liability account *Noncurrent liabilities* includes *Claims and judgments payable*, *Estimated claim settlements*, *General obligation bonds*, *Special assessment bonds*, *Revenue bonds payable*, *Excess earnings liabilities*, *Capital leases*, *State revolving loan payable*, *Compensated absences*, *Environmental and property remediation*, *Unamortized premium/discount on bonds sold*, *Deferred charges – refunding losses*, and other liabilities.

Cash and Cash Equivalents

Cash and cash equivalents consists of: *Cash and pooled investments*, *Petty cash/change funds*, *Cash with escrow agent*, and *Cash held in trust*.

All County funds and most component units and special districts participate in the King County Investment Pool (the Pool) maintained by the King County Treasury Operations Section. (See Note 4, "Deposits, Investments and Receivables.") The Pool consists of internal and external portions. For Pool participants, the Pool functions essentially as a demand deposit account where participants receive an allocation of their proportionate share of pooled earnings. Each fund's equity share of the internal portion of the Pool's net assets is reported on the balance sheet as *Cash and cash equivalents* and reflects the change in fair value of the corresponding investment securities. Included in the internal portion of the Pool is the investment of short-term cash surpluses not otherwise invested by individual funds. The interest earnings related to investment of short-term cash surpluses are allocated to the General Fund in accordance with legal requirements and are used in financing General County operations.

Investments

In addition to pooled investments described under *Cash and cash equivalents*, King County holds other investments in qualified public depositories for County government and special districts for which, either by Washington state law or by contract, King County is the custodian. Money is invested as directed by the governing authority for the fund or agency and proceeds are returned to the investing fund.

Investments purchased for individual funds are reported as *investments*, regardless of length of maturity. Those attributed to both the external portion of the Pool and those in individual investment accounts are classified as "investments" in separate investment trust funds. Statements of participants in the Pool's internal portion report pooled investments as cash equivalents. Statements of participants in the external portion report pooled investments as "Assets held in trust – external investment pool." Special district funds with individual investment accounts report their portion of net assets as "Assets held in trust – individual investment accounts." Investments are reported at fair value in compliance with the GASB Codification, Section 150.105, which provides for reporting investments of governmental entities using fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. (See Note 4, "Deposits, Investments and Receivables.")

NOTE 1 – CONTINUED**Receivables**

Receivables include charges for services rendered by the County or intergovernmental grants. All unbilled service receivables are recorded at year-end. The provisions for estimated uncollectible receivables are reviewed and updated at year-end. These provisions are estimated based on an analysis of an aging of the year-end Accounts receivable balance and/or the historical rate of uncollectibility.

Taxes Receivable – Property taxes levied for the current year are recorded on the balance sheet as *Taxes receivable* and *Deferred revenues*. Property taxes are recognized as revenue when collected in cash at which time the balance sheet accounts, *Taxes receivable* and *Deferred revenues*, are reduced by the amount of the collection. The amount of taxes receivable at year-end that would be collected soon enough to be used to pay liabilities of the current period is not material. At year-end all uncollected property taxes are reported on the balance sheet as *Taxes receivable – delinquent* and *Deferred revenues*.

Abatements Receivable – This account records the unpaid abatement costs due the County from violations reported by the Code Enforcement Section on property within the County. Revenue is recognized when payment is received. Abatement costs may be certified to the property tax parcel; as a result, these costs might not be paid until the property is sold, which may take years.

Civil Penalties Receivable – This account records the unpaid civil penalty costs due the County from violations reported by the Code Enforcement Section within the County. Revenue is recognized when payment is received. Liens may be filed by the County against the property and are released once the penalties have been paid.

Assessments Receivable – In the governmental funds, unpaid assessments are reported in three accounts: *Current*, *Delinquent*, and *Deferred*. Current assessments are those due within one year. Delinquent assessments are past due, and Deferred assessments are due in the future. Revenues from the assessments are recognized as they become current; that is, both measurable and available to finance expenditures of the current period.

Short-term Interfund Receivables and Payables – Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund short-term loans receivable/payable," (the current portion of interfund loans), or "Advances to/from other funds," (the non-current portion of interfund loans). All other outstanding balances between funds are reported as "Due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "Internal balances."

Advances to/from Other Funds – Noncurrent portions of long-term interfund loans are reported as *Advances*. In governmental funds they are offset equally by a fund balance reserve account that indicates they do not constitute expendable available financial resources and are not available for appropriation.

Inventories

Inventories of governmental funds are recorded using the consumption method whereby expenditures are recognized when inventories are actually consumed. Proprietary funds expense inventories when used or sold. The First-in, First-out (FIFO) valuation method is used by the Solid Waste, King County International Airport, Radio Communications, Construction and Facilities Management, and Public Health Funds. The Weighted Average valuation method is

NOTE 1 – CONTINUED

used by the Motor Pool Equipment Rental, Public Works Equipment Rental, and the Public Transportation and Water Quality Enterprises.

Prepayments

Payments made to vendors for goods or services that will benefit future periods are recorded as prepaid items.

Capital Assets

Capital assets include: Land (fee simple land, right-of-way and easements, and farmland development rights); Infrastructure (roads and bridges network); Buildings; improvements other than buildings; Furniture, machinery and equipment; and Work in progress. General capital assets, including those in internal service funds that support governmental funds, are reported in the governmental column of the government-wide Statement of Net Assets. Capital assets of enterprise funds, including those in internal service funds that exclusively support enterprise funds, are reported in the business-type column of the government-wide Statement of Net Assets. Enterprise and internal service fund capital assets are also reported in the individual proprietary fund Statement of Net Assets. The capitalization threshold in the King County Primary Government is \$5 thousand for furniture, machinery and equipment, \$25 thousand for software, and \$50 thousand for buildings, building improvements, and other improvements.

Because the County is committed to maintaining the infrastructure indefinitely, it has elected to use the modified approach to infrastructure reporting in lieu of the depreciation method. The County is eligible to use the modified approach because it has an asset management system in place that allows for constant monitoring of the infrastructure to ensure that they are maintained and preserved at the predetermined condition level set by the Road Services Division. The asset management system tracks the number, mileage, condition, and the actual and planned maintenance and preservation costs of individual infrastructure assets.

Certain equipment and facilities used in the Solid Waste Enterprise landfill closure and post-closure activities are not reported as capital assets. Instead, the liability for landfill post-closure care is reduced by the extent of these costs.

Capital assets are valued at historical cost or estimated historical cost where actual historical cost is not available. Donated capital assets are valued at their estimated fair market value at the time of donation. Expenditures for maintenance and repairs that do not add to the value of the assets or materially extend their lives are expensed as incurred. Expenditures for repairs and upgrades that materially add to the value or life of an asset are capitalized. Costs incurred to extend the life of governmental infrastructure assets are considered preservation costs and are therefore not capitalized.

Capital assets other than land, infrastructure, and artwork are depreciated in accordance with GASB Statement No. 34. As with business-type capital assets, provision is made for depreciation over the estimated useful lives of the depreciable assets using the straight-line method.

The Water Quality Enterprise annually reviews long-lived assets for impairment to determine whether any events or circumstances indicate the carrying value of the assets may not be recoverable. A fuel cell demonstration project was deemed impaired in 2009 due to the failure of a vital component and technological obsolescence of the installed model. A charge of \$12.6 million was incurred as a loss on the abandonment of the impaired asset.

NOTE 1 – CONTINUED

Capital assets and their components have been depreciated over their estimated useful lives as follows:

Description	Depreciation Method	Estimated Useful Life
Buildings – constructed	Straight-line	40 to 60 years
Buildings, transfer stations, shops scales offices, etc.	Straight-line	10 to 30 years
Buses and trolleys	Straight-line	12 to 18 years
Cars, vans, and trucks	Straight-line	5 to 8 years
Data processing equipment	Straight-line	3 to 10 years
Downtown transit tunnel	Straight-line	50 years
Heavy equipment	Straight-line	7 to 15 years
Medical equipment	Straight-line	3 to 20 years
Office equipment	Straight-line	3 to 20 years
Sewer lines	Straight-line	50 years
Shop equipment	Straight-line	5 to 20 years
Software	Straight-line	3 to 20 years
Telecommunication equipment	Straight-line	6 to 10 years

Deferred Charges

The government-wide financial statements and proprietary fund types in the fund financial statements defer expenditures for debt issuance, which are amortized over the life of the respective bond issues. The Public Transportation Enterprise includes certain amounts due from employees as deferred charges. The Water Quality Enterprise defers environmental remediation costs, which are amortized over 40 years. The Building Development and Management Corporations Fund defers organizational start-up costs and amortizes over 5 years. Both the government-wide and proprietary fund types in the fund financial statements defer bond premiums, discounts, and refunding losses, which are reported in the Statement of Net Assets under Noncurrent liabilities and in the fund financial statements under Long-term liabilities.

Deferred Revenues

Deferred revenues include: (1) amounts collected before revenue recognition criteria are met, such as deferred parks program revenue and building and land development permit fees; (2) receivables and uncollected delinquent taxes that, under the modified accrual basis of accounting, are measurable but not yet available; and (3) a Water Quality Enterprise rate stabilization reserve (see next section on regulatory deferrals).

Regulatory Deferrals

The King County Council has taken various regulatory actions resulting in differences between the recognition of revenues for rate-making purposes in the Water Quality Enterprise fund and their treatment under generally accepted accounting principles for nonregulated entities. Currently, the Water Quality Enterprise is authorized to apply the accounting treatment of costs under Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 71 (FAS 71), Accounting for the Effects of Certain Types of Regulation. Water Quality meets FAS 71 criteria because the rates for its services are regulated by the King County Council, and the regulated rates chargeable to its customers are designed to recover the enterprise's allowable costs of operations.

NOTE 1 – CONTINUED

Rate Stabilization – The Council established a Rate Stabilization Reserve in the Water Quality Enterprise fund. This allows for deferral of certain operating revenues as a liability to be recognized in subsequent years through amortization in order to maintain stable sewer rates.

Regulatory Assets – In 2006, the Council approved the application of FASB Statement No. 71 to treat pollution remediation obligations as regulatory assets to allow for cost recovery through future rate increases. The portion of regulatory asset costs that have been paid out is being amortized over a recovery period of 30 years.

Rebutable Arbitrage

The County's tax-exempt debt is subject to arbitrage restrictions as defined by the Internal Revenue Code. All of the County's bonded debts are tax-exempt except three taxable debts as identified in Note 14, "Debt." Arbitrage occurs when the funds borrowed at tax-exempt rates of interest are invested in higher yielding taxable securities. These interest earnings in excess of interest expense must be remitted to the federal government except when spending exceptions rules are met. The County does not recognize a liability for arbitrage at the fund level unless this liability is due and payable at the end of the year. At the government-wide level, the liability is recognized during the period the excess interest is earned.

Compensated Absences

Eligible King County employees earn 12 days of sick leave and 12 to 30 days of vacation per year, depending on the individual employee's length of service and other factors. An unlimited amount of sick leave and a maximum of 60 days of vacation may be accrued. An employee leaving the employ of King County is entitled to be paid for unused vacation leave and, if retiring as a result of length of service or terminating by reason of death, for 35 percent of the value of unused sick leave. For reporting purposes, a variety of factors are used to estimate the portion of the accumulated sick leave that is subject to accrual.

A liability is accrued for estimated excess compensation liabilities to the Washington State Department of Retirement Systems based on an employee's accrued vacation and sick leave. An excess compensation liability is incurred when an employee whose retirement benefits are based in part on excess compensation receives a termination or severance payment defined by the State as excess compensation. This includes, but is not limited to, a cashout of unused annual leave in excess of 240 hours and a cashout of any other form of leave.

All vacation pay liability and a portion of sick leave liability is accrued in the government-wide and proprietary statements.

Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Assets. Bond premiums and discounts, refunding losses, as well as issuance costs, are deferred and amortized over the life of the bonds using outstanding principal balance method. Bonds payable are reported net of the applicable bond premium or discount. Bond refunding losses and issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums, discounts, as well as bond issuance cost, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing

NOTE 1 – CONTINUED

uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity

In the fund financial statements, governmental funds report reserves of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Component Units – Summary of Significant Accounting Policies**Harborview Medical Center (HMC)**

Harborview Medical Center (HMC), as a county hospital within King County, maintains its own distinct set of accounting records, prepared in accordance with generally accepted governmental accounting principles. In addition, based on GASB Statement No. 20,

Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, HMC has elected to apply the provision of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

The HMC financial statements are reported as a business-type activity, as defined by GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. Harborview Medical Center's Statement of Net Assets and Statement of Activities reflect its financial position as of June 30, 2009.

Land, buildings, and equipment are stated at historical cost. Improvements and replacements of buildings and equipment are capitalized, while maintenance and repairs are expensed. Capital assets are depreciated using the straight-line method over their estimated useful lives. Interest incurred on funds borrowed by HMC during the construction of capital assets is capitalized as a component of the cost of acquiring those assets; no interest was capitalized during the current fiscal year.

HMC, as an instrumentality of the State of Washington, is not subject to federal income taxes under Section 115 of the Internal Revenue Code unless unrelated business income is generated during the year.

Washington State Major League Baseball Stadium Public Facilities District (PFD)

The PFD uses the accrual basis of accounting. Expenses are recorded at the time liabilities are incurred and revenues are recorded when earned.

Cash and cash equivalents consist of cash and pooled investments managed by the King County Treasury Operations Section, which pools and invests all short-term cash surpluses not otherwise invested by individual funds of the County. Earnings from these pooled investments are allocated to the PFD based upon its share of equity in the Pool.

Capital assets include land, the Baseball Stadium and furniture, machinery, and equipment. The Baseball Stadium includes all costs associated with the development and construction of the ballpark project, including PFD staffing and related operating costs, architect and engineering fees, environmental consulting fees, interest on interim financing during pre-construction and construction, and other costs.

Capital assets are valued at historical cost and depreciated on a straight-line basis based on their estimated useful lives. Furniture and equipment are depreciated over three or five years. The Baseball Stadium is depreciated over 40 years from the date it was placed in service.

NOTE 1 – CONTINUED

PFD employees earn 12 days of sick leave and 10 to 15 days of vacation per year, depending on the individual's length of service. An unlimited amount of sick leave and two times the annual vacation allotment may be accrued. An employee leaving the employ of the PFD is entitled to be paid for all unused vacation. Unused sick leave is forfeited upon termination of employment. The accrual for unused vacation is included in other current liabilities in the accompanying Statement of Net Assets.

Cultural Development Authority of King County (CDA)

The CDA uses the accrual basis of accounting. Expenses are recorded at the time liabilities are incurred and revenues are recorded when earned.

The CDA's accounts are organized into an operating fund, several program funds, and a restricted fund (Cultural Endowment Fund).

- **Operating Fund** – used to pay for the CDA's administrative support.
- **Program Funds** – used to segregate different revenue sources and to comply with expenditure requirements.
- **Cultural Endowment Fund** – consists of 40 percent of the Hotel/Motel tax revenue allocation to the CDA. The principal portion of the fund is permanent and irreducible. Interest earnings in the fund are available for the support of the arts, the performing arts, art museums, heritage museums and cultural museums of King County.

The CDA, as an instrumentality of the State of Washington, is not subject to federal income taxes under Section 115 of the Internal Revenue Code unless unrelated business income is generated during the year.

CDA employees earn 12 days of sick leave and 12 to 30 days of vacation per year, depending on the individual's length of service. An unlimited amount of sick leave and 30 days of vacation leave may be accrued. An employee leaving the employ of the CDA is entitled to be paid for all unused vacation. Unused sick leave is forfeited upon termination of employment. The accrual for unused vacation is included in other current liabilities in the accompanying Statement of Net Assets.

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**Explanation of certain differences between the Governmental Funds Balance Sheet and the Government-wide Statement of Net Assets:**

The governmental funds balance sheet includes a reconciliation between fund balance – total governmental funds and net assets – governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains, "Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of this difference are as follows (in thousands):

Bonds payable	\$ 720,891
Less: Deferred charge on refunding (to be amortized as interest expense)	(8,340)
Deferred charge for issuance costs (to be amortized over life of debt)	(3,728)
Plus: Unamortized premiums on bonds sold	22,557
Accrued interest payable	5,158
Compensated absences	80,129
Unemployment compensation payable	2,578
Other postemployment benefits	17,785
Rebatable arbitrage	17
Net adjustment to reduce fund balance – total governmental funds to arrive at net assets – governmental activities	<u>\$ 837,047</u>

Explanation of certain differences between the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities:

The governmental funds statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net assets of governmental activities reported in the government-wide statement of activities. One element of that reconciliation explains, "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this difference are as follows (in thousands):

Capital outlay	\$ 85,161
Depreciation expense	<u>(28,684)</u>
Net adjustment to increase net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ 56,477</u>

NOTE 2 – CONTINUED

Another element of that reconciliation states, "The net effect of various miscellaneous transactions involving capital assets (e.g., sales, trade-ins, and donations) is to increase net assets." The details of this difference are as follows (in thousands):

In the statement of activities, only the gain on the sale of capital assets is reported. In the governmental funds, the proceeds from the sale increase financial resources. The change in net assets differs from the change in fund balance by the book value of the capital assets sold.

\$ (40,542)

Donations of capital assets increase net assets in the statement of activities, but do not appear in the governmental funds because they are not financial resources.

57,250

Net adjustment to increase net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities

\$ 16,708

Another element of that reconciliation states, "Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds." The details of this difference are as follows (in thousands):

Property tax accrual	\$ 2,595
Surface Water Management service charge accrual	311
Probation and parole service charge accrual	(6)
Work release service charge net accrual	40
Fines and forfeits net accrual	<u>(18)</u>
Net adjustment to increase net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ 2,922</u>

NOTE 2 – CONTINUED

Another element of that reconciliation states, "The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities." The details of this difference are as follows (in thousands):

Debt issued or incurred	\$ (84,810)
Issuance of general government debt	(42,869)
Issuance of refunding bonds	(5,831)
Premium on bonds sold	1,158
Bond issuance costs	117,736
Principal repayments	(1,133)
Receipts from component units for principal repayments	<u>67,117</u>
Payment to escrow agent	
Net adjustment to increase net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ 51,368</u>

Another element of that reconciliation states, "Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds." The details of this difference are as follows (in thousands):

Compensated absences	\$ 6,952
Accrued unemployment compensation	1,397
Other postemployment benefits	6,097
Accrued rebatable arbitrage	(12)
Accrued interest	(827)
Amortization of issuance costs	770
Amortization of deferred charge on refunding	4,189
Amortization of bond premiums	<u>(4,821)</u>
Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ 13,745</u>

NOTE 2 – CONTINUED

Another element of that reconciliation states, "Net revenues and expenses of certain activities of internal service funds are reported with governmental activities." The details of this difference are as follows (in thousands):

Investment interest earnings	\$ 4,305
Revenues related to services provided to outside parties	4,769
Expenses related to services provided to outside parties	(3,953)
Gain on disposal of capital assets	320
Interest on long-term debt	(18,381)
Capital contributions	1,303
Transfers in	2,364
Transfers out	(980)
Internal service fund gains allocated to governmental activities	<u>15,621</u>
Net adjustment to increase net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ 5,368</u>

Explanation of certain differences between the Proprietary Funds Statement of Net Assets and the Government-wide Statement of Net Assets:

The proprietary funds statement of net assets includes a reconciliation between net assets – total enterprise funds and net assets of business-type activities as reported in the government-wide statement of net assets. The description of the reconciliation is "Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds." The assets and liabilities of one internal service fund, Wastewater Equipment Rental Fund, are included in the business-type activities in the statement of net assets because the fund was established to serve the Water Quality Enterprise. The details of this difference are as follows (in thousands):

Net assets of the business-type activities internal service fund	\$ 10,145
Internal receivable representing charges in excess of cost to the enterprise funds by the governmental activities internal service funds – prior years	(3,624)
Internal payable representing the amount overcharged to the enterprise funds by the governmental activities internal service funds – current year	<u>5,442</u>
Net adjustment to increase net assets – total enterprise funds to arrive at net assets of business-type activities	<u>\$ 11,963</u>

NOTE 2 – CONTINUED

Explanation of certain differences between the Proprietary Funds Statement of Revenues, Expenses, and Changes in Fund Net Assets and the Government-wide Statement of Activities:

The proprietary funds statement of revenues, expenses, and changes in fund net assets includes a reconciliation between change in net assets – total enterprise funds and change in net assets of business-type activities as reported in the government-wide statement of activities. The description of the reconciliation is "Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds." The details of this difference are as follows (in thousands):

Investment interest earnings	\$ 103
Revenues related to services provided to outside parties	26
Expenses related to services provided to outside parties	(25)
Loss on disposal of capital assets	(7)
Transfers in	83
Transfers out	(131)
Internal service fund gains allocated to business-type activities	<u>6,161</u>
Net adjustment to increase change in net assets – total enterprise funds to arrive at change in net assets of business-type activities	<u>\$ 6,210</u>

NOTE 3 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**Bases of Budgeting**

With the exception of the reconciling items described in the Reconciliation of Budgetary Basis and Generally Accepted Accounting Principles (GAAP) Basic Statements and Schedules section of this note, King County uses the modified accrual basis of budgeting for the General Fund and most Debt Service and Special Revenue Funds. Revenues are estimated on the basis of when they become susceptible to accrual. Budgeted appropriations include both Expenditures and Other financing uses; they are budgeted based on liabilities expected to be incurred in the acquisition of goods and services. These are annual budgets applicable to the current fiscal year.

Twenty-seven Special Revenue Funds have annual budgets with budgeting methods identical to the General Fund and are presented in the budget and actual schedules in this report.

Two Special Revenue Funds (the Community Development Block Grant Fund and the Miscellaneous Grants Fund) do not have an annual budget. Budgets within these funds are on a multi-year basis with the budget for a particular program covering one or more fiscal years. Total revenues and expenditures for the program are budgeted at its inception and any unexpended balance at the end of the fiscal year is reappropriated to the next fiscal year.

The Flood Control Zone District Fund is not budgeted. This fund accounts for flood control zone activities in accordance with chapter 86.15 RCW.

The King County Ferry District Fund is not budgeted. This fund accounts for the operations of passenger-only ferry services to various parts of the county pursuant to Ordinance 15739.

The Parks Trust and Contribution Fund is not budgeted. This fund accounts for gifts, bequests, and donations of money to the County for parks and recreation purposes and was set up pursuant to Ordinance 14509, the Parks Omnibus Ordinance.

The Road Improvement Districts Maintenance Fund is not budgeted. This fund reports the road district maintenance assessment activity in accordance with chapter 36.88 RCW.

The Treasurer's Operations and Maintenance Fund, pursuant to RCW 84.56.020, is not budgeted.

Four Debt Service Funds have annual budgets. Three have annual budgets with budgeting concepts identical to the General Fund. One of these, the Limited General Obligation Bond Redemption Fund, includes budgeting and accounting for expenditures related to proprietary fund debt service payments. The fourth budgeted Debt Service Fund, the Road Improvement Guaranty Fund, is budgeted only in the exceptional case of transfers of surplus to the County Road Fund.

The Road Improvement Districts Special Assessment Debt Redemption Fund is not budgeted. This fund reports road improvement districts' special assessments revenues and debt service expenditures in accordance with chapter 36.88 RCW.

All funds in the Capital Projects Fund type, except the Road Improvement Districts Construction Fund are controlled by multi-year budgets. However, capital budget appropriations are canceled at the end of the year unless the County Executive submits to the County Council the report of the final year-end reconciliation of expenditures for all capital projects on or before March 1 of the year following the year of the appropriation and each year thereafter in which the appropriation remains open.

