

SALE DATE: JULY 16, 2012
SALE TIME: 9:00 A.M., PACIFIC TIME

New Issue
Book-Entry Only

RATINGS:
Moody's: Aaa
Standard & Poor's: AAA
Fitch: Aaa

In the opinion of Bond Counsel, as of the date of issue of the Bonds (the "Date of Issue") and assuming compliance by King County with applicable requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the Date of Issue, under existing federal law, interest on the Bonds (including any original issue discount properly allocable to an owner thereof) is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of determining the federal alternative minimum tax imposed on individuals or corporations. However, under existing federal law, interest on the Bonds (including any original issue discount properly allocable to an owner thereof) is taken into account in determining adjusted current earnings for the purpose of computing the federal alternative minimum tax imposed on certain corporations. See "Legal and Tax Information—Tax Exemption—General" herein and Appendix A—Form of Bond Counsel Opinion hereto.

KING COUNTY, WASHINGTON

\$100,870,000*

UNLIMITED TAX GENERAL OBLIGATION REFUNDING BONDS, 2012

DATED: Date of Initial Delivery

DUE: As shown on page i

King County, Washington (the "County"), is issuing its Unlimited Tax General Obligation Refunding Bonds, 2012 (the "Bonds"), as fully registered obligations. When issued, the Bonds will be registered in the name of Cede & Co., as Bond owner and nominee for The Depository Trust Company, New York, New York ("DTC"). DTC will act as initial securities depository for the Bonds. The Bonds will be issued initially in book-entry form only in denominations of \$5,000 or any integral multiple thereof within a maturity. Purchasers will not receive certificates representing their interest in the Bonds purchased. The Bonds will bear interest payable semiannually on June 1 and December 1, beginning December 1, 2012, to the maturity or prior redemption of the Bonds. The principal of and interest on the Bonds are payable by the fiscal agent of the State of Washington, currently The Bank of New York Mellon in New York, New York (the "Bond Registrar"). For so long as the Bonds remain in a "book-entry only" transfer system, the Bond Registrar is required to 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 Bonds as described herein under Appendix E—Book-Entry System.

The Bonds are subject to redemption prior to maturity as described herein. See "The Bonds—Redemption."

The Bonds are being issued to refund certain bonds of the County and to pay the costs of issuing and selling the Bonds.

The Bonds are general obligations of the County. The County has irrevocably pledged that, for so long as any of the Bonds remain outstanding and unpaid, unless the principal of and interest on the Bonds are paid from other sources, it will make annual levies of taxes without limitation as to rate or amount upon all property within the County subject to taxation in amounts sufficient to pay such principal and interest as the same become due. The full faith, credit, and resources of the County are pledged irrevocably for the annual levy and collection of those taxes and for the prompt payment of that principal and interest.

The Bonds are offered when, as and if issued, subject to approval of legality by Gottlieb Fisher 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 Bonds will be ready for delivery through the facilities of DTC in New York, New York, or to the Bond Registrar on behalf of DTC by Fast Automated Securities Transfer, on or about August 14, 2012.

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: _____

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 Bonds 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 Bonds 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 this Official Statement nor any sale of the Bonds will, 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 Bonds.

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 is in a form deemed final as of its date by the County for purposes of paragraph (b)(1) of Securities and Exchange Commission Rule 15c2-12, except for the omission of offering prices, interest rates, selling compensation, aggregate principal amounts, principal amounts per maturity, delivery date, any other terms or provisions required by the County to be specified in a competitive bid, other terms of the Bonds dependent on the foregoing matters, and the identity of the underwriter.

MATURITY SCHEDULE

\$100,870,000⁽¹⁾

KING COUNTY, WASHINGTON

UNLIMITED TAX GENERAL OBLIGATION REFUNDING BONDS, 2012

Due	Principal Amounts⁽¹⁾	Interest Rates	Yields	CUSIP Numbers⁽²⁾
December 1, 2012	\$ 1,340,000	%	%	
December 1, 2015	8,285,000			
December 1, 2016	8,810,000			
December 1, 2017	9,460,000			
December 1, 2018	10,195,000			
December 1, 2019	10,945,000			
December 1, 2020	11,680,000			
December 1, 2021	12,470,000			
December 1, 2022	13,290,000			
June 1, 2023	9,625,000			
December 1, 2023	4,770,000			

(1) Preliminary, subject to change.

(2) CUSIP is a registered trademark of the American Bankers Association. The CUSIP numbers herein are provided by CUSIP Global Services, which is managed on behalf of the American Bankers Association by Standard & Poor's. CUSIP numbers are provided for convenience of reference only. CUSIP numbers are subject to change. The County takes no responsibility for the accuracy of such CUSIP numbers.

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**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
Steve Strachan	Sheriff
Sherril Huff	Director of Elections

**DIRECTOR OF FINANCE AND BUSINESS OPERATIONS DIVISION
DEPARTMENT OF EXECUTIVE SERVICES**

Ken Guy

CLERK OF THE METROPOLITAN KING COUNTY COUNCIL

Anne Noris

BOND COUNSEL

Gottlieb Fisher PLLC
Seattle, Washington

FINANCIAL ADVISOR TO THE COUNTY

Seattle-Northwest Securities Corporation
Seattle, Washington

BOND REGISTRAR

The Bank of New York Mellon
New York, New York

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OFFICIAL NOTICE OF SALE

\$100,870,000*

KING COUNTY, WASHINGTON

UNLIMITED TAX GENERAL OBLIGATION REFUNDING BONDS, 2012

Electronic bids for the Unlimited Tax General Obligation Refunding Bonds, 2012 (the “Bonds”), of King County, Washington (the “County”), will be received via the PARITY Electronic Bidding System (“Parity”) in the manner described below on

JULY 16, 2012, AT 9:00 A.M., PACIFIC TIME

or at such later date or time as may be established by the Director (the “Finance Director”) of the Finance and Business Operations Division (the “Finance Division”) of the King County Department of Executive Services and communicated through TM3, the Bond Buyer Wire, or the Bloomberg News Network (the “News Services”) not less than 18 hours prior to the time and date that the bids are to be received for the purchase of the Bonds (the “Sale Date”). All bids received with respect to the Bonds 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 Bonds, it will be awarded to the successful bidder and its terms will be approved by the County Council at such meeting.

The Bonds will be sold on an all-or-none basis. Bids for the Bonds 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. See “Bidding Information and Award.”

Modification, Cancellation, Postponement. Bidders are advised that the County may modify the terms of this Official Notice of Sale prior to the time for receipt of bids, including to change the principal amount and principal payments of the Bonds if the County elects not to refund or defease all or any of the notes expected to be refunded with the Bonds or if the County elects to change the principal amounts or the redemption provisions. Any such modification will be announced through the News Services not less than 18 hours prior to the Sale Date. As an accommodation to bidders, telephone, facsimile, or electronic notice of any amendment or modification of this Official Notice of Bond Sale will be given to any bidder requesting such notice from the County’s Financial Advisor at the address and phone number provided under “Contact Information” below. Failure of any bidder to receive such notice will not affect the legality of the sale.

A copy of the County’s Preliminary Official Statement (with the Official Notice of Sale), dated July 9, 2012, and further information regarding the details of the Bonds may be obtained from i-Deal Prospectus, a service of i-Deal LLC, at www.i-dealprospectus.com, or upon request to the Finance Division or the County’s financial advisor (the “Financial Advisor”). See “Contact Information.”

* Preliminary, subject to change.

Contact Information

Finance Division	Nigel Lewis King County (206) 296-1168 <i>nigel.lewis@kingcounty.gov</i>
Financial Advisor	Bill Starkey Seattle-Northwest Securities Corporation Office: (206) 689-2743 Day of Sale: (206) 696-2950 <i>bstarkey@snwsc.com</i>
Bond Counsel	Dan Gottlieb Gottlieb Fisher PLLC (206) 654-1999 <i>dan@goandfish.com</i>

DESCRIPTION OF THE BONDS

The Bonds will be dated the date of their initial delivery. The Bonds bear interest payable semiannually on each June 1 and December 1, beginning December 1, 2012, to the maturity or prior redemption of the Bonds. Interest will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The Bonds will mature on the dates and in the years and amounts set forth on page i of this Official Statement.

The Bonds are issuable only as fully registered bonds and when issued will be registered in the name of Cede & Co. as Bond owner and nominee for DTC. DTC will act as securities depository for the Bonds. Purchases of the Bonds 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 Bonds purchased. The principal of and interest on the Bonds 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 Bonds.

Election of Maturities

The bidder for the Bonds will designate whether the principal amounts of the Bonds as set forth below will be retired on December 1 or June 1 of each respective year as serial bonds maturing in such year or as mandatory sinking fund redemptions of term bonds maturing in the years specified by the bidder.

Serial Maturity or Mandatory Sinking Fund Redemption)	Principal Amounts*	Serial Maturity or Mandatory Sinking Fund Redemption	Principal Amounts*
December 1, 2012	\$ 1,340,000	December 1, 2019	\$ 10,945,000
		December 1, 2020	11,680,000
December 1, 2015	8,285,000	December 1, 2021	12,470,000
December 1, 2016	8,810,000	December 1, 2022	13,290,000
December 1, 2017	9,460,000	June 1, 2023	9,625,000
December 1, 2018	10,195,000	December 1, 2023	4,770,000

* Preliminary, subject to change.

The County will deposit certain money as provided in the Bond Ordinance and will retire the Bonds by purchase or redemption on or before the dates and in the amounts, if any, designated by the bidder to be mandatory sinking fund redemptions as provided for above.

Redemption of the Bonds

The County reserves the right to redeem outstanding Bonds maturing on or after June 1, 2023, in whole or in part, at any time on or after December 1, 2022, at the price of par plus accrued interest, if any, to the date fixed for redemption. In addition, the Bonds may be subject to mandatory redemption if the successful bidder for the Bonds specifies term bonds.

Mandatory Sinking Fund Redemption of Term Bonds. If not previously redeemed as described above or purchased under the provisions described below, the Bonds maturing on December 1, ____ (the “Term Bonds”), will be called for mandatory sinking fund redemption (in such manner as the Bond Registrar may determine) at a price of par, plus accrued interest to the date fixed for redemption, on December 1 in the years and amounts as follows:

TERM BONDS	
<u>Years</u>	<u>Amounts</u>

* Maturity.

If the County redeems Term Bonds under the optional redemption provisions described above or purchases or defeases Term Bonds, the Term Bonds so redeemed, purchased, or defeased (irrespective of their actual redemption or purchase prices) will be credited at the par amount thereof against one or more scheduled mandatory redemption amounts for the Term Bonds in the manner to be determined by the County or, if no such determination is made, on a *pro rata* basis.

Security

The Bonds are general obligations of the County. The County has irrevocably covenanted that, for so long as any of the Bonds remain outstanding and unpaid, unless the principal of and interest on the Bonds are paid from other sources, it will make annual levies of taxes without limitation as to rate or amount upon all property within the County subject to taxation in amounts sufficient to pay such principal and interest as the same become due. The full faith, credit, and resources of the County are pledged irrevocably for the annual levy and collection of those taxes and for the prompt payment of that principal and interest.

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

BIDDING INFORMATION AND AWARD

Bidding Information

Bidders are invited to submit bids for the purchase of the Bonds fixing the interest rate that the Bonds will bear. The interest rates bid must be in a multiple of 1/8 or 1/20 of 1%. No more than one rate of interest may be fixed for any one single maturity of the Bonds. Bids will be without condition and may only be submitted electronically via Parity.

No bid will be considered for the Bonds that is less than an amount equal to 108% of the par value of the Bonds nor more than an amount equal to 123% of the par value of the Bonds, or for less than the entire offering of the Bonds. Each individual maturity must be reoffered at a yield that will produce a price of not less than 98 percent of the principal amount for that maturity.

For the purpose of the paragraph above, “price” is defined as the lesser of the price at the redemption date or the price at the maturity date.

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.

Bidding Process

By submitting an electronic bid for the Bonds, 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 Bonds are rejected, the Finance Director may fix a new date and time for the receipt of bids for the Bonds 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.

Good Faith Deposit

The successful bidder for the Bonds is required to deliver a good faith deposit in the amount of \$1,000,000 by federal funds wire transfer to the Treasury Section of the 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 for the Bonds at the time of the verbal award.

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

If the Bonds are ready for delivery and the successful bidder fails to complete the purchase of the Bonds 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 Bonds will not be conditioned upon obtaining insurance or any other credit enhancement. If the Bonds 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 Bonds resulting by reason of such insurance, unless otherwise paid, will be paid by such bidder. Any failure of the Bonds 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 Bonds.

Award

The Bonds will be sold to the bidder making a bid for the Bonds that conforms to the terms of the offering and that, on the basis of the lowest true interest cost, is the best bid. For the purpose of comparing bids only, the interest rate being controlling, each bid must state the true interest cost of the bid determined by doubling the semiannual interest rate (compounded semiannually) necessary to discount the debt service payment from the payment date to the date of the Bonds and to the price bid.

If there are two or more equal bids for the Bonds 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 Bonds may be readvertised for sale in the manner provided by law and as provided above.

Adjustment of Principal Amount and Bid Price After Bid Opening

The County has reserved the right to increase or decrease the preliminary principal amount of the Bonds by an amount not to exceed 10% of the principal amount of the Bonds following the opening of the bids. The County has also reserved the right to increase or decrease the preliminary principal amount of any maturity of the Bonds by up to the greater of 15% of the total par amount or \$400,000.

The price bid by the successful bidder for the Bonds will be adjusted by the County on a proportionate basis to reflect an increase or decrease in the principal amount. In the event that the County elects to alter the size of the Bonds after the bid pursuant to this Official Notice of Sale, the underwriter's discount, expressed in dollars per thousand, will be held constant. The County will not be responsible in the event and to the extent that any adjustment affects (i) the net compensation to be realized by the successful bidder, or (ii) the true interest cost of the winning bid or its ranking relative to other bids.

Issue Price Information

Upon award of the Bonds, the successful bidder for the Bonds will advise the County and Bond Counsel of the initial reoffering prices to the public of the Bonds (the "Initial Reoffering Prices"). Simultaneously with or before delivery of the Bonds, the successful bidder for the Bonds 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 for each maturity of the Bonds;
- (ii) certifying that a *bona fide* initial public offering of the Bonds ("Public Offering") was made on the Sale Date;
- (iii) certifying facts establishing the successful bidder's reasonable expectations, as of the Sale Date, that the Initial Reoffering Price for each maturity of the Bonds would be the first price at which at least 10% of the par amount of such maturity would be sold to the public, excluding bond houses, brokers, and other intermediaries, including, without limitation, the successful bidder and any selling group of which the successful bidder is a part, directly or indirectly (the "Public"); and
- (iv) certifying that at least 10% of each maturity of the Bonds was in fact sold to the Public in the Initial Offering, except for specified maturities, if applicable.

DELIVERY

The County will deliver the Bonds (consisting of one certificate) to DTC in New York, New York, or to the Bond 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 August 14, 2012.

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

Legal Opinion

The approving legal opinion of Gottlieb Fisher PLLC, Seattle, Washington, Bond Counsel, will be provided to the purchaser at the time of the delivery of the Bonds. Bond Counsel's opinion will express no opinion concerning the accuracy, completeness or sufficiency of the Preliminary Official Statement or other offering

material relating to the Bonds, 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 Bonds.

CUSIP Numbers

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

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

OTHER INFORMATION

Ongoing Disclosure Undertaking

To assist bidders in complying with paragraph (b)(5) of the Rule, the County will undertake, pursuant to written “Continuing Disclosure Undertaking” for the Bonds, 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 the 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 the 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, the purchaser agrees:

- (i) to provide to the Finance Division, in writing, within 24 hours after the acceptance of the bid, pricing and other related information, including the Initial Reoffering Price for each maturity of the Bonds, 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 the Municipal Securities Rulemaking Board (“MSRB”) governing the offering, sale and delivery of the Bonds to the ultimate purchasers, including the delivery of a final Official Statement to each investor who purchases the Bonds; 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 Bonds,

- (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, reserve 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 9th day of July, 2012.

/s/Anne Noris

Clerk of the Metropolitan King County Council

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PRELIMINARY OFFICIAL STATEMENT

KING COUNTY, WASHINGTON

\$100,870,000*

UNLIMITED TAX GENERAL OBLIGATION REFUNDING BONDS, 2012

INTRODUCTION

This Official Statement contains certain information concerning the issuance by King County, Washington (the "County"), of \$100,870,000* aggregate principal amount of its Unlimited Tax General Obligation Refunding Bonds, 2012 (the "Bonds").

The Bonds are issued under and in accordance with the provisions of chapters 36.67, 39.46, and 39.53 of the Revised Code of Washington ("RCW") and the County Charter, and are authorized under the provisions of County Ordinance 17363, passed on June 25, 2012 (the "Bond Ordinance"), and Motion _____ of the County Council passed on _____, 2012 (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 Bonds.

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 Finance and Business Operations Division (the "Finance Division") of the Department of Executive Services, 500 Fourth Avenue, Room 600, Seattle, Washington 98104. Capitalized terms that are not defined herein have the same meanings as set forth in the Bond Ordinance.

THE BONDS

Description

The Bonds 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 within each maturity. When issued, the Bonds will be registered in the name of Cede & Co. as registered owner and nominee of The Depository Trust Company, New York, New York ("DTC").

The Bonds will bear interest payable semiannually on each June 1 and December 1, beginning December 1, 2012, to the maturity or prior redemption of the Bonds. Interest will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The Bonds will mature on the dates and in the years and amounts set forth on page i this Official Statement.

DTC will act as securities depository for the Bonds. Individual purchases may be made in book-entry form only, and purchasers will not receive certificates representing their interest in the Bonds purchased. So long as Cede & Co. is the registered owner of the Bonds, as nominee of DTC, references herein to the registered owners or Bond owners will mean Cede & Co. and will not mean the "Beneficial Owners" of the Bonds. In this Official Statement, the term "Beneficial Owner" means the person for whom a DTC participant acquires an interest in the Bonds.

* Preliminary, subject to change.

The principal of and interest on the Bonds 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 “Bond Registrar”). For so long as the Bonds remain in a “book-entry only” transfer system, the Bond Registrar is required to make such payments only to DTC, which, in turn, is obligated to remit such principal and interest to DTC participants for subsequent disbursement to the Beneficial Owners of the Bonds, as further described herein in Appendix E—Book-Entry System.

Redemption

Optional Redemption. The County reserves the right to redeem outstanding Bonds maturing on or after June 1, 2023, in whole or in part, at any time on or after December 1, 2022, at the price of par plus accrued interest, if any, to the date fixed for redemption.

Selection of Bonds for Redemption. If fewer than all of the Bonds maturing on the same date are called for redemption, the Bond Registrar will select for redemption such Bonds or portions thereof randomly, or in such other manner as the Bond Registrar determines, except that, for so long as the Bonds are registered in the name of DTC or its nominee, DTC will select for redemption such Bonds or portions thereof in accordance with the DTC Letter of Representation. In no event will any Bond be outstanding in a principal amount that is not \$5,000 or any integral multiple thereof.

Notice of Redemption. While Bonds are held by DTC in book-entry only form, any notice of redemption must be given at the time, to the entity, and in the manner required by DTC in accordance with the DTC Letter of Representations, and the Bond Registrar is not required to give any other notice of redemption. See “Book-Entry System” and Appendix E. If the Bonds cease to be in book-entry only form, unless waived by any Registered Owner of the Bonds to be redeemed, the County will cause notice of any intended redemption of Bonds to be given by the Bond Registrar not less than 20 nor more than 60 days prior to the date fixed for redemption by first-class mail, postage prepaid, to the Registered Owner of any Bond to be redeemed at the address appearing on the Bond Register at the time the Bond Registrar prepares the notice. The notice requirements of the Bond Ordinance will be deemed to have been fulfilled when notice has been mailed as so provided, whether or not it is actually received by the owner of any Bond.

Rescission of Redemption. In the case of an optional redemption, the redemption notice may state that the County retains the right to rescind the redemption notice and the related optional redemption of Bonds by giving a notice of rescission to the affected Registered Owners at any time prior to the scheduled optional redemption date. Any notice of optional redemption that is so rescinded will be of no effect, and the Bonds for which the notice of optional redemption has been rescinded will remain outstanding.

Effect of Redemption. Interest on Bonds called for redemption will cease to accrue on the date fixed for redemption, except in the case of a rescinded optional redemption as described above, or unless the Bond or Bonds called are not redeemed when presented pursuant to the call..

Book-Entry System

Book-Entry Bonds. DTC will act as initial securities depository for the Bonds. The ownership of one fully registered Bond in the aggregate principal amount of each maturity of the Bonds will be registered in the name of Cede & Co., as nominee for DTC. Neither the County nor the Bond 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 Bonds, any notice which is permitted or required to be given to registered owners under the Bond Ordinance (except such notices as are required to be given by the County to the Bond 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 Bonds should confirm its contents with DTC or its participants.

Termination of Book-Entry System. If DTC resigns as the securities depository, or if the County has determined that it is no longer in the best interest of the Beneficial Owners of the Bonds to continue the book-entry system of transfer, the County may appoint a successor depository. If no substitute depository can be obtained, or if the County determines that it is in the best interests of the Beneficial Owners of the Bonds that they be able to obtain Bond certificates, the ownership of the Bonds may be transferred to any person as described in the Bond Ordinance and the Bonds will no longer be held in fully immobilized form. In that event, the interest on the Bonds will be paid by checks or drafts mailed, or by wire transfer, to owners of the Bonds at the addresses appearing on the Bond Register maintained by the Bond Registrar on the 15th day of the month preceding the interest payment date. Principal of the Bonds will be payable at maturity upon presentation and surrender of the Bonds by the owners at the principal office of the Bond Registrar, at the option of such owners. Wire transfer will be made only if so requested in writing and if the owner owns at least \$1,000,000 par value of the Bonds.

Purchase of Bonds

The County has reserved the right to purchase any or all of the Bonds at any time at any price.

Refunding or Defeasance of Bonds

The County may issue refunding bonds pursuant to the laws of the State or use money available from any other lawful source to pay when due the principal of and premium, if any, and interest on the Bonds, or any portion thereof included in a refunding or defeasance plan, and to redeem and retire, refund, or defease all such then-outstanding Bonds (hereinafter collectively called the "defeased Bonds") and to pay the costs of the refunding or defeasance. If money and/or Government Obligations (as defined in chapter 39.53 RCW) maturing at a time or times and bearing interest in amounts (together with money, if necessary) sufficient to redeem and retire, refund, or defease the defeased Bonds in accordance with their terms are set aside in a special trust fund or escrow account irrevocably pledged to that redemption, retirement, or defeasance of defeased Bonds (a "trust account"), then all right and interest of the owners of the defeased Bonds in the covenants of this ordinance and in the funds and accounts obligated to the payment of the defeased Bonds will cease and become void. The owners of defeased Bonds have the right to receive payment of the principal of and interest on the defeased Bonds from the trust account. The County will include in the refunding or defeasance plan such provisions as the County deems necessary for the random selection of any defeased Bonds that constitute less than all of a particular maturity of the Bonds, for notice of the defeasance to be given to the owners of the defeased Bonds and to such other persons as the County determines, and for any required replacement of Bond certificates for defeased Bonds. The defeased Bonds 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 Bonds to any lawful purposes as it determines. If the defeased Bonds are registered in the name of DTC or its nominee, notice of any defeasance of Bonds will be given to DTC in the manner prescribed in the DTC Letter of Representations for notices of redemption of Bonds.

USE OF PROCEEDS

Purpose

The Bonds are being issued to refund certain bonds of the County as described below under "Plan of Refunding," and to pay the costs of issuing and selling the Bonds.

Sources and Uses of Funds

The proceeds from the sale of the Bonds will be applied as follows:

SOURCES OF FUNDS

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

USES OF FUNDS

Deposit to Refunding Account	\$
Costs of Issuance*	
Total Uses of Funds	\$

* Includes rating agency fees, financial advisory fees, escrow agent fees, verification agent fees, legal fees, printing costs, and other costs of issuing the Bonds and refunding the Refunded Bonds (defined below).

Plan of Refunding

If market conditions are favorable, a portion of the proceeds from the sale of the Bonds will be used to refund all or a portion of the County's outstanding callable Unlimited Tax General Obligation Bonds, 2004 (Harborview Medical Center), and Unlimited Tax General Obligation Bonds, Series 2004B (Harborview Medical Center) (together, the "Refunded Bonds Candidates"), for the purpose of realizing debt service savings. The Refunded Bonds Candidates that will be refunded from proceeds of the sale of the Bonds will be set forth in an attachment to the Sale Motion (as so set forth, the "Refunded Bonds").

REFUNDED BONDS CANDIDATES

Unlimited Tax General Obligation Bonds, 2004 (Harborview Medical Center)

Bond Component	Maturity Date	Par Amount	Interest Rate (%)	Redemption Price (%)	Redemption Date	CUSIP Numbers
Serials	12/01/2015	\$ 5,695,000	5.00	100	06/01/2014	49474ERC9
	12/01/2016	6,165,000	5.00	100	06/01/2014	49474ERD7
	12/01/2017	6,660,000	4.25	100	06/01/2014	48474ERE5
	12/01/2018	7,185,000	4.25	100	06/01/2014	49474ERF2
	12/01/2019	7,740,000	5.00	100	06/01/2014	49474ERG0
	12/01/2020	8,325,000	5.00	100	06/01/2014	49474ERH8
	12/01/2021	8,950,000	5.00	100	06/01/2014	49474ERJ4
	12/01/2022	9,605,000	5.00	100	06/01/2014	49474ERK1
	12/01/2023	10,295,000	5.00	100	06/01/2014	49474ERL9
Subtotal		\$ 70,620,000				

Unlimited Tax General Obligation Bonds, Series 2004B (Harborview Medical Center)

Bond Component	Maturity Date	Par Amount	Interest Rate (%)	Redemption Price (%)	Redemption Date	CUSIP Numbers
Serials	06/01/2015	\$ 2,860,000	5.00	100	06/01/2014	49474EUS0
	06/01/2016	3,100,000	5.00	100	06/01/2014	49474EUT8
	06/01/2017	3,355,000	4.00	100	06/01/2014	49474EUU5
	06/01/2018	3,625,000	5.00	100	06/01/2014	49474EUV3
	06/01/2019	3,910,000	5.00	100	06/01/2014	49474EUW1
	06/01/2020	4,210,000	5.00	100	06/01/2014	49474EUX9
	06/01/2021	4,530,000	4.50	100	06/01/2014	49474EUY7
	06/01/2022	4,870,000	5.00	100	06/01/2014	49474EUZ4
	06/01/2023	5,230,000	4.50	100	06/01/2014	49474EVA8
Subtotal		\$ 35,690,000				
Total		\$ 106,310,000				

Procedure. With a portion of the proceeds of the Bonds, the County will purchase certain direct obligations of the United States of America or other investments authorized under RCW 39.53.010 (“Government Obligations”). These Government Obligations will be deposited in the custody of U.S. Bank, National Association (together with any duly appointed successor, the “Escrow Agent”). The Government Obligations, interest earned thereon, and any beginning cash balance will be used to provide for the payment of the Refunded Bonds, pursuant to an escrow deposit agreement to be executed by the County and the Escrow Agent.

Verification of Calculations. The mathematical accuracy of (i) the computations of the adequacy of the maturing principal amounts of and interest on the Government Obligations and cash on deposit to be held by the Escrow Agent to pay principal of and interest on the Refunded Bonds as described above, and (ii) the computations supporting the conclusion of Bond Counsel that the Bonds are not “arbitrage bonds” under Section 148 of the Internal Revenue Code of 1986, as amended (the “Code”), will be verified by Grant Thornton LLP, independent certified public accountants.

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

The Bonds are general obligations of the County.

The County has irrevocably pledged that, for so long as any of the Bonds remain outstanding and unpaid, unless the principal of and interest on the Bonds are paid from other sources, it will make annual levies of taxes without limitation as to rate or amount upon all property within the County subject to taxation in amounts sufficient to pay such principal and interest as the same become due. The full faith, credit, and resources of the County are pledged irrevocably for the annual levy and collection of those taxes and for the prompt payment of that principal and interest.

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.

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 Metropolitan King County Council (the “County Council”), the Prosecuting Attorney, the Assessor, the Director of Elections, and the Sheriff are all elected to four-year terms.

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 report to the County Executive except those appointed by the County Council, Superior and District Courts, Prosecuting Attorney, Assessor, Director of Elections, or Sheriff.

County Council. The County Council is the policy-making legislative body of the County. The nine 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.

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 Court 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 State 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 with 2011, revenue forecasts are being developed by the County's independent 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.

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 Operations 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, 2010, and is incorporated into the County's 2010 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 King County's 2010 Comprehensive Annual Financial Report.

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.

Major Governmental Fund Revenue Sources

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 98% of taxes and 90% of intergovernmental revenues in 2011. Taxes and intergovernmental revenues provided approximately 78% 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 Fund and the Ferry District Fund. A detailed description of each type of tax follows the table.

TAXES COLLECTED AS OF DECEMBER 31 (\$000)					
Source	2007	2008	2009	2010	2011 ⁽¹⁾
Real and Personal Property Tax	\$ 497,799	\$ 546,064	\$ 567,955	\$ 556,144	\$ 557,957
Retail Sales and Use Tax ⁽²⁾	106,143	135,224	126,769	126,262	133,458
Penalty and Interest on Property Taxes	15,611	15,740	17,679	21,328	21,889
Hotel/Motel Tax	20,493	20,702	16,892	18,245	19,715
Real Estate Excise Tax	18,745	10,051	7,918	7,369	6,783
E-911 Excise Tax	15,513	16,152	16,483	16,169	22,833
Public Facilities District-Related Taxes	39,129	38,673	34,673	33,670	24,965
Other Taxes	19,049	15,064	12,777	11,541	13,680
Total	\$ 732,482	\$ 797,670	\$ 801,146	\$ 790,728	\$ 801,280

(1) Preliminary unaudited amounts.

(2) Excludes revenue generated by the 0.9% levy to support public transit.

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. The State first levied a retail sales tax and a corresponding use tax on taxable uses of certain services and personal property in 1935. Counties, cities, and certain other municipal corporations are also authorized to levy various sales and use taxes. Neither the State nor local governments in the State collect an income tax.

As of December 31, 2011, a sales and use tax of 9.5% was charged on all gross retail sales in the County within the boundaries of the Central Puget Sound Regional Transit Authority ("Sound Transit") and 8.6% outside its boundaries (excluding food products for off-premise consumption and certain other exempt items described below). The resulting tax revenues are allocated 6.5% to the State, 0.9% to the County to support public transit, 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 Sound Transit to fund Sound Transit, and 0.1% to the County for the purpose of providing new or expanded chemical dependency or mental health treatment services and for the operation of new or expanded therapeutic court programs.

The sales tax currently is applied to a broad base of tangible personal property and selected services purchased by consumers, including construction (labor and materials), machinery and supplies used by businesses, services and repair of real and personal property, and many other transactions not taxed in other states. The use tax supplements the sales tax by taxing the use of certain services and by taxing the use of certain personal property on which a sales tax has not been paid (such as items purchased in a state that imposes no sales tax). 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." Among the various items not currently subject to the sales and use tax are most personal services, motor vehicle fuel, most food for off-premises consumption, trade-ins and purchases for resale. Most lodging is not subject to the sales tax because the State Legislature has limited the total sales taxes that may be imposed on lodging. See "Hotel/Motel Tax" below.

Sales taxes upon applicable retail sales are collected by the seller from the consumer. Use taxes are payable by the consumer upon the applicable rendering of service or use of personal property. The County collects any use tax imposed on the use of motor vehicles. Each seller (and the County) is required to hold taxes in trust until remitted to the State Department of Revenue, which usually occurs on a monthly basis. The State Department of Revenue administers and collects sales and use taxes from sellers, consumers and the County and makes disbursements to the County on a monthly basis.

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 \$19.7 million in 2011 and approximately \$18.2 million in 2010. The first \$5.3 million generated by this tax has been dedicated to payment of debt service related to the Kingdome, 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 used to retire the debt on the Kingdome. From January 1, 2016, through December 31, 2020, all such taxes are retained by the State and used primarily to pay the debt service on bonds issued by the State to finance a 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 \$6.8 million in 2011 and \$7.4 million in 2010. The funds are used for capital projects benefiting unincorporated area residents and parks in unincorporated areas of the County. 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 levied additional taxes to pay the debt service on bonds issued by the County to provide funds for the construction of Safeco Field and parking facilities by the Washington State Major League Baseball Stadium Public Facilities District. These taxes included additional sales taxes on food and beverage service and car rentals, as well as a tax on stadium admissions. The County also received a tax credit of 0.017% of the general sales taxes collected in the

County which otherwise would have been paid to the State. The remaining County bonds issued in connection with the construction of Safeco Field were fully defeased in September 2011, and effective October 1, 2011, the County ceased collecting the taxes associated with these bonds.