The Road Improvement Districts Construction Fund is not budgeted. This fund reports capital improvement assessments construction activity in accordance with chapter 36.88 RCW.

NOTE 3 – CONTINUED

The Enterprise and Internal Service Funds (with the exception of the Insurance Fund and the Building Development and Management Corporations Fund) are budgeted on the modified accrual basis rather than the accrual basis (the GAAP basis for proprietary funds). Appropriations are based on an estimate of expenditures expected to be incurred in the acquisition of goods and services during the fiscal year. Estimated revenues are based on the amount estimated to be earned and available during the fiscal year. The Transit Division budget is appropriated as a biennial budget for the 2008-2009 timeframe.

The Insurance Fund is budgeted on the modified accrual basis with one exception. Consistent with the intent of the County ordinance that delegates full claims settlement authority to the County Executive, the recognition of the portion of judgment and claim settlements that occurs and remains unpaid at the end of a fiscal year, and exceeds current year expenditure appropriations, is deferred to the following year when the claim is paid.

The Building Development and Management Corporations Fund which is used to blend four nonprofit corporations' activities and balance with the primary government is not budgeted.

The Trust and Agency Funds are not budgeted.

Encumbrances

Encumbrances outstanding as of December 31, 2009, are shown in the following schedule by fund type (in thousands):

General Fund	\$ 3,306
Public Health Fund	804
Special Revenue Funds	24,659
Capital Projects Funds	60,808
Enterprise Funds	2,217
Internal Service Funds	<u>2,964</u>
Total All Funds	<u>\$ 94,758</u>

Reconciliation of Budgetary Basis and GAAP Basis Statements and Schedules for Governmental Funds

In the General and budgeted Special Revenue and Debt Service Funds, the legally prescribed budgetary basis differs from the GAAP basis. For those statements and schedules in which budget comparisons are presented, the legally adopted budget is compared with actual data on the budgetary basis rather than the GAAP basis. Budget to actual statements and schedules of the governmental funds include an explanation of the differences between the two bases. All statements that do not have budget comparisons are prepared on the GAAP basis.

Budgeted Level of Expenditures

Appropriations are authorized by ordinance, generally at the fund level, with the exceptions of the General Fund and seven Special Revenue Funds (Children and Family Services, Community Development Block Grant, County Roads, Developmental Disabilities, Mental Illness and Drug Dependency, Miscellaneous Grants and Public Health), which are appropriated at the department/division level. The Capital Projects Funds are appropriated at the project level.

These are the legal levels of budgetary control. Unless otherwise provided by the appropriation ordinances, all unexpended and unencumbered annual appropriations lapse at the end of

NOTE 3 – CONTINUED

the year. The budgetary comparison schedules (budgetary basis) include variances at the function of expenditure level. These variances are presented for informational purposes only and, if negative, do not constitute a legal violation. Administrative control is guided by the establishment of more detailed line item budgets.

Expenditures including Other Financing Uses, in Excess of Amounts Legally Authorized**Funds with Annual or Biennial Budgets**

All funds and departments/divisions with annual or biennial budgets completed the year within their legally authorized expenditures, including other financing uses.

Funds with Multi-year Budgets

Thirty nine capital projects in seven Capital Projects and Enterprise Funds with multi-year budgets have a combined total of \$12.2 million of expenditures in excess of budget. These deficits are expected to be corrected by additional appropriations in 2010.

In addition, supplemental appropriation of \$49 million needs to be provided for prior year's repayments of bond anticipation notes in the Building Construction and Improvement fund. This is expected to be corrected in the annual CIP revenue verification process.

Fund Balance and Net Asset Deficits

Building Development and Management Corporations – The deficit of \$12.3 million is the result of bond interest payments made during the first few years of bond issuance when buildings were still under construction and monthly rent payments had not yet commenced. Lease revenue bonds normally include three years of capitalized interest to fund the initial interest costs.

Building Repair and Replacement Fund – The deficit of \$15.2 million is the result of critical building and improvement projects funded with a short-term loan. Once the replacement general obligation bonds are issued, the fund balance deficit will be eliminated.

County Road Construction Fund – The deficit of \$9.5 million is the result of decreased revenue sources and expected transfers caused by a weak economy and expenditures incurred for the Novelty Hill Road NE project. The Novelty Hill project is funded by a short-term loan. The issuance of general obligation bonds combined with property tax receipts in 2010 is expected to eliminate the fund balance deficit.

County Road Fund – The deficit of \$16.8 million at the beginning of 2009 was reduced by \$13.8 million to a deficit of \$2.9 million at year end by reducing the Roads CIP construction transfer from the budgeted amount by \$19 million, realizing federal emergency storm grants (\$5.6 million) from previous years work and forced operating budget under-expenditures (\$8 million). These gains were offset by eliminating \$9.3 million of revenue from planned surplus property sales, and realizing \$1.9 million less revenue than anticipated from property taxes, gas taxes other miscellaneous fees due to the current economic downturn. In 2010 the deficit will be addressed by constraining expenditures in the operating and capital improvement program budgets.

Green River Flood Mitigation Fund – The deficit of \$6.4 million is the result of expenditures related to flood control mitigation projects financed with short-term financing through the issuance of bond anticipation notes. When the replacement general obligation bonds are issued, the fund balance deficit will be eliminated.

NOTE 3 – CONTINUED

Marine Division Operating Fund – The deficit of \$21 thousand was the result of an unrealized loss on investments that was not reimbursed by the King County Ferry District.

Office of Information Resource Management Capital Fund – The deficit of \$12.9 million was the result of expenditures for a major financial system conversion funded by a short-term loan. Once the general obligation bonds are issued, the fund balance deficit will be eliminated.

Renton Maintenance Facilities Construction – The deficit of \$1.5 million was the result of costs to begin the design of a new regional maintenance facility in Ravensdale. The deficit will be covered using proceeds received from the sale of the Summit Pitt property at a future date.

Safety and Workers' Compensation Fund – The deficit of \$11.8 million was the result of a change of the method in 2004 for estimating workers' compensation claim liabilities from using the case reserves liabilities to an actuarially developed liabilities estimate. The change resulted in a large increase in the reported liabilities and related expenses in 2004. The funding plan developed to build the assets to equal the liabilities over a number of years has made significant progress reducing the deficit in each year since its inception.

Unrestricted Net Asset Deficits

Solid Waste Enterprise Fund – The deficit of \$23.7 million in unrestricted net assets is the result of recognizing a long-term liability for landfill closure and post-closure care which is being funded through annual contributions from operations.

Water Quality Enterprise Fund – The deficit of \$88.0 million in unrestricted net assets is the result of short term borrowing by the Water Quality Enterprise from other County funds. Once the general obligation bonds are issued, the unrestricted net assets deficit will be eliminated.

NOTE 4 – DEPOSITS, INVESTMENTS AND RECEIVABLES**Deposits**

The County maintains deposit relationships with several local commercial banks and thrift institutions in addition to its concentration bank. All deposits that are not insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250 thousand per bank are fully collateralized by the Public Deposit Protection Commission of the State of Washington (PDPC). The PDPC is a statutory authority established under chapter 39.58 RCW. It constitutes a multiple financial institution collateral pool that can make *pro rata* assessments to all public depositories within the state for all their public deposits. Therefore, PDPC protection is of the nature of collateral, not of insurance, in accordance with GASB Codification of Governmental Accounting and Financial Reporting Standards, Section 150.110.

Custodial credit risk – Deposits. The custodial credit risk for deposits is the risk that, in the event of a bank failure, the County's deposits may not be recovered. State statutes require that certificates of deposit be placed in qualified public depositories in the State of Washington and provides that the total deposits cannot exceed the net worth of the financial institution. The County establishes deposit limitations for all financial institutions with which deposits are placed, based on publications by IDC Financial Publishing Company. The County's diversification policy limits the maximum amount of investment in certificates of deposit to 20 percent of the total amount of the portfolio and 7.5 percent of a single issuer. The County's investment Pool had \$522.3 million in bank deposits of which \$307 million in certificates of deposit were rated "Superior" and \$215.3 million in NOW Accounts were rated "Excellent" by IDC.

As of December 31 the County's total deposits, excluding the equity in the component units, were \$588.7 million in carrying amount and \$570.4 million in bank balance, of which \$11.0 million was exposed to custodial credit risk as uninsured and uncollateralized as shown in the following schedule (in thousands):

	Carrying Amount	Bank Balance	Uninsured and Uncollateralized
Demand deposits	\$ 71,602	\$ 53,299	\$ -
NOW Accounts	204,836	204,836	-
Certificates of Deposit	301,253	301,253	-
Money Market Accounts	11,045	11,045	11,045
Total deposits	<u>\$ 588,736</u>	<u>\$ 570,433</u>	<u>\$ 11,045</u>

The money market accounts are cash held with trustees for four Washington state nonprofit corporations reported in the internal service funds as Building Development and Management Corporations, a blended component unit of King County. The cash held in various financial institutions, including most notably the Bank of New York Trust Company (trustee), is invested in United States Government Money Market accounts. Of the \$11 million total money market cash balances, \$11.0 million are exposed to custodial credit risk as uninsured and uncollateralized.

The nonprofit corporations also had one investment, which was a US government bond. The investment reported at fair market value based on quoted price in active markets was \$5.2 million at December 31, 2009. Fair market value measurement was based on the FASB no. 157, *Fair Value Measurements*, which establishes a framework for measuring fair value based on hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement).

NOTE 4 – CONTINUED**Investments**

Investment Instruments. State statutes authorize King County to invest in savings or time accounts in designated qualified public depositories and in certificates, notes, or bonds of the United States. The County is also authorized to invest in other obligations of the United States or its agencies or in any corporation wholly owned by the US government. Other authorized investments include bankers' acceptances purchased on the secondary market, federal home loan bank notes and bonds, federal land bank bonds, and federal national mortgage association notes, debentures and guaranteed certificates of participation. In addition, the County is authorized to invest in the obligations of any other government-sponsored corporation whose obligations are or may become eligible as collateral for advances to member banks as determined by the board of governors of the Federal Reserve System. The County may also invest in commercial paper (within the policies established by the State Investment Board), debt instruments of banking institutions, local and state general obligations, and revenue bonds issued by Washington State governments that are rated at least "A" by a nationally recognized rating agency.

King County voluntarily invests in the Washington State Treasurer's Local Government Investment Pool (LGIP). The amount is carried at cost, which approximates fair value. The LGIP is a 2a7-like pool that is overseen by the Office of the State Treasurer, the State Finance Committee, the Local Government Investment Pool Advisory Committee, and the Washington State Auditor's Office. The LGIP also contracts for an annual audit.

The County is authorized to enter into repurchase agreements. County investment policies require that securities underlying repurchase agreements must have a market value of at least 102 percent of the cost of the repurchase agreement for investment terms of less than 30 days, and 105 percent for terms longer than 30 days. Repurchase agreements in excess of 60 days are not allowed. Currently, the County's tri-party custodial bank monitors compliance with these provisions. The County has not entered into yield maintenance repurchase agreements.

Statutes permit the County Investment Pool to enter into reverse repurchase agreements, that is, a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. The County entered into no reverse repurchase agreements during the year.

The County operates under the GASB's Codification, Section 2300.601, definition of derivatives and similar transactions. During the year, the County did not buy, sell, or hold any derivative or similar instrument except for certain US agency collateralized mortgage obligation securities. Although these securities are sensitive to early prepayments by mortgagees, usually resulting from a decline in interest rates, County policies are in place to ensure that only the lowest risk securities of this type are acquired.

External Investment Pool. For investment purposes, the County pools the cash balances of County funds and participating component units, and allows for participation by other legally separate entities such as special districts, for which the County is ex officio treasurer, and public authorities. The King County Investment Pool (the main Pool), administered by the King County Treasury Operations Section, is an external investment pool. The external portion of the Pool (the portion that belongs to special districts and public authorities other than component units) is reported in an Investment Trust Fund. It is County policy to invest all County funds in the Pool. All non-County participation in the Pool is voluntary.

NOTE 4 – CONTINUED

The King County Investment 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. The EFC consists of the Chair of the County Council, the County Executive, the Director of the Office of Management and Budget, and the Director of the Finance and Business Operations Division. All investments are subject to written policies and procedures adopted by the EFC. The EFC reviews pool performance monthly.

As of December 31, 2009, 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 fair value of the total impaired investments at December 31, 2009 was \$16.1 million and the principal balance was \$43.7 million.

The King County Investment Pool, excluding the equity in the component units, has a balance of \$3.6 billion. The change in the fair value of the total investments for the reporting entity as of December 31, 2009, after considering purchases, sales and maturities, resulted in a net mark up from cost of \$15.8 million. The following schedule shows the types of investments, including deposits in NOW Accounts (100% FDIC insured) and certificates of deposit, the average interest rate, and the effective duration limits of the various components of the King County Investment Pool as of December 31, 2009 (in thousands):

KING COUNTY INVESTMENT POOL

Investment Type	Fair Value	Principal	Average Interest Rate	Effective Duration (Yrs)
NOW Accounts	\$ 215,332	\$ 215,332	0.25%	0.011
Certificates of Deposit	307,000	307,000	1.24%	0.432
Repurchase Agreements	48,000	48,000	-	0.011
US Treasury Bills	751,265	753,000	0.36%	0.706
US Agency Discount Notes	486,737	487,031	0.69%	0.277
Taxable Municipal Notes	15,693	15,000	5.17%	1.419
US Treasury Notes	626,761	625,000	1.63%	1.059
US Agency Notes	1,319,741	1,305,111	2.20%	1.011
US Agency Zero Coupon Notes	18,793	19,312	2.20%	1.637
US Agency Collateralized Mortgage Obligations	51,869	50,177	4.05%	2.655
State Treasurer's Investment Pool	491,654	491,654	0.33%	0.011
Totals	\$ 4,332,845	\$ 4,316,617	1.25%	0.691

All securities are reported at fair value. Fair value reports are prepared monthly and are distributed to all Pool participants. Fair value pricing is provided by the County's security safekeeping bank. If a security is not priced by the County's safekeeping bank, prices are obtained from Bloomberg L.P., a provider of fixed income analytics, market monitors, and security pricing. In 2009, the County also obtained quotes from primary investment dealers to help determine the fair values of impaired investments. The County has not provided or obtained any legally binding guarantees to support the value of the Investment Pool's shares. The King County Investment Pool values participants' shares using an amortized cost basis. Monthly income is distributed to participants based on their relative participation during the period. Income is calculated based on: (1) realized investment gains and losses; (2) interest income based on stated rates (both paid and accrued); and (3) the amortization of discounts and premiums on a straight-line basis. Income is reduced by the contractually agreed upon

NOTE 4 – CONTINUED

investment fee. This method differs from the fair value method used to value investments in the financial statements because the amortized cost method is not designed to distribute to participants all unrealized gain and loss due to change in the fair values. The net change in the fair values of the investments are reported as an increase or decrease in cash and cash equivalents in the statement of net assets. Details of the recognition of unrealized gain or loss are reported in the statement of revenues, expenditures and changes in fund balance – budget and actual.

Custodial credit risk – Investments: Custodial credit risk is the risk that, in the event of the failure of the counterparty, the County will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. County policy mandates that all security transactions, including repurchase agreements, are settled "delivery versus payment." This means that payment is made simultaneously with the receipt of the security. These securities are delivered to the County's safekeeping bank or its tri-party bank.

Concentration of credit risk – Investments: Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year-end the Pool had concentrations greater than 5 percent of the total investment pool portfolio in the following issuers: Federal Home Loan Mortgage Corporation–13 percent; Federal National Mortgage Association–9 percent; Federal Home Loan Bank–15 percent; Federal Farm Credit Bank–6 percent.

Interest rate risk – Investments: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Through its investment policy, the County manages its exposure to fair value losses arising from increasing interest rates by setting maturity and effective duration limits for the Pool. The Pool is managed as two subportfolios: the liquidity portfolio and the core portfolio. The liquidity portfolio's average maturity cannot exceed 120 days and is intended to meet the County's short-term liquidity requirements. The total balance of the liquidity portfolio must be at least 15 percent of the total investment Pool. The core portfolio is managed similar to a short-term fixed-income fund. The average duration of the core portfolio is currently restricted to a range of two and one-quarter years plus or minus one year. Securities in the core portfolio cannot have an average life greater than five years at purchase. Based on historical and forecasted cash flows, the Executive Finance Committee established the maximum amount that can be invested in the core portfolio. At year-end, this limit was \$2.2 billion and the County was in compliance with this policy. As of December 31, 2009, the combined effective duration of the liquidity and core portfolios was 0.691 years.

Credit risk of Debt Securities: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. As of December 31, 2009, the King County Investment Pool was not rated by a nationally recognized statistical rating organization (NRSRO). In compliance with state statutes, 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. The credit quality distribution below is categorized to display the greatest degree of credit risk as rated by Standard and Poor's, Moody's, or Fitch. For example, a security rated "AAA" by one rating agency and "AA" by another would be listed as "AA." The following table shows the credit quality for all securities in the King County Investment Pool not backed by the full faith and credit of the United States (in thousands):

NOTE 4 – CONTINUED

Credit Quality Distribution

Investment Type	AAA or A-1	AA	Not Rated	Total
Repurchase Agreements	\$ 48,000	\$ -	\$ -	\$ 48,000
US Agency Discount Notes	486,737	-	-	486,737
Taxable Municipal Notes	-	15,693	-	15,693
US Agency Notes	1,319,741	-	-	1,319,741
US Agency Zero Coupon Notes	18,793	-	-	18,793
US Agency Collateralized Mortgage Obligations	51,869	-	-	51,869
State Treasurer's Investment Pool	-	-	491,654	491,654
TOTAL	\$ 1,925,140	\$ 15,693	\$ 491,654	\$ 2,432,487

The King County Investment Pool's policy limits the maximum amount that can be invested in various securities. At year-end, the Pool was in compliance with this policy. The Pool's actual composition consisted of NOW Accounts (100% FDIC Insured) and Certificates of Deposit, 12.1 percent, Repurchase agreements, 1.1 percent, US Treasury Bills, 17.3 percent, US Treasury Notes, 14.5 percent, Agency Securities, 42.5 percent, Agency Mortgage Backed Securities, 1.2 percent and State Treasurer's Investment Pool, 11.3 percent. The table below summarizes the Pool's diversification policy.

OVERVIEW OF THE KING COUNTY INVESTMENT POOL'S POLICIES TO LIMIT INTEREST RATE & CREDIT RISK

Investment Type	Security Type	Maximum Maturity	Single Issue Limit	Minimum Credit Rating
US Treasury	100%	5 Years	None	N/A
US Federal Agency	75%	5 Years	75%	N/A
US Federal Agency MBS	25%	5 Year WAL	25%	N/A
Certificates of Deposit	20%	5 Years	7.5%	PDPC(1)
Municipal Securities(2)	20%	5 Years	5%	A(3)
Bank Securities	20%	5 Years	5%	A(3)
Repurchase Agreements	40%	60 Days(4)	10%	Collateral
Commercial Paper	25%	180 Days	5%	A-1/P(1)(5)
Bankers' Acceptances	25%	180 Days	10%	Top 50(6)
State (GIP)(7)	None	N/A	None	N/A

N/A = Not applicable

- (1) Institution must be a Washington State depository. Treasurers can deposit up to 100% of bank's net worth.
 (2) Washington state issues general obligations and revenue bonds. Other states only general obligation bonds.
 (3) Be rated "A" or better by two rating agencies.
 (4) 100% collateralized over 90 days 100%.
 (5) Must be rated in top credit category by at least two rating agencies. Maturities > 100 days must have "AA" in at least one rating. Suspended new purchases of commercial paper in August 2007.
 (6) Bankers' Acceptances can only be purchased from the 50 largest banks in the world by asset size.
 (7) The state investment pool (GIP) is a money market-like fund managed by the State Treasurer's Office.

King County Investment Pool (the Main Pool) and Impaired Investment Pool's Condensed Statements

The King County Investment Pool's (the Main Pool) and the Impaired Investment Pool's Condensed Statements of Net Assets and Changes in Net Assets as of December 31, 2009, are as follows (in thousands):

NOTE 4 – CONTINUED

Condensed Statement of Net Assets

	Total	Main Pool	Impaired Pool
Assets			
Net assets held in trust for pool participants	\$ 4,351,668	\$ 4,335,604	\$ 16,064
Equity of internal pool participants	\$ 1,879,656	\$ 1,872,738	\$ 6,918
Equity of external pool participants	2,472,012	2,462,866	9,146
Total equity	\$ 4,351,668	\$ 4,335,604	\$ 16,064

Condensed Statement of Changes in Net Assets

Net assets - January 1, 2009	\$ 4,012,999	\$ 4,005,245	\$ 7,754
Net change in investments by pool participants	338,669	330,359	8,310
Net assets - December 31, 2009	\$ 4,351,668	\$ 4,335,604	\$ 16,064

Individual Investment Accounts

King County also purchases individual investments for other legally separate entities, such as special districts and public authorities, that are not part of the financial reporting entity. Net assets in these individual investment accounts are reported in a separate Investment Trust Fund in the Fiduciary Funds section.

Component Units

Harborview Medical Center (HMC), Harborview Medical Center (HMC) participates in the County's investment pool and follows the applicable criteria as described above for the King County Investment Pool deposits and investments.

Custodial credit risk – Deposits The custodial credit risk for deposits is the risk that in the event of a bank failure, the HMC's deposits may not be recovered. HMC maintains demand deposit accounts in various banks (insured up to \$250 thousand per bank) totaling \$5.2 million and the carrying amount of \$5.1 million. In addition, HMC has equity in the Investment Pool – Certificates of Deposit and Investments (reported as cash equivalents on June 30, 2009). HMC's equity in the pool applies the same criteria as the King County Investment Pool to classify the amounts of deposits and investments exposed to custodial credit risk as uninsured and uncollateralized. As of June 30, 2009, HMC's equity in the pool was \$209.6 million and the carrying amount was \$211.4 million, as shown in the following table (in thousands):

	Carrying Amount	Bank Balance	Uninsured and Uncollateralized
Cash in other banks	\$ 5,067	\$ 5,186	\$ -
Equity in Investment Pool	24,876	24,647	-
Certificates of Deposit	181,477	179,808	-
Investments	206,353	204,455	-
Total Equity in Investment Pool	\$ 211,420	\$ 209,641	\$ -

NOTE 4 – CONTINUEDWashington State Major League Baseball Stadium Public Facilities District (PFDD)

The Washington State Major League Baseball Stadium Public Facilities District (PFDD) participates in the County's investment pool and follows the applicable criteria as described above for the King County Investment Pool deposits and investments.

Custodial credit risk – Deposits The custodial credit risk for deposits is the risk that in the event of a bank failure, the PFDD's deposits may not be recovered. The PFDD maintains demand deposit accounts in various banks (insured up to \$250 thousand per bank) totaling \$76 thousand and the carrying amount of \$76 thousand. In addition, the PFDD has equity in the investment pool – Certificates of Deposit and investments (reported as cash equivalents on December 31, 2009).