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 description of each type of intergovernmental revenue follows the table.

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

Source	2007	2008	2009	2010	2011*
Grants	\$ 167,068	\$ 174,361	\$ 191,203	\$ 183,523	\$ 219,105
Revenue Sharing	11,072	10,660	11,025	11,083	7,217
Gas Tax	15,594	14,734	14,177	13,802	13,762
Liquor Tax and Profits	1,749	1,694	1,719	1,830	1,626
Intergovernmental Payments	250,074	291,906	320,935	342,290	331,775
Public Facilities District-Related					
Lottery Allocation	4,618	4,803	4,995	5,195	5,403
Other Intergovernmental Revenues	7,608	9,042	10,330	10,507	10,460
Total	\$ 457,783	\$ 507,200	\$ 554,384	\$ 568,230	\$ 589,348

* Preliminary unaudited amounts.

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

GRANTS. In 2011, 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 \$177.2 million in intergovernmental revenues to the County. As the following schedule shows, this comprised 80.9% of total 2011 grants. A total of 19.1% of estimated grant revenue was from the State.

**2010 AND 2011 GRANT REVENUE
BY SOURCE AND FUNCTION
(\$000)**

	2010		2011 *	
	Actual	Item as a Percent of Total Actual	Actual	Item as a Percent of Total Actual
Federal				
General Government Services	\$ 1,228	0.7%	\$ 1,311	0.6%
Law, Safety and Justice	15,879	8.6%	16,703	7.6%
Physical Environment	5,822	3.2%	6,179	2.8%
Transportation	13,939	7.6%	52,676	24.0%
Economic Environment	25,717	14.0%	30,075	13.7%
Mental and Physical Health	60,150	32.8%	70,103	32.0%
Culture and Recreation	66	0.0%	113	0.1%
Total Federal	\$ 122,801	67.0%	\$ 177,160	80.9%
State				
General Government Services	65	0.0%	241	0.1%
Law, Safety and Justice	6,292	3.4%	5,027	2.3%
Physical Environment	19,247	10.5%	3,451	1.6%
Transportation	726	0.4%	4,626	2.1%
Economic Environment	4,521	2.5%	3,655	1.7%
Mental and Physical Health	29,850	16.3%	24,931	11.4%
Culture and Recreation	21	0.0%	14	0.0%
Total State	\$ 60,722	33.0%	\$ 41,945	19.1%
Total Grants	\$ 183,523	100.0%	\$ 219,105	100.0%

* Preliminary unaudited amounts.

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

REVENUE SHARING. In 1996, the State Legislature adopted 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, the Legislature, in response to an initiative approved by State voters, replaced the MVET with a flat \$30 license fee. In 2011, \$6.7 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 9.435% of the tax distributed to counties in 2011.

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 4.229% and 4.1308% of these funds in 2010 and 2011 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) State Liquor Board profits. Counties are entitled to 10% of the State 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.

In November 2011, voters passed Initiative 1183, which privatizes liquor distribution and sales within the State. As a result, the State has closed its distribution center and retail liquor stores and requires new liquor distributor and retailer licenses. The liquor excise tax revenues will be affected if private distribution and retailing affects sales volumes. Liquor revolving fund distributions are to remain at least as large as existing distributions (funded by license fees), and an additional annual distribution of \$10 million will be distributed State-wide to counties, cities, towns, and border areas.

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 2011, 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, increasing at 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 construction of Safeco Field. The remaining County bonds issued in connection with the construction of Safeco Field were fully defeased in September 2011, and the County will receive no further lottery revenues.

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, mitigation payments relating to certain changes in the administration of the sales and use tax and other miscellaneous items.

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 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 General 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 governmental funds (General, Special Revenue, and Debt Service) (notes for that statement are on the succeeding page).

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

	2007	2008	2009	2010	2011 ⁽¹⁾
ASSETS					
Cash and cash equivalents	\$ 86,877	\$ 43,815	\$ 37,283	\$ 55,685	\$ 90,164
Taxes receivable - delinquent	5,789	6,460	7,597	7,533	7,192
Accounts receivable	75,941	73,817	80,868	82,582	83,690
Estimated uncollectible accounts receivable	(67,510)	(64,742)	(73,009)	(73,095)	(71,924)
Interest receivable	26,150	18,941	14,323	6,829	9,885
Due from other funds	9,921	11,282	7,063	5,057	6,835
Interfund short-term loans receivable	4,475	11,548	2,859	4,731	3,978
Due from other governments	43,230	37,377	40,263	41,898	43,198
Estimated uncollectible due from other governments	(264)	(157)	(78)	(79)	(320)
Advances to other funds	3,800	3,800	3,800	3,800	3,800
TOTAL ASSETS	\$ 188,409	\$ 142,141	\$ 120,969	\$ 134,941	\$ 176,498
LIABILITIES AND FUND BALANCE					
Liabilities					
Accounts payable	\$ 8,400	\$ 8,792	\$ 6,371	\$ 8,426	\$ 2,810
Due to other funds	8,079	3,456	1,883	5,048	5,097
Interfund short-term loans payable	-	-	589	-	-
Due to other governments	3,086	234	167	898	936
Wages payable	14,388	19,075	15,028	15,928	14,915
Taxes payable	200	112	180	95	19
Deferred revenues	11,706	11,781	13,035	14,566	15,535
Custodial accounts	1,002	866	1,290	1,737	2,418
Advances from other funds	900	600	-	-	-
Total Liabilities	\$ 47,761	\$ 44,916	\$ 38,543	\$ 46,698	\$ 41,730
Fund Balance					
Nonspendable	\$ -	\$ -	\$ -	\$ -	\$ 3,800
Restricted	-	-	-	-	3,309
Committed	-	-	-	-	23,694
Assigned	-	-	-	-	7,420
Unassigned	-	-	-	-	96,545
Reserved	27,346	16,064	14,915	16,632	-
Unreserved	-	-	-	-	-
Designated	23,319	7,396	3,207	4,001	-
Undesignated	89,983	73,765	64,304	67,610	-
Total Fund Balance⁽²⁾	\$ 140,648	\$ 97,225	\$ 82,426	\$ 88,243	\$ 134,768
TOTAL LIABILITIES AND FUND BALANCE	\$ 188,409	\$ 142,141	\$ 120,969	\$ 134,941	\$ 176,498

(1) Unaudited.

(2) As a result of the implementation of GASB Statement No. 54 in 2011, the Rainy Day Reserve Fund (see "Management Discussion of Financial Results—Fund Balances") is reported as part of the General Fund in 2011.

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)

	2007	2008	2009	2010	2011 ⁽¹⁾
REVENUES					
Property taxes	\$ 250,348	\$ 258,417	\$ 265,665	\$ 271,832	\$ 276,387
Penalties and interest - delinquent taxes	15,611	15,740	17,679	21,328	21,889
Sales, excise and other taxes	119,823	109,596	90,615	89,000	95,504
Licenses and permits	7,133	7,045	8,338	8,242	4,563
Federal grants	11,615	10,475	12,020	10,018	9,393
State grants	2,307	2,278	2,388	2,135	2,078
Entitlements and shared revenues	8,571	9,592	10,549	10,911	10,789
Intergovernmental services	63,975	68,055	76,148	85,655	81,910
Charges for services	110,413	108,400	121,533	109,034	117,591
Fines and forfeits	9,292	9,064	9,903	8,740	8,169
Interest earnings	17,706	15,313	7,969	2,067	2,444
Rents and royalties	11,530	10,821	11,333	12,169	12,117
Other miscellaneous revenues	3,668	2,693	2,947	2,353	2,420
TOTAL REVENUES	\$ 631,992	\$ 627,489	\$ 637,087	\$ 633,484	\$ 645,254
EXPENDITURES					
Current					
Personal services	\$ 390,241	\$ 415,311	\$ 426,732	\$ 427,450	\$ 410,613
Supplies	13,759	13,771	13,887	14,402	14,317
Contract services and other charges	85,855	88,068	68,273	65,671	62,825
Contributions	4,105	1,944	1,992	1,960	2,192
Interfund service support	72,010	78,135	80,636	75,740	76,295
Debt service	-	-	289	5	-
Capital outlay	2,396	607	1,535	819	756
TOTAL EXPENDITURES	\$ 568,366	\$ 597,836	\$ 593,344	\$ 586,047	\$ 566,998
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 63,626	\$ 29,653	\$ 43,743	\$ 47,437	\$ 78,256
OTHER FINANCING SOURCES (USES)					
Sale of capital assets	\$ 570	\$ 139	\$ 92	\$ 294	\$ 10,300
Transfers in	72	5,272	2,223	951	936
Transfers out	(67,384)	(78,487)	(55,724)	(42,865)	(58,897)
TOTAL OTHER FINANCING SOURCES (USES)	\$ (66,742)	\$ (73,076)	\$ (53,409)	\$ (41,620)	\$ (47,661)
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	\$ (3,116)	\$ (43,423)	\$ (9,666)	\$ 5,817	\$ 30,595
FUND BALANCE - JANUARY 1 (RESTATED)⁽²⁾	143,765	140,649	92,092	82,426	104,173
FUND BALANCE - DECEMBER 31	\$ 140,649	\$ 97,226	\$ 82,426	\$ 88,243	\$ 134,768

(1) Unaudited.

(2) As a result of the implementation of GASB Statement No. 54 in 2011, the Rainy Day Reserve Fund (see "Management Discussion of Financial Results—Fund Balances") is reported as part of the General Fund in 2011.]

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)

	2007	2008	2009	2010	2011 ⁽¹²⁾
REVENUES					
Taxes	\$ 703,810	\$ 830,891	\$ 837,991	\$ 810,700	\$ 821,816
Licenses and permits	30,765	23,384	24,116	24,398	26,818
Intergovernmental revenues	428,014	477,595	525,820	535,627	532,614
Charges for services	230,251	219,761	232,161	215,865	243,599
Fines and forfeits	9,612	9,454	10,142	9,001	8,635
Interest earnings	24,417	24,274	12,985	5,583	5,299
Miscellaneous revenues	28,794	24,467	25,498	27,621	55,884
TOTAL REVENUES	\$ 1,455,663	\$ 1,609,826	\$ 1,668,713	\$ 1,628,795	\$ 1,694,665
EXPENDITURES					
Current					
General government services ⁽²⁾	\$ 109,959	\$ 112,908	\$ 111,240	\$ 105,623	\$ 135,970
Law, safety and justice ⁽³⁾	496,374	534,237	553,875	556,416	553,127
Physical environment ⁽⁴⁾	46,709	73,732	86,807	84,926	90,412
Transportation ⁽⁵⁾	77,668	87,999	96,417	96,052	95,854
Economic environment ⁽⁶⁾	83,554	84,002	89,676	85,112	111,682
Mental and physical health ⁽⁷⁾	381,745	415,840	451,055	455,202	467,409
Culture and recreation ⁽⁸⁾	36,219	41,822	43,977	44,079	46,212
Total Current	\$ 1,232,228	\$ 1,350,540	\$ 1,433,047	\$ 1,427,410	\$ 1,500,666
Debt Service ⁽⁹⁾					
Redemption of long-term debt	\$ 86,935	\$ 78,796	\$ 64,981	\$ 62,901	\$ 50,772
Interest and other debt service costs	41,616	38,565	35,705	30,426	30,333
Payment to escrow agent	12,000	14,946	21,050	14,997	41,722
Total Debt Service	\$ 140,551	\$ 132,307	\$ 121,736	\$ 108,324	\$ 122,827
Capital Outlay ⁽¹⁰⁾					
Capital projects	\$ 49	\$ 32	\$ -	\$ 8,144	\$ 5,581
Capitalized expenditures	9,250	12,697	12,887	14,344	11,965
Total Capital Outlay	\$ 9,299	\$ 12,729	\$ 12,887	\$ 22,488	\$ 17,546
TOTAL EXPENDITURES	\$ 1,382,078	\$ 1,495,576	\$ 1,567,670	\$ 1,558,222	\$ 1,641,039
EXCESS OF REVENUES OVER (UNDER)					
EXPENDITURES	\$ 73,585	\$ 114,250	\$ 101,043	\$ 70,573	\$ 53,626
OTHER FINANCING SOURCES (USES)					
General obligation bonds issued	\$ -	\$ -	\$ -	\$ -	\$ 24,710
Refunding bonds issued	54,565	-	42,869	41,250	25,700
Premium on bonds sold	2,973	-	3,423	4,390	3,516
Sale of capital assets	2,773	732	1,395	(20)	10,835
Transfers in	71,551	90,754	73,314	54,415	87,310
Transfers out	(129,766)	(168,299)	(117,650)	(119,905)	(128,310)
Payment to refunded bond escrow agent	(57,133)	-	(46,067)	(45,561)	(28,242)
TOTAL OTHER FINANCING SOURCES (USES)	\$ (55,037)	\$ (76,813)	\$ (42,716)	\$ (65,431)	\$ (4,481)
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER)					
EXPENDITURES AND OTHER USES	\$ 18,548	\$ 37,437	\$ 58,327	\$ 5,142	\$ 49,145
FUND BALANCE - JANUARY 1 - RESTATED⁽¹¹⁾	\$ 318,096	\$ 336,644	\$ 374,081	\$ 432,408	\$ 490,776
FUND BALANCE - DECEMBER 31	\$ 336,644	\$ 374,081	\$ 432,408	\$ 437,550	\$ 539,921

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, which will be capitalized in the government-wide financial statements.
- (11) As a result of the implementation of GASB Statement No. 54 in 2011, several funds formerly reported as Capital Projects Funds (and not included in this Statement for the years 2007-2010) are reported as Special Revenue Funds in 2011.
- (12) Unaudited.

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

Management Discussion of Financial Results

Revenues and Economic Conditions. Revenues to the General Fund increased from 2010 to 2011. Specifically, revenues from property taxes, sales taxes, and interfund receipts all were higher in 2011 than in 2010. These increases reflected both typical increases in revenue (annual growth in property taxes), atypical increases (the State sales tax amnesty program), and the continued recovery of the economy. The Puget Sound area's economy performed better than the State or the nation as a whole in 2011, but is still recovering from the most severe recession since the early 1970s. As of March 2012, the unemployment rate was 7.1% in the County, compared with 8.3% for the State and 8.2% for the nation. The region's relatively better performance was driven by the strength of major industry sectors, including aerospace, software, and health services.

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" below.

Annexations and Incorporations. In 2009, the State Legislature expanded the credit a city receives for sales taxes (which would otherwise be payable to the State) for cities that aid the County's efforts to move all urban unincorporated residents into cities through annexation. Under both the previous and the expanded legislation, cities that annex areas with over 10,000 residents are eligible for the credit, which is equivalent to 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 legislation give incentives to cities to annex additional areas, even if they are already receiving a sales tax credit for a previous annexation.

Since 2009, several annexations have been approved. The annexation of a significant portion of North Highline (approximately 14,100 residents) to the City of Burien became effective in April 2010. The annexation of the Panther Lake neighborhood (approximately 25,800 residents) became effective in July 2010. The annexation of the Juanita, Finn Hill, and Kingsgate neighborhoods (approximately 31,700 residents) became effective in June 2011.

Annexation of the Fairwood neighborhood in southeast King County to Renton was on the November 2010 ballot. The measure failed by a margin of 58% to 42%. Annexations of the remainder of the North Highline neighborhood between Burien and Seattle, the West Hill neighborhood between Seattle and Renton, the Eastgate area adjoining Bellevue, east Federal Way in south King County, Klahanie adjoining the City of

Issaquah, and several small areas in northeast and east King County are currently being considered. The Eastgate neighborhood, with approximately 5,000 residents, has just completed a successful petitioning effort to annex to the City of Bellevue. The effective date of the annexation was May 21, 2012. It is unlikely that any other significant annexations will occur before 2013.

The fiscal impacts of annexation and incorporation on the County depend on the revenue-generating capacity of an area compared with its service demands. Several 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 Eastgate annexation is likely to reduce net revenue to the General Fund by approximately \$400,000 to \$500,000 annually.

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 tax and service revenues.

Fund Balances. The financial policies of the County require that appropriate levels of reserves and 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 2012 Adopted Budget continued to meet this balance requirement, and calls for increasing the undesignated fund balance from 6% (as it has been for several years) to 6.5% to provide a larger undesignated reserve.