The PFDD's equity in the pool applies the same criteria as the King County Investment Pool to classify the amounts of deposits and investments exposed to custodial credit risk as insured and uncollateralized. As of December 31, 2009, the PFDD's equity in the pool was \$3.5 million and the carrying amount was \$3.5 million as shown in the following table (in thousands):

	Carrying Amount	Bank Balance	Uninsured and Uncollateralized
Cash in other banks	\$ 76	\$ 76	\$ -
Equity in Investment Pool			
Certificates of Deposit	659	659	-
Investments	4,811	4,811	-
Total Equity in Investment Pool	5,470	5,470	-
Total	\$ 5,546	\$ 5,546	\$ -

Cultural Development Authority of King County (CDA)

Deposits The Cultural Development Authority of King County (CDA), dba 4Culture, maintains a deposit relationship with a local commercial bank. All deposits with this qualified public depository that are not insured by the Federal Deposit Insurance Corporation (FDIC) are fully collateralized by the Public Deposit Protection Commission of the State of Washington (PDPC); accordingly, the CDA has no custodial credit risk for its deposits. Carrying amounts of deposits for book purposes are materially the same as bank balances.

Investments The CDA does not participate in the County's investment pool. The CDA has an Investment Policy to guide the management of its assets and ensure that all investment activity is within the regulations established by State and County Code. The primary objective is the preservation of principal.

State statutes authorize the CDA to invest in certificates, notes, or bonds of the United States, and other obligations of the United States or its agencies or any corporation wholly owned by the government of the United States. Statutes also authorize the CDA to invest in bankers' acceptances purchased on the secondary market, federal home loan bank notes and bonds, federal land bank bonds, federal national mortgage association notes and debentures and guaranteed certificates of participation. The CDA is also authorized to invest in the Washington State Local Government Investment Pool (LGIP), which is comparable to a Rule 2a-7 money market fund recognized by the Securities and Exchange Commission. The LGIP funds are limited to high quality obligations with limited maximum and average maturities, with the effect of minimizing both market and credit risk.

NOTE 4 – CONTINUED

The schedule below shows the types of investments, the average interest rate, the effective duration limits and concentration of all CDA investments as of December 31, 2009 (in thousands):

	Cultural Development Authority (CDA)			
Investment Type	Fair Value	Principal	Average Interest Rate	Effective Duration (Yrs)
State Treasurer's Investment Pool	\$ 7,033	\$ 7,033	0.35%	0.003
US Treasury Notes	18,484	17,771	3.45%	4.335
Federal Home Loan Mortgage Corp. Debentures	9,937	9,773	4.52%	3.303
Federal National Mortgage Association Notes	1,357	9,071	4.52%	3.303
Federal Home Loan Bank Bonds	1,347	1,288	4.24%	3.503
Federal Farm Credit Bank Bonds	1,007	998	3.92%	3.886
Other	879	879	0.18%	0.003
Totals	\$ 46,934	\$ 45,763	3.15%	3.120

Interest rate risk – Investments Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Through its investment policy, the CDA manages its exposure to interest rate risk by setting maturity and effective duration limits for its portfolio. As of December 31, 2009, the combined weighted average effective duration of the CDA's portfolio was 3.12 years.

Credit risk of Debt Securities Credit risk is the risk that an issuer will not fulfill its obligations. As of December 31, 2009, all issuers of investments in the CDA portfolio had a Standard & Poor's rating of "AAA." The Washington State Local Government Investment Pool is not rated.

Concentration of credit risk – Investments Concentration of credit risk is the risk of loss attributed to the magnitude of the CDA's investment in a single issuer. As of December 31, 2009, the CDA had concentrations greater than 5 percent of its total portfolio in the following issuers: Federal National Mortgage Association, 20 percent, and Federal Home Loan Mortgage Corporation Debentures, 15 percent.

NOTE 4 – CONTINUED**Receivables**Analysis of Estimated Uncollectible Accounts Receivable

Receivables for governmental funds are reported net of estimated uncollectible amounts in the basic financial statement. Balance Sheet—Governmental Funds. The schedule below shows receivables at gross with the related estimated uncollectible accounts (in thousands):

	General Fund	Public Health Fund	Other Governmental Funds	Total Governmental Funds
Receivables				
Accounts Receivable	\$ 80,868	\$ 720	\$ 32,134	\$ 113,722
Estimates uncollectible accounts receivables	(73,009)	(16)	(8,318)	(81,343)
Accounts Receivable, net	<u>\$ 7,859</u>	<u>\$ 704</u>	<u>\$ 23,816</u>	<u>\$ 32,379</u>
Other receivables				
Abatements, receivable	\$ -	\$ -	\$ 727	\$ 727
Estimated uncollectible abatements receivable	-	-	(139)	(139)
Assessments receivable—current	-	-	64	64
Assessments receivable—deferred	-	-	24	24
Other receivables, net	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 676</u>	<u>\$ 676</u>
Due from other governments	\$ 40,263	\$ 24,933	\$ 50,985	\$ 116,181
Estimated uncollectible due from other governments	(78)	(1)	-	(79)
Due from other government, net	<u>\$ 40,185</u>	<u>\$ 24,932</u>	<u>\$ 50,985</u>	<u>\$ 116,102</u>

NOTE 5 – PROPERTY TAXATION**Taxing Powers**

The County is authorized to levy both "regular" property taxes and "excess" property taxes. Regular property taxes are subject to limitations as to rates and amounts and are imposed for general municipal purposes, including the payment of debt service on limited tax general obligation bonds. The County also may impose "excess" property taxes that are not subject to limitation when authorized by a 60 percent majority popular vote, as provided in Article VII, Section 2, of the State Constitution and RCW 84.52.052. To be valid, such popular vote must have a minimum voter turnout of 40 percent of the number who voted at the last County general election, except that one-year excess tax levies also are valid if the numbers of voters approving the excess levy is at least 60 percent of a number equal to 40 percent of the number who voted at the last County general election. Excess levies may be imposed without a popular vote when necessary to prevent the impairment of the obligation of contracts.

Regular property tax levies are subject to rate limitations and amount limitations, as described below, and to the uniformity requirement of Article VII, Section 1 of the State Constitution, which specifies that a taxing district must levy the same rate on similarly classified property throughout the district. Aggregate property taxes vary within the County because of its different overlapping taxing districts.

Maximum Rate Limitations. The County may levy regular property taxes for general municipal purposes and for road district purposes. Each purpose is subject to a rate limitation. The general municipal purposes levy is limited to \$1.80 per thousand of assessed value; the County levied \$0.95271 per thousand in 2009. The road district purposes levy, which is levied in unincorporated areas of the county for road construction and maintenance and other County services provided in the unincorporated areas, is limited to \$2.25 per thousand; the County levied \$1.58880 per thousand in 2009. Both the general purposes levy and the road district purposes levy are below the maximum allowable rate because of an additional limitation on the increase from one year to the next in the amount of taxes levied.

The County is authorized to increase its general purposes levy to a maximum of \$2.475 per thousand of assessed value if the total combined levies for both general and road purposes do not exceed \$4.05 per thousand and if no other taxing district has its levy reduced as a result of the increased County levy (RCW 84.52.043).

The \$1.80 per thousand limitation on the general purposes levy is exclusive of the following regular property taxes: (1) a voted levy for emergency medical services, limited to \$0.50 per thousand (authorized by RCW 84.52.049); (2) a voted levy to finance affordable housing for very low income households, limited to \$0.50 per thousand (authorized by RCW 84.52.109), however, the County has not sought approval from voters for this levy; and (3) a non-voted levy for conservation futures, limited to \$0.0625 per thousand (authorized by RCW 84.34.230). The County's levy rate for conservation futures in 2009 is \$0.04246 per \$1,000 of assessed value.

In November 2007 voters approved a six-year Emergency Medical Services property tax at a maximum rate of \$0.30 per thousand beginning in the 2008 tax year (the 2009 rate was \$0.27404 per \$1,000 of assessed value). On November 8, 2005, voters approved a \$0.05 Veterans and Human Services temporary lid lift for six years. The County levied \$0.03856 per thousand for Veterans and Human Services in 2009. In 2006 voters in the County approved a six-year temporary lid lift to finance an automated fingerprint identification system. This six-year levy began in 2008; the 2009 levy rate is \$0.04473 per thousand. A Regional and Rural Parks lid lift plus a companion lid lift for the Woodland Park Zoo/Open Space and Trails were approved

NOTE 5 – CONTINUED

by voters in 2007 for a six-year period beginning in 2008. The 2009 levy rates for each are \$0.04749 per \$1,000 of assessed value.

One Percent Aggregate Regular Property Tax Levy Limitation. Aggregate regular property tax levies by the State and all taxing districts except port districts and public utility districts are subject to a rate limitation of one percent of the true and fair value of property (or \$10.00 per thousand) by Article VII, Section 2 of the State Constitution and by RCW 84.52.050.

\$5.90/(\$1,000 Aggregate Regular Property Tax Levy Limitation. Within the one percent limitation described above, aggregate regular property tax levies by all taxing districts except the State, port districts and public utility districts are subject to a rate limitation of \$5.90 per thousand of assessed value (or 0.59 percent) by RCW 84.52.043(2). This limitation is exclusive of levies for emergency medical services, affordable housing for very low income households, and acquiring conservation futures.

If aggregate regular property tax levies exceed the one percent or \$5.90 per thousand limitations, levies requested by "junior" taxing districts within the area affected are reduced or eliminated according to a detailed prioritized list (RCW 84.52.010) to bring the aggregate levy into compliance. Junior taxing districts are defined by RCW 84.52.043 as all taxing districts other than the State, counties, cities, towns, road districts, port districts, and public utility districts.

Regular Property Tax Increase Limitation. The regular property tax increase limitation (chapter 84.55 RCW), limits the total dollar amounts of regular property taxes levied by an individual taxing district to the amount of such taxes levied in the highest of the three most recent years multiplied by a limit factor, plus an adjustment to account for taxes on new construction at the previous year's rate. The limit factor is defined as the lesser of 101 percent or 100 percent plus inflation, but if the inflation rate is less than one percent, the limit factor can be increased to 101 percent, if approved by a majority plus one vote of the governing body of the taxing district, upon a finding of substantial need. In addition, the limit factor may be increased, regardless of inflation, if such increase is authorized by the governing body of the taxing district upon a finding of substantial need and is also approved by the voters at a general or special election within the taxing district. Such election must be held less than 12 months before the date on which the proposed levy will be made, and any tax increase cannot be greater than described under "Maximum Rate Limitations." The approval of a majority of the voters would be required for the limit factor to be increased. The new limit factor will be effective for taxes collected in the following year only.

RCW 84.55.092 allows the property tax levy to be set at the amount that would be allowed if the tax levy for taxes due in each year since 1986 had been set at the full amount allowed under chapter 84.55 RCW. This is sometimes referred to as "banked" levy capacity.

With a majority vote of its electors, a taxing district may levy for the following year, within the statutory rate limitations described above, more than what otherwise would be allowed by the tax increase limitations, as allowed by RCW 84.55.050. This is known as a "levy lid lift," which has the effect of increasing the jurisdiction's levy "base" when calculating permitted levy increases in subsequent years. The new base can apply for a limited or unlimited period, except that if the levy lid lift was approved for the purpose of paying debt service on bonds, the new base can apply for no more than nine years. After the expiration of any limited purpose or limited duration specified in the levy lid lift, the levy is calculated as if the taxing district had levied only up to the limit factor in the interim period.

NOTE 5 – CONTINUED

Since the regular property tax increase limitation applies to the total dollar amount levied, rather than to levy rates, increases in the assessed value of all property in the taxing district (excluding new construction) which exceed the growth in taxes allowed by the limit factor result in decreased regular tax levy rates, unless voters authorize a higher levy.

Component Units with Taxing Authority. In 2007, the County Council created a countywide flood control zone district and a countywide ferry district with rates of \$0.09123 and \$0.05018, respectively for the 2009 tax year. The boundaries of each district are coterminous with the boundaries of the County and the members of the County Council serve (at least initially) as the legislative body for each district, but under State law each district is a separate taxing district with independent taxing authority.

Property Tax Calendar

January 1 Taxes are levied and become an enforceable lien against properties.

February 14 Tax bills are mailed.

April 30 First of two equal installment payments is due.

May 31 Assessed value of property established for next year's levy at 100 percent of market value.

October 31 Second installment is due.

Tax Collection Procedures

Property taxes are levied in specific amounts by the County Council and the rate for all taxes levied for all taxing districts in the County is determined, calculated and fixed by the County Assessor (the "Assessor") based upon the assessed valuation of the property within the various taxing districts. The Assessor extends the tax levied within each taxing district upon a tax roll that contains the total amounts of taxes levied and to be collected and assigns a tax account number to each tax lot. The tax roll is delivered to the Treasury Operations Section Manager who is responsible for the billing and collection of taxes due for each account. All taxes are due and payable on April 30 of each tax 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 (except that the half to be paid on April 30 may be paid at any time prior to October 31 if accompanied by penalties and interest accrued until the date of payment).

The methods for giving notice of payment of taxes due, collecting such taxes, accounting for the taxes collected, dividing the collected taxes among the various taxing districts, and giving notice of delinquency are covered by detailed State statutes. Personal property taxes levied by the County Council are secured by a lien on the personal property assessed. A federal tax lien filed before the County Council levies the personal property taxes is senior to the County's personal property tax lien. In addition, only if a federal civil judgment lien is recorded is it senior to real property taxes incurred after the lien has been recorded. In all other respects, and subject to the possible "homestead exemption" described below, the lien of property taxes is senior to all other liens or encumbrances of any kind on real or personal property subject to taxation. By law, the County may commence foreclosure on a tax lien on real property after three years have passed since the first delinquency. The State's courts have not decided if the homestead law (chapter 6.13 RCW) gives the occupying homeowner a right to retain the first

NOTE 5 – CONTINUED

\$125 thousand in proceeds of the forced sale of a family residency or other "homestead" property for delinquent general property taxes. The United States Bankruptcy Court for the Western District of Washington has held that the homestead exemption applies to the lien for property taxes, while the State Attorney General has taken the position that it does not.

Assessed Valuation Determination

The Assessor determines the value of all real and personal property throughout the County that is subject to *ad valorem* taxation, with the exception of certain public service properties for which values are determined by the State Department of Revenue. The Assessor is an elected official whose duties and methods of determining value are prescribed and controlled by statute and by detailed regulations promulgated by the State Department of Revenue.

For tax purposes, the assessed value of property is 100 percent of its true and fair value. Since 1996, all property in the County has been subject to on-site appraisal and revaluation every six years, and is revalued each year based on annual market adjustments. Personal property is valued each year based on affidavits filed by the property owner. The property is listed by the Assessor on a roll at its current assessed value and the roll is filed in the Assessor's office. The Assessor's determinations are subject to revision by the County Board of Appeals and Equalization and, if appealed, subject to further revision by the State Board of Tax Appeals. At the end of the assessment year, in order to levy taxes payable the following year, the County Council receives the Assessor's final certificate of assessed value of property within the County.

Accounting for Property Taxes Receivable

In the governmental funds, 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 the accounts Taxes receivable and Deferred revenues on the balance sheet are reduced by the amount of the collection. The amount of taxes receivable at year-end that would be collected soon enough to be used to pay liabilities of the current period is not material. At year-end, all uncollected property taxes are reported on the balance sheet as taxes receivable-delinquent and Deferred revenues. 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.

Allocation of Tax Levies

The following table compares the allocation of the 2009 and 2008 countywide, Emergency Medical Services (EMS), and unincorporated County tax levies by fund, showing for each year the original tax levy and levy rate. The original tax levy reflects the levy before any supplemental levies, tax cancellations, or other adjustments. The 2009 countywide assessed valuation was \$386,889,728 thousand, an increase of \$45.9 billion from 2008; the assessed valuation for the unincorporated area levy was \$52,794,447 thousand, an increase of \$2.2 billion from 2008.

NOTE 5 – CONTINUED**ALLOCATION OF 2009 AND 2008 TAX LEVIES**

	2009 Taxes Levied (in thousands)	2009 Levy Rate (per thousand)	2008 Original Taxes Levied (in thousands)	2008 Levy Rate (per thousand)
Countywide Levy Assessed Valuation:				
\$386,889,728 thousand ^(a)				
Items Within Operating Levy^(a)				
General Fund	\$ 268,565	\$ 0.69697	\$ 260,345	\$ 0.76686
Veterans' Relief	2,478	0.00643	2,397	0.00706
Human Services	5,510	0.01430	5,331	0.01570
Intracounty River Improvement	50	0.00013	51	0.00015
Limited G.O. Bonds Debt Service	21,814	0.05661	20,109	0.05923
Automated Fingerprint Identification System ^(c)	17,236	0.04473	17,470	0.05146
Parks Levy ^(a)	36,598	0.09498	33,947	0.10000
Veterans and Human Services ^(a)	14,859	0.03856	14,368	0.04232
Total Operating Levy	367,110	0.95271	354,018	1.04278
Conservation Futures Levy^(b)				
Conservation Futures Levy	9,302	0.02414	8,450	0.02489
Farmland and Park Debt Service	7,059	0.01832	7,306	0.02152
Total Conservation Futures Levy	16,361	0.04246	15,756	0.04641
Unlimited Tax & O. Bonds (Voter-approved Excess Levy)				
Total Countywide Levy	39,286	0.10255	39,989	0.11851
EMS Levy Assessed Valuation:	422,757	1.09772	409,763	1.20770
\$48,967,760 thousand ^(a)				
Unincorporated County Levy Assessed Valuation:				
\$52,794,447 thousand ^(a)				
County Road Fund	68,010	0.27404	65,519	0.30000
Total County Tax Levies ^(b)	83,476	\$ 1.58880	81,145	\$ 1.61081
	\$ 574,243		\$ 556,427	

(a) Assessed valuation for taxes payable in 2006.

(b) The operating levy tax rate is statutorily limited to \$1.80 per thousand of assessed valuation.

(c) The Automated Fingerprint Identification System (AFIS) levy is a regular property tax to be assessed for six years beginning in 2007 at a levy rate of not more than \$0.03880 per thousand of assessed valuation as authorized by RCW 84.53.050 and a proposition approved by a majority of the voters of King County.

(d) The Parks Levy was renewed as a two-part regular property tax (parks and open space/habitat) to be assessed for six years beginning in 2008 at a levy rate of not more than \$0.05 per \$1,000 of assessed value for each part, as authorized by RCW 84.53.050 and approved by a majority of the voters in the County.

(e) The Veterans and Human Services levy is a regular property tax to be assessed for six years beginning in 2006 at a levy rate of not more than \$0.05 per thousand of assessed valuation as authorized by RCW 84.53.050 and a proposition approved by a majority of the voters in the County.

(f) The Conservation Futures Levy tax rate is statutorily limited to \$0.025 per thousand of assessed valuation.

(g) The Emergency Medical Services (EMS) levy shown excludes that portion of the levy within the City of Seattle, which is paid to the city. The levy was approved by the voters in the County in 2007 for a six-year period with collection beginning in 2008.

(h) The tax rate is statutorily limited to a maximum of \$2.25 per thousand of assessed valuation.

(i) Includes tax levy of the blended component units of the Flood Control Zone District (in 2009 and 2008, the original taxes levied were \$35.12 and \$33.94 thousand, respectively) and by the Ferry District (in 2009 and 2008, the original taxes levied were \$19.33 and \$18.67 thousand).

NOTE 6 – CAPITAL ASSETS**Primary Government**

The following is a summary of changes in capital assets for the King County Primary Government (in thousands):

	Balance 1/1/2009	Increases	Decreases	Balance 12/31/2009
Governmental Activities:				
Capital assets not being depreciated				
Land	\$ 771,495	\$ 47,095	\$ (19,757)	\$ 798,833
Infrastructure	909,511	57,175	(23,569)	943,117
Work in progress	222,648	28,419	(182,720)	68,347
Total capital assets not being depreciated	1,903,654	132,689	(226,046)	1,810,297
Capital assets being depreciated				
Buildings	782,484	208,922	(504)	990,902
Improvements other than buildings	22,190	11,725	-	33,915
Furniture, machinery & equipment	189,367	28,905	(15,507)	202,765
Total capital assets being depreciated	994,041	249,552	(16,011)	1,227,582
Less accumulated depreciation for:				
Buildings	(236,075)	(27,371)	4,117	(259,329)
Improvements other than buildings	(5,599)	(1,170)	-	(6,769)
Furniture, machinery & equipment	(117,093)	(18,910)	11,160	(124,843)
Total capital assets being depreciated - net	635,274	202,101	(734)	836,641
Governmental activities capital assets - net	\$ 2,538,928	\$ 334,790	\$ (226,780)	\$ 2,646,938
Business-type Activities:				
Capital assets not being depreciated				
Land	\$ 347,034	\$ 18,361	\$ (4,953)	\$ 360,442
Work in progress	1,508,326	660,991	(402,837)	1,766,480
Total capital assets not being depreciated	1,855,360	679,352	(407,790)	2,126,922
Capital assets being depreciated				
Buildings	1,183,842	76,279	(7,119)	1,253,002
Improvements other than buildings	2,196,854	196,514	(11,374)	2,381,994
Furniture, machinery & equipment	1,523,952	107,727	(59,796)	1,571,883
Total capital assets being depreciated	4,904,648	380,520	(78,289)	5,206,879
Less accumulated depreciation for:				
Buildings	(425,185)	(40,334)	3,311	(462,208)
Improvements other than buildings	(871,667)	(76,377)	6,523	(941,521)
Furniture, machinery & equipment	(995,288)	(106,636)	41,438	(1,060,486)
Total capital assets being depreciated - net	2,612,508	157,173	(27,017)	2,742,664
Business-type activities capital assets - net	\$ 4,467,868	\$ 836,525	\$ (434,807)	\$ 4,869,586

Governmental activities include capital assets of governmental internal service funds. All but one of the County's internal service funds is classified under governmental activities; the Wastewater Equipment Rental Fund is reported under business-type because it provides services exclusively to the Water Quality Enterprise. See Note 17, "Restrictions, Reserves, Designations and Changes in Equity" – Restatements of Beginning Balances.

NOTE 6 – CONTINUED**Depreciation Expense**

Depreciation expense was charged to functions of the Primary Government as follows (in thousands):

	Governmental Activities
General government services	\$ 10,865
Law, safety and justice	13,225
Physical environment	62
Transportation	347
Economic environment	105
Mental and physical health	1,396
Culture and recreation	2,684
Capital assets held by the County's governmental internal service funds are charged to governmental activities based on their usage of the assets	15,883
Total depreciation expense – governmental activities	<u>\$ 44,567</u>
	Business-type Activities
Water Quality	\$ 91,595
Public Transportation	116,451
Solid Waste	9,424
King County International Airport	4,133
Radio Communications	561
Institutional Network	1,395
Capital assets held by the Wastewater Equipment Rental internal service fund are charged to business-type activities based on their usage of the assets	840
Total depreciation expense – business-type activities	<u>\$ 224,399</u>

Infrastructure

Infrastructure capital assets are long-lived capital assets that are normally stationary in nature and can be preserved for a significantly greater number of years than most capital assets. Included in King County's infrastructure are the roads and bridges network maintained by the Roads Division of the Department of Transportation. The roads and bridges network infrastructure is reported using the modified approach, i.e., depreciation is not recorded. An important consequence of opting for the modified approach is that costs incurred to extend the asset's useful life which are normally capitalized under the depreciation method are now expensed as preservation costs.

Roads and Bridges Infrastructure Valuation

The roads and bridges infrastructure network acquired or constructed prior to 2002 is valued at estimated historical cost. Base year estimates of 2001 replacement costs for all existing roads and 1988 replacement costs for all bridges were obtained using standard costing methods with the resultant values being deflated to the acquisition year (or estimated acquisition year, where the actual year was unknown), using the Engineering News Record Construction Cost Index. Retroactive reporting of traffic control elements is based on replacement cost.

NOTE 6 – CONTINUED**Land**

Land also includes right-of-way (including infrastructure-related), conservation easements, and farmland development rights.