The County also continues to maintain a \$16.0 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 2012 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 Results

Financial performance for the General Fund in 2011 exceeded the assumptions in the 2011 Adopted Budget, although final figures are not currently available. The General Fund's unrestricted balance was higher at the end of 2010 than expected, largely due to under-expenditures by departments. General sales tax revenues were \$6.3 million (8.9%) above forecast, with much of this reflecting the County's share of receipts from the State's "tax amnesty" program. Other significant General Fund revenues that are above the 2011 Adopted Budget forecast are property taxes, criminal justice, sales taxes, fines, charges for services, interfund receipts, and one-time revenues, including the sale of the north parking lot of the former Kingdome facility. One-time revenues are expected to be spent only on one-time items. The north parking lot revenues were appropriated to a variety of capital purposes in November 2011.

The County has been working with its employees and unions to find ways to hold down health care expenses, including more preferential pricing for generic prescriptions, shifting to more cost-effective providers without reducing quality of service, and encouraging employee weight loss. As a result, the budgeted 2011 health care cost increase of 12.5% was entirely avoided and a supplemental appropriation recapturing these funds was approved in December 2011. The savings in 2011 for the General Fund are estimated to be approximately \$7.4 million. Additional savings are expected to be realized in 2012.

As noted under "King County—Retirement Programs," the County participates in State retirement plans for its employees. All of the County's funds will benefit from a change in benefits adopted by the 2011 Legislature. This change permanently reduces the expected growth in employer pension contribution rates by modifying future cost-of-living adjustments. The General Fund was projected to save about \$1.8 million in the second half of 2011 due to this change.

2011 actual expenditures were about \$25 million less than expected due mostly to underexpenditures by agencies. Underexpenditures include those associated with encumbered or dedicated funds that were not spent in 2011 that will be carried over into 2012, short and long-term vacancies that lead to labor cost savings, and non-labor underexpenditures associated with lower than forecast goods and services costs. In 2012, about \$13.7 million is to be carried over in 2012.

2012 Adopted Budget

The County Executive submitted his 2012 Proposed Budget (including 2012-2013 biennial budgets for the Department of Transportation and Department of Development and Environmental Services) to the County Council on September 26, 2011. The budget totaled \$5.3 billion, including \$648.1 million for the General Fund. The General Fund was balanced solely by finding efficiencies, including health care savings, pension savings, and operational improvements. No General Fund services were cut in the 2012 Proposed Budget.

The 2012 Proposed Budget included some investments to achieve future efficiencies. These investments build on a series of supplemental appropriations made in mid-2011. Technology projects are a major focus of this effort, including moving off the County's mainframe computer and replacing outmoded systems for the Prosecuting Attorney's Office, Superior Court, Assessor's Office, the Department of Adult and Juvenile Detention, and the Department of Judicial Administration. These investments are expected to reduce operating costs, provide faster access to information, and improve service to the County's residents.

In addition, investments are being made to consolidate office space in County-owned facilities. This will allow the County to vacate and sell one or two general office buildings, two police precincts, and one courthouse. Annual savings in operating costs will exceed \$2.5 million starting in mid-2012.

The County Executive proposed several new initiatives in the 2012 Proposed Budget. One proposal would add experts to implement the "Lean" management methodology throughout County government, focusing on ways to streamline processes and reduce waste. The County conducted three pilot Lean projects in the summer of 2011, with great success. One example of results from the Lean efforts is shortening the time to process an auto license renewal from three weeks to under five days.

Finally, the 2012 Proposed Budget for the General Fund reflected increases to several reserves. As noted above, the year-end General Fund balance target was increased to 6.5%. In addition, a sales tax reserve was set aside in case revenues come in below forecasts. The County forecasts revenues at the 65% confidence level, meaning that, 65% of the time, actual revenues should exceed budgeted amounts. For 2012, the County is also reserving the amount between the 65% and 95% confidence levels for the General Fund and the Public Transportation (Transit) Fund. These amounts are \$2.4 million and \$6.7 million, respectively.

General Fund reserves were also increased for other purposes, including future pension liabilities and risk management.

The County Council passed the 2012 Adopted Budget on November 9, 2011, 12 days ahead of schedule. The Adopted Budget includes all the General Fund reserves and efficiency initiatives proposed by the County Executive. The Council reallocated funding slightly, including awarding \$1 million of human services funding directly to three regional agencies rather than through small grants to a larger number of organizations.

Future General Obligation Financing Plans

The County currently plans to issue approximately \$80 million of additional limited tax general obligation bonds during 2012, which will primarily be used to fund the County's acquisition of an office building at Harborview Medical Center through the refunding and defeasance of the Broadway Office Properties Lease Revenue Bonds (King County, Washington Project), 2002, which financed that facility.

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.

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.

King County Investment Pool

The King County Investment Pool invests cash reserves for all County agencies and more than 120 special purpose 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 a typical recent asset balance in excess of \$4.0 billion. On average, County agencies comprise between 35% and 40% of the Investment Pool.

The Executive Finance Committee establishes the County's investment policy and oversees the portfolio to ensure that specific holdings comply with both the investment policy 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. A summary of the current investment policy is presented in Appendix C.

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 \$30.8 million through June 2012. These cash payments have reduced the County's original adjusted par value in Victoria from \$52.9 million to \$22.1 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 of the original \$52.9 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 March 31, 2012, PFM concluded that "the County's Investment Pool is of sound credit quality and well diversified, and appears to provide ample liquidity." The most recent portfolio review can be obtained at the following website, which is not incorporated into this Official Statement by reference:

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

After consulting with PFM and investment pool members, the Executive Finance Committee reauthorized the purchase of commercial paper at its January 25, 2012, meeting. However, no commercial paper has yet been purchased since the reauthorization.

Standard & Poor's Rating Services ("S&P") first rated the Investment Pool in 2005 and assigned the Investment Pool its highest rating of AAAf. 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, costs, and other factors associated with a pool rating. In addition, the County replaced its legacy financial systems with a new Oracle financial system in January 2012 and wants to ensure the stability of this new system prior to seeking a pool rating. Consequently, the County's Executive Finance Committee is expected to make a decision about whether to pursue a pool rating during the second half of 2012.

County Employees

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

COUNTY EMPLOYEES		
<u>Year</u>	<u>Full-time</u>	<u>Part-time</u>
2011	13,314	870
2010	13,658	1,202
2009	13,799	1,739
2008	13,762	621
2007	13,649	892

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

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

Retirement Programs

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

<u>NUMBER OF EMPLOYEES AS OF DECEMBER 31, 2011</u>	<u>RETIREMENT SYSTEM</u>
79	City of Seattle ("SCERS")*
717	State of Washington—Law Enforcement Officers and Fire Fighters Retirement System ("LEOFF")
332	State of Washington—Public Safety Employees Retirement System ("PSERS")
All Others (12,186)	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.

Substantially all full-time and qualifying part-time employees of the County participate in one of the retirement plans listed in the table titled "Retirement System Funded Status" on the following page. PERS, PSERS, and LEOFF are State-wide governmental retirement systems administered by the State of Washington's Department of Retirement Systems. Each biennium, the Washington State Legislature establishes contribution rates for these retirement plans. SCERS is a retirement plan administered in accordance with Seattle Municipal Code Chapter 4.36. County employees who are former employees of Seattle Transit are covered by SCERS, as are King County Health Department employees. The contribution rates are established by the SCERS Board of Administration. The County's employer contribution rates for all systems for the fiscal year ended December 31, 2010, and the current rates are shown in the table below:

COUNTY CONTRIBUTION RATES⁽¹⁾

	PERS Plan 1	PERS Plan 2	PERS Plan 3	LEOFF Plan 1	LEOFF Plan 2	PSERS Plan 2	SCERS
2010 Contribution Rate ⁽²⁾	5.31%	5.31%	5.31%	0.16%	5.24%	7.85%	8.03%
2010 Contribution Amount (000s)	\$2,197	\$37,286	\$6,083	\$1	\$4,035	\$2,039	\$596
2012 Contribution Rate	7.25%	7.25%	7.25%	0.16%	5.24%	8.86%	9.03%

(1) PERS, LEOFF, and PSERS rates are established every two years; SCERS rates are established every year.

(2) 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 6/30/10	12,531	9,293	3,238	74%	Closed in 1977
PERS - Plan 2/3	WSDRS ⁽¹⁾	As of 6/30/10	17,272	19,474	(2,202)	113%	Open
PSERS - Plan 2	WSDRS ⁽¹⁾	As of 6/30/10	80	103	(23)	129%	Open
LEOFF - Plan 1	WSDRS ⁽¹⁾	As of 6/30/10	4,381	5,561	(1,180)	127%	Closed in 1977
LEOFF - Plan 2	WSDRS ⁽¹⁾	As of 6/30/10	4,863	6,043	(1,179)	124%	Open
SCERS	City of Seattle	As of 1/1/11	2,709	2,014	695	74%	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 King County's 2010 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. 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, 2010, the County contributed an estimated \$5.0 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 \$12.835 million for the fiscal year ended December 31, 2010. The Health Plan liability is based on a computed annual required contribution that includes the current period's service cost and an amount to amortize unfunded accrued liabilities.

For additional information regarding the County's OPEB liability, see Appendix B—Excerpts from King County's 2010 Comprehensive Annual 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 \$100 million in limits above a \$7.5 million per occurrence self-insured retention for the above exposures.

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

COVERAGE	LIMITS
Combined Property Damage and Extra Expense for covered County property (includes \$100 million earthquake and \$250 million flood; terrorism is included in overall limit)	\$500 million
Airport Liability	\$300 million
Airport Property Damage and Extra Expense for covered airport property (includes \$50 million earthquake and \$100 million flood)	\$160 million
Airport Property Damage Terrorism for covered airport property	\$250 million
Fiduciary Liability	\$10 million
Employee Dishonesty	\$2.5 million
Aviation (Police Helicopter) Program	\$50 million
Excess Workers' Compensation	Statutory above \$2,500,000 deductible per occurrence
Marine Policies	\$150 million

The cash balance in the Insurance Fund was \$84.9 million as of December 31, 2010. The estimated liability for probable self-insurance losses (reported and unreported) recorded in the fund as of December 31, 2010, was \$65.0 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, 2010, \$12.4 million of the \$84.9 million cash balance in the Insurance Fund had been designated for catastrophic loss reserves.

See Appendix B—Excerpts from King County's 2010 Comprehensive Annual Financial Report.

GENERAL OBLIGATION DEBT INFORMATION

General Obligation 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

* The non-voted general obligation debt limit for a metropolitan municipality is 0.75% of the assessed value of taxable property within the metropolitan municipality. As a county that has assumed a metropolitan municipality, the County may issue "additional" nonvoted general obligation debt for "metropolitan functions" up to a total amount for "metropolitan functions" equal to 1.5% of the assessed value of taxable property within the County. However, these two 1.5% statutory debt limits cannot aggregate to more than the 1.5% constitutional limit on a county's nonvoted general obligation debt. So the total limit on nonvoted general obligation debt for the County, for general county purposes and for metropolitan purposes, is 1.5% of the assessed value of taxable property within the County.

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 may not exceed 2.5% of the assessed value of all taxable property within a county at the time of issuance. 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.

Debt Capacity and General Obligation Debt Service Summary

The assessed value of all property in the County for the 2012 tax year is \$319,460,937,305, resulting in a voted and non-voted total general obligation debt capacity of \$7,986,523,433 (2.5%) for County purposes and an additional \$7,986,523,433 (2.5%) for metropolitan functions. The non-voted general obligation debt capacity within the County's total 2.5% limitation is \$4,791,914,060 (1.5%).

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, 2011, adjusted for subsequent County debt issuances, and is followed by tables that summarize the debt service for the Bonds and the total general obligation debt service requirements of the County.

COMPUTATION OF STATUTORY LEGAL DEBT MARGIN

2011 Assessed Value (2012 Tax Year) **\$ 319,460,937,305**

Limited Tax General Obligation Debt Capacity for County Purposes and Metropolitan Functions

1 1/2 % of Assessed Value \$ 4,791,914,060

County Purposes

Outstanding Limited Tax General Obligation Bonds for County Purposes \$ 649,689,000

Outstanding Limited Tax General Obligation Bond Anticipation Notes for County Purposes 73,395,000

General Obligation Lease Revenue Bonds for County Purposes 385,525,000

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 (93,839,561)

Net Limited Tax General Obligation Debt for County Purposes \$ 1,105,974,741

Metropolitan Functions

Outstanding Limited Sales Tax General Obligation Bonds 117,390,000

Outstanding Limited Tax General Obligation Bonds for Metropolitan Functions 26,495,000

Outstanding Limited Tax General Obligation Bonds (Payable from Sewer Revenues)⁽¹⁾ 819,790,000

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 (19,028,379)

Net Limited Tax General Obligation Debt for Metropolitan Functions \$ 1,010,705,425

Total Net Limited Tax General Obligation Debt for County Purposes and Metropolitan Functions \$ 2,116,680,166

Remaining Capacity: LTGO Debt for County Purposes and Metropolitan Functions \$ 2,675,233,894

Total General Obligation Debt Capacity for County Purposes

2 1/2 % of Assessed Value \$ 7,986,523,433

Outstanding Unlimited Tax General Obligation Debt for County Purposes⁽²⁾ 170,730,000

The Bonds

Less: Amount Legally Available for Payment of all Unlimited Tax General
Obligation Indebtedness for County Purposes (11,426,328)

Net Unlimited Tax General Obligation Debt for County Purposes \$ 159,303,672

Net Limited Tax General Obligation Debt for County Purposes (from above) 1,105,974,741

Total Net General Obligation Debt for County Purposes \$ 1,265,278,413

Remaining Capacity: General Obligation Debt for County Purposes \$ 6,721,245,020

Total General Obligation Debt Capacity for Metropolitan Functions

2 1/2 % of Assessed Value \$ 7,986,523,433

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) 1,010,705,425

Total Net General Obligation Debt for Metropolitan Functions 1,010,705,425

Remaining Capacity: General Obligation Debt for Metropolitan Functions \$ 6,975,818,008

- (1) Includes the Limited Tax General Obligation Refunding Bonds (Payable from Sewer Revenues), 2012, Series B, expected to close August 2, 2012, and excludes the bonds expected to be refunded by that issue.
- (2) Includes the Refunded Bonds Candidates.

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

AGGREGATE DEBT SERVICE REQUIREMENTS FOR ALL GENERAL OBLIGATION DEBT OF THE COUNTY
(Fiscal Years Ending December 31)

Year	Unlimited Tax General Obligation Bonds				Limited Tax General Obligation Bonds			
	Outstanding ⁽¹⁾	The Bonds		Total UTGO Debt Service	County Purposes ⁽²⁾	Lease Revenue Bond Payments	Metropolitan Functions ⁽³⁾	Total LTGO Debt Service
		Principal	Interest					
2012	\$ 24,075,000	\$ -	\$ -	\$ 24,075,000	\$ 67,054,422	\$ 29,856,856	\$ 59,765,933	\$ 156,677,211
2013	21,410,950	-	-	21,410,950	166,204,715	29,855,173	60,991,752	257,051,641
2014	20,010,456	-	-	20,010,456	88,842,517	29,854,865	66,228,765	184,926,146
2015	18,479,625	-	-	18,479,625	97,762,749	29,855,042	66,022,790	193,640,581
2016	18,352,675	-	-	18,352,675	76,677,440	29,856,563	65,995,310	172,529,312
2017	18,718,081	-	-	18,718,081	65,150,340	29,858,181	76,824,453	171,832,975
2018	19,140,931	-	-	19,140,931	60,657,703	29,853,112	76,771,876	167,282,691
2019	18,219,563	-	-	18,219,563	60,670,896	29,853,872	76,704,015	167,228,783
2020	16,777,700	-	-	16,777,700	58,357,460	29,853,605	65,405,142	153,616,207
2021	15,503,275	-	-	15,503,275	51,300,462	29,862,162	68,350,626	149,513,250
2022	15,827,100	-	-	15,827,100	51,803,233	29,859,954	65,052,805	146,715,992
2023	16,157,425	-	-	16,157,425	33,557,309	29,859,445	64,975,249	128,392,003
2024	-	-	-	-	29,720,766	29,853,009	64,902,589	124,476,364
2025	-	-	-	-	29,707,846	28,086,402	64,812,019	122,606,267
2026	-	-	-	-	19,267,377	24,683,243	64,790,664	108,741,284
2027	-	-	-	-	20,267,271	24,682,576	64,689,323	109,639,170
2028	-	-	-	-	15,923,782	24,684,881	64,578,161	105,186,824
2029	-	-	-	-	13,505,537	24,686,184	64,484,267	102,675,988
2030	-	-	-	-	6,970,105	24,685,134	64,938,047	96,593,286
2031	-	-	-	-	3,272,625	24,687,707	63,162,772	91,123,103
2032	-	-	-	-	2,023,700	20,296,376	63,116,809	85,436,885
2033	-	-	-	-	-	15,013,393	63,012,735	78,026,127
2034	-	-	-	-	-	13,236,756	55,137,147	68,373,903
2035	-	-	-	-	-	13,237,191	42,323,966	55,561,157
2036	-	-	-	-	-	13,233,698	26,023,678	39,257,376
2037	-	-	-	-	-	-	26,023,588	26,023,588
2038	-	-	-	-	-	-	26,022,506	26,022,506
2039	-	-	-	-	-	-	26,023,269	26,023,269
2040	-	-	-	-	-	-	100,000,000	100,000,000
Total	\$ 222,672,781	\$ -	\$ -	\$ 222,672,781	\$ 1,018,698,256	\$ 639,345,375	\$ 1,757,130,255	\$ 3,415,173,886

(1) Includes the Refunded Bonds Candidates.