Right-of-Way

Estimated original historical costs for infrastructure-related right-of-ways were obtained by estimating replacement costs at 2001 using land assessed valuation data and then deflating the resultant values to the acquisition year (or estimated acquisition year, where the actual year is unknown), using assessed land value indices from the King County Assessor's Office.

Conservation Easements

A conservation easement is a legal agreement between a landowner and the County that permanently limits land uses in order to protect conservation values.

Farmland Development Rights

The Farmland Preservation Program was established in 1979 to preserve, protect, and enhance agricultural lands and open spaces. Under this program the County has acquired farmland development rights for approximately 12,800 acres. Acquisition of these development rights was intended to ensure that land is not developed in a nonagricultural use.

Governmental Buildings in Internal Service Fund

Certain capital assets classified under governmental activities are reported under a building development and management internal service fund which consists of the aggregation of four separate non-profit property management corporations that are recognized as blended component units of the County in accordance with GASB Statement 14. These buildings are: King Street Center building; Patricia Bracelin Steel Memorial building; Chinook building and Goat Hill parking garage; and the Ninth and Jefferson Building.

Construction Commitments

Project commitment is defined as authorized and planned expenditures for the capital budget period.

Proprietary Funds

Public Transportation Enterprise – \$577 million is committed to maintenance of existing infrastructure, service delivery and partnership efforts.

Water Quality Enterprise – \$1.1 billion is committed to constructing a new major wastewater treatment plant and ensuring the continued operation, reliability, and compliance with regulatory standards of existing wastewater treatment facilities.

Other Enterprises – \$191 million is committed to improving the County's solid waste regional landfill and transfer stations; \$58 million is committed to runway rehabilitation and facilities improvements at the King County International Airport; \$3 million is committed to maintaining the radio communications systems within the county.

Capital Projects Funds

\$593 million is committed to various capital projects, including: 1) strategic property acquisitions oriented towards conservation of natural resources, protection of habitat, and control of urban sprawl; 2) development and improvement of trails, playgrounds and ballfields, and other cultural facilities; 3) affordable housing; 4) technology initiatives to improve business efficiency, emergency preparedness, and network security; 5) flood control to protect the

NOTE 6 – CONTINUED

ecosystem and public property; 6) preservation and widening of roads and bridges; and 7) improvement of building facilities.

Discretely Presented Component Units**Harborview Medical Center (HMC)**

Capital assets activity for HMC during the fiscal year ended June 30, 2009, was as follows (in thousands):

	Balance 07/01/08	Increases	Decreases	Balance 06/30/09
Capital assets not being depreciated:				
Land	\$ 1,586	\$ -	\$ -	\$ 1,586
Work in progress	216,268	22,525	(224,100)	14,693
Total capital assets not being depreciated	217,854	22,525	(224,100)	16,279
Capital assets being depreciated:				
Buildings	191,784	195,644	-	387,428
Improvements other than buildings	1,858	11,088	-	12,946
Equipment	298,178	35,447	(2,178)	331,447
Total capital assets being depreciated	491,820	242,179	(2,178)	731,821
Less accumulated depreciation for:				
Buildings	(94,954)	(12,369)	-	(107,323)
Improvements other than buildings	(1,044)	(338)	-	(1,382)
Equipment	(194,924)	(22,908)	1,985	(215,847)
Total capital assets being depreciated - net	200,898	206,564	(193)	407,269
HMC capital assets, net	\$ 418,752	\$ 229,089	\$ (224,293)	\$ 423,548

HMC also owns other properties (net book value of \$2.7 million) which are held for future use. These are reported under "Other assets" in the component unit's statement of net assets.

NOTE 6 – CONTINUED

Washington State Major League Baseball Stadium Public Facilities District (PFDD)

Capital assets activity for the PFDD for the period ended December 31, 2009, was as follows (in thousands):

	Balance 01/01/09	Increases	Decreases	Balance 12/31/09
Capital assets not being depreciated:				
Land	\$ 38,498	\$ -	\$ (74)	\$ 38,424
Capital assets being depreciated:				
Baseball stadium	489,883	3	-	489,886
Improvements other than buildings	25,706	924	-	26,630
Equipment	65	-	-	65
Total capital assets being depreciated	515,654	927	-	516,581
Less accumulated depreciation for:				
Baseball stadium	(118,403)	(12,291)	-	(130,694)
Improvements other than buildings	(642)	(622)	-	(1,264)
Equipment	(65)	-	-	(65)
Total capital assets being depreciated - net	396,544	(11,986)	-	384,558
PFDD capital assets, net	\$ 435,042	\$ (11,986)	\$ (74)	\$ 422,982

NOTE 7 – RESTRICTED ASSETS

Within the current and noncurrent assets sections of the Statement of Net Assets are amounts that are restricted as to their use. The restricted assets for these funds are comprised of the following (in thousands):

Proprietary Funds

Public Transportation – restricted for future construction projects and debt service.	\$ 429,550
Water Quality – restricted for future construction projects, debt service, and reserves and obligations.	342,579
King County International Airport – restricted for future construction projects and expansion, and obligations.	16,489
Radio Communications – restricted for future construction projects.	5,232
Solid Waste – restricted for landfill closure and post-closure care costs.	51,020
Building Development & Management Corporations – restricted for future construction projects and debt service.	22,292
Total Proprietary restricted assets	<u>\$ 867,162</u>

Component Unit – Harborview Medical Center (HMC)

HMC Construction Fund – restricted for construction, seismic, public safety and other improvements, and furnishings of HMC buildings.	\$ 14,871
HMC Special Purpose Fund – consists of restricted donations, gifts, and bequests from various sources for specific uses.	10,467
HMC Operating Fund – consists of resources that are board-designated for specific purposes, including planned capital and service components, the self-insurance fund, commuter services, net fixed assets held for future use, and others.	45,959
HMC Plant Fund – consists of resources that are board-designated for building improvements, furnishings, and repair and replacement.	28,623
Total HMC restricted assets	<u>\$ 99,920</u>

Component Unit – Cultural Development Authority of King County (CDA)

Public Arts Projects Fund – restricted for the one percent for public art programs operated for the benefit of King County.	\$ 7,488
Cultural Grant Awards Fund – restricted for arts and heritage cultural programs.	19,046
Cultural Endowment Fund – a long-term endowment for the benefit of the arts and heritage cultural programs.	22,891
Total CDA restricted assets	<u>\$ 49,425</u>

NOTE 8 – PENSION PLANS

Substantially all full-time and qualifying part-time County employees participate in either the Public Employees' Retirement System (PERS), the Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF), the Public Safety Employees' Retirement System (PSERS), or the Seattle City Employees' Retirement System (SCERS). PERS, LEOFF, and PSERS are statewide local government retirement systems administered by the State of Washington's Department of Retirement Systems under cost-sharing, multiple-employer defined benefit and defined contribution retirement plans.

The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available Comprehensive Annual Financial Report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov.

Historical trend and other information regarding SCERS is presented in the Seattle City Employees' Retirement System annual financial report. A copy of this report may be obtained at: Seattle City Employees' Retirement System, 720 Third Avenue, Suite 1000, Seattle, WA 98104.

The following disclosures are made pursuant to GASB Statements No. 27, *Accounting for Pensions by State and Local Government Employers* and No. 50, *Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27*.

Public Employees' Retirement System (PERS) Plans 1, 2, and 3

Plan Descriptions

PERS is a cost-sharing, multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a combination defined benefit/defined contribution plan. Membership in the system includes elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges in a judicial retirement system); employees of legislative committees; community and technical colleges; college and university employees (not in national higher education retirement programs); judges of district and municipal courts; and employees of local governments. PERS participants who joined the system by September 30, 1977, are Plan 1 members. Those who joined on or after October 1, 1977 and by either February 28, 2002, for state and higher education employees, or August 31, 2002, for local government employees, are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS participants joining the system on or after March 1, 2002, for state and higher education employees, or September 1, 2002, for local government employees, have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. Notwithstanding, PERS Plan 2 and Plan 3 members may opt out of plan membership if terminally ill, with less than five years to live.

PERS Plan 1 and Plan 2 defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. PERS retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

PERS Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years

NOTE 8 – CONTINUED

of service, or at the age of 55 with 25 years of service. The annual benefit is two percent of the average final compensation (AFC) per year of service, capped at 60 percent. (The AFC is based on the greatest compensation during any 24 eligible consecutive compensation months.) This annual benefit is subject to a minimum for PERS Plan 1 retirees who have 25 years of service and have been retired 20 years, or who have 20 years of service and have been retired 25 years. Plan 1 members who retire from inactive status prior to the age of 65 may receive actuarially reduced benefits. If a survivor option is chosen, the benefit is further reduced. A cost-of-living allowance (COLA) is granted at age 66 based upon years of service times the COLA amount, which is increased three percent annually. Plan 1 members may also elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at three percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members may retire at the age of 65 with five years of service with an allowance of two percent of the AFC per year of service. (The AFC is based on the greatest compensation during any eligible consecutive 60-month period.) Plan 2 members who retire prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a three percent per year reduction applies; otherwise an actuarial reduction will apply. The benefit is also actuarially reduced to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at three percent annually.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at one percent of the AFC per year of service. (The AFC is based on the greatest compensation during any eligible consecutive 60-month period.) Effective June 7, 2006, PERS Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service, if twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan. Vested Plan 3 members are eligible to retire with full benefits at age 65, or they may retire at age 55 with ten years of service. PERS Plan 3 members who retire prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a three percent per year reduction applies; otherwise an actuarial reduction will apply. The benefit is also actuarially reduced to reflect the choice of a survivor option. There is no cap on years of service credit, and Plan 3 provides the same cost-of-living allowance as Plan 2.

The defined contribution portion can be distributed in accordance with an option selected by the member, either as a lump sum or pursuant to other options authorized by the Employee Retirement Benefits Board.

Judicial Benefit Multiplier

Beginning January 1, 2007 through December 31, 2007, judicial members of PERS were given the choice to participate in the Judicial Benefit Multiplier Program (JBM). Justices and judges in PERS Plan 1 and 2 were able to make a one-time irrevocable election to pay increased contributions that would fund a retirement benefit with a 3.5% multiplier. The benefit would be capped at 75% of AFC. Judges in PERS Plan 3 could elect a 1.6% of pay per year of service benefit, capped at 37.5% of average compensation.

NOTE 8 – CONTINUED

Members who chose to participate in JBM would: accrue service credit at the higher multiplier beginning with the date of their election, be subject to the benefit cap of 75% of AIC, pay higher contributions, stop contributing to the Judicial Retirement Account (JRA), and be given the option to increase the multiplier on past judicial service. Members who did not choose to participate would: continue to accrue service credit at the regular multiplier; continue to participate in JRA, if applicable; never be a participant in the JBM Program; and continue to pay contributions at the regular PERS rate.

Newly elected or appointed justices and judges who chose to become PERS members on or after January 1, 2007, or who had not previously opted into PERS membership, were required to participate in the JBM Program. Members required to participate in the JBM program would: return to prior PERS Plan if membership had previously been established; be mandated into Plan 2 and not have a Plan 3 transfer choice, if a new PERS member; accrue the higher multiplier for all judicial service; not contribute to JRA; and not have the option to increase the multiplier for past judicial service.

There are 1,192 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2008:

Retirees and Beneficiaries Receiving Benefits	73,122
Terminated Plan Members Enrolled to, But Not Yet Receiving Benefits	27,267
Active Plan Members Vested	105,212
Active Plan Members Nonvested	56,456
Total	<u>262,057</u>

Funding Policy

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at six percent for state agencies and local government unit employees; and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan, and member contributions finance the defined contribution portion. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee's age. As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program. The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2009, were as follows:

Members not participating in the JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	5.31%	5.31%	5.31%**
Employee	6.00%	3.90%	***

NOTE 8 – CONTINUED

- The employer rates include the employer administrative expense fee currently set at 0.16%.
- ** Plan 3 defined benefit portion only.
- *** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

Members participating in the JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer-Local Govt.*	5.31%	5.31%	5.31%**
Employee-Local Govt.	12.26%	9.75%	7.50%***

- The employer rates include the employer administrative expense fee currently set at 0.16%.
- *** Minimum rate.

Both the County and the employees made the required contributions. The County's required contributions for the years ended December 31 were (in thousands):

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2007	\$ 3,194	\$ 36,100	\$ 5,070
2008	3,501	47,203	6,923
2009	3,097	46,437	7,159

Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF)**Plan Descriptions**

LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate defined benefit plans. LEOFF participants who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 are Plan 2 members. Membership in the system includes all full-time, fully compensated, local law enforcement officers, firefighters and, as of July 24, 2005, those emergency medical technicians who were given the option and chose LEOFF Plan 2 membership. LEOFF membership is comprised primarily of non-state employees, with Department of Fish and Wildlife enforcement officers, who were first included prospectively effective July 27, 2003, being an exception.

Effective July 1, 2003, the LEOFF Plan 2 Retirement Board was established by Initiative 790 to provide governance of LEOFF Plan 2. The Board's duties include adopting contribution rates and recommending policy changes to the Legislature for the LEOFF Plan 2 retirement plan.

LEOFF defined benefit retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays through state legislative appropriations. LEOFF retirement benefit provisions are established in state statute and may be amended by the State Legislature.

LEOFF Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement with five years of service at the age of 50. The benefit per year of service calculated as a percent of final average salary (FAS) is as follows:

NOTE B – CONTINUED

Term of Service	Percent of Final Average
20 or more years	2.0%
10 but less than 20 years	1.5%
5 but less than 10 years	1.0%

The FAS is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last ten years of service. A cost-of-living allowance is granted (based on the Consumer Price Index).

LEOFF Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members may retire at the age of 50 with 20 years of service, or at the age of 53 with five years of service, with an allowance of two percent of the FAS per year of service. The FAS is based on the highest consecutive 60 months. Plan 2 members who retire prior to the age of 53 receive reduced benefits. Benefits are actuarially reduced for each year that the benefit commences prior to age 53 and to reflect the choice of a survivor option. If the member has at least 20 years of service and is age 50, the reduction is three percent for each year prior to age 53. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at three percent annually.

There are 375 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2008:

Retirees and Beneficiaries Receiving Benefits	9,268
Terminated Plan Members Entitled to, But Not Yet Receiving, Benefits	650
Active Plan Members Vested	13,120
Active Plan Members Nonvested	3,927
Total	26,965

Funding Policy

Starting on July 1, 2000, LEOFF Plan 1 employers and employees contribute zero percent as long as the plan remains fully funded. Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plan. LEOFF Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board. All employers are required to contribute at the level required by state law. The Legislature, by means of a special funding arrangement, appropriated money from the state General Fund to supplement the current service liability and fund the prior service costs of LEOFF Plan 2 in accordance with the requirements of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. However, this special funding situation is not mandated by the state constitution and this funding requirement could be returned to the employers by a change of statute.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2008, were as follows:

	LEOFF Plan 1	LEOFF Plan 2
Employer*	0.16%	5.24%
Employee	-	8.46%

* The employer rates include the employer administrative expense fee currently set at 0.16%.

NOTE B – CONTINUED

Both the County and the employees made the required contributions. The County's required contributions for the years ended December 31 were (in thousands):

	LEOFF Plan 1	LEOFF Plan 2
2007	\$ 2	\$ 3,225
2008	1	3,537
2009	1	4,099

Public Safety Employees' Retirement System (PSERS) Plan 2**Plan Description**

PSERS is a cost-sharing multiple-employer retirement system comprised of a single defined benefit plan. PSERS Plan 2, PSERS became effective July 1, 2006. PSERS Plan 2 membership includes full-time employees of a covered employer on or before July 1, 2006, who met at least one of the PSERS eligibility criteria, and elected membership during the election period of July 1, 2006 to September 30, 2006; and those full-time employees, hired on or after July 1, 2006 by a covered employer, that meet at least one of the PSERS eligibility criteria.

A covered employer is one that participates in PSERS. Covered employers include:

- State of Washington agencies: Department of Corrections; Parks and Recreation Commission; Gambling Commission; Washington State Patrol; and Liquor Control Board,
- Washington state counties and Washington state cities, except for Seattle, Tacoma and Spokane.

To be eligible for PSERS, an employee must work on a full-time basis and:

- have completed a certified criminal justice training course with authority to arrest, conduct criminal investigations, enforce the criminal laws of Washington, and carry a firearm as part of the job; or
- have primary responsibility to ensure the custody and security of incarcerated or probationary individuals; or
- function as a limited authority Washington peace officer, as defined in RCW 10.93.020; or
- have primary responsibility to supervise eligible members who meet the above criteria.

PSERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. PSERS retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

PSERS Plan 2 members are vested after the completion of five years of eligible service. PSERS Plan 2 members may retire at the age of 65 with five years of service, or at the age of 60 with at least ten years of PSERS service credit, with an allowance of two percent of the average final compensation (AFC) per year of service. The AFC is the monthly average of the member's 60 consecutive highest-paid service credit months, excluding any severance pay such as lump-sum payments for deferred sick leave, vacation or annual leave. Plan 2 members who retire prior to the age of 60 receive reduced benefits. If retirement is at age 53 or older with at least 20 years of service, a three percent per year reduction for each year between the age at retirement and age 60 applies. There is no cap on years of service credit, and a cost-of-living

NOTE 8 – CONTINUED

allowance is granted (based on the Consumer Price Index), capped at three percent annually.

There are 73 participating employers in PSERS. Membership in PSERS consisted of the following as of the latest actuarial valuation date for the plan of June 30, 2008:

Retirees and Beneficiaries Receiving Benefits	1
Terminated Plan Members Entitled to, But Not Yet Receiving, Benefits	0
Active Plan Members Vested	0
Active Plan Members Nonvested	3,281
Total	<u>3,282</u>

Funding Policy

Each biennium, the state Pension Funding Council adopts PSERS Plan 2 employer and employee contribution rates. The employer and employee contribution rates for Plan 2 are developed by the Office of the State Actuary to fully fund Plan 2. All employers are required to contribute at the level established by the Legislature. The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.37 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2009, were as follows:

	PSERS Plan 2
Employer*	7.85%
Employee	6.55%

* The employer rate includes an employer administrative expense fee of 0.16%.

Both the County and the employees made the required contributions. The County's required contributions for the year ended December 31 were as follows (in thousands):

	PSERS Plan 2
2007	\$ 1,473
2008	1,806
2009	2,156

Seattle City Employees' Retirement System (SCERS)

SCERS is a cost-sharing, multiple-employer retirement plan administered in accordance with chapter 4.36 of the Seattle Municipal Code. County employees of the Department of Public Health who have established membership in SCERS remain covered by the City Retirement System. Employees of Public Transportation who are former employees of Seattle Transit are also covered by the system. SCERS provides retirement, death, and disability benefits.

Employees covered by this plan may retire after 30 years of service regardless of age; after age 52 with 20 years or more of service; after age 57 with ten or more years of service; and after age 62 with five or more years of service. Disability retirement is available after ten years of service. The unmodified monthly retirement allowance is based on a percentage of average salary for every year of service to a maximum of 60 percent. The average salary for this plan is

NOTE 8 – CONTINUED

defined as the highest consecutive twenty-four months' average rate of pay. The percentage for each year of service used to compute the retirement benefit depends on the age at retirement and the years of service. It ranges from 1.2 percent at age 52 with 20 years of service to a maximum of 2 percent for each year of service. The maximum allowance a member can receive is the unmodified plan, which has no provision for a beneficiary and, at the member's death, stops all payments. Several optional retirement benefit formulas exist which provide for beneficiaries with reduced monthly allowances.

The SCERS member contribution rate is 8.03 percent of compensation except for members qualifying for lower rates prior to June 1972. The County is required to contribute at an actuarially determined rate. The current rate is 8.03 percent of annual covered payroll. The contribution requirements of plan members and the County are established and may be amended by the Board of Administration. Both the County and the employees made the required contributions. The County's required contributions for the years 2007, 2008, and 2009 ending December 31 were \$666, \$644, and \$615 thousand, respectively.

Component Unit – Harborview Medical Center (HMC)

HMC personnel are University of Washington (UW) employees. HMC faculty and professional staff participate in the University of Washington Retirement Plan (UWRP), an IRC Section 403 (b) defined contribution retirement plan, authorized by the Board of Regents. HMC staff participate in a plan authorized by the State of Washington Department of Retirement Systems (DRS). Plan participation is defined by position, with the majority of HMC employees enrolled in one of the three Public Employees' Retirement Systems (PERS) plans.

All plans include contributions by both employee and employer. Employee contributions are tax-deferred. Employer contributions are paid semi-monthly by the UW in accordance with rates specified by the retirement systems.

Component Unit – Washington State Major League Baseball (WSMLB) Stadium Public Facilities District (PFD)

Employees of the District have the option of participating in either the Public Employees' Retirement System (PERS) or the Stadium PFD Retirement Plan (in 2009 no employees elected to participate in PERS). Employer contributions are paid by the District in accordance with rates specified by the individual plans.

Employees are also able to select the Stadium PFD Retirement Plan as an alternative benefit plan to PERS. The Plan is designated as a profit-sharing plan in accordance with Section 401 (a) (27) (B) of the Internal Revenue Code. No contributions by participants are required or permitted other than authorized rollover contributions. All contributions to the plan vest immediately. Actual contributions made to the plan in 2009 were \$3 thousand.

Component Unit – Cultural Development Authority of King County (CDA)

All CDA personnel participate in the Public Employees' Retirement System (PERS). PERS is a statewide local government retirement system administered by the State of Washington Department of Retirement Systems under cost-sharing, multiple-employer defined benefit public employee retirement systems.

NOTE 9 – POSTEMPLOYMENT HEALTHCARE PLAN

During the year ended December 31, 2007, the County elected to adopt the provisions of GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions" (GASB No. 45), which requires the County to accrue other postemployment benefits (OPEB) expense related to its postretirement healthcare plan based on a computed annual required contribution (ARC) that includes the current period's service cost and an amount to amortize unfunded actuarial accrued liabilities. Instead of recording expense on a "pay-as-you-go" basis, the County, under GASB No. 45 has recorded a liability of \$22.9 million for the difference between the actuarially calculated ARC and the estimated contributions made since the adoption of GASB No. 45. Such liability is included in other noncurrent liabilities in the accompanying December 31, 2009 balance sheet.

The effect of GASB No. 45 for the current fiscal year was to decrease the County's excess of revenue over expenses before capital contributions and the County's increase in net assets for the year ended December 31, 2009 by approximately \$7.8 million.

Plan Description The King County Health Plan (the Health Plan) is a single-employer defined-benefit healthcare plan administered by the County. The Health Plan provides medical, prescription drug, vision, and other unreimbursed medical benefits to eligible retirees. The Health Plan's actuary is Healthcare Actuaries. The Health Plan does not issue a separate standalone financial report.

Funding Policy LEOPF 1 retirees are not required to contribute to the Health Plan. All other retirees are required to pay the COBRA rate associated with the elected plan.

For the fiscal year ended December 31, 2009, the County contributed an estimated \$5,007 million to the Health Plan. The County's contribution was entirely to fund "pay-as-you-go" costs under the Health Plan and not to prefund benefits.