(2) Includes the Limited Tax General Obligation Bond Anticipation Notes, 2012, due on February 28, 2013. Includes debt service on the Multi-Modal Limited Tax General Obligation Bonds, 2009, Series A, at an assumed interest rate of 4.00%.

(3) These bonds are additionally secured by a pledge of certain taxes and revenues of the Metropolitan function of the County. Includes the Limited Tax General Obligation Refunding Bonds (Payable from Sewer Revenues), 2012, Series B, expected to close August 2, 2012, and excludes the bonds expected to be refunded by that issue.

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

Net Direct and Overlapping General Obligation Debt Outstanding

The following table lists the County's net outstanding direct debt and the overlapping debt of the County payable from taxes on property within the County as of as of December 31, 2011, adjusted for subsequent County debt issuances and the issuance of the Bonds.

NET DIRECT AND OVERLAPPING DEBT	
2011 Assessed Value (2012 Tax Year)	\$ 319,460,937,305
Net Direct Debt ⁽¹⁾	\$ 903,720,873
Estimated Overlapping Debt as of December 31, 2010:	
School Districts	\$ 3,051,728,234
City of Seattle	732,206,443
Other Cities and Towns	675,779,809
Port of Seattle	336,120,000
Hospital Districts	290,901,105
Fire Districts	83,157,100
Vashon Maury Park	236,587
King County Library System	120,617,365
Library Capital Facilities	7,304,627
Parks and Recreation Service District	1,475,917
Total Estimated Overlapping Debt	<u>\$ 5,299,527,187</u>
Total Net Direct and Estimated Overlapping Debt	<u><u>\$ 6,203,248,060</u></u>
County Debt Ratios:	
Net Direct Debt to Assessed Value	0.28%
Net Direct and Overlapping Debt to Assessed Value	1.94%
2011 Population (estimated)	1,942,600
Per Capita Net Direct Debt	\$465
Per Capita Net Direct and Overlapping Debt	\$3,193
Per Capita Assessed Value	\$164,450

(1) Total Net General Obligation Debt per Debt Capacity Schedules, as of December 31, 2011:

Total Net General Obligation Debt for County Purposes**	\$ 1,265,278,413
Total Net General Obligation Debt for Metropolitan Purposes	<u>1,010,705,425</u>
Total Net General Obligation Debt**	\$ 2,275,983,838
General Obligation Debt that is serviced by Proprietary-Type Funds*	(43,871,748)
General Obligation Debt issued for County Stadium ("Kingdome") Improvements*	(70,208,143)
General Obligation Debt issued for Component Units*	(247,477,649)
General Obligation Debt issued for Metropolitan Functions*	<u>(1,010,705,425)</u>
Net Direct Debt**	\$ 903,720,873

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

** Preliminary, subject to change.

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

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 taxing district. Under the State Constitution, with limited exceptions, all real property constitutes one class for purposes of this uniformity requirement. 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 is levying \$1.21478 for the 2012 tax year. 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 of assessed value, and the County currently is at the maximum rate of \$2.25 per \$1,000 for the 2012 tax year. Additional statutory provisions limit the increase in the aggregate amount of taxes levied. See “Authorized Property Taxes—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 emergency medical services levy is in its fifth year of a six-year levy with a rate of \$0.30000 for the 2012 tax year. The County’s levy rate for conservation futures in 2012 is \$0.05483, and its levy rate for transit-related purposes is \$0.075. Voters renewed the six-year Veterans and Family Human Services temporary lid lift on August 16, 2011, at a rate not to exceed \$0.05 per \$1,000 of assessed value. The six-year 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 \$0.06308 per \$1,000 of assessed value for each. The County’s levy rate also includes the last year of a temporary lid lift for the Automated Fingerprint Identification System (AFIS) at a rate of \$0.03530. In April 2012, the County Council approved the placement on the August 2012 ballot of a nine-year

property tax levy lid lift of \$0.07 per \$1,000 of assessed value to raise revenue for the construction of a new Children and Family Justice Center, to take the place of the existing Youth Services Center. For a discussion of the levy lid lift, see “Authorized Property Taxes—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 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, transit-related purposes, 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 of assessed value 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 (chapter 84.55 RCW) 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 new limit factor is 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. 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 \$0.11616 and \$0.00372, respectively, for the 2012 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.

In 2010, the County Council created a transportation benefit district (“TBD”) that includes all unincorporated portions 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 five years.

KING COUNTY ASSESSED VALUE		
Tax Year	Amount	Percentage Change From Previous Year
2012	\$ 319,460,937,305	(3.3)%
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

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 \$50, 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, a federal civil judgment lien (but not a federal tax lien) is senior to real property taxes that are incurred after the judgment lien has been recorded. In all other respects, and subject to the possible "homestead exemption" described below, the lien that secures payment 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 \$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 05/31/2012 (%)
2012	\$ 583,597	\$ 295,544	50.64	50.64
2011	588,486	571,256	97.07	97.98
2010	587,009	569,405	97.00	98.48
2009	574,243	560,309	97.57	99.43
2008	556,427	542,193	97.44	99.31
2007	500,298	491,209	98.18	99.78

* 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 2012 tax collection year.

LARGEST TAXPAYERS IN THE COUNTY 2012 TAX COLLECTION YEAR

Taxpayer	Assessed Value	AV as Percentage of County's Total AV (%)
Boeing	\$ 3,075,543,576	0.96
Microsoft	2,720,007,784	0.85
Puget Sound Energy	1,689,936,187	0.53
Alaska Airlines	942,121,800	0.29
Qwest Corporation Inc.	777,785,257	0.24
AT&T Mobility LLC	719,347,449	0.23
T-Mobile	691,909,551	0.22
W2007 Seattle (formerly Archon Group LP)	501,788,117	0.16
Union Square LLC	432,828,807	0.14
Wright Runstad & Company	354,130,107	0.11
Total Assessed Value of Top Ten Taxpayers	\$ 11,905,398,635	3.73
Total Assessed Value of All Other Taxpayers	\$ 307,555,538,670	96.27
2011 Assessed Value for Taxes Due in 2012	\$ 319,460,937,305	100.00

Source: *King County Department of Assessments*

Allocation of Tax Levies

The following table sets forth the allocation of 2011 and 2012 County-wide, Emergency Medical Services and unincorporated County levies. Footnotes to the table are on the following page.

ALLOCATION OF 2011 AND 2012 TAX LEVIES

County-wide Levy Assessed Value ⁽¹⁾	2011 Original		2012 Original	
	Taxes Levied (in thousands)	2011 Levy Rate (\$ per thousand)	Taxes Levied (in thousands)	2012 Levy Rate (\$ per thousand)
\$ 319,460,937,305				
Items Within Operating Levy ⁽²⁾				
General Fund	\$ 278,188	0.84638	\$ 284,370	0.89508
Veterans' Relief	2,557	0.00778	2,602	0.00819
Human Services	5,739	0.01746	5,840	0.01838
Intercounty River Improvement	49	0.00015	50	0.00016
Limited G.O. Bonds Debt Service	24,582	0.07479	25,893	0.08150
Automated Fingerprint Identification System ⁽³⁾	11,596	0.03528	11,216	0.03530
Parks Levy ⁽⁴⁾	38,264	0.11642	40,081	0.12616
Veterans and Family Human Services ⁽⁵⁾	15,473	0.04708	15,886	0.05000
Total Operating Levy	<u>\$ 376,448</u>	<u>1.14534</u>	<u>\$ 385,938</u>	<u>1.21477</u>
Transit Levy ⁽⁶⁾	\$ 22,625	0.06884	\$ 23,827	0.07500
Conservation Futures Levy ⁽⁷⁾				
Conservation Futures Levy	\$ 10,008	0.03045	\$ 9,235	0.02907
Farmland and Park Debt Service	7,053	0.02146	8,184	0.02576
Total Conservation Futures Levy	<u>\$ 17,061</u>	<u>0.05191</u>	<u>\$ 17,419</u>	<u>0.05483</u>
Unlimited Tax G.O. Bonds (Voter-approved Excess Levy)	<u>\$ 23,501</u>	<u>0.07207</u>	<u>\$ 22,459</u>	<u>0.07128</u>
Total County-wide Levy	<u>\$ 439,635</u>	<u>1.33816</u>	<u>\$ 449,643</u>	<u>1.41588</u>
EMS Assessed Value ⁽¹⁾				
\$201,874,698,737				
EMS Levy ⁽⁸⁾	\$ 62,767	0.30000	\$ 60,238	0.30000
Unincorporated County Assessed Value ⁽¹⁾				
\$32,993,777,770				
Unincorporated County Levy ⁽⁹⁾	<u>\$ 86,111</u>	2.19730	<u>\$ 73,716</u>	2.25000
Total County Tax Levies	<u>\$ 588,513</u>		<u>\$ 583,597</u>	

FOOTNOTES TO TABLE:

- (1) Assessed value for taxes payable in 2012.
- (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 levied for six years beginning in 2007 at a 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 levied for six years beginning in 2008 at a 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 levied for six years beginning in 2006 at a rate of not more than \$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. On August 16, 2011, voters approved an extension of this levy for an additional six years.
- (6) The Transit Levy is limited statutorily to \$0.075 per \$1,000 of assessed value and 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 and is not counted against the operating levy tax rate limitation of \$1.80 per \$1,000 of assessed value.
- (8) The Emergency Medical Services levy is a regular property tax to be levied for six years beginning in 2008 at a rate of not more than \$0.30 per \$1,000 of assessed value, as authorized by RCW 84.52.069 and a proposition approved by a majority of voters in the County.
- (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

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 Bonds or the power and authority of the County to issue the Bonds.

The County is party to litigation in its normal course of business. The excerpts from the County's 2010 Comprehensive Annual Financial Report ("CAFR") attached as Appendix B include Note 18 concerning non-tort legal matters. The County and its agencies are also 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 Bonds.

Recent Developments in Non-Tort Litigation

The following provides additional information concerning three of the lawsuits identified in Note 18 to the excerpts from the County's 2010 CAFR attached as Appendix B. See Note 18 for information concerning additional lawsuits.

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 "Trial 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 August 18, 2011, in a 5-4 decision, the State Supreme Court affirmed the Trial Court's determination that employees of the public defender agencies are also County employees for the purposes of the PERS Retirement System. The Supreme Court also remanded the case back to the Trial Court for further proceedings concerning remedies. The County filed a Motion for Reconsideration with the Supreme Court that was denied. The County cannot predict the cost of any remedial action ordered in response to the litigation. Although such cost could be significant, the County does not expect that it will materially adversely affect the ability of the County to pay principal of and interest on the Bonds when due.

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 were asking that these expenditures be repaid by the County general fund to the Water Quality Enterprise Fund. On March 15, 2011, at the conclusion of a five-week trial, the Court ruled in favor of the County on all the claims that remained in the case, except for one, which the County believes to be relatively minor. Prior to the trial, the Court had dismissed various other claims raised by the Plaintiffs by summary judgment. The Plaintiffs have filed a request with the Supreme Court for direct review of the trial court's ruling.

Stephen Hammond et al. v. King County, King Conservation District, Pierce County, and Pierce Conservation District. This is a class action lawsuit filed in King County Superior Court against the two counties and the two conservation districts alleging that special assessments imposed by the counties on behalf of the conservation districts are illegal charges, their collection should be prohibited, and the funds previously collected should be returned to the class members, which are made up of owners of property within the two conservation districts. Under State law, county legislative authorities may authorize such assessments against all parcels within the conservation district up to a maximum of \$5 per parcel for all counties, except those with a population of 1.5 million or more (only the County), in which case the charge may be no more than \$10 per parcel. Since 2006, the County has levied an assessment of \$10 per parcel, producing approximately \$6 million per annum,

which is paid directly to the King Conservation District (the “District”) for its soil and water conservation programs.

The legal issues in this case are complex. The court denied a motion on class certification and a motion to amend the complaint. The potential exposure for the defendants, including the County, ranges up to \$24 million, depending in part upon the applicable statute of limitations and whether the class is certified, which is still an appealable issue. The defendants in the lawsuit have filed motions for summary judgment seeking dismissal of the entire lawsuit. The court granted the County’s motion and dismissed the case with prejudice. The plaintiffs have filed a notice of appeal.

A second class action lawsuit covering special assessments for 2010 has been filed. The County has filed its answer and intends to vigorously defend this action. Under the County ordinance authorizing the special assessment, if any of the terms of the ordinance are declared to be invalid, any funds collected will be refunded by the County.

The State Supreme Court issued an opinion in February 2012 in a Mason County case that may reduce the County’s exposure. The court ruled that, because the individual plaintiffs filed timely protests on the special assessments, they were entitled to a refund. In contrast, the court noted that void taxes paid voluntarily, and not under protest, cannot be recovered. In the County, no protests were made for the 2006-2012 special assessments; therefore, in the absence of timely protests, even if the special assessments are determined to be invalid, the plaintiffs may not be entitled to refunds.

On July 6, 2012, the Superior Court Judge in the class action lawsuit approved the parties’ settlement agreement and dismissed, with prejudice, all claims against King County and the District regarding the validity of special assessments imposed by King County on behalf of the District from 2006-2012. As part of the settlement, the District will pay \$2 million of its approximate \$6.2 million 2012 assessment into a fund to provide a rebate to property owners and to cover approximately \$400,000 in attorneys’ fees. Plaintiffs also agreed to dismiss the appeal of the trial court’s order granting summary judgment for the defendants.

Brightwater Litigation. In April 2010, the County filed a lawsuit in King County Superior Court that seeks to recover from Vinci, Parsons and Frontier-Kemper (“VPFK”), the contractor originally responsible for a portion of the Brightwater project, and its surety all costs due to VPFK’s default related to the Brightwater Central Tunnel construction contract. These amounts include the cost of hiring a joint venture, Jay Dee/Frank Coluccio Construction Co., to complete the BT-3 section of the Central Conveyance Contract, approximately \$69 million, and an additional \$5 million paid on the Brightwater West Conveyance Contract due to the changed approach to tunneling BT-3. In July 2010, VPFK answered the lawsuit and brought its contract claims as counterclaims, in an amount it asserts is expected to exceed \$75 million. VPFK has recently reduced that amount to \$66.7 million. Currently with the other costs incurred throughout the Brightwater project due to the late completion, the County estimates its damages as \$158 million, which would be payable from revenues of the County’s Wastewater Treatment Division. The trial date is currently set for September 4, 2012.

Impact on County’s Ability to Pay Debt Service. Although the County cannot estimate the amount of damages that may be payable pursuant to the litigation described above, 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 Bonds by the County are subject to the approving legal opinion of Gottlieb Fisher PLLC, Bond Counsel. A form of the opinion of Bond Counsel with respect to the Bonds 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 Bonds, 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 Bonds.

Potential Conflicts of Interest

The fees of Bond Counsel and the Financial Advisor are contingent upon the sale, issuance, and delivery of the Bonds.

Tax Exemption

General. In the opinion of Gottlieb Fisher PLLC, Bond Counsel, as of the Date of Issue and assuming compliance by the County with the applicable requirements of the Code that must be satisfied subsequent to the Date of Issue, under existing federal law, interest on the Bonds (including any original issue discount properly allocable to an owner thereof) is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of determining the federal alternative minimum tax imposed on individuals or corporations. However, under existing federal law, interest on the Bonds (including any original issue discount properly allocable to an owner thereof) is taken into account in determining adjusted current earnings for the purpose of computing the federal alternative minimum tax imposed on certain corporations.

Continuing Requirements. The Code contains certain requirements that must be satisfied subsequent to the Date of Issue in order to maintain the federal tax treatment described in “Tax and Legal Information—Tax Exemption—General,” including requirements relating to application of the proceeds of the Bonds, use of facilities financed or refinanced with such proceeds, limitations on income derived from the investment of gross proceeds of the Bonds (as defined in Section 148 of the Code), and rebate to the United States Treasury of certain investment earnings on such gross proceeds. The County has covenanted to comply with these requirements to the extent applicable, and Bond Counsel’s opinion with respect to the Bonds described in “Legal and Tax Information—Tax Exemption—General” assumes such compliance. However, if the County should fail to comply with such requirements, interest on the Bonds (including any original issue discount properly allocable to an owner thereof) could become includable in gross income for federal income tax purposes and could become treated as an item of tax preference for purposes of determining the federal alternative minimum tax imposed on individuals or corporations, in each case, retroactively to the Date of Issue. Bond Counsel does not undertake to monitor the County’s compliance with such requirements.

Other Federal Tax Matters. Ownership of the Bonds may result in other federal tax consequences to certain taxpayers, including, without limitation, certain S corporations, foreign corporations with branches in the United States, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, and taxpayers, including banks, thrift institutions and other financial institutions subject to Section 265 of the Code, who may be deemed to have incurred or continued indebtedness to purchase or to carry the Bonds, and taxpayers who have an initial basis in the Bonds greater or less than the principal amount thereof. Bond Counsel is not rendering any opinion as to any federal tax matters with respect to the Bonds other than as described “Legal and Tax Information—Tax Exemption—General.” Prospective purchasers of the Bonds should consult their independent tax advisors.

CONTINUING DISCLOSURE UNDERTAKING

In accordance with paragraph (b)(5) of Securities and Exchange Commission (“SEC”) Rule 15c2–12 under the Securities Exchange Act of 1934 (the “Rule”), the County has agreed pursuant to the written “Continuing Disclosure Undertaking” (the “Undertaking”) to the following written undertakings for the benefit of the Owners and Beneficial Owners of the Bonds.

Annual Disclosure Report. The County agrees to provide or cause to be provided to the Municipal Securities Rulemaking Board (the “MSRB”) the following annual financial information and operating data for the prior fiscal year (commencing in 2012 for the fiscal year ending December 31, 2011):

- (i) annual financial statements, prepared in accordance with the Budget Accounting and Reporting System (“BARS”) prescribed by the Washington State Auditor pursuant to RCW 43.09.200 (or any

successor statutes) and generally of the type attached hereto as Appendix B, which statements will not be audited, except that, if and when audited financial statements are otherwise prepared and available to the County, they will be provided;

- (ii) a summary of the assessed value of taxable property in the County;
- (iii) a summary of budgeted General Fund revenues and appropriations;
- (iv) a summary of *ad valorem* property tax levy rates per \$1,000 of assessed value and delinquency rates;
- (v) a summary of outstanding tax-supported indebtedness of the County; and
- (vi) a schedule of the aggregate annual debt service on tax-supported indebtedness of the County.

Items (ii) through (vi) are required only to the extent that such information is not included in the annual financial statement.

Such annual information and operating data described above will be provided on or before the end of seven months after the end of the County's fiscal year. The County's current fiscal year ends on December 31. The County may adjust such fiscal year by providing written notice to the MSRB. In lieu of providing such annual financial information and operating data, the County may make specific cross-reference to other documents available to the public on the MSRB's internet web site or filed with the SEC.

If not provided as part of the annual financial information discussed above, the County will provide to the MSRB the County's audited annual financial statements prepared in accordance with BARS when and if available.

Specified Events. The County further agrees to provide or cause to be provided, in a timely manner not in excess of ten business days after the occurrence of the event, to the MSRB, notice of the occurrence of any of the following specified events with respect to the Bonds:

- (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 Bonds, or other material events affecting the tax status of the Bonds;
- (vii) modifications to the rights of Bondholders, if material;
- (viii) Bond calls, if material, and tender offers;
- (ix) defeasances;
- (x) release, substitution or sale of property securing repayment of the Bonds, if material;
- (xi) rating changes;
- (xii) bankruptcy, insolvency, receivership, or similar event of the County;
- (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.

Solely for purposes of disclosure and not intending to modify the Undertaking, the County advises with reference to items (iii), (x) and (xiv) that no debt service reserves secure payment of the Bonds, no property secures repayment of the Bonds, and there is no trustee for the Bonds.

The County agrees to provide or cause to be provided, in a timely manner, to the MSRB, notice of its failure to provide the annual financial information and operating data described above on or prior to the date set forth above.

Electronic Format; Identifying Information. The County agrees that all documents provided to the MSRB pursuant to the Undertaking will be provided in an electronic format and accompanied by identifying information, each as prescribed by the MSRB.

Termination of Undertaking. The County's obligations pursuant to the Undertaking to provide annual financial information and notices of specified events with respect to the Bonds will terminate upon the legal defeasance or payment in full of the Bonds. These obligations, or any provision hereof, will be null and void if the County:

- (i) obtains an opinion of nationally recognized bond counsel to the effect that those portions of the Rule which require the Undertaking, or any such provision, are invalid, have been repealed retroactively or otherwise do not apply to the Bonds; and
- (ii) notifies the MSRB of such opinion and the cancellation of the Undertaking.

Amendment of Undertakings. The County may amend the Undertaking, and any provision thereof may be waived, with an approving opinion of nationally recognized bond counsel and in accordance with the Rule.

In the event of any amendment of or waiver of a provision of the Undertaking, the County will describe such amendment in the next annual report provided thereunder, and will include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the County. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements:

- (i) notice of such change will be given in the same manner as described above for a specified event, and
- (ii) the annual report for the year in which the change is made will present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Remedies, Beneficiaries. The right of any Bond Owner or Beneficial Owner to enforce the provisions of the Undertaking is limited to a right to obtain specific enforcement of the County's obligations under the Undertaking, and any failure by the County to comply with the provisions of the Undertaking will not be an event of default with respect to the Bonds. For purposes of the Undertaking, "Beneficial Owner" means any person who has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bond, including persons holding Bonds through nominees or depositories.

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 BOND INFORMATION

Ratings

The Bonds have been rated “Aaa,” “AAA,” and “Aaa” by Moody’s Investors Service, S&P, and Fitch Ratings, respectively. The ratings 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 Bonds.

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 Bonds. 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 this 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 Bonds

The Bonds are being purchased by _____ (the “Purchaser”) at a price of \$_____, and will be reoffered at a price of \$_____. The Purchaser may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into investment trusts) and others at prices lower than the initial offering prices corresponding to the yields set forth on page i 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 Bonds.

At the time of the delivery of the Bonds, 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 Bonds, 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
Department of Executive Services

APPENDIX A
FORM OF BOND COUNSEL OPINION

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Form of Approving Opinion of
Gottlieb Fisher PLLC, Bond Counsel,

_____, 2012

County Executive and County Council
King County, Washington
Seattle, Washington 98104

We have acted as bond counsel to King County, Washington (the "County"), in connection with the issuance by the County of the bonds described below (the "Bonds"):

\$ _____
KING COUNTY, WASHINGTON
UNLIMITED TAX GENERAL OBLIGATION REFUNDING BONDS, 2012
Dated: _____, 2012 (the "Date of Issue")

The Bonds are issued under and in accordance with the provisions of chapters 36.67, 39.46 and 39.53 RCW; the County Charter; and County Ordinance 17363 (the "Bond Ordinance") and Motion _____ of the Metropolitan King County Council (the "Sale Motion" and, together with the Bond Ordinance, the "Bond Legislation"). The Bonds are issued to obtain all or part of the funds with which to pay the cost of refunding and defeasing the King County, Washington Unlimited Tax General Obligation Bonds, 2004 (Harborview Medical Center) maturing on or after December 1, 2014, and the King County, Washington Unlimited Tax General Obligation Bonds, Series 2004B (Harborview Medical Center) maturing on or after June 1, 2015, and to pay the costs of issuing the Bonds. Capitalized terms used but not defined herein shall have the meanings assigned to such terms in the Bond Ordinance.

In rendering this opinion letter, we have examined the following: (i) the Bond Legislation; (ii) the Escrow Agreement pertaining to the Bonds, dated the Date of Issue, by and between the County and U.S. Bank National Association, as escrow agent; (iii) the escrow verification report (the "Verification"), dated the Date of Issue, of Grant Thornton LLP, certified public accountants; (iv) a copy of one executed and authenticated Bond (we assume that all other Bonds are in the same form and have been similarly executed and authenticated); (v) the Blanket Letter of Representations from the County to The Depository Trust Company; and (vi) the certified proceedings of the County and the other certifications of public officials and representatives of the County and representatives of _____, as the underwriter of the Bonds (the "Underwriter") that have been furnished to us and which comprise the transcript of proceedings pertaining to the issuance of the Bonds (the "Transcript").

As to questions of fact material to the opinions expressed herein, we rely upon the Verification, the certified proceedings of the County and the other certifications of public

officials and representatives of the County and the Underwriter that have been furnished to us as part of the Transcript, all without undertaking to verify the same by independent investigation.

Based upon the foregoing and our examination of such questions of law as we have deemed necessary or appropriate for the purpose of this opinion letter, and subject to the limitations and qualifications expressed below, we are of the opinion that, as of this date:

1. The Bonds are lawfully authorized and issued pursuant to and in full compliance with the Constitution and applicable statutes of the State of Washington, the County Charter and the Bond Legislation.

2. The Bonds are legal, valid and binding unlimited tax general obligations of the County, enforceable against the County in accordance with their terms, subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights, and also to the exercise of judicial discretion in accordance with general principles of equity.

3. The County has irrevocably covenanted in the Bond Ordinance that, for as long as any of the Bonds are outstanding and unpaid, unless the principal of and interest on the Bonds are paid from other sources, it will make annual levies of taxes without limitation as to rate or amount upon all property within the County subject to taxation in amounts sufficient to pay such principal and interest as the same 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 of and interest on the Bonds as the same shall become due.

4. Assuming compliance by the County with applicable requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Bonds, under existing federal law, interest on the Bonds (including any original issue discount properly allocable to an owner thereof) is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of determining the federal alternative minimum tax imposed on individuals and corporations. However, under existing federal law, interest on the Bonds (including any original issue discount properly allocable to an owner thereof) is taken into account in determining adjusted current earnings for the purpose of computing the federal alternative minimum tax imposed on certain corporations.

Except as stated in the preceding paragraph 4, we express no opinion as to any federal or state tax consequences of the ownership or disposition of the Bonds.

The Code contains certain requirements that must be satisfied subsequent to the Date of Issue in order to maintain the federal tax treatment described in paragraph 4, including requirements relating to application of the proceeds of the Bonds, use of facilities financed or refinanced with such proceeds, limitations on income derived from the investment of gross proceeds of the Bonds (as defined in Section 148 of the Code), and rebate to the United States

Treasury of certain investment earnings on such gross proceeds. The County has covenanted to comply with these requirements to the extent applicable, and the opinion expressed in paragraph 4 assumes such compliance. However, we have not undertaken and do not undertake to monitor compliance by the County with such requirements; and if the County should fail to comply with such requirements, interest on the Bonds (including any original issue discount properly allocable to an owner thereof) could become includable in gross income for federal income tax purposes and could be treated as an item of tax preference for purposes of determining the federal alternative minimum tax imposed on individuals and corporations, in each case, retroactively to the Date of Issue.

We do not express any opinion herein concerning the completeness or accuracy of the official statement or other disclosure documentation used by any person in connection with the offer or sale of the Bonds.

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.

This opinion is given as of the date hereof and we expressly disclaim any responsibility to advise you of any developments in areas covered by this opinion letter that may hereafter occur.

Respectfully submitted,

GOTTLIEB FISHER PLLC

By

Daniel S. Gottlieb

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APPENDIX B

EXCERPTS FROM KING COUNTY'S 2010 COMPREHENSIVE ANNUAL FINANCIAL REPORT

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**Washington State Auditor
Brian Sonntag**

INDEPENDENT AUDITOR'S REPORT

July 19, 2011

Council and Executive
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, 2010, 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 10 percent, -0.9 percent and 2 percent, respectively of the assets, net assets and revenues of the governmental activities, and 5 percent, -0.5 percent and 0.2 percent, respectively, of the assets, net assets and revenues of the aggregate remaining fund information. We did not audit the financial statements of the Water Quality Enterprise Fund, a major fund, which additionally represents 67 percent, 25 percent and 27 percent, respectively, of the assets, net assets and revenues of the business-type activities. We also did not audit the financial statements of the Public Transportation Fund, a major fund, which additionally represents 27 percent, 65 percent and 60 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, the Water Quality Enterprise and Public Transportation funds, 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, Water Quality Enterprise and Public Transportation funds 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 reports of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position 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 December 31, 2010, and the 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.

As described in Note 1, during the year ended December 31, 2010, the County implemented Governmental Accounting Standards Board Statement 51, *Accounting and Financial Reporting for Intangible Assets*.

In accordance with *Government Auditing Standards*, we will also issue our report dated July 19, 2011, 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. That report will be issued under separate cover in the County's Single Audit Report. 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 17, condition assessments and preservation of infrastructure eligible for modified approach on pages 116 through 118, and postemployment health care plan on page 118 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 listed as combining and individual fund statements and schedules and supplementary information on pages 119 through 174 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,

**BRIAN SONNTAG, CGFM
STATE AUDITOR**

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

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, 2010. 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, 2010, the assets of the County exceeded its liabilities by \$4,415.3 million (net assets). Because most of the County's net assets are either invested in capital assets or restricted as to use, the combined unrestricted net assets was \$188.0 million at the end of the year.
- In 2010, the County's total net assets increased by 2.5 percent (\$108.9 million). The governmental net assets increased by 3.4 percent (\$73.7 million), and the business type net assets increased by 1.6 percent (\$35.2 million).
- As of December 31, 2010, the County's governmental funds reported combined ending fund balances of \$565.4 million. Approximately 80.3 percent (\$453.9 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 2010 the unreserved, undesignated fund balance for the General Fund was \$67.6 million, amounting to 11.5 percent of total General Fund expenditures. Total fund balance for the General Fund increased 7.1 percent (\$5.8 million) for the year.
- The County's total bonded debt increased by 10.2 percent (\$432.3 million) in 2010 due to new bond issuance of \$509.9 million offset by \$78.7 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 2010 operations of the County's flood control 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, included as a single internal service fund called the Building Development and Management Corporations, are reported as a single blended component unit of the County.

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 three 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), and the Cultural Development Authority (CDA) of King County. Individual financial statements for 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 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 statements in the Governmental Funds section of this report, following the Basic Statements section.

The County adopts an annual budget appropriated at the department or 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 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 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 statements are presented in separate sections immediately following the required supplementary information.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Analysis of Net Assets

An analysis of net assets may serve as a useful indicator of a government's financial position. As indicated in the condensed financial information below, derived from the government-wide Statement of Net Assets, the County's combined net assets (governmental and business-type activities) were \$4,415.3 million at the end of 2010. This is an increase of 2.5 percent (\$108.9 million) over the net assets of the previous year, as restated.

Governmental activities. Although net assets of the County's governmental activities increased 3.5

percent (\$73.7 million) to \$2,161.7 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, rights-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 \$228.6 million deficit at the end of 2010. This is a \$47.6 million decrease in the deficit in unrestricted net assets from the end of 2009.

	Net Assets (in thousands)					
	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Assets						
Current and other assets	\$ 1,117,901	\$ 1,004,062	\$ 1,244,205	\$ 1,173,751	\$ 2,362,106	\$ 2,177,813
Capital assets	2,729,811	2,685,400	5,218,405	4,869,586	7,948,216	7,554,986
Total Assets	3,847,712	3,689,462	6,462,610	6,043,337	10,310,322	9,732,799
Liabilities						
Long-term liabilities	1,426,970	1,406,265	3,840,465	3,477,342	5,267,435	4,883,607
Other liabilities	259,087	195,239	368,537	347,584	627,624	542,823
Total Liabilities	1,686,057	1,601,504	4,209,002	3,824,926	5,895,059	5,426,430
Net Assets						
Invested in capital assets, net of related debt	1,922,455	1,889,721	1,577,670	1,603,232	3,500,125	3,492,953
Restricted	467,772	474,425	259,357	649,948	727,129	1,124,373
Unrestricted	(228,572)	(276,188)	416,581	(34,769)	188,009	(310,957)
Total net assets	\$ 2,161,655	\$ 2,087,958	\$ 2,253,608	\$ 2,218,411	\$ 4,415,263	\$ 4,306,369

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 2010 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 \$291.5 million, \$30.5 million less than at the end of 2009, for which no corresponding assets are recorded but for which future revenues are obligated.