Annual OPEB Cost and Net OPEB Obligation The basis for the County's annual OPEB cost (expense) is the ARC. The ARC represents a level of funding that, if paid on an ongoing basis, the actuary projects will cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following displays the components of the County's annual OPEB cost, the estimated amount contributed to the Health Plan, and changes in the County's net OPEB obligation to the Health Plan for the year ended December 31, 2009 (in thousands):

Normal cost — Unit Credit Method	\$ 4,746
Amortization of unfunded actuarial accrued liability (UAAL)	370
Annual Required Contribution (ARC)	<u>7,982</u>
Interest on net OPEB obligation	13,105
Adjustment to annual required contribution	<u>(672)</u>
Annual OPEB cost (expense)	<u>12,836</u>
Contributions made	<u>(5,007)</u>
Increase in net OPEB obligation	7,829
Net OPEB obligation — beginning of year	<u>15,083</u>
Net OPEB obligation — end of year	<u>\$ 22,912</u>

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the Health Plan, and the net OPEB obligation follows (in thousands):

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NOTE 9 – CONTINUED

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2007	\$11,795	43.6%	\$ 6,648
12/31/2008	\$11,675	27.8%	\$15,083
12/31/2009	\$11,835	39.0%	\$22,912

Funded Status and Funding Progress The funded status of the Health Plan as of December 31, 2009 (in thousands):

Actuarial accrued liability (AAL) — Unit Credit	\$ 149,390
Actuarial value of plan assets	<u>\$ 149,390</u>
Unfunded actuarial accrued liability (UAAL)	0.0%
Funded ratio (actuarial value of plan assets ÷ AAL)	<u>\$947,530</u>
Covered payroll	
UAAL as a percentage of covered payroll	15.8%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. GASB 45 requires that the schedule of funding progress, presented as required additional information following the notes to the financial statements, presents multi-year trend information that shows whether the actuarial value of Health Plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions The basis of projections of benefits for financial reporting purposes is the substantive plan (the Health Plan as understood by the County and members of the Health Plan) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the County and Members of the Health Plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The December 31, 2009 valuation used the unit credit actuarial cost method. The actuarial assumptions included a 4.0% investment rate of return (net of administrative expenses) and an initial annual healthcare cost trend rate of 11.0% for KingCare Medical, 8.5% for KingCare pharmacy, and 11.0% for HMO medical/pharmacy, each reduced by decrements to an ultimate rate of 5.2% after 71 years and 12 years for medical and pharmacy, respectively. The vision trend rate is 1.0%, the miscellaneous trend rate is 7.0%, and the Medicare Premium trend rate is 8.5%, for all years. All trend rates include a 3.0% inflation assumption. With the exception of vision trends, the amortization of the UAAL at transition uses a level dollar amount on a closed basis. The remaining amortization period at December 31, 2009 was 27.0 years. The UAAL is recalculated each year and amortized as a level dollar amount on an open basis over 30 years.

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NOTE 9 – CONTINUED**Component Unit – Harborview Medical Center (HMC)**

Health care and life insurance programs for employees of the State of Washington are administered by the Washington State Health Care Authority (HCA). All University of Washington employees, including Medical Center employees, are employees of the State of Washington. State of Washington retirees may elect coverage through state health and life insurance plans, for which they pay less than the full cost of the benefits, based on their age and other demographic factors.

An actuarial study performed by the Washington Office of the State Actuary calculated the total OPEB obligation of the State of Washington. Since sufficient specific employee data and other actuarial data are not available at levels below the statewide level, such amounts have not been determined nor recorded in the University's nor the Medical Center's financial statements. This liability is recorded at the statewide level. The Medical Center was billed and paid \$38,828 and \$44,012, respectively, for health care expenses for the years ended June 30, 2009 and 2008, respectively, which included its funding of the OPEB liability.

NOTE 10 – RISK MANAGEMENT

As a municipal organization, the County has a wide range of loss exposures.

The County uses three internal service funds to account for and finance property/casualty, workers' compensation, and employee medical and dental benefits self-insurance programs. Unemployment liability is accounted for in the funds with loss experience and as governmental long-term liability. The County contracts with a plan administrator to process medical and dental claims. County fund/claims managers, together with the Civil Division of the King County Prosecuting Attorney's Office, are responsible for processing all tort and workers' compensation claims.

Claims settlements and loss expenses are accrued in the three internal service funds for the estimated settlement value of both reported and unreported claims. These funds are responsible for collecting interfund premiums from insured funds and departments for paying claim settlements and for purchasing certain policies. Interfund premiums are assessed on the basis of claims experience and are reported as revenues and expenses or expenditures.

Insurance Fund

The Insurance Fund, an internal service fund, accounts for the County's property/casualty program. The Fund, established in 1977, accounts for the County's exposures to loss due to the tortious conduct of the County, including those commonly covered by general liability, automobile liability, police professional, public officials' errors and omissions, and professional malpractice insurance policies. The estimated liability for probable self-insurance losses (reported and unreported) recorded in the fund as of December 31, 2009, is \$62.6 million.

The County purchases excess liability coverage that currently provides \$97.5 million in limits above a \$2.5 million per occurrence self-insured retention (SIR) for its general liability, automobile liability, police liability, public officials' errors and omissions, and Health Department professional malpractice exposures. The reinsurance policy has a "corridor" deductible that requires the County to pay an additional \$1 million above the \$2.5 million SIR before the reinsurance company becomes responsible for losses. This \$1 million may either be satisfied by one large loss exceeding \$3.5 million or through a combination of losses above the \$2.5 million SIR. Effective September 1, 2009, the County renewed the property insurance policy. This policy has a blanket limit of \$500 million above a \$250 thousand per occurrence deductible and provides an overall earthquake sublimit of \$100 million. The 2009 policy was endorsed to cover Certified and Non-Certified Acts of Terrorism on a blanket basis up to \$250 million.

In addition to its excess liability policy and property insurance policies, the County has specific liability insurance policies to cover some of its other exposures. The County has a liability policy for the King County International Airport with policy limits of \$300 million per occurrence and an annual aggregate deductible of \$50 thousand; a liability policy to cover police helicopter activities with a limit of \$50 million per occurrence; a policy to cover the King County International Airport properties with a limit of \$160 million above a \$100 thousand per occurrence deductible; several flood insurance policies to cover County property in the Green River Valley with limits of \$250 to \$500 thousand and a deductible of \$1 thousand; and excess statutory coverage for the Workers' Compensation program over a \$2.5 million per occurrence SIR.

NOTE 10 – CONTINUED

In the past three years, there were three occurrences that resulted in payment in excess of the self-insured retention of \$2.5 million.

During 2009 there was significant change made in the County's insurance program. In September 2009, the County renewed its property insurance with a new blanket limit of \$500 million and a \$250 thousand deductible. This reduction in coverage from the blanket limit of \$1 billion and \$100 thousand deductible in previous years to the new coverage was due to budget constraint.

The County has extensively reviewed and revised its marine policies to better address some new and expanding County exposures due mainly to the Homeland Security Act. The marine program now has limits of \$50 million with additional coverage for sudden and accidental pollution, maritime employers' liability, towage liability, and contingent charterers liability. The County also purchased a vessel pollution liability policy to cover passenger-only vessels with a limit of \$5 million per incident.

With the assistance of an actuary, the Insurance Fund's claims liability is estimated based upon historical claims experience and other actuarial techniques. Nonincremental claim adjustment expenses are not included as part of the liability. The changes in the Insurance Fund's estimated claims liability in 2008 and 2009 were as follows (in thousands):

	Beginning of Year Liability	Claims and Changes in Estimates	Claim Payments	End of Year Liability
2008	\$ 58,192	\$ 11,938	\$ (10,861)	\$ 59,269
2009	59,269	18,045	(14,673)	62,641

Safety and Workers' Compensation Fund

The Safety and Workers' Compensation Fund, an internal service fund, accounts for the County's self-insurance for workers' compensation as certified under Title 51 Revised Code of Washington (RCW), Industrial Insurance Act. Interfund premiums are based on the hours worked by the fund/department-covered employees times an hourly rate that varies for different classes of employees and are recorded as quasi-external interfund transactions. Public Transportation and Water Quality internal fund charges are derived from actuarial projections of their future claims and administrative costs. The estimated liability for probable self-insurance losses (reported and unreported) recorded in the financial statements is discounted at 4.25 percent; the County's average forecasted rate of return on investments. As of December 31, 2009, the total discounted claim liability is \$76.8 million and the undiscounted carrying amount of the claim liability is \$93.7 million.

The County purchases an excess workers' compensation policy that provides statutory limits coverage. The amount of loss retained by King County (the self-insured retention) under this policy, effective September 1, 2004, was \$2.5 million. In the prior three years, there has been no settlement in excess of the insurance coverage.

The Fund's claims liability is estimated by an independent actuary and discounted. The claim liability represents the estimated ultimate amount to be paid for reported and incurred but not reported claims based on past experience and other actuarial techniques. Nonincremental

NOTE 10 – CONTINUED

claim adjustment expenses are not included as part of the liability. Changes in the Safety and Workers' Compensation Fund's claims liability in 2008 and 2009 were (in thousands):

	Beginning of Year Liability	Claims and Changes in Estimates	Claim Payments	End of Year Liability
2008	\$ 64,481	\$ 26,314	\$ (18,104)	\$ 72,691
2009	72,691	23,502	(19,376)	76,817

Employee Benefits Program Fund

The Employee Benefits Program Fund, an internal service fund, accounts for employee medical, dental, vision, life, accidental death and dismemberment (AD&D), and long-term disability (LTD) benefit programs. There are two self-insured medical plans. The pharmacy, dental and vision plans are also self-insured. The life, AD&D and LTD are fully insured. Interfund premiums are determined on a per employee, per month basis and charged to departments through a composite rate of expected claims and expenses. In some cases, there are employee contributions towards premiums. The estimated liability for probable self-insurance losses (reported and unreported) recorded in the fund as of December 31, 2009, is \$13.5 million.

The Fund's claims liability is based on historical experience. Changes in the Employee Benefits Program Fund's claims liability in 2008 and 2009 were (in thousands):

	Beginning of Year Liability	Claims and Changes in Estimates	Claim Payments	End of Year Liability
2008	\$ 13,872	\$ 138,090	\$ (138,136)	\$ 13,826
2009	13,826	160,660	(161,015)	13,471

Unemployment Liability

The County has elected to retain the risk for unemployment compensation payable to former County employees. The State of Washington Employment Security Department bills the County for the unemployment compensation benefits paid to former employees. Expenditures are then recognized in various county funds. In addition, a long-term liability of \$2.6 million is recorded in governmental long-term liability for the estimated future claims liability for employees as of December 31, 2009.

Changes in governmental long-term liability for unemployment compensation in 2008 and 2009 were (in thousands):

	Beginning of Year Liability	Claims and Changes in Estimates	Claim Payments	End of Year Liability
2008	\$ 1,051	\$ 1,081	\$ (951)	\$ 1,181
2009	1,181	4,049	(2,652)	2,578

NOTE 10 – CONTINUED**Component Unit – Harborview Medical Center****Insurance Fund**

Harborview Medical Center (HMC) participates in a self-insurance revolving fund for professional liability coverage through the University of Washington (UW). As of June 30, 2009, the UW did not carry commercial general liability coverage at levels below \$2 million per occurrence. The UW's philosophy with respect to its self-insurance programs is to fully fund its anticipated losses through the establishment of actuarially determined self-insurance reserves. These reserves are deposited in a statutorily created and regulated fund and can only be expended for payment of claim costs and related expenses.

The annual funding to the self-insurance revolving fund is determined by the UW administration based on recommendations from the UW's Risk Management Advisory Committee. The HMC's pro rata share of premiums paid to the self-insurance revolving fund were approximately \$1.7 million in the period July 1, 2007 to June 30, 2008 and \$1.7 million in the period July 1, 2008 to June 30, 2009.

Employee Benefits Program

Eligible permanent employees of HMC receive the basic insurance benefits package that is purchased by the University of Washington through the Public Employees Benefits Board (PEBB). HMC faculty and staff meeting PEBB eligibility rules receive this package of medical, dental, life, and long-term disability (LTD) insurance. In addition, there are optional employee-paid components to the life and LTD insurance that HMC employees may elect.

All employees of HMC are covered by Workers' Compensation and Medical Aid Acts for injuries and occupational diseases that occur during the course of their employment. Coverage includes doctors' services, hospital care, ambulance, appliances, compensation for permanent, partial, and total disability, and allowances and pensions to surviving spouses and children in the case of fatal injuries. A majority of the premium cost is paid by the UW and a small deduction is made from the employee's pay to conform with State law.

Component Unit – WSMU/BS Public Facilities District**Insurance Fund**

The Washington State Major League Baseball Stadium Public Facilities District (PFD) carries commercial general liability insurance with a general aggregate limit of \$2 million and a per occurrence limit of \$1 million. Excess liability coverage is in force at aggregate and per event limits of \$5 million. Business automobile liability coverage limit is at \$1 million per any one accident or loss. Commercial personal property losses are covered up to the replacement value not exceeding \$100 thousand with separate coverage for earthquake and flood losses. The PFD also has purchased employee benefit liability coverage with an aggregate limit of \$3 million and a per employee limit of \$1 million.

NOTE 10 – CONTINUED**Component Unit – Cultural Development Authority of King County****Insurance Fund**

The Cultural Development Authority of King County (CDA), dba 4Culture, carries comprehensive general liability, auto liability and employee benefit liability coverage with a limit of \$10 million per occurrence and no aggregate limit. Commercial property losses are covered up to the replacement cost on file with Washington Governmental Entity Pool. The CDA also carries Public Official Errors and Omissions Liability coverage with a limit of \$10 million per occurrence and an aggregate limit of \$10 million.

Employee Benefits Program

Employees of the CDA have a comprehensive health benefits package through the Public Employees Benefits Board (PEBB). This package includes medical, dental, basic life, and long-term disability coverage. In addition, the PEBB offers the following optional products: long-term care, auto, and home insurance. The State of Washington Health Care Authority (HCA) is the administering authority. The CDA also offers insurance with American Family Life Assurance Company (AFLAC). With the AFLAC coverage, the CDA employees can pick from a selection of insurance policies, at their own expense.

NOTE 11 – LEASES**Capital Leases**

King County has entered into agreements to purchase buildings, machinery, and equipment through capital lease and installment purchase agreements. Assets acquired and liabilities incurred through such agreements for governmental funds are accounted for under Governmental Activities. All capital leases related to Governmental Activities were settled during 2009. Such assets and liabilities related to proprietary type funds are accounted for within the proprietary funds (Business-type Activities).

The following is a schedule of capital assets and outstanding liabilities relating to capital lease agreements and installment purchase contracts as of December 31, 2009 (in thousands):

	Capital Assets		Capital Leases Payable	
	Governmental Activities	Business-type Activities	Governmental Activities	Business-type Activities
Leasehold improvements	\$ -	\$ 4,900	\$ -	\$ 3,369
Less depreciation	-	(1,300)	-	-
Subtotal	-	3,600	-	3,369
Totals	\$ -	\$ 3,600	\$ -	\$ 3,369

The following is a schedule, by year, of future minimum lease payments under capital lease and installment purchase agreements together with the present value of the net minimum lease payments as of December 31, 2009 (in thousands):

	Governmental Activities	Business-type Activities
2010	\$ -	\$ 255
2011	-	255
2012	-	255
2013	-	255
2014	-	255
2015-2019	-	1,275
2020-2024	-	1,275
2025-2029	-	1,275
2030-2031	-	404
Total minimum lease payments	-	5,504
Less: Amount representing interest	-	(2,135)
Present value of net minimum lease payments	\$ -	\$ 3,369

Operating Leases

The County has numerous operating lease commitments for office space, equipment, radio towers, and railroad tracks. The information and Telecommunications Services Fund leases computer hardware; these leases include maintenance agreements. Expenditures for the year ended December 31, 2009, for operating lease and rental agreements for office space, equipment, and other operating leases amount to \$38.5 million. The patterns of future lease

NOTE 11 – CONTINUED

payment requirements are systematic and rational. Future minimum lease payments for these leases are as follows (in thousands):

Year	Office Space	Equipment	Other	Total
2010	\$ 6,994	\$ 348	\$ 1,105	\$ 8,447
2011	6,048	315	939	7,302
2012	5,459	276	776	6,511
2013	5,284	152	790	6,226
2014	5,024	-	785	5,809
2015-2019	12,890	-	3,834	16,724
2020-2024	2,094	-	3,561	5,655
2025-2029	1,036	-	2,873	3,909
2030-2034	845	-	2,546	3,391
2035-2039	-	-	2,744	2,744
2040-2044	-	-	2,959	2,959
2045-2049	-	-	3,100	3,100
2050-2053	-	-	2,225	2,225

The County currently leases some of its property to various tenants under long-term, renewable, and non-cancelable contracts. Under business-type activities, the King County Airport Enterprise leases out most of the buildings and grounds in the King County International Airport/Boeing Field complex to companies and government agencies in the aviation industry.

The following schedule is an analysis of the County's investment in property under long-term, non-cancelable operating leases as of December 31, 2009 (in thousands):

	Governmental Activities	Business-type Activities
	Airport	Other
Land	\$ 741	\$ 11,220
Buildings	5,209	59,061
Less depreciation	(485)	(29,521)
Total cost of property under lease	\$ 5,465	\$ 40,760
		\$ 4,668

The following is a schedule of minimum future lease receipts on non-cancelable operating leases based on contract amounts and terms as of December 31, 2009 (in thousands):

Year	Governmental Activities	Business-type Activities	Total
	Airport	Other	
2010	\$ 13,429	\$ 5,008	\$ 1,204
2011	10,787	5,008	937
2012	1,885	4,859	404
2013	1,791	4,637	114
2014	1,734	4,518	81

NOTE 12- LANDFILL CLOSURE AND POST-CLOSURE CARE COSTS

King County is legally responsible for closure and post-closure care costs associated with the County's solid waste landfills. Estimated costs of closure and post-closure care are recognized as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and post-closure care in current dollars. Actual cost may be different due to inflation, changes in technology, or changes in regulations.

State and federal laws and regulations require King County to place a final cover on its Cedar Hills Landfill site when the County stops accepting waste at this location. Certain maintenance and monitoring functions are also required at the sites for 30 years following closure. Enumclaw, Hobart, Duvali, Vashon, and Cedar Falls landfills have been covered. Puyallup, Houghton, Bow Lake, and First Northeast are custodial landfills which were covered 30 or more years ago and are no longer subject to these laws and regulations.

Although closure and post-closure care costs will be paid only near or after the date that the landfills stop accepting waste, the County reports a portion of these costs as an operating expense in each period. The expense is based on landfill capacity used as of each year-end. The \$108.2 million reported as landfill closure and post-closure care liability as of December 31, 2009, represents the cumulative percentage reported based on the amount that each of the landfills has been filled to date as follows (dollars in thousands):

Landfill	Percent Filled	Estimated Liability	Estimated Remaining Liability	Estimated Year of Closure
Cedar Hills	85%	\$69,237	\$11,444	2018
Covered	100%	30,397	-	closed
Custodial	100%	8,516	-	closed

The County is required by state and federal laws and regulations to make annual contributions to a reserve fund to finance closure and post-closure care. The County is in compliance with these requirements. As of December 31, 2009, cash and cash equivalents of \$33.3 million were held in the Landfill Reserve Fund. Cash and cash equivalents of \$17.2 million were held in the Landfill Post-closure Maintenance Fund, a fund designated for these purposes.

The County expects that future cost increases resulting from inflation will be covered by the interest income earned on these annual contributions. However, if interest earnings are inadequate, or additional post-closure care requirements are determined (due to changes in technology or regulations), the County may need to increase future user fees or tax revenues.

The County also established the Environmental Reserve Fund for future investigation and possible remediation of custodial landfills. As of December 31, 2006 landfill investigations and foreseeable remediation efforts are complete; therefore there is no liability recorded for custodial landfills.

In 2009 estimated Cedar Hills Landfill capacity increased due to better compaction and reduced usage of cover material, resulting in a significantly lower landfill closure and post-closure expense recognition.

NOTE 13 – ENVIRONMENTAL REMEDIATION

In 2008 the County implemented GASB Statement No. 49 - Accounting and Financial Reporting for Pollution Remediation Obligations. This statement requires special accounting and reporting for governments that become obligated to perform environmental remediation work following the occurrence of one or more GASB-defined "obligating events." The applicable requirements are: 1) to estimate the components of expected pollution remediation outlays; and, 2) to accrue the future estimable outlays for those components as liabilities and expenses (or capitalize the costs in certain limited situations). Further requirements are for the liability to be recorded at the current value of the costs expected to be incurred to do the remediation work, and for the liability to be measured using the expected cash flow technique.

The impact of the implementation of GASBS No. 49 to King County operations follows:

Water Quality Enterprise – Accrued environmental remediation liabilities of \$44.6 million are related to ongoing projects which include the sediment management of aquatic habitats along Elliott Bay and the clean-up of certain sites along the Lower Duwamish Waterway. The sediment management project has been approved by the Metropolitan King County Council as a self obligated pollution remediation program. The Lower Duwamish Waterway project became a Water Quality obligation when King County entered into an administrative order on consent (AOC) with the Washington State Department of Ecology (DOE) and the U.S. Environmental Protection Agency (EPA). This AOC also includes the Boeing Company, the City of Seattle and the Port of Seattle as parties to the cleanup. Each party has agreed to pay one fourth of the cleanup costs. The implementation of GASB Statement No. 49 resulted in a 2007 restatement of \$27.9 million added to estimated remediation liability being carried forward to subsequent years. The methodology for estimating liabilities is based on Water Quality engineering analysis, program experience and cost projections for the remediation activities scheduled to be undertaken in future years as programmed under the Water Quality's Regional Wastewater Services Plan. Certain costs were developed by consulting engineers. Costs were estimated using the expected cash flow method. The remaining work is well-defined, but continues to be re-measured as succeeding benchmarks are reached or when cost assumptions are modified. Beginning in 2006, environmental remediation costs for Water Quality are deferred as regulatory assets in accordance with FAS 71 - Accounting for the Effects of Certain Types of Regulation (See Note 1, Summary of Significant Accounting Policies – Regulatory Deferrals). Water Quality operations are subject to rules and regulations enacted by the DOE and the EPA for environmental issues. Water Quality settled lawsuits related to certain environmentally damaged sites and agreed to pay its portion of remediation and cleanup costs. The initial settlement costs were capitalized as deferred environmental remediation costs and are being amortized over 40 years as offsetting revenues are collected from Water Quality's customers.

Public Transportation Enterprise – Accrued environmental remediation liability of \$346 thousand is primarily related to: 1) monitoring soil and ground water contamination at the Lake Union Tank and Dearborn properties (under consent decrees from the DOE); 2) groundwater monitoring at two bus operation bases; and 3) the planned voluntary remediation of a third bus operation site. The liability was measured from the estimated amounts compiled by experienced Public Transportation staff using the expected cash flow technique. These cost estimates, however, are subject to change when contamination levels at specific sites are updated, when existing agreements and remediation alternatives are modified, or when new applicable regulations emerge.

King County International Airport (KCIA) Enterprise – Accrued remediation liabilities of \$5.4 million are related to the ongoing investigation, pre-cleanup, cleanup, and monitoring

NOTE 13 – CONTINUED

activities at three sites along the Lower Duwamish Waterway (Slip 4, 7777 Perimeter Road, and the North Boeing Field/Georgetown steam plant and flume). These obligations were brought about by complaints filed by other governments to recover costs from the enterprise and the enterprise has agreed to share the cost, or as part of an existing agreed order from the DOE where the enterprise was identified as a potentially responsible party. Liabilities were estimated using the expected cash flow technique. The enterprise expects to recover portions of cleanup costs from a potentially responsible party. Estimated recoveries are realizable and reported as accounts receivable in the amount of \$4.4 million for 2009. Remediation cost estimates are subject to change resulting from price increases or reductions, technology, or changes in applicable laws or agreements.

NOTE 14 – DEBT**Short-term Debt Instruments and Liquidity**

King County has two short-term debt instruments outstanding for governmental activities as of December 31, 2009. On December 29, 2009, the County completed the sale of \$9.5 million Series A tax-exempt and \$17.6 million Series B taxable limited tax general obligation (GO) bond anticipation notes with a maturity date of December 1, 2010. The proceeds of the notes are accounted for in the Green River Flood Mitigation fund. Proceeds from the sale of the notes will be used to provide financing for the cost of flood planning and mitigation measures intended to prevent damage to facilities owned, and disruption of services provided by the County at locations in the Green River Valley that might result from possible flooding due to structural damage to the Howard Hanson Dam. Also, a portion of the proceeds from the sale of the notes will be used to pay for the costs of issuing the notes. The County intends to finance the repayment of the notes by issuing either a new bond anticipation note or general obligation bonds in 2010.

For business-type activities, the County has \$100 million of commercial paper outstanding in the Water Quality Enterprise Fund as of December 31, 2009. The commercial paper has maturity dates between 11 and 63 days. At the time of initial issuance, the proceeds of the commercial paper were transferred to the construction fund for use in the capital activities of the Enterprise. Repayment of the debt will be made from operating revenues. The following schedule provides a summary of changes in short-term debt as of December 31, 2009:

**CHANGES IN SHORT-TERM DEBT
FOR THE YEAR ENDED DECEMBER 31, 2009
(IN THOUSANDS)**

	Balance 01/01/09	Additions	Reductions	Balance 12/31/09
Governmental activities:				
Limited tax GO bond anticipation notes	\$ -	\$ 27,095	\$ -	\$ 27,095
Unamortized premium bonds sold	-	227	-	227
Governmental activities short-term debt	<u>\$ -</u>	<u>\$ 27,322</u>	<u>\$ -</u>	<u>\$ 27,322</u>
Business-type activities:				
Commercial paper	\$ 100,000	\$ -	\$ -	\$ 100,000
Business-type activities short-term debt	<u>\$ 100,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 100,000</u>

Long-term Debt

King County has long-term debt reported with both governmental activities and business-type activities. For governmental activities, long-term debt consists of general obligation bonds, and lease revenue bonds accounted for in the Internal Service Funds.

For business-type activities, long-term debt consists of limited tax general obligation bonds accounted for in the King County International Airport, Institutional Network (I-NET), Solid Waste, Public Transportation, and Water Quality Enterprise Funds; capital leases accounted for in the Public Transportation Fund; Sewer Revenue Bonds and State of Washington revolving loans accounted for in the Water Quality Enterprise Fund.

NOTE 14 - CONTINUED

KING COUNTY, WASHINGTON
SCHEDULE OF LONG-TERM DEBT
(IN THOUSANDS)
(PAGE 1 of 3)

I. GOVERNMENTAL ACTIVITIES - LONG-TERM DEBT					
A. Limited Tax General Obligation Bonds (LTCO)					
	Issue Date	Final Maturity	Interest Rates	Original Issue Amount	Outstanding at 12/31/09
2001 Volant Purpose (Partial)	11/01/01	12/01/21	3.00-5.00%	\$ 26,845	\$ 14,455
2002 Refunding 1997B Bonds (Risebeli Shadown)	06/04/02	12/01/14	4.00-5.00%	124,575	53,510
2002 Volant Purpose (Road Cap) Bonds	10/01/02	12/01/16	2.00-5.00%	38,340	21,740
2003 Volant Purpose Refunding Bonds Series A	10/01/03	12/01/16	2.00-5.00%	10,000	1,710
2003 Volant Purpose Refunding Bonds Series B (Partial)	10/01/03	08/01/20	2.00-5.25%	27,860	12,800
2004 Refunding Bond Series A	09/21/04	01/01/16	2.00-5.00%	57,045	45,300
2004 Limited Tax GO (Payoff 1A-2003A) Series B	10/01/04	01/01/25	2.00-5.00%	82,435	71,350
2005 Limited Tax GO (Payoff 1A-2003A) Series D	10/01/04	01/01/25	3.00-5.00%	10,000	8,340
2005 Refunding Bonds Series A	06/29/05	03/01/19	5.00%	22,310	22,310
2006 Refunding Bonds (Partial)	12/14/06	01/01/19	4.00-5.00%	38,330	32,435
2006 HMO Section 108 Bonds - Greendale Project	08/01/06	08/01/24	4.75-5.70%	-	5,491
2006 HMO Section 108 Bonds - Greendale Project	08/01/06	08/01/24	4.75-5.70%	4,785	46,495
2007 Kingdome Debt Series 1 Refunding 1997E (Tombaw)	09/05/07	12/01/10	4.00-5.11%	10,895	10,895
2007 Volant Purpose Series C	11/01/07	01/01/28	4.00-4.50%	10,650	10,280
2007 Volant Purpose Series D	11/01/07	01/01/28	4.00-5.00%	34,630	33,445
2007 Volant Purpose Series E (Partial)	12/27/07	12/01/17	4.00-5.00%	3,070	2,580
2009 Volant Purpose Tax Credit Bonds Series A	02/01/09	01/01/19	Variable Rate	52,000	27,000
2009 Volant Purpose Capital Facilities Project Series B2	05/12/09	06/01/29	2.00-5.15%	34,810	34,810
2009 Limited Tax GO (Reg. 1993B) Series C	12/1/09	01/01/29	4.50%	17,150	17,150
2009 Refunding Bonds Series D (Partial)	12/1/09		4.50-5.25%	8,149	6,149
Total Payable from Limited Tax GO Redemption Fund				\$72,522	\$19,540
Payable from Internal Service Funds					
2001 Volant Purpose (Partial)				1,050	745
Total Payable from Internal Service Funds				1,050	745
Total Limited Tax General Obligation Debt				694,572	519,485

NOTE 14 - CONTINUED

KING COUNTY, WASHINGTON
SCHEDULE OF LONG-TERM DEBT
(IN THOUSANDS)
(PAGE 2 of 3)

I. GOVERNMENTAL ACTIVITIES - LONG-TERM DEBT					
B. Limited Tax General Obligation Bonds (LTCO)					
	Issue Date	Final Maturity	Interest Rates	Original Issue Amount	Outstanding at 12/31/09
2000 Refunding Bonds (Partial)	10/01/00	06/01/16	5.00-5.50%	\$ 102,740	\$ 23,830
2001 Harborview Medical Center	02/01/01	12/01/20	4.00-5.00%	29,130	1,265
2002 Harborview Medical Center Series A	05/01/02	05/01/20	5.00-5.50%	110,000	1,265
2004 Harborview Medical Center Series A	03/04/04	12/01/23	2.00-5.00%	110,000	93,740
2004 Harborview Medical Center Series B	09/14/04	06/01/23	3.00-5.00%	54,000	47,000
2009 Refunding 2001 HMO-TCO Series A	12/1/09	12/01/20	4.30-5.00%	19,570	19,570
Total Payable from Limited Tax GO Bond Redemption Fund				422,235	179,940
Payable from Stadium GO Bond Redemption Fund					
2000 Refunding Bonds (Partial)	10/01/00	06/01/12	5.00-5.50%	18,880	5,220
Total Limited Tax General Obligation Bonds				443,115	204,710
C. Lease Revenue Bonds					
Payable from Internal Service Funds					
2005 Harborview Medical Center Clinic Space	11/13/02	12/01/21	4.00-5.38%	62,540	57,370
2005 Harborview Medical Center Clinic Space	02/09/03	12/01/23	4.00-5.25%	101,035	76,495
2005 Harborview Medical Center Clinic Space	12/05/04	12/01/26	5.00%	179,285	179,285
2008 NJB Properties - HMC (Tombaw)	12/05/06	12/01/26	5.51%	10,435	10,435
2008 NJB Properties - HMC (Tombaw)	03/26/07	06/01/26	4.00-5.00%	412,495	392,495
Total Lease Revenue Bonds Payable from Internal Service Funds				765,390	626,175
Total Governmental Activities - Long-Term Debt				1,555,302	1,126,750
II. BUSINESS-TYPE ACTIVITIES - LONG-TERM DEBT					
A. Limited Tax General Obligation Bonds (LTCO)					
Payable from Enterprise Funds					
2001 LIGO (Public Transportation Sales Tax) Refunding Bonds	11/01/01	12/01/21	3.00-5.00%	8,435	4,690
2002 LIGO (Public Transportation Sales Tax) Refunding Bonds	11/05/02	12/01/19	2.00-5.50%	44,285	44,285
2004 LIGO (Public Transportation Sales Tax) Refunding Bonds	06/08/04	06/01/34	2.50-5.50%	49,495	45,515
2005 LIGO (WQ-LIGO) Bonds	04/21/05	01/01/25	5.00%	200,000	200,000
2006 LIGO (WQ-LIGO) Bonds	07/01/06	01/01/25	5.00%	100,000	100,000
2007 LIGO (WQ-LIGO) Bonds	11/07/07	12/01/27	4.00-5.00%	40,535	38,980
2008 LIGO (WQ-LIGO) Refunding Bonds	02/12/08	01/01/34	3.25-5.25%	236,540	233,445
2009 LIGO (Public Transportation Sales Tax) Refunding Bonds	02/18/09	12/01/19	2.00-4.00%	48,535	44,420
2009 LIGO (WQ-LIGO) Refunding Bonds	04/08/09	01/01/29	5.00-5.25%	300,000	300,000
2009 LIGO (WQ-LIGO) Refunding Bonds	12/18/09	12/01/29	5.00-5.25%	300,000	300,000
Total Limited Tax GO Bonds Payable from Enterprise Funds				959,855	919,481

NOTE 14 - CONTINUED

KING COUNTY, WASHINGTON
SCHEDULE OF LONG-TERM DEBT
(IN THOUSANDS)
(PAGE 3 of 3)

II. BUSINESS-TYPE ACTIVITIES - LONG-TERM DEBT

	Issue Date	Fiscal Maturity	Interest Rates	Original Issue Amount	Outstanding at 12/31/09
18. Lease Revenue Bonds - Capital Leases and Loans Payable From Operating Activities					
2001 Sewer Revenue Bonds, Junior Lien Series A	08/05/01	01/01/12	Variable Rate ^(a)	\$ 50,000	\$ 50,000
2001 Sewer Revenue Bonds, Junior Lien Series B	08/05/01	01/01/12	Variable Rate ^(a)	50,000	50,000
2001 Sewer Revenue and Refunding Bonds	11/78/01	01/01/15	3.05-5.25%	275,060	223,375
2002 Sewer Revenue Bonds	01/01/03	01/01/15	3.05-5.25%	344,130	292,310
2002 Sewer Revenue Refunding Bonds, Series B	10/03/02	01/01/15	3.05-5.25%	344,130	249,350
2003 Sewer Revenue Refunding Bonds	04/24/03	01/01/15	2.05-5.25%	94,470	91,625
2004 Sewer Revenue Bonds, Series A	03/18/04	01/01/15	4.05-5.00%	185,000	185,000
2004 Sewer Revenue Bonds, Series B	03/18/04	01/01/15	2.05-5.00%	185,000	185,000
2004 Sewer Revenue and Refunding Bonds, Series A	05/14/04	01/01/15	3.00-5.00%	124,070	124,070
2004 Sewer Revenue and Refunding Bonds, Series B-2	05/14/04	01/01/15	3.00-5.00%	124,070	124,070
2007 Sewer Revenue Bonds	11/20/07	01/01/16	3.50-5.00%	193,435	190,885
2007 Sewer Revenue Bonds	06/26/07	01/01/14	5.00%	250,000	250,000
2008 Sewer Revenue Bonds	08/12/08	01/01/16	5.00-5.25%	250,000	250,000
2008 Sewer Revenue Bonds	08/12/08	01/01/16	5.00-5.25%	250,000	250,000
2009-2009 State of Washington Revolving Loan	Various	Various	0.50-3.10%	177,834	141,165
2000 Public Transportation Park and Ride Capital Leases	03/20/00	12/31/31	5.00%	4,772	3,358
Total Revenue Bonds, Capital Leases and Loans Payable From Operating Activities				2,509,481	2,311,898

TOTAL BUSINESS-TYPE ACTIVITIES - LONG-TERM DEBT
TOTAL LONG-TERM DEBT (EXCLUDING GO LONG-TERM LIABILITIES)

	3,469,336	3,231,579
	<u>2,022,719</u>	<u>4,258,297</u>

(a) The Multi-Model bonds initially issued in the Weekly Mode bear interest at Weekly Rates. The bonds in the Weekly Mode may be converted to Daily Mode, Flexible Mode, Term Rate Mode or Fixed Rate Mode.

(b) Lease revenue bonds were bonds issued in accordance with the provisions of Revenue Ruling 65-26 and Revenue Procedure 62-76. Under the lease agreements, the County's obligation to pay rent is a limited tax general obligation of the County.

(c) The variable rate bonds initially issued in the Weekly Mode will bear interest at Weekly Rates. The Weekly Rate for each interest period is determined by the Remarketing Agents. The bonds in the Weekly Mode may be changed to or from the Weekly Mode or from a Daily Mode, a Commercial Paper Mode, or a Long Term Mode, or to a fixed Mode, upon satisfaction of the "Change in Market" conditions.

NOTE 14 - CONTINUED

KING COUNTY, WASHINGTON
DEBT SERVICE REQUIREMENTS TO MATURITY
(IN THOUSANDS)

GOVERNMENTAL ACTIVITIES

Year	General Obligation Bonds		Lease Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2010	\$ 58,271	\$ 1,166	\$ 10,455	\$ 19,390	\$ 68,726	\$ 30,005
2011	58,232	30,612	10,455	18,892	73,688	46,706
2012	63,023	27,814	10,965	18,365	86,281	43,139
2013	74,791	24,774	11,490	17,795	94,774	38,974
2014	62,718	21,179	12,060	17,325	82,753	35,754
2015-2019	148,832	27,127	88,415	60,823	237,267	88,000
2020-2024	45,600	4,339	87,350	39,473	132,950	43,712
2025-2029	-	-	80,760	17,159	80,760	17,159
2030-2034	-	-	-	-	-	-
2035-2039	-	-	-	-	-	-
TOTAL	\$ 724,295	\$ 238,435	\$ 402,455	\$ 292,899	\$ 1,126,750	\$ 531,334

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BUSINESS-TYPE ACTIVITIES

Year	General Obligation Bonds		Revenue Bonds, Capital Leases and Loans		Total Business-Type Activities		Total Long-Term Debt (Excluding General Obligation Long-Term Liabilities)	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2010	\$ 14,654	\$ 44,568	\$ 41,946	\$ 109,504	\$ 56,600	\$ 154,072	\$ 125,997	\$ 204,074
2011	15,247	43,951	44,021	107,827	59,268	151,778	133,255	198,484
2012	14,720	42,975	46,931	105,998	61,651	149,339	147,932	192,728
2013	21,180	42,975	49,034	103,824	70,214	146,399	144,992	185,973
2014	154,090	24,218	244,334	455,418	398,624	679,558	677,317	827,752
2015-2019	192,230	18,223	304,240	364,863	496,470	547,086	530,200	514,998
2020-2024	225,670	56,115	470,250	271,469	695,920	322,584	776,600	344,743
2025-2029	107,645	12,897	324,235	165,250	431,880	178,147	456,480	180,018
2030-2034	-	-	293,240	84,846	293,240	84,846	298,400	84,846
2035-2039	-	-	181,365	19,197	181,365	19,197	-	-
TOTAL	\$ 919,681	\$ 743,233	\$ 2,311,899	\$ 2,358,910	\$ 3,231,580	\$ 3,102,443	\$ 4,358,330	\$ 3,633,977

NOTE 14 – CONTINUED

The following table summarizes changes in long-term liabilities for the year ended December 31, 2009 (in thousands).

	Balance 01/01/09	Additions	Reductions	Balance 12/31/09	Due Within One Year
Governmental activities:					
Bonds payable:					
General obligation bonds	\$ 725,698	\$ 127,679	\$ (129,082)	\$ 724,295	\$ 62,071
General obligation bond anticipation notes	48,755	-	(48,755)	-	-
Lease revenue bonds: ^(a)	408,640	-	(6,185)	402,455	6,465
Less deferred amounts:					
Unamortized premium bonds sold	21,548	5,831	(4,821)	22,557	-
Refunding:	(9,463)	(3,065)	4,188	(8,340)	-
Total bonds payable	1,195,178	130,445	(184,655)	1,140,967	68,536
Limited GO capital leases	4,000	-	(4,000)	-	-
Claims and judgments payable	2,400	-	(2,400)	-	-
Compensated absences liability	83,167	11,182	(3,143)	91,206	4,106
Other postemployment benefits	12,193	6,345	-	18,538	-
Unemployment compensated liabilities	1,181	(1,255)	2,652	2,578	2,578
Estimated claims settlements	145,831	202,207	(195,079)	152,959	95,489
and other liabilities					
Releasable arbitrage	30	-	(13)	17	-
Total Governmental activities long-term liabilities	\$ 1,444,180	\$ 348,924	\$ (386,838)	\$ 1,406,265	\$ 170,709
Business-type activities:					
Bonds payable:					
General obligation bonds	\$ 638,065	\$ 351,662	\$ (70,046)	\$ 919,681	\$ 15,610
Revenue bonds	1,947,905	250,000	(30,540)	2,167,365	32,090
Less deferred amounts:					
Unamortized premium bonds sold	50,844 ^(b)	6,533	(4,450)	52,927	4,261
Refunding:	(66,792) ^(b)	(1,315)	5,783	(62,323)	(5,660)
Total bonds payable	2,570,022	606,880	(99,253)	3,077,648	46,301
Capital leases	3,453	-	(85)	3,368	89
State revolving loans	129,186	19,207	(7,228)	141,165	7,941
Retainage payable	17,027	4,336	(140)	21,223	5,467
Compensated absences liability	61,165	22,001	(17,107)	66,060	8,065
Other postemployment benefits	2,890	2,118	(634)	4,374	-
Landfill closure and post-closure care liability	112,502	-	(4,352)	108,150	7,809
Environmental remediation and other liabilities	41,018	14,152	(4,789)	50,381	5,488
Total Business-type activities long-term liabilities	\$ 2,937,263	\$ 668,694	\$ (133,588)	\$ 3,472,369	\$ 81,160

Governmental activities long-term liabilities, other than debt, are primarily estimated claims settlements liquidated by internal service funds. At year-end, internal service funds estimated claims settlements of \$152.9 million are included in the above amount. Governmental activities compensated absences are liquidated by the governmental fund in which an employee receiving the payment is budgeted, including most notably the General Fund, the Public Health Fund, and the County Road Fund.

(a) Lease revenue bonds were bonds issued in accordance with the provisions of Revenue Ruling 63-20 and Revenue Procedure 82-26. Under the lease agreements, the County's obligation to pay rent is a limited tax general obligation of the County.

(b) Business-type activities deferred unamortized premium bonds sold and refunding losses were restated to record Water Quality's prior year refunding loss on retired bonds and correct duplicate bond amortization.

(c) Relinquish payable in business-type activities was reclassified from current liabilities to noncurrent liabilities in 2009.

NOTE 14 – CONTINUED

Computation of Legal Debt Margin

Under Washington State law (RCW 39.36.020), a county may incur general obligation debt for general county purposes in an amount not to exceed 2½ percent of the assessed value of all taxable property within the county. State law requires all property to be assessed at 100 percent of its true and fair value. Unlimited tax general obligation debt requires an approving vote of the people; any election to validate such general obligation debt must have a voter turnout of at least 40 percent of those who voted in the last state general election and, of those voting, 60 percent must be in the affirmative. The County Council may by resolution authorize the issuance of limited tax general obligation debt in an amount up to 1½ percent of assessed value of property within the County for general county purposes and ¾ percent for metropolitan functions, but the total of limited tax general obligation debt for general county purposes and metropolitan functions should not exceed 1½ percent of assessed value. No combination of limited and unlimited tax debt, for general county purposes, and no combination of limited and unlimited tax debt, for metropolitan functions, may exceed 2½ percent of the valuation. The debt service on unlimited tax debt is secured by excess property tax levies, whereas the debt service on limited tax debt is secured by property taxes collected within the \$1.80 per \$1,000 of assessed value operating levy. The legal debt margin computation for the year ended December 31, 2009 is as follows (in thousands):

2009 ASSESSED VALUE (2010 TAX YEAR)	\$ 341,971,517
Debt limit of limited tax (LT) general obligations for metropolitan functions ¾ % of assessed value	\$ 2,564,786
Less: Net LT general obligation indebtedness for metropolitan functions	(953,636)
LT GENERAL OBLIGATION DEBT MARGIN FOR METROPOLITAN FUNCTIONS	\$ 1,611,150
Debt limit of LT general obligations for general county purposes and metropolitan functions – 1½ % of assessed value	\$ 5,129,573
Less: Net LT general obligation indebtedness for general county purposes	(981,419)
Net LT general obligation indebtedness for metropolitan functions	(953,636)
Net total LT general obligation indebtedness for general county purposes and metropolitan functions	(1,935,055)
LT GENERAL OBLIGATION DEBT MARGIN FOR GENERAL COUNTY PURPOSES AND METROPOLITAN FUNCTIONS	\$ 3,194,518
Debt limit of total general obligations for metropolitan functions 2½ % of assessed value	\$ 8,549,288
Less: Net total general obligation indebtedness for metropolitan functions	(953,636)
TOTAL GENERAL OBLIGATION DEBT MARGIN FOR METROPOLITAN FUNCTIONS	\$ 7,595,652
Debt limit of total general obligations for general county purposes 2½ % of assessed value	\$ 8,549,288
Less: Net unlimited tax general obligation indebtedness for general county purposes	(194,982)
Net LT general obligation indebtedness for general county purposes	(981,419)
Net total general obligation indebtedness for general county purposes	(1,176,401)
TOTAL GENERAL OBLIGATION DEBT MARGIN FOR GENERAL COUNTY PURPOSES	\$ 7,372,887

NOTE 14 – CONTINUED**Refunding and Defeasing General Obligation Bond Issues – 2009**

Limited Tax General Obligation Refunding Bonds, 2009C – On December 10, 2009, the County issued \$17.2 million in limited tax general obligation bonds, 2009 Series C with an effective interest cost of 3.67 percent to advance refund \$17.7 million of outstanding limited tax general obligation refunding bonds, 1993 Series B with an effective interest cost of 4.5 percent. The net proceeds were used to purchase US government securities that were deposited with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered defeased and the liability for those bonds has been removed from the governmental activities column of the statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by \$420.9 thousand. This amount, reported in the statement of net assets as a reduction in bonds payable, is being charged to operations through fiscal year 2024, using the outstanding principal balance method. This advance refunding was undertaken to reduce total debt service payments by \$1.7 million over the life of the bonds and resulted in an economic gain (difference between the present values of the old and new debt service payments) of \$1.4 million.

Limited Tax General Obligation Refunding Bonds, 2009D – On December 10, 2009, the County issued \$9.3 million in limited tax general obligation bonds, 2009 Series D with an effective interest cost of 0.87 percent to advance refund \$9.6 million of outstanding limited tax general obligation refunding bonds, 1999 Series A with an effective interest cost of 5.13 percent. The net proceeds were used to purchase US government securities that were deposited with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered defeased and the liability for those bonds has been removed from the governmental activities column of the statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by \$53 thousand. This amount, reported in the statement of net assets as a reduction in bonds payable, is being charged to operations through fiscal year 2012, using the outstanding principal balance method. This advance refunding was undertaken to reduce total debt service payments by \$735 thousand over the life of the bonds and resulted in an economic gain (difference between the present values of the old and new debt service payments) of \$701 thousand.