Of the amount of debt with no corresponding assets, 65.5 percent (\$190.8 million) is related to assets recorded on the books of two of the County's three discretely presented component units: the Washington State Major League Baseball Stadium PFD (\$51.2 million), and the Harborview Medical Center (\$139.6 million). As discretely presented component units, these entities are not part of the primary government or incorporated into this

analysis. The remaining debt consists of \$80.2 million associated with the Kingdome facility, demolished in 2000, and \$20.5 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 1.6 percent to \$2,253.7 million in the net assets of business-type activities. Of the total net assets for business-type activities, 70.0 percent (\$1,577.7 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 11.5 percent of the total net assets of business-type activities is restricted for capital construction (\$10.1 million), debt service (\$215.6 million), regulatory assets and environmental liabilities (\$30.3 million) and for other purposes (\$3.4

million). The remaining 18.5 percent (\$416.6 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 \$228.6 million deficit in the governmental activities unrestricted net assets and the \$416.6 million positive balance in the business-type activities unrestricted net assets resulted in a net positive \$188.0 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 2010 resulted from revenues exceeding related expenses and reflects the County's ability to meet its ongoing obligations, including its debt service requirements. Approximately 42.6 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 43.1 percent of the total revenues, while 13.7 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 2010.

Governmental activities. Governmental activities accounted for 67.7 percent of the total growth in net assets of the County, resulting in an increase in

the County's governmental activities net assets of \$73.7 million. Program revenues for governmental activities total \$884.3 million and include the amount paid by those who directly benefit from the programs (\$573.2 million), and by other governments and organizations that subsidized certain programs with operating grants and contributions (\$198.5 million), and capital grants and contributions (\$112.5 million). In 2010, the cost of all governmental activities was \$1,651.1 million. The County paid for the \$766.8 million remaining public benefit portion of governmental activities with \$593.1 million in property taxes, \$180.9 million in retail sales and use taxes, and \$64.1 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 \$73.7 million is primarily due to the following factors: the collection of revenues (mostly taxes) to fund repayments of long-term debt (\$62.9 million), the collection of revenues for the acquisition of capital assets (\$58.9 million), donations of capital assets, primarily infrastructure, to the county (\$82.8 million), taxes collected by Special Revenue Funds (\$8.6 million by Emergency Medical Services, \$8.5 million by the Flood Control District, and \$3.6 million by the Mental Health Fund) in excess of the services provided in 2010 (\$20.7 million). In addition, the book value of capital assets sold, retired, or transferred (\$116.0 million) and depreciation expense (\$32.2 million) reduced net assets.

	Changes in Net Assets (in thousands)					
	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Revenues						
Program revenues						
Charges for services	\$ 573,209	\$ 571,653	\$ 685,574	\$ 632,427	\$ 1,239,783	\$ 1,204,080
Operating grants and contributions	196,512	206,826	57,514	90,570	256,026	297,396
Capital grants and contributions	112,530	75,592	26,220	38,020	138,750	113,612
General revenues						
Property taxes	593,135	624,448	22,174	-	615,309	624,448
Retail sales and use taxes	180,914	179,077	375,943	375,968	556,857	556,045
Other taxes	53,760	54,234	-	-	53,760	54,234
Unrestricted interest earnings	10,295	20,029	8,810	13,558	19,105	33,587
Total revenues	1,722,355	1,731,859	1,157,235	1,151,543	2,879,590	2,883,402
Expenses ^(a)						
General government ^(b)	193,521	106,076	-	-	193,521	106,076
Law, safety and justice	605,396	607,191	-	-	605,396	607,191
Physical environment	79,897	76,404	-	-	79,897	76,404
Transportation	108,386	117,625	-	-	108,386	117,625
Economic environment	103,153	105,515	-	-	103,153	105,515
Mental and physical health	456,678	458,184	-	-	456,678	458,184
Culture and recreation	54,071	53,313	-	-	54,071	53,313
Interest and other debt service costs	49,979	54,010	-	-	49,979	54,010
Airport	-	-	22,298	24,725	22,298	24,725
Public transportation	-	-	697,611	673,436	697,611	673,436
Solid waste	-	-	101,210	91,347	101,210	91,347
Water quality	-	-	290,873	287,792	290,873	287,792
Other enterprises activity	-	-	7,625	7,153	7,625	7,153
Total expenses	1,651,081	1,578,318	1,119,615	1,084,453	2,770,696	2,662,771
Increase in net assets before transfers	71,274	153,541	37,620	67,090	108,894	220,631
Transfers	2,423	896	(2,423)	(696)	-	-
Increase in net assets	73,697	154,437	35,197	66,394	108,894	220,631
Net assets, beginning of year (restated) ^(c)	2,087,958	1,933,521	2,218,411	2,152,217	4,306,369	4,085,738
Net assets, end of year	\$ 2,161,655	\$ 2,087,958	\$ 2,253,608	\$ 2,218,411	\$ 4,415,263	\$ 4,306,369

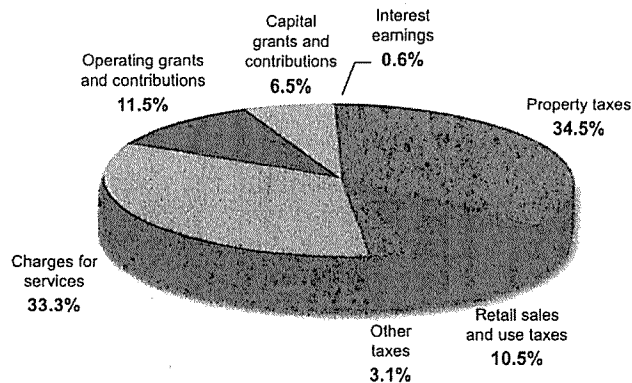
(a) Expenses for all functions include the allocation of indirect expenses from the general government function. The amount of indirect general government expenses allocated to each function is shown in a separate column on the County's government-wide Statement of Activities alongside the column that reflects the direct operating expenses incurred by each function. As a result of this allocation, the \$193.5 million in General government expense above consists of \$135.9 million in direct program expenses and loss on the disposal (transfer) of capital assets of \$116.1 million reduced by a net allocation of \$58.5 million to other County functions.

(b) General government expenses includes loss on sale/disposal/transfer of capital assets of \$116.1 million and \$36.5 million in 2010 and 2009, respectively.

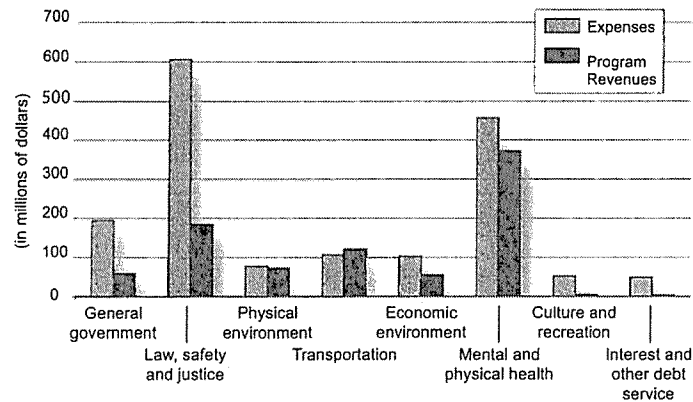
(c) Net assets, beginning of year has been restated, see Note 17 - "Restrictions, Reserves, Designations, and Changes in Equity" - Restatements of Beginning Balances.

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 2010



Expenses and Program Revenues — Governmental Activities 2010



9

Charges for services provided 33.3 percent, and property taxes 34.5 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 81.8 percent of the activities of that

function. In 2010, Transportation received \$82.1 million in infrastructure and right-of-way capital assets from developers, which enabled program revenues to exceed expenses by \$13.0 million. These and other capital contributions accounted for 11.3 percent of the 2010 increase in governmental activities net assets.

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

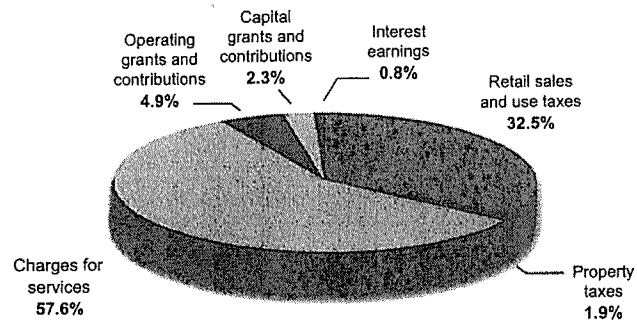
(Expenses) Net of Program Revenues	
General government	\$ (134,359)
Law, safety and justice	(420,086)
Physical environment	(6,467)
Transportation	12,972
Economic environment	(44,232)
Mental and physical health	(83,790)
Culture and recreation	(47,001)
Interest and other debt service costs	(43,867)
Total expenses	(766,830)
General revenues	
Property taxes	593,135
Retail sales and use taxes	180,914
Other taxes	53,760
Unrestricted interest earnings	10,295
Transfers from Business-type	2,423
Increase in net assets	\$ 73,697

Business-type activities Business-type activities increased the County's net assets by \$35.2 million in 2010, accounting for 32.3 percent of the total growth in net assets of the County. Total revenues for business-type activities were \$1,157.2 million. The cost of all business-type activities for 2010 was \$1,119.6 million. Of that amount, 67.0 percent (\$750.3 million) was funded from program revenues, including \$666.6 million in charges for services, \$57.5 million from other governments and

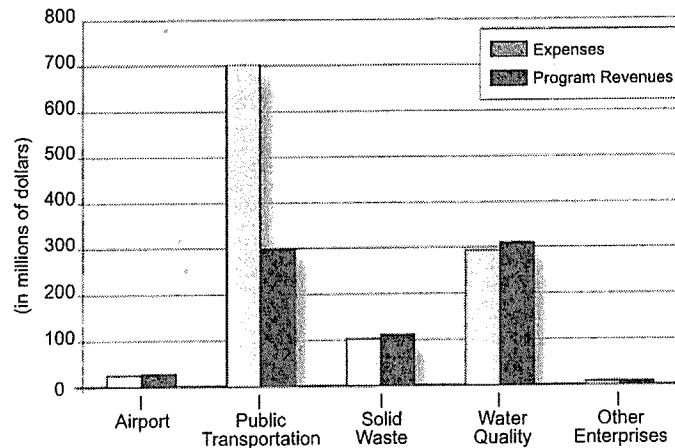
organizations that subsidized certain programs with operating grants, and \$26.2 million in capital grants and contributions. The Public Transportation operations are subsidized by retail sales and use tax revenues, which amounted to \$375.9 million in 2010 and property taxes (beginning in 2010) of \$22.2 million. In addition, business-type activities earned \$8.8 million in unrestricted interest earnings.

Business-type revenues by source and business-type expenses and program revenues by function:

Revenues by Source — Business-type Activities 2010



Expenses and Program Revenues — Business-type Activities 2010



FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

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. 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, 2010, the County's governmental funds reported combined ending fund balances of \$565.4 million, an increase of \$43.7 million in comparison with the prior year. Approximately 80.3 percent (\$453.9 million) constitutes unreserved fund balance 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 (\$60.8 million), to pay debt service (\$24.2 million), for prepayments (\$8.1 million), and for a variety of other restricted purposes (\$17.9 million).

Overall governmental fund revenues totaled approximately \$1,719.5 million for 2010, which represents a decrease of 1.6 percent, (\$28.2 million), under the fiscal year ended December 31, 2009. While Retail sales and use taxes were up \$1.8 million, Intergovernmental revenues were up \$16.6 million, and Miscellaneous revenue increased \$4.7 million, while several other revenue categories had sharp declines. Property taxes were down \$28.7 million due to declines in collections for the King County Ferry District (down \$17.7 million due to a decrease in the levy rate), Unlimited Tax GO Bonds (down \$13.9 million due to a decrease in the levy rate), the County Road Fund (down \$3.2 million due to annexations), the Emergency Medical Services Fund (down \$2.4 million due to a decrease in the assessed value of taxable property) and the Automated Fingerprint Identification System (down \$1.6 million due to a decrease in the assessed value of taxable property).

In 2010, expenditures for governmental funds totaled \$1,762.9 million, a decrease of 3.8 percent (\$69.4 million) from the previous fiscal year. Current expenditures were down 2.1 percent (\$33.1 million) from the previous fiscal year due to programmatic reductions with the priority of the preservation of funding for core mandatory services over discretionary services. Debt service expenditures (excluding the payment to escrow agent) were down \$60.5 million (38.9 percent), and Capital outlay expenditures were up \$30.2 million (35.5 percent). Total expenditures for governmental funds exceeded revenues by \$43.3 million in 2010, compared to \$84.5 million for 2009. The change in fund balances in 2010 of \$43.7 million included an increase of \$10.4 million in Non-major Debt Service Funds and an increase of \$38.6 million in Capital Projects Funds.

The General Fund is the primary operating fund for the County. At the end of the fiscal year, total fund balance for the General Fund was \$88.2 million. Unreserved fund balance, the amount considered available to spend, totaled \$71.6 million. Of that amount, \$4 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 12.2 percent of total General Fund expenditures, an increase from the 11.4 percent of a year ago. Total fund balance represents 15.1 percent of total General Fund expenditures, an increase from the 13.9 percent of a year ago.

The fund balance of the County's General Fund increased \$5.8 million during 2010, while the fund balance decreased in 2009 by \$9.7 million (an increase of over \$15 million). While revenues were down \$3.6 million (0.6 percent) in 2010, expenditures declined \$7.3 million (1.2 percent) and Other financing uses declined \$12.9 million. While property tax revenues increased by \$6.2 million and intergovernmental revenues were up \$7.6 million, charges for services were down \$12.5 million and interest earnings were down \$5.9 million, resulting in the net increase in revenues in 2010 from the 2009 level of \$3.6 million. Expenditures were down \$7.3 million due to reductions in expenditures for general government services (\$4.6 million) and mental and physical health (\$3.4 million). The large drop in Other financing uses of \$12.9 million is due to

substantially decreased transfers from the General Fund to human services programs.

The **Public Health 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 2010 it had a total fund balance of \$7.4 million (up \$3.1 million in 2010), of which \$5.8 million was unreserved and available for spending. While revenues were up \$7.1 million in 2010 from the 2009 level (due to an increase of \$7.5 million in intergovernmental revenues) expenditures were essentially unchanged in 2010 and other financing sources were down \$4.0 million resulting in an increase in fund balance of \$3.1 million in 2010 versus a decrease of \$44 thousand in 2009.

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.

The County's net assets increased by \$35.2 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 had an increase of \$0.5 million and the net assets of the Water Quality Enterprise increased by \$18.6 million. In 2010, net assets of the Solid Waste Enterprise increased by \$9.4 million.

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 2010 the Public Transportation Enterprise had total net assets of \$1,454.6 million of which 66.2 percent (\$962.6 million) was invested in capital assets, net of related debt; 1.7 percent (\$24.9 million) was restricted as to use for capital purposes, bond reserves, and other purposes; and 32.1 percent (\$467.1 million) was unrestricted and available for spending. Net assets increased in 2010 and 2009. The increase was \$0.5 million in 2010 and \$29.4 million in 2009. The change in 2010 is primarily attributed to an increase in cash balances held for future capital investments that are currently projected to occur over the next few years, as well as debt service, which was offset by a decrease in non-depreciating capital assets as

constructed assets were moved into service and began depreciating. On December 31, 2010, cash balances were used to support interfund loans of \$116.1 million to other County agencies. At the end of 2009, interfund loans to other County agencies totaled \$131.5 million. The reserve for future fleet replacement continued to be replenished consistent with existing policies and in anticipation of upcoming fleet replacements

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 \$562.4 million at the end of 2010 of which 72.4 percent (\$407.2 million) was invested in capital assets, net of related debt; 41.7 percent (\$234.4 million) was restricted for debt service and regulatory assets and environmental liabilities; and the remaining negative 14.1 percent (\$79.2 million) was unrestricted. Water Quality operating revenues decreased by 0.7 percent to \$304.8 million, while operating expenses net of depreciation increased by 0.6 percent to \$103.7 million. Water Quality collected a monthly sewage treatment charge of \$31.90 per Residential Customer Equivalents (RCE) in 2010 and 2009. The negative unrestricted net assets balance was reduced to (\$79.2 million) at the end of 2010 from (\$98.0 million) at the end of 2009.

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 \$15.0 million during the year due to 2010 supplemental budget appropriations for General Fund support for general government (\$2 million), law, safety and justice (\$4 million), physical environment (\$2.5 million), and transfer to support capital projects (\$5.9 million). However, actual budgetary basis expenditures (including encumbrances) were only \$61 thousand greater than the original budget. This resulted in an underutilization of the total final appropriation authority by less than \$15 million, including \$5.7 million of under-expenditures in General government services, \$2.6 million in Law, safety and justice, and \$5.6 million in Transfers out. During the year total budgetary basis revenues were greater than budgetary estimates by \$10.4 million with a net impact of increasing fund balance by \$5.8 million in 2010.