Unlimited Tax General Obligation Refunding Bonds, 2009A – Also on December 10, 2009, the County issued \$19.6 million in unlimited tax general obligation bonds, 2009 Series A with an effective interest cost of 2.45 percent to advance refund \$20.3 million of outstanding unlimited tax general obligation refunding bonds, 2001 HMC with an effective interest cost of 4.84 percent. The net proceeds were used to purchase US government securities that were deposited with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered defeased and the liability for those bonds has been removed from the governmental activities column of the statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by \$999.6 thousand. This amount, reported in the statement of net assets as a reduction in bonds payable, is being charged to operations through fiscal year 2020, using the outstanding principal balance method. This advance refunding was undertaken to reduce total debt service payments by \$2.7 million over the life of the bonds and resulted in an economic gain (difference between the present values of the old and new debt service payments) of \$2.0 million.

Partial Defeasances of Limited Tax General Obligation (Baseball Stadium) Refunding Bonds, 2009 – On February 10, 2009, the County completed defeasance of limited tax general obligation (Baseball Stadium) refunding bonds, 2004 Series C (taxable) for \$6.7 million using the excess proceeds from special taxes and revenues. The reacquisition price exceeded the net

NOTE 14 – CONTINUED

carrying amount of the old debt by \$309 thousand. This amount, reported in the statement of net assets as a reduction in bonds payable, was charged to operations during fiscal year 2009, using the outstanding principal balance method. The transaction resulted in an economic gain of \$22 thousand for the year.

Also, on February 10, 2009, the County completed a partial defeasance of limited tax general obligation (Baseball Stadium) refunding bonds, 2004 Series D (tax-exempt) for \$13.0 million using the excess proceeds from special taxes and revenues. The reacquisition price exceeded the net carrying amount of the old debt by \$1 million. This amount, reported in the statement of net assets as a reduction in bonds payable, was charged to operations during fiscal year 2009, using the outstanding principal balance method. The transaction resulted in an economic gain of \$11.5 thousand for the year.

Limited Tax General Obligation (Public Transportation Sales Tax) Refunding Bonds, 2009 – On February 18, 2009, the County issued \$48.5 million in limited tax general obligation bonds, 2009 with an effective interest cost of 2.49 percent to advance refund \$50 million of outstanding limited tax general obligation (sales tax) refunding bonds, 1998 Series A with an effective interest cost of 5.00 percent. The net proceeds were used to purchase US government securities that were deposited with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered defeased and the liability for those bonds has been removed from the business-type activities column of the statement of net assets.

The reacquisition price exceeded the net carrying amount of the old debt by \$1.3 million. This amount, reported in the statement of net assets as a reduction in bonds payable, is being charged to operations through fiscal year 2019, using the outstanding principal balance method. This advance refunding was undertaken to reduce total debt service payments by \$7.1 million over the life of the bonds and resulted in an economic gain (difference between the present values of the old and new debt service payments) of \$6.2 million.

Refunding General Obligation Certificate of Participation Issues – 2009

Limited Tax General Obligation Refunding, 2009B2 (Issaquah District Court) – On May 12, 2009, the County issued \$3.8 million in limited tax general obligation bonds, 2009 Series B2 with an effective interest cost of 2.64 percent to advance refund \$4.0 million of outstanding limited tax general obligation certificate of participation bonds, 1998 with an effective interest cost of 4.45 percent. The net proceeds were used to purchase US government securities that were deposited with an escrow agent to provide for all future debt service payments on the refunded certificate of participation. As a result, the refunded bonds are considered defeased and the liability for those bonds has been removed from the governmental activities column of the statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by \$16 thousand. This amount, reported in the statement of net assets as a reduction in bonds payable, was charged to operations during fiscal year 2009, using the outstanding principal balance method.

NOTE 14 – CONTINUED**Refunded Bonds**

King County has eleven outstanding refunded and defeased bond issues consisting of limited tax general obligation bonds (\$90.7 million), unlimited tax general obligation bonds (\$30.4 million) and sewer revenue bonds (\$5.0 million) that were originally reported in the Primary Government's statement of net assets. The payments of principal and interest on these bond issues are the responsibility of the escrow agent, US Bank of Washington, and the liability for the defeased bonds has been removed from the statement of net assets.

Debt Issuances – 2010

In January 2010 the County issued \$100 million of Limited Tax General Obligation multi-modal revenue bonds. The proceeds from these bonds will be used to finance capital construction and improvements to the sewer system of the County.

In June 2010 the County issued Limited Tax General Obligation Bond Anticipation Notes in the amount of \$60.215 million. The proceeds from these notes will provide a portion of the interim financing for an upgrade of the County's budget, finance, human resources, payroll, and employee benefits computer systems.

In July 2010 the County issued \$334 million of Sewer Revenue and Refunding bonds. The proceeds from these bonds will be used to finance capital construction and improvements to the sewer system of the County, and to refund certain outstanding bonds of the Water Quality Enterprise.

NOTE 15 – INTERFUND BALANCES AND TRANSFERS**Interfund Balances**

Due from/to other funds and interfund short-term loans receivable and payable (in thousands)
Fund types with account balances of less than \$500 thousand are aggregated into "All Others."

Receivable Fund	Payable Fund	Amount
General Fund	Nonmajor Governmental Funds	\$ 6,563
	Nonmajor Enterprise Funds	2,731
	All Others	628
Public Health Fund	Nonmajor Governmental Funds	4,101
	All Others	448
Nonmajor Governmental Funds	General Fund	1,279
	Public Health Fund	1,492
	Nonmajor Governmental Funds	59,188
	Water Quality Enterprise	1,898
	Nonmajor Enterprise Funds	798
	Internal Service Funds	740
	All Others	261
Public Transportation Enterprise	General Fund	654
	Nonmajor Governmental Funds	49,650
	Water Quality Enterprise	82,634
	Nonmajor Enterprise Funds	705
	All Others	118
Water Quality Enterprise	Nonmajor Governmental Funds	3,552
	Water Quality Enterprise	1,460
	All Others	106
Nonmajor Enterprise Funds	Nonmajor Governmental Funds	2,214
	All Others	298
Internal Service Funds	Public Health Fund	722
	Nonmajor Governmental Funds	1,955
	Public Transportation Enterprise	528
	Internal Service Funds	677
	All Others	570
Total		<u>\$ 225,970</u>

The interfund balances resulted from the time lag between the dates: (1) when interfund goods and services were provided or reimbursable expenditures incurred, and when interfund payments were made; and (2) when interfund short-term loans were made and when the loans were repaid.

NOTE 15 – CONTINUED

\$1,712 thousand due from Nonmajor Governmental Funds to General Fund, \$16,266 thousand due from Nonmajor Governmental Funds to Nonmajor Governmental Funds, \$48,253 thousand due from Nonmajor Governmental Funds to Public Transportation Enterprise, and \$82,634 thousand due from Water Quality Enterprise to Public Transportation Enterprise were short-term loans made for the purpose of cash flow.

Advances from/to other funds (in thousands)

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Public Transportation Enterprise	\$ 3,500
	Nonmajor Governmental Funds	300
Total		\$ 3,800

The advances from the General Fund to the Public Transportation Enterprise and Nonmajor Governmental Funds consisted of loans made for the purposes of cash flow. Neither advance is scheduled to be repaid in 2010.

Interfund Transfers (in thousands)

Fund types with account balances of less than \$500 thousand are aggregated into "All Others."

<u>Transfers Out</u>	<u>Transfers In</u>	<u>Amount</u>
General Fund	Public Health Fund	\$ 26,977
	Nonmajor Governmental Funds	27,926
	Internal Service Funds	821
Public Health Fund	All Others	79
Nonmajor Governmental Funds	General Fund	2,200
	Public Health Fund	3,670
	Nonmajor Governmental Funds	108,583
	Internal Service Funds	1,321
	All Others	60
Public Transportation Enterprise	All Others	41
Water Quality Enterprise	All Others	57
Nonmajor Enterprise Funds	Nonmajor Governmental Funds	775
	All Others	12
Internal Service Funds	Nonmajor Governmental Funds	809
	All Others	193
Total transfers in		173,524
Transfer out of capital assets		287
Total transfers out		\$ 173,811

Transfers are used to move resources from a fund collecting them to the fund using them, as required by statute or budget, and to account for ongoing operating subsidies between funds in accordance with budget authorizations.

NOTE 15 – CONTINUED

In the fund financial statements, total transfers out exceed total transfers in because there were \$287 thousand of capital assets transferred during the year.

<u>Transfers Out</u>	<u>Transfers In</u>	<u>Amount</u>
Nonmajor Governmental Funds	Nonmajor Enterprise Funds	\$ 78
Public Transportation Enterprise	Nonmajor Governmental Funds	14
Water Quality Enterprise	Internal Service Funds	83
Nonmajor Enterprise Funds	Nonmajor Governmental Funds	3
Internal Service Funds	Nonmajor Governmental Funds	105
	Internal Service Funds	4
Total		\$ 287

NOTE 16 – RELATED PARTY TRANSACTIONS

Harborview Medical Center (HMC), a discretely presented component unit of King County, makes monthly rental payments to the County for use of the Patricia Steel Memorial Building which houses HMC's administrative offices. The rent payments received are transferred to a blended component unit of the County – the building development and management corporations fund. The County is obligated for the debt service on the lease revenue bonds issued by the non-profit on behalf of the County for construction of the building. HMC has agreed to include the annual rental payments in their operating budget for as long as they use the building. In 2009, the primary government received \$4.4 million from HMC for building rent.

The Cultural Development Authority (CDA), a discretely presented component unit of King County, annually receives funding from various County funds under the one-percent for art program. Revenues are used to support activities related to the development and maintenance of County public art. In 2009 the King County primary government transferred \$2.7 million to the CDA (\$2.3 million from business-type activities and \$374.8 thousand from governmental activities). The CDA spent \$1.4 million on current art projects for which the County recorded a corresponding receivable and work-in-progress.

Public Transportation Enterprise (Transit) has a ground lease agreement as lessor with the King County Housing Authority (KCHA), a related organization to the County, for the development of affordable housing units and a parking garage in the City of Redmond. The lease provides for a set-aside of a minimum of 150 parking stalls for use by park and ride commuters. The lease term is 50 years with an option to extend by an additional 25 years. Transit recorded revenues related to the lease of \$35.8 thousand in 2009. Transit also provided loans to KCHA for which \$808.0 thousand was outstanding at year-end.

NOTE 17 – RESTRICTIONS, RESERVES, DESIGNATIONS, AND CHANGES IN EQUITY

Net Assets

The government-wide and proprietary fund financial statements utilize a net assets presentation. Net assets are classified into three categories:

Invested in capital assets, net of related debt – Consists of capital assets net of accumulated depreciation and reduced by outstanding balances of bonds, notes and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets – Results when constraints are placed on net asset use either by external parties or by law through constitutional provision or enabling legislation.

Unrestricted net assets – Consists of net assets that do not meet the definition of the two preceding categories.

Restricted Net Assets – Business-type Activities (in thousands)

\$ 416,872	Public Transportation Enterprise restricted for future construction projects (\$390,429) and debt service (\$26,443).
221,112	Water Quality Enterprise restricted for debt service (\$185,242) and regulatory assets and environmental liabilities (\$35,870).
8,482	King County International Airport Enterprise restricted for future construction projects.
3,482	Radio Communications Enterprise restricted for construction.
<u>\$ 649,948</u>	<u>Total Business-type Restricted Net Assets</u>

Restricted Net Assets – Internal Service Funds (in thousands)

\$ 21,221	Building Development & Management Corporations Fund restricted for future construction projects (\$271) and debt service (\$20,950).
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Reserves and Designations

King County records two general types of reserves. One type indicates that a portion of the fund balance is legally segregated for a specific future use; the other type indicates that a portion of the fund balance is not available for appropriation. Designated fund balances, on the other hand, represent tentative plans (including those plans prescribed by local ordinance) for future use of financial resources.

NOTE 17 – CONTINUED

Following is a list of all reserves and designations used by King County and a description of each:

Reserved Fund Balances (in thousands)

	General Fund	Public Health Fund	Special Revenue	Nonmajor Debt Service	Capital Projects
Reserved for:					
Inventory	\$ -	\$ 656	\$ -	\$ -	\$ -
Prepayments	-	-	7,488	-	632
Encumbrances	3,306	804	24,659	-	60,808
Advances to other funds	3,800	-	-	-	-
Animal services	151	-	-	-	-
Crime victim compensation program	77	-	-	-	-
Criminal justice	2,494	-	-	-	-
Debt service	-	-	347	-	-
Drug enforcement program	2,482	-	-	-	-
Antiprofitteering program	95	-	-	-	-
Dispute resolution centers	170	-	-	-	-
Inmate welfare	2,115	-	-	-	-
Real property title assurance	25	-	-	-	-
Training and equipment for Medic One	-	17	-	-	-
KC Medic One equipment replacement	-	-	1,811	-	-
Youth sports facilities grant endowment	-	-	2,620	-	-
PFID stadium bond debt service	-	-	-	19,427	-
Traffic mitigation	-	-	-	-	1,080
Total reserved fund balances	\$ 14,915	\$ 1,477	\$ 36,925	\$ 19,427	\$ 62,520

Reserved for inventory – Segregates a portion of fund balance in the amount of the inventory of supplies carried as an asset; it represents resources that are not available nor spendable for the fund's current operations.

Reserved for prepayments – Segregates a portion of fund balance equal to the asset prepayments; it does not represent available, spendable resources for the fund's current operations.

Reserved for encumbrances – Segregates a portion of fund balance for commitments made for goods or services that have not been delivered or completed as of year-end. The budget for these commitments will be reestablished in the new year without reappropriation.

Reserved for advances to other funds – Segregates a portion of fund balance for advances to other funds (the noncurrent portion of interfund loans receivable) to indicate that they do not constitute available financial resources and are not available for appropriation.

Reserved for animal services – Segregates a portion of fund balance to indicate that resources are reserved for the purpose of funding the animal services program.

NOTE 17 – CONTINUED

Reserved for crime victim compensation program – Segregates a portion of fund balance to indicate that resources are legally restricted to the crime victim compensation program (chapter 7.68 RCW).

Reserved for criminal justice – Segregates a portion of fund balance to indicate that resources are to be used exclusively for criminal justice purposes (RCW 82.14.340).

Reserved for debt service – Segregates a portion of fund balance to indicate that resources are to be used solely for the payment of debt service.

Reserved for drug enforcement program – Segregates a portion of fund balance to indicate that resources are legally restricted solely for the purpose of enhancing enforcement of the Uniform Controlled Substances Act, chapter 69.50 RCW, or other laws regulating controlled substances, including training, equipment, and operational expenses.

Reserved for antiprofitteering program – Segregates a portion of fund balance to indicate that resources are legally restricted for the purposes of the investigation and prosecution of any offense included in the definition of criminal profiteering set forth in chapter 9A.82 RCW.

Reserved for dispute resolution centers – Segregates a portion of fund balance to indicate that resources are legally restricted for the purpose of funding dispute resolution centers (RCW 7.75.035).

Reserved for inmate welfare – Segregates a portion of fund balance to indicate that resources are reserved for the purpose of the welfare of inmates held by the Department of Adult and Juvenile Detention.

Reserved for real property title assurance – Segregates a portion of fund balance to indicate that resources are legally restricted for the payment of damages to any person sustaining loss or damage, through any omission, mistake, or misfeasance of the registrar of titles, or of any examiner of titles, or of any deputy, or by the mistake or misfeasance of the clerk of the court, or any deputy, in the performance of their respective duties under the provisions of chapter 65.12 RCW Registration of Land Titles (Torrens Act).

Reserved for training and equipment for Medic One – Segregates a portion of fund balance to indicate that the use of donations from individuals to Medic One are reserved for equipment purchases and training for paramedics and medical services officers.

Reserved for King County Medic One equipment replacement – Segregates a portion of fund balance to indicate that resources are reserved for replacing equipment at King County Medic One. The Medic One/EMS 2008-2013 Strategic Plan adopted by Ordinance 15740 requires each Advanced Life Support (ALS) agency to develop a reserve fund to cover these costs.

Reserved for youth sports facilities grant endowment – Segregates a portion of fund balance pending a decision to establish a separate Permanent Fund for an endowment.

Reserved for PFID stadium bond debt service – Segregates the revenues collected by the County that are earmarked for future debt service payments on the tax exempt Baseball Stadium bond issues.

Reserved for traffic mitigation – Segregates a portion of fund balance related to the mitigation payment system revenues to indicate that resources are reserved for the purpose of funding growth-related traffic mitigation projects (King County Code 14.75.030).

NOTE 17 – CONTINUED**Designated Fund Balances (in thousands)**

	General Fund	Public Health Fund	Normalor Special Revenue
Designated for:			
Equipment replacement	\$ -	\$ -	\$ 4,888
Capital projects	2,496	-	-
DDES	-	-	6,600
Environmental health services	-	256	-
Operating	-	-	14,589
Risk and inpatient	-	-	8,694
Reappropriation	711	-	7,143
Total designated fund balances	\$ 3,207	\$ 256	\$ 41,914

Designated for equipment replacement – Indicates that a portion of fund balance has been earmarked for the replacement of equipment.

Designated for capital projects – Identifies a portion of fund balance in the General Fund equal to the budget for capital projects not expended and expected to be reappropriated for the coming year. The projects may be changed in scope by the County Council in their budget deliberations.

Designated for DDES – Sets aside revenues for permit fee supported areas of DDES in the following categories: (1) reserve for staff reductions; (2) revenue shortfall reserve (amount to cover a 1.5 percent fee revenue shortfall for three months at the budgeted level for fee revenue); and (3) reserve for fee waivers and other unanticipated costs.

Designated for environmental health services – Segregates environmental health fee revenue which may only be used by Environmental Health Services as mandated by the Board of Health.

Designated for operating – Funds designated from Mental Health revenue that are set aside according to the King County Regional Support Network's (KCRSN) contract with the State Mental Health Division, totaling approximately 5 percent of annual revenues if funds are available. Operating funds are set aside to maintain adequate cash flow for the provision of mental health services.

Designated for risk and inpatient – Funds used to cover inpatient adjustments, outpatient tier benefits, and closure expenditures in case the King County Regional Support Network (KCRSN) becomes insolvent. The KCRSN is funded primarily by capitated payments from the State based on the number of Medicaid recipients in King County. These revenues support services for people with mental illness in King County.

Designated for reappropriation – Used at year-end for lapsed appropriations for which special requests have been made to obtain reappropriation in the coming year.

NOTE 17 – CONTINUED**Restatements of Beginning Balances**

The following schedules present detailed information regarding restatements of beginning balances (in thousands):

Children & Family Services Fund – Transfer of the children and family services program balances from the General Fund to the new Children & Family Services Fund.

	Governmental Activities	General Fund	Nonmajor Special Revenue Funds	Children & Family Services Fund
Net Assets/Fund Balance – December 31, 2008	\$ 1,925,381	\$ 97,225	\$ 225,802	\$ -
Transfer of the children and family services program to a special revenue fund		(5,133)	5,133	5,133
Net Assets/Fund Balance – January 1, 2009 (Restated)	\$ 1,925,381	\$ 92,092	\$ 220,935	\$ 5,133

Water Quality Enterprise Fund – Water Quality's comprehensive analysis resulted in adjustments of capital assets and construction work in progress of prior periods. Also, restatements were made to record the refunding loss of a retired bond, to correct duplicate bond amortization and to record amortization of regulatory assets and other utility assets of the prior period.

King County International Airport Enterprise Fund – Certain work in process was capitalized in 2009 and prior years and related depreciation reported in 2009. A restatement in the amount of \$5.3 million was recorded to adjust 2009 beginning accumulated depreciation for buildings and improvements other than buildings as well as the beginning net assets.

	Business-type Activities	Water Quality	King County International Airport
Net Assets – December 31, 2008	\$ 2,215,880	\$ 577,251	\$ 98,996
Prior year adjustments to capital assets and construction work in progress	(82,429)	(82,429)	
Recognition of other utility assets	21,338	21,338	
Correct refunding loss and duplicate bond amortization	3,268	3,268	
Prior year amortization of regulatory assets	(301)	(301)	
Adjustment to beginning accumulated depreciation for buildings and improvements other than buildings	(5,539)		(5,539)
Net Assets – January 1, 2009 (Restated)	\$ 2,152,217	\$ 519,127	\$ 93,457

NOTE 17 – CONTINUED**Component Unit – Harborview Medical Center (HMC)****Restricted Net Assets**

Restricted expendable net assets – The \$20,734 thousand consists of investments restricted either for capital use or by donor. Access to investments restricted for capital use is restricted by King County for designated capital projects, investments restricted by donor represent assets that are restricted by creditors, grantors, or contributors external to the HMC.

Restricted nonexpendable net assets – The \$2,372 thousand consists of permanent endowments by donors.

Component Unit – Cultural Development Authority of King County (CDA)**Restricted Net Assets**

Restricted expendable net assets – \$18,551 thousand is restricted by RCW 67.28.180.3 and King County ordinance for use for arts and heritage cultural program awards according to a specified formula.

Restricted nonexpendable net assets – \$22,891 thousand is a long-term endowment funded from a portion of the hotel/motel tax pursuant to RCW 67.28.180.3(e) to finance future arts and heritage cultural programs.

NOTE 18 – LEGAL MATTERS, CONTINGENT LIABILITIES, AND OTHER COMMITMENTS**Primary Government****Pending Litigation and Other Claims**

There is no litigation or claim currently pending against King County in which to our knowledge the likelihood of an unfavorable outcome with material damages assessed against the County is considered "probable."

The following litigation, or potential litigation, may involve claims for material damages against King County for which the County is unable to provide an opinion as to the ultimate outcome or the amount of damages that may be found:

- A petition for review by the Washington State Supreme Court over the summary dismissal of a lawsuit filed by a private transportation operator against the County. The plaintiff sought damages in excess of \$12 million alleging that the County's bus service to SeaTac International Airport improperly competed with the plaintiff company's shuttle business.
- A petition for direct review filed by the County with the Washington State Supreme Court over a decision that upheld a class action claim against the County where the plaintiff, representing similarly situated public defenders and their staff, alleged that the County should have enrolled them in the State retirement system.
- Claims for unspecified damages filed by two sewer districts who allege that certain expenditures of the King County Wastewater Treatment Division (WTD) constitute a breach of contract and a violation of the King County Charter and a local government accounting statute. The County is vigorously defending the claim. The court has ruled in favor of the County on two of the six motions filed for partial summary judgment. Trial on the remaining issues is set for October 4, 2010.
- A pending appeal by the County and Department of Retirement Services over a lower court judgment that upheld a class action that sought to include prior settlement payments to class members (from the separate Duncan and Roberts class action lawsuits) as "compensation earnable" for retirement benefits computation.
- An administrative order from the Environmental Protection Agency (EPA) that requires the County, the City of Seattle, the Boeing Company, and the Port of Seattle to conduct a feasibility study to determine the nature and extent of the contamination in the Lower Duwamish Waterway. Potentially, upon completion of the study, additional remediation may be required.
- A potential requirement for more cleanup in the area contaminated when the Denny Way combined sewer outflow was replaced in 2005. The WTD has already performed interim cleanup costing \$3.6 million to comply with a formal agreement with the Washington State Department of Ecology, who reserves its rights to require additional remediation.
- Potential claims for past and future cleanup costs at the Harbor Island Superfund Site. Certain removal costs already incurred by the Port of Seattle are expected to be defrayed by the County and the City of Seattle. The parties have also agreed to share the cost of a supplemental investigation and feasibility study required by the EPA. The agreement states that the WTD has only a one-third pro rata share of the study costs and that portion is still potentially allocable among the several potentially responsible parties. Further remediation costs cannot be reasonably estimated until the studies are completed.

NOTE 18 – CONTINUED

- A complaint filed by the City of Seattle against the Boeing Company and King County seeking to recover remediation costs in the North Boeing Field/Georgetown Steam Plant and Slip 4 sites. The County can recover some of the costs of investigating and remediating the two mentioned sites. Recovery, however, may potentially be offset by grant repayments and litigation costs.
- A contractor's request for adjustment for termination costs, in the amount of \$5.2 million, over a \$34-million sewer project owned by the County and under management by an independent local wastewater agency. At issue is whether the law pertaining to payment of reasonable costs on a termination for convenience allows the owner to reassess contract payments that may have been made. The local agency is negotiating settlement within parameters set by the County.
- A lawsuit filed against the County and three other co-defendants by a homeowner for alleged flooding and contamination of their residential property. The plaintiff is seeking damages for alleged loss of property value and alleged physical injuries. The amount of the claim before the lawsuit was filed was about \$1.7 million.
- A claim in the amount of \$3.7 million filed by the contractor for the Juanita Bay Pump Station Replacement project alleging defective specifications. The contract requires mediation and the County is vigorously defending the claim.
- Three separate contract claims arising out of the Brightwater project: (1) a series of requests for change orders (currently in the amount of \$7.5 million) from the prime contractor for the Central conveyance system alleging differing site conditions and defective specifications (a new contractor has since been engaged and the County has filed suit alleging contract default by the previous contractor); (2) demands for additional money and time totaling about \$9 million from the contractor for the East conveyance system; and (3) a claim for additional compensation of approximately \$427 thousand to cover unexpected tariff increases on imported construction materials. The claims are in various stages of the contract dispute process.

Contingent Liability

King County has entered into several contingent loan agreements totaling \$199.2 million with the King County Housing Authority (KCHA) and other owners/developers of affordable housing. The County has provided credit support for certain bonds issued by the KCHA. All projects are currently self-supporting and the County has not made any loans pursuant to these agreements.

Other Commitments

The Solid Waste Enterprise paid the County General Fund \$8.1 million for annual rent on the Cedar Hills landfill site in 2009. Solid Waste is committed to pay rent as long as the Cedar Hills site continues to accept waste.

Component Unit – Harborview Medical Center

Harborview Medical Center (HMC) is involved in litigation arising in the course of business. It is HMC management's opinion that these matters will be resolved without material adverse effect to HMC's future financial position or results of operations. The current regulatory environment in the healthcare industry is one of increasing governmental activity with respect to investigations

NOTE 18 – CONTINUED

and allegations concerning possible violations of regulations by healthcare providers that could result in the imposition of significant fines and penalties, including substantial repayments of patient services previously billed. HMC believes that it complies with fraud and abuse regulations, as well as with other laws and regulations. Compliance with such laws and regulations can be subject to future governmental review and interpretation and regulatory actions unknown or unasserted at this time.

HMC is operated by the University of Washington under a management and operations contract with King County. In this contract the University of Washington agrees to defend, indemnify, and "save harmless" King County, its elected and appointed officials, employees, and agents, from and against any damage, cost, claim, or liability arising out of the negligent acts or omissions of the University, its employees or agents, or arising out of the activities or operations of the medical center.

REQUIRED SUPPLEMENTARY INFORMATION

Condition Assessments and Preservation of Infrastructure Eligible for Modified Approach

Roads

The County performs condition assessments on its network of roads through the King County Pavement Management System. This system generates a Pavement Condition Index (PCI) for each segment of arterial and local access road in the network. The PCI is a numerical index from zero to one hundred (0 – 100) that represents the pavement's functional condition based on the quantity, severity, and type of visual distress, such as pavement cracking, based on the PCI score, condition ratings are assigned as follows: a PCI of less than 30 is defined as "poor to substandard" (heavy pavement cracking and potholes); a PCI of 30 or more but less than 50 is defined to be in "fair" condition (noticeable cracks and/or utility cuts); and a PCI of between 50 and higher is defined to be in "excellent to good" condition (relatively smooth roadway). Condition assessments are undertaken every three years.

The three most recent condition assessments of the County's roads are shown below. Certain roads were assessed in 2008 and 2009 but the partial results are not reflected in the table.

Condition ratings	2007-2005		2004-2002		2001-1999	
	(miles)	%	(miles)	%	(miles)	%
Arterial roads						
Excellent to good	485.4	89.6	442.9	81.7	451.1	83.0
Fair	14.5	2.7	61.1	11.3	44.5	8.2
Poor to substandard	41.6	7.7	38.0	7.0	47.6	8.8
Total	541.5	100.0	542.0	100.0	543.2	100.0
Local access roads						
Excellent to good	1,094.5	83.4	1,075.4	81.6	1,031.1	80.0
Fair	127.3	9.7	139.0	10.6	132.3	10.3
Poor to substandard	91.2	6.9	102.9	7.8	125.5	9.7
Total	1,313.0	100.0	1,317.3	100.0	1,288.9	100.0

It is the policy of the King County Road Services Division to maintain at least 80 percent of the road system at a PCI of 40 or better. The following table (derived from the table of condition ratings) shows the number and percentage of miles of roads that meet the 40 PCI level.

PCI score interval	2007-2005		2004-2002		2001-1999	
	(miles)	%	(miles)	%	(miles)	%
Arterial roads						
PCI 40 - 100	493.4	91.1	475.6	87.7	477.8	88.0
PCI 0 - 39	48.1	8.9	66.4	12.3	65.4	12.0
Total	541.5	100.0	542.0	100.0	543.2	100.0
Local access roads						
PCI 40 - 100	1,170.3	89.1	1,165.6	88.5	1,108.3	86.0
PCI 0 - 39	142.7	10.9	151.7	11.5	180.6	14.0
Total	1,313.0	100.0	1,317.3	100.0	1,288.9	100.0

REQUIRED SUPPLEMENTARY INFORMATION – continued

The majority of roads that fall below the established rating (PCI = 40) are local access roads that are situated in rural areas.

Below is information on planned (budgeted) and actual expenditures incurred to maintain and preserve the road network at or above the minimum acceptable condition level from 2003 to 2009. The budgeted amount is equivalent to the anticipated amount needed to maintain roads up to the required condition level (in thousands).

	2003	2008	2007	2006	2005
Budgeted	\$64,668	\$69,345	\$61,864	\$58,709	\$49,321
Expended	59,994	57,658	51,859	49,029	39,986

Underpinning of budgeted amounts usually results when roads are removed from the project list because of conflicts with anticipated utility work; lowering of priority due to cost efficiency considerations, such as when only a few roads are to be resurfaced in remote locations; and weather-related work reduction or stoppages.

Bridges

King County currently maintains 182 bridges. Physical inspections to determine the condition of bridges and the degree of wear and deterioration are carried out at least every two years. Inspections reveal deficiencies in bridges such as steel corrosion, damaged guardrails, rotten timbers, deteriorated bridge decks, bank erosion, and cracked concrete. These are documented in an inspection report along with recommended repairs and needed services. Four pedestrian bridges are included in the list of bridges being maintained by the County. These are also subject to condition assessments but under different standards as the more heavily used vehicular bridges.

Each year the County undergoes a bridge prioritization process to determine potential candidates for replacement or rehabilitation. A weighted 10-point priority scale (sufficiency rating, seismic rating, geometrics, hydraulics, load limits, traffic safety, serviceability, importance, useful life, and structural concern) ranks the bridges in order; the results are considered in the planning and programming of major bridge studies and construction projects in the Roads Capital Improvement Program.

A key element in the priority score is the sufficiency rating, the measure considered by state and federal governments as the basis for establishing eligibility and priority for bridge replacement or rehabilitation funding. The sufficiency rating is a numerical rating of a bridge based on its structural adequacy and safety, essentially for public use, and its serviceability and functional obsolescence. The formula used to calculate the sufficiency rating for a particular bridge is dictated by the Federal Highway Administration and is built into the State's inspection software. The sufficiency rating may vary from 100 (a bridge in new condition) to 0 (a bridge incapable of carrying traffic). A sufficiency rating of 50 or over indicates a bridge with a good deal of service life remaining. A bridge that scores between 0 and 49 could be considered for replacement or rehabilitation funding, though typically only bridges that score less than 30 are selected for funding.

REQUIRED SUPPLEMENTARY INFORMATION – continued

Below are the three most recent bridge sufficiency ratings.

Bridge sufficiency rating	Number of Bridges		
	2009	2008	2007
0 - 20	8	8	6
21 - 30	2	2	2
31 - 49	12	14	18
50 - 100	160	159	158
Totals	182	183	184

It is the policy of the King County Road Services Division to maintain bridges in such a manner that no more than 12 will have a sufficiency rating of 20 or less. A rating of 20 or less is usually indicative of a bridge with a structural deficiency. The most common remedy is full replacement or rehabilitation of the bridge.

Amounts budgeted and spent to maintain and preserve bridges from 2005-2009 are shown in the table below (in thousands).

	2009	2008	2007	2006	2005
Budgeted	\$ 13,413	\$ 18,855	\$ 24,834	\$ 17,024	\$ 26,855
Expended	10,572	11,761	16,189	11,526	16,810

The budgeted amount is equivalent to the anticipated amount needed to maintain and preserve the bridges up to the required condition level. Generally, backlogs in maintenance work orders greatly affect the trend in maintenance costs. Such backlogs could result from increased bridge traffic, higher weight loads, labor shortages, stringent environmental restrictions, and an aging inventory.

Postemployment Healthcare Plan**REQUIRED SUPPLEMENTARY INFORMATION****Schedule of Funding Progress for the Plan**
(in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) — Unit Credit (b)	Unfunded AAL (UAAI) (b - a)	Funded Ratio (a ÷ b)	Covered Payroll (c)	UAAI as a Percentage of Covered Payroll ((b - a) ÷ c)
12/31/2007	\$ -	\$ 141,893	\$ 141,893	0.0%	\$ 854,800	16.6%
12/31/2008	\$ -	\$ 145,393	\$ 145,393	0.0%	\$ 890,310	16.3%
12/31/2009	\$ -	\$ 149,390	\$ 149,390	0.0%	\$ 947,530	15.8%

APPENDIX C
KING COUNTY'S INVESTMENT POLICY

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KING COUNTY'S INVESTMENT POLICY

Additional discussion of recent developments pertaining to the King County Investment Pool can be found under "King County—King County Investment Pool" in the body of this Official Statement.

The Treasury Operations Section of the King County Finance and Business Operations Division (the "Finance Division") administers the County's investments. Under Section 4.10 of the County Code, the Executive Finance Committee (the "Committee") oversees the County's investment practices. The Committee consists of the Chair of the County Council or his or her designee, the County Executive or his or her designee, the Chief Budget Officer, and the County Director of the Finance Division.

The County's own funds are invested in the County's Residual Investment Pool (the "Investment Pool"). All investments of County funds are subject to written policies and procedures adopted by the Committee. The Committee reviews the performance of the Investment Pool on a monthly basis.

In addition to investing the County's own funds, the Treasury Operations Section also invests the funds of more than 120 special purpose districts within the County for which the Treasury Operations Section serves as treasurer, including all school districts, fire protection districts, water districts, sewer districts, and hospital districts. Each district has the option either to invest in the Investment Pool or to direct the term and amount of each of its investments. The Treasury Operations Section selects the particular investment instruments.

The Investment Pool is managed as two separate portfolios: the liquidity portfolio and the core portfolio. The liquidity portfolio is intended to meet the County's short-term liquidity requirements, and the average maturity of the portfolio cannot exceed 120 days. The total balance of the liquidity portfolio must be at least 15% of the total Investment Pool. As of December 31, 2010, the liquidity portfolio had a balance of \$2.7 billion and an average maturity of 101 days.

The core portfolio is managed similarly to a short-term fixed-income fund. The average duration of the core portfolio is restricted currently to a range of one and one-quarter to three and one-quarter years. Securities in the core portfolio cannot have an average life greater than five years. As of December 31, 2010, the core portfolio had a balance of \$2.0 billion and an average duration of 1.30 years.

Under State law and the County's current investment policy, the County may invest in the following instruments:

- (i) U.S. Treasury and Agency securities;
- (ii) Certificates of deposit with institutions that are public depositories in the State. State law and County policies also limit the amount that can be deposited with an individual institution based on quarterly financial data;
- (iii) Bankers' acceptances issued by any of the top 50 world banks in terms of assets as listed by *American Banker*, or issued by approved domestic banks;
- (iv) Repurchase agreements, subject to the following limitations:
 - (a) the repurchase agreement may not exceed a period of 60 days,
 - (b) the underlying security must be an investment authorized by State law; and
 - (c) all underlying securities used in repurchase agreements are held by a third party;
- (v) Commercial paper with the highest short-term rating from at least two nationally recognized credit rating agencies. No more than 5% of the County's portfolio may be invested in commercial paper of a single issuer;
- (vi) Municipal bonds, subject to the following limitations: bonds must be:
 - (a) obligations of the State or any local government in the State; or

- (b) general obligation bonds of a state other than Washington or general obligation bonds of a local government of a state other than Washington.

In addition, bonds must have one of the three highest credit ratings of a nationally recognized credit rating agency ("A" or better);

(vii) Mortgage-backed securities, subject to the following limitations:

- (a) must be issued by agencies of the U.S. government;
- (b) must pass the FFIEC (Federal Financial Institutions Examination Council) suitability test which banks use to determine lowest risk securities; and
- (c) average life must be limited to five years at time of purchase;

(viii) Bank notes, subject to the following limitations:

- (a) must be a note, bond or debenture of a savings and loan association, bank, mutual savings bank, or savings and loan service corporation operating with the approval of the Federal Home Loan Bank; and
- (b) at the time of purchase must be rated "A" or better by two nationally recognized credit rating agencies or insured or guaranteed by the federal government or one of its agencies; and

(ix) The State's Local Government Investment Pool.

The County currently does not purchase structured notes or inverse floating rate notes, and has no intention of doing so in the near future.

Reverse Repurchase Agreements. The County enters into reverse repurchase agreements with respect to securities held in the Investment Pool in accordance with a policy adopted by the Committee. A reverse repurchase agreement involves the sale of a security to a provider for a specified price with a simultaneous agreement to repurchase such security from the provider at a specified future date at the same price plus a stated rate of interest. Under the County's current policy:

- (i) the County does not spend the proceeds received under its reverse repurchase agreements, but rather invests the proceeds in other securities;
- (ii) the County does not enter into reverse repurchase agreements with a term of more than 180 days;
- (iii) the County invests the proceeds of such reverse repurchase agreements only in securities which have the same maturity date as the end date of the reverse repurchase agreement; and
- (iv) the County does not enter into reverse repurchase agreements in an aggregate amount in excess of 20% of the total balance in the Investment Pool at any one time.

All of the County's active reverse repurchase agreements are with primary dealers. The average balance in the Investment Pool over the course of the 2010 fiscal year was approximately \$4.5 billion. There have been no reverse repurchase agreements in effect since 2007.

APPENDIX D
DEMOGRAPHIC AND ECONOMIC INFORMATION

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DEMOGRAPHIC AND ECONOMIC INFORMATION

King County is the largest county in the State of Washington (the “State”) in population, number of cities and employment, and the twelfth most populated county in the United States. Of the State’s population, nearly 30% reside in King County, and of the County’s population, 32% live in the City of Seattle (“Seattle”). Seattle is the largest city in the Pacific Northwest and, as the County seat, is the center of the County’s economic activity. Bellevue is the State’s fifth largest city and the second largest in the County, and is the center of the County’s eastside business and residential area.

Population

Historical and current population figures for the State of Washington, the County, the two largest cities in the County, and the unincorporated areas of the County are given below.

POPULATION					
<u>Year</u>	<u>Washington</u>	<u>King County</u>	<u>Seattle</u>	<u>Bellevue</u>	<u>Unincorporated King County</u>
1980 ⁽¹⁾	4,130,163	1,269,749	493,846	73,903	503,100
1990 ⁽¹⁾	4,866,692	1,507,319	516,259	86,874	NA
2000 ⁽¹⁾	5,894,121	1,737,034	563,374	109,827	349,773
2001 ⁽²⁾	5,974,900	1,758,300	568,100	111,500	353,579
2002 ⁽²⁾	6,041,700	1,774,300	570,800	117,000	351,675
2003 ⁽²⁾	6,098,300	1,779,300	571,900	116,400	351,843
2004 ⁽²⁾	6,167,800	1,788,300	572,600	116,500	356,795
2005 ⁽²⁾	6,256,400	1,808,300	573,000	115,500	364,498
2006 ⁽²⁾	6,375,600	1,835,300	578,700	117,000	367,070
2007 ⁽²⁾	6,488,800	1,861,300	586,200	118,100	368,255
2008 ⁽²⁾	6,587,600	1,884,200	592,800	119,200	341,150
2009 ⁽²⁾	6,668,200	1,909,300	602,000	120,600	343,180
2010 ⁽²⁾	6,733,250	1,933,400	612,000	122,900	343,340

(1) Source: U.S. Department of Commerce, Bureau of Census

(2) Source: State of Washington, Office of Financial Management

Per Capita Income

The following table presents per capita personal income for the Seattle Primary Metropolitan Statistical Area (“PMSA”), the County and the State.

PER CAPITA INCOME						
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Seattle PMSA	\$ 41,935	\$ 45,829	\$ 45,918	\$ 50,161	\$ 53,248	\$ 53,999
King County	45,276	50,132	49,582	54,370	57,409	58,141
State of Washington	33,852	35,959	36,734	39,550	41,919	42,747
United States	32,271	33,881	35,424	37,698	39,392	40,166

Source: U.S. Bureau of Economic Analysis, U.S. Department of Commerce

Construction

The table below lists the value of housing construction for which building permits have been issued by entities within the County. The value of public construction is not included in this table.

RESIDENTIAL BUILDING PERMIT VALUES

Year	New Single Family Units		New Multi Family Units		Total Value(\$)
	Number	Value(\$)	Number	Value(\$)	
2004	6,947	1,684,139,845	4,998	451,908,793	2,136,048,638
2005	6,331	1,741,241,527	5,703	556,297,096	2,297,538,623
2006	5,770	1,622,174,594	8,305	1,023,922,267	2,646,096,861
2007	5,206	1,506,180,957	10,212	1,246,804,898	2,752,985,855
2008	3,029	866,565,304	7,427	1,009,669,531	1,876,234,835
2009	2,033	538,910,481	1,183	137,161,103	676,071,584
2009*	1,790	483,153,597	1,131	126,205,812	752,106,410
2010*	2,359	647,368,299	2,926	257,409,493	904,777,792

* Through November.

Source: U.S. Bureau of the Census

Retail Activity

The following table presents taxable retail sales in Seattle and the County.

THE CITY OF SEATTLE AND KING COUNTY TAXABLE RETAIL SALES (000)

<u>Year</u>	<u>King County</u>	<u>Seattle</u>
2004	\$ 37,253,103,540	\$ 12,868,301,227
2005	40,498,328,830	14,236,200,469
2006	43,993,478,514	15,564,363,159
2007	47,766,338,768	17,030,512,254
2008	45,711,920,389	17,096,581,492
2009	39,594,903,520	15,101,407,742
2009*	29,365,364,710	11,281,554,581
2010*	28,786,393,649	10,856,753,268

* Through third quarter.

Source: Washington State Department of Revenue

Industry and Employment

The following table presents State-wide employment data in 2010 for certain major employers in the Puget Sound area.

PUGET SOUND AREA MAJOR EMPLOYERS

<u>Employer</u>	<u>Employees*</u>
The Boeing Company	72,400
Navy Region Northwest	54,100
Joint Base Lewis-McChord	49,800
Microsoft	39,800
University of Washington	27,900
Providence Health and Services	19,100
Wal-Mart Stores, Inc.	17,500
King County Government	14,000
U.S. Postal Service	13,300
Fred Meyer Stores	12,900
City of Seattle	10,200
Group Health Cooperative	9,400
MultiCare Health System	9,000
Franciscan Health System	8,100
Costco	8,000

* Does not include part-time or seasonal employment figures.

Source: *Puget Sound Book of Lists, 2011 (rounded)*

KING COUNTY
RESIDENT CIVILIAN LABOR FORCE AND EMPLOYMENT
AND NONAGRICULTURAL WAGE AND SALARY EMPLOYMENT*

	Annual Average				
	2005	2006	2007	2008	2009
Civilian Labor Force	1,012,940	1,047,740	1,070,870	1,090,620	1,110,860
Total Employment	965,940	1,005,240	1,031,700	1,040,550	1,020,470
Total Unemployment	47,000	42,500	39,170	50,070	90,380
Percent of Labor Force	4.6	4.1	3.7	4.6	8.1
NAICS INDUSTRY	2005	2006	2007	2008	2009
Total Nonfarm	1,143,675	1,176,683	1,200,233	1,216,692	1,153,425
Total Private	982,475	1,014,800	1,036,983	1,050,325	986,442
Goods Producing	170,850	183,108	188,433	186,458	161,292
Natural Resources and Mining	658	658	650	583	500
Construction	62,808	70,075	74,733	73,858	57,692
Manufacturing	106,900	112,367	113,058	112,017	103,092
Services Providing	973,300	993,583	1,011,800	1,030,242	992,150
Trade, Transportation, and Utilities	222,858	224,283	224,233	224,800	210,200
Information	69,283	72,500	75,742	79,750	79,917
Financial Activities	76,467	77,567	76,992	75,917	69,700
Professional and Business Services	173,225	182,233	190,417	194,242	176,950
Educational and Health Services	122,750	124,717	127,758	133,250	137,908
Leisure and Hospitality	106,092	108,575	111,717	113,358	108,275
Other Services	41,392	41,808	41,692	42,542	42,200
Government	161,208	161,892	163,258	166,383	166,975
Workers in Labor/Management Disputes	850	8	0	958	0
	Nov. 2010				
Civilian Labor Force	1,109,810				
Total Employment	1,017,080				
Total Unemployment	92,730				
Percent of Labor Force	8.4				

* Columns may not add to totals due to rounding.

Source: Washington State Employment Security Department.

APPENDIX E
BOOK-ENTRY SYSTEM

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BOOK-ENTRY SYSTEM

The following information has been provided by DTC. The County makes no representation as to the accuracy or completeness thereof. Beneficial Owners should confirm the following with DTC or the Participants (as hereinafter defined).

DTC will act as securities depository for the Notes. The Notes will be issued as fully registered obligations, registered in the name of Cede & Co. (DTC's partnership nominee), or such other name as may be requested by an authorized representative of DTC. One fully-registered Note certificate will be issued for the Notes, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the Notes on DTC's records. The ownership interest of each actual purchaser of each Note ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Notes are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Notes, except in the event that use of the book-entry system for the Notes is discontinued.

To facilitate subsequent transfers, all Notes deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Notes with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices will be sent to DTC. If less than all of the Notes within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Notes unless authorized by a Direct Participant in accordance with DTC's MMI procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the County as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments on the Notes will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the County or the Registrar on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Registrar or the County, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) are the responsibility of the County or the Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Notes at any time by giving reasonable notice to the County or the Registrar. Under such circumstances, in the event that a successor depository is not obtained, Note certificates are required to be printed and delivered.

The County may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Note certificates will be printed and delivered.