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, 2010, amounts to \$7.9 billion (net of accumulated depreciation). Capital assets include land, rights-of-way, easements and development rights, buildings, improvements other than buildings, roads and bridges infrastructure, vehicles, machinery, computers, software and other equipment, and construction work-in-progress. The total increase in the investment in capital assets over the previous year was 5.1 percent (1.7 percent increase for governmental activities and 7.1 percent increase for business-type activities).

Major capital asset events during 2010 included the following:

- Construction continued on the new Brightwater Treatment Plant and the associated conveyance system. This project comprised the bulk of the 19 percent increase

in business-type work-in-progress during the year. Construction activities are simultaneously ongoing in the treatment plant, the conveyance systems (portals 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. The Solid Waste Enterprise continued to make improvements to existing transfer stations and development of landfill ancillary systems.
- For governmental activities, significant additions and upgrades were made to parks facilities, development and improvements to the trail system, renovations and upgrades to various county buildings, and technology related projects.

A summary of the 2010 capital assets activity is shown below. More detailed information on the County's capital assets can be found in Note 6 – "Capital Assets."

	Capital Assets (in millions)					
	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Land and land rights	\$ 859.8	\$ 798.8	\$ 360.8	\$ 358.3	\$ 1,220.6	\$ 1,157.1
Buildings*	731.0	731.7	1,008.5	1,012.1	1,739.5	1,743.8
Improvements other than buildings*	50.9	27.1	496.4	497.7	547.3	524.8
Infrastructure - roads and bridges	925.4	943.1	0.0	0.0	925.4	943.1
Infrastructure - other*	5.3	0.0	728.3	709.0	733.6	709.0
Equipment and software*	78.6	77.9	515.5	525.8	594.1	603.7
Construction in progress	78.8	106.8	2,108.9	1,766.5	2,187.7	1,873.3
Total	\$ 2,729.8	\$ 2,685.4	\$ 5,218.4	\$ 4,869.4	\$ 7,948.2	\$ 7,554.8

* Net of depreciation/amortization

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, 74.2 percent of the arterial roads in the County and 78.5 percent of the local access roads in the County had a PCI rating at 40 and above. The 2010 condition assessment indicates the arterial and local access road networks have fallen below the 80/40 threshold. The County's Roads Division's current budget conditions do not allow for additional funds to increase the number of miles overlaid. The accelerated condition of deterioration observed between the 2009 and 2010 reports are primarily the result of weather and system age. The majority of roads that fall below the established rating are local access roads that are situated in rural areas. The amount budgeted in 2010 for road

preservation and maintenance was \$78.8 million. The amount actually expended was \$52.9 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 180 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, essentiality 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 6 bridges at or below this threshold. The amount budgeted in 2010 for bridge preservation and maintenance was \$19.8 million, while the actual amount expended was \$9.7 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 2010, King County Primary Government has a total of \$4,673.3 million in bonds and notes outstanding for its governmental and business-type activities. Of this amount, \$2,239.9 million is comprised of debt backed by the full faith and credit of the County. The \$2,433.4 million remainder of the County's debt represents bonds secured solely by specified revenue sources.

	Outstanding Debt (in millions)					
	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
General obligation bonds	\$ 728.4	\$ 724.3	\$ 1,031.2	\$ 919.7	\$ 1,759.6	\$ 1,644.0
General obligation bond anticipation notes	84.3	27.1	-	-	84.3	27.1
Lease revenue bonds	396.0	402.5	-	-	396.0	402.5
Revenue bonds	-	-	2,433.4	2,167.4	2,433.4	2,167.4
Total	\$ 1,208.7	\$ 1,153.9	\$ 3,464.6	\$ 3,087.1	\$ 4,673.3	\$ 4,241.0

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.

The total debt increased over the previous year by 10.2 percent or \$432.3 million (a 4.8 percent or \$54.8 million increase for governmental activities and 12.2 percent or \$377.5 million increase for business-type activities). The increase of debt outstanding in governmental activities was primarily due to the issuance of \$82.5 million of limited general obligation bonds in 2010. Business-type activities' debt increased primarily due to the issuance of \$334.4 million of sewer revenue and refunding bonds and \$100 million of Multi-Modal limited general obligation bonds payable by sewer revenues to finance the capital needs of the Water Quality Enterprise.

During 2010, the County refinanced some of its existing debt to take advantage of favorable interest rates. The County refinanced \$26.6 million of general obligation various purpose bonds which will decrease future aggregate debt service payments by \$3.3 million over the life of the bonds. The County also refinanced \$19.8 unlimited general obligation bonds which will decrease future aggregate debt service payments by \$2.2 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 \$15.0 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 Water Quality Enterprise's revenue debt are "Aa2" from Moody's and "AA+" from Standard & Poor's.

State statutes limit the amount of general obligation debt that the County may issue to 2.5 percent of its total assessed valuation for general county purposes and 2.5 percent for metropolitan functions. The current debt limitation of total general obligations for general county purposes is \$8,260.4 million, significantly higher than the County's outstanding net general obligation long-term liabilities of \$1,139.2 million. For metropolitan functions the debt limitation is \$8,260.4 million and the County's outstanding net general obligation debt is \$1,079.1 million.

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

ECONOMIC OUTLOOK AND 2011 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 2010 for taxes collected in 2011 decreased by 11.6 percent compared to increases of 13.5 percent and 14.1 percent in 2009 and 2008, respectively. Unemployment in King County was 8.8 percent in 2010 compared with 8.5 percent in 2009. Median household income in the county is estimated to have decreased 2.9 percent from 2008 to 2009 and decreased 2.9 percent from 2009 to 2010. County taxable sales decreased in both 2009 and 2010, affecting several funds, most notably the General Fund and Public Transportation Fund.

By law, the County is required to adopt a balanced budget. The 2011 budget, adopted by the County Council in November 2010, 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 6.0 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 health care 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 County Council-approved property tax levy is limited by state law 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, 500 Fourth Avenue Room 653, Seattle, WA 98104.



STATEMENT OF NET ASSETS
DECEMBER 31, 2010
(IN THOUSANDS)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
ASSETS				
Cash and cash equivalents	\$ 922,075	\$ 913,074	\$ 1,835,149	\$ 207,437
Investments	551	-	551	42,944
Receivables, net	196,948	174,859	371,807	128,950
Due from primary government	-	-	-	1,103
Internal balances	(23,147)	23,147	-	-
Inventories	2,616	24,764	27,382	8,234
Prepayments and other assets	10,679	8,057	18,736	1,969
Capital assets				
Non-depreciable assets	1,872,919	2,469,701	4,342,620	55,696
Depreciable assets, net of depreciation	856,892	2,748,704	3,605,596	767,182
Deferred charges	8,177	29,707	37,884	-
Deposits with other governments	-	-	-	600
Regulatory assets - environmental remediation	-	47,079	47,079	-
Other utility assets	-	22,703	22,703	-
Other assets	-	815	815	12,261
TOTAL ASSETS	3,847,712	6,462,610	10,310,322	1,226,376
LIABILITIES				
Accounts payable and other current liabilities	94,767	100,851	195,618	51,389
Due to component unit	1,103	-	1,103	-
Accrued liabilities	41,267	102,435	143,702	34,552
Notes payable	84,920	100,000	184,920	-
Unearned revenues	37,030	14,251	51,281	6,227
Rate stabilization	-	51,000	51,000	-
Noncurrent liabilities				
Due within one year	170,845	101,527	272,373	5,088
Due in more than one year	1,256,324	3,738,938	4,995,262	56,843
TOTAL LIABILITIES	1,686,057	4,209,002	5,895,059	154,099
NET ASSETS				
Invested in capital assets, net of related debt	1,922,455	1,577,670	3,500,125	781,903
Restricted for:				
Capital projects	127,077	10,068	137,145	-
Debt service	73,346	215,599	288,945	-
General government	10,854	-	10,854	-
Law, safety and justice	79,484	-	79,484	-
Physical environment	40,331	-	40,331	-
Transportation	26,543	-	26,543	-
Economic environment	21,444	-	21,444	-
Mental and physical health	75,784	-	75,784	-
Culture and recreation	12,909	-	12,909	-
Regulatory assets and environmental liabilities	-	30,302	30,302	-
Other purposes	-	3,388	3,388	-
Expendable	-	-	-	38,587
Nonexpendable	-	-	-	28,896
Unrestricted	(228,572)	416,581	188,009	222,831
TOTAL NET ASSETS	\$ 2,161,655	\$ 2,253,608	\$ 4,415,263	\$ 1,072,277

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

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2010
(IN THOUSANDS)

Functions/Programs	Expenses	Indirect Expenses Allocation	Program Revenues		
			Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:					
Governmental activities					
General government	\$ 252,042	\$ (58,521)	\$ 54,187	\$ 4,863	\$ 112
Law, safety & justice	575,373	30,023	155,182	30,128	-
Physical environment	79,092	805	47,598	3,826	22,006
Transportation	106,019	2,367	14,631	18,017	86,710
Economic environment	101,614	1,539	27,836	29,459	1,626
Mental & physical health	450,758	5,920	266,270	106,618	-
Culture & recreation	53,427	644	6,799	195	76
Interest and other					
debt service costs	49,979	-	706	5,406	-
Total governmental activities	1,668,304	(17,223)	573,289	198,512	112,530
Business-type activities:					
Airport	21,996	300	20,766	-	5,300
Public Transportation	685,219	12,392	223,278	57,514	17,635
Solid Waste	99,204	2,006	109,949	-	850
Water Quality	288,417	2,456	305,738	-	2,431
Institutional Network	2,906	52	2,841	-	-
Radio Communications Services	4,650	17	4,002	-	204
Total business-type activities	1,102,392	17,223	666,574	57,514	26,220
Total primary government	\$ 2,770,696	\$ -	\$ 1,239,863	\$ 256,026	\$ 138,750
Component units	\$ 745,587		\$ 700,354	\$ 18,320	\$ 6,635
General revenues					
Property taxes					
Retail sales and use taxes					
Business and other taxes					
Penalties and interest - delinquent taxes					
Interest earnings					
Transfers					
Total general revenues and transfers					
Change in net assets					
Net assets - January 1, 2010 (Restated)					
Net assets - December 31, 2010					

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

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Units Total
Governmental Activities	Business-type Activities	Total	
\$ (134,359)	\$ (134,359)	\$ (134,359)	\$
(420,086)	(420,086)	(420,086)	
(8,467)	(8,467)	(8,467)	
12,972	12,972	12,972	
(44,232)	(44,232)	(44,232)	
(83,790)	(83,790)	(83,790)	
(47,001)	(47,001)	(47,001)	
(43,867)	(43,867)	(43,867)	
(766,830)	(766,830)	(766,830)	
	3,770	3,770	
	(399,184)	(399,184)	
	9,389	9,389	
	17,296	17,296	
	(117)	(117)	
	(461)	(461)	
	(369,307)	(369,307)	
(766,830)	(369,307)	(1,136,137)	
		(20,276)	
593,135	22,174	615,309	-
180,914	375,943	556,857	-
32,432	-	32,432	-
21,328	-	21,328	-
10,295	8,810	19,105	5,570
2,423	(2,423)	-	-
840,527	404,504	1,245,031	5,570
73,697	35,197	108,894	(14,708)
2,087,958	2,218,411	4,306,369	1,086,985
\$ 2,161,655	\$ 2,253,608	\$ 4,415,263	\$ 1,072,277

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2010
(IN THOUSANDS)

	GENERAL FUND	PUBLIC HEALTH FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS				
Cash and cash equivalents	\$ 55,685	\$ 71	\$ 596,691	\$ 652,447
Taxes receivable - delinquent	7,533	-	10,181	17,714
Accounts receivable, net	9,487	769	24,031	34,287
Other receivables, net	-	-	586	586
Interest receivable	6,829	-	-	6,829
Due from other funds	5,057	1,171	22,868	29,096
Interfund short-term loans receivable	4,731	-	-	4,731
Due from other governments, net	41,619	29,192	57,457	128,268
Inventory of supplies	-	1,223	-	1,223
Prepayments	-	-	8,070	8,070
Advances to other funds	3,800	-	407	4,207
TOTAL ASSETS	\$ 134,941	\$ 32,426	\$ 720,293	\$ 887,660
LIABILITIES AND FUND BALANCE				
Liabilities				
Accounts payable	\$ 8,426	\$ 14,965	\$ 45,838	\$ 69,229
Due to other funds	5,048	697	27,002	33,547
Interfund short-term loans payable	-	2,289	22,247	24,536
Due to other governments	898	-	6,616	7,514
Due to component unit	-	-	1,103	1,103
Interest payable	-	-	2,220	2,220
Wages payable	15,928	4,461	8,056	28,445
Taxes payable	95	-	60	155
Bonds payable	-	-	3,285	3,285
Deferred revenues	14,566	1,709	41,648	58,013
Notes and contracts payable	-	-	84,920	84,920
Custodial accounts	1,737	843	6,048	8,628
Advances from other funds	-	-	707	707
Total liabilities	46,698	25,054	250,550	322,302
Fund balances				
Reserved	16,632	1,558	93,233	111,423
Unreserved	-	-	-	-
Designated - reported in	-	-	-	-
General Fund	4,001	-	-	4,001
Special Revenue Funds	-	-	71,036	71,036
Undesignated - reported in	-	-	-	-
General Fund	67,610	-	-	67,610
Public Health Fund	-	5,814	-	5,814
Special Revenue Funds	-	-	185,632	185,632
Debt Service Funds	-	-	42,694	42,694
Capital Projects Funds	-	-	77,148	77,148
Total fund balances	88,243	7,372	469,743	555,358
TOTAL LIABILITIES AND FUND BALANCES	\$ 134,941	\$ 32,426	\$ 720,293	

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

Capital assets used in governmental activities are not financial resources and are not reported in the funds	2,341,183
Other long-term assets are not available to pay for current-period expenditures and are deferred in the funds	29,769
Governmental activities internal service funds assets and liabilities are included in the governmental activities in the statement of net assets	76,347
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds	(851,002)
Net assets of governmental activities	\$ 2,161,655

The 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, 2010
(IN THOUSANDS)

	GENERAL FUND	PUBLIC HEALTH FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES				
Taxes				
Property taxes	\$ 271,832	\$ -	\$ 321,266	\$ 593,098
Retail sales and use taxes	82,759	-	98,155	180,914
Business and other taxes	6,241	-	26,191	32,432
Penalties and interest - delinquent taxes	21,328	-	-	21,328
Licenses and permits	8,242	12,434	3,722	24,398
Intergovernmental revenues	108,719	137,295	314,980	560,994
Charges for services	109,034	11,269	109,279	229,582
Fines and forfeits	8,740	-	261	9,001
Interest earnings	2,067	-	5,505	7,572
Miscellaneous revenues	14,522	6,275	39,405	60,202
TOTAL REVENUES	633,484	167,273	918,764	1,719,521
EXPENDITURES				
Current				
General government	98,787	-	46,321	145,108
Law, safety and justice	456,769	-	99,702	556,471
Physical environment	4,742	-	102,555	107,297
Transportation	-	-	114,436	114,436
Economic environment	425	-	102,379	102,804
Mental and physical health	24,500	190,584	245,500	460,584
Culture and recreation	-	-	51,069	51,069
Debt Service				
Principal	-	-	62,901	62,901
Interest and other debt service costs	5	14	31,701	31,720
Refunding bond issuance costs	-	-	78	78
Payment to escrow agent	-	-	14,997	14,997
Capital outlay	819	234	114,346	115,399
TOTAL EXPENDITURES	586,047	190,832	985,985	1,762,864
Excess (deficiency) of revenues over (under) expenditures	47,437	(23,559)	(67,221)	(43,343)
OTHER FINANCING SOURCES (USES)				
Transfers in	951	26,713	114,905	142,569
Transfers out	(42,865)	(96)	(96,812)	(139,773)
General government debt issued	-	-	82,465	82,465
Premium on bonds sold	-	-	6,521	6,521
Refunding bonds issued	-	-	41,250	41,250
Sale of capital assets	294	7	(893)	(392)
Payment to refunded bonds escrow agent	-	-	(45,561)	(45,561)
TOTAL OTHER FINANCING SOURCES (USES)	(41,620)	26,624	102,075	87,079
Net changes in fund balances	5,817	3,065	34,854	43,736
Fund balances - January 1, 2010	82,426	4,307	434,889	521,622
Fund balances - December 31, 2010	\$ 88,243	\$ 7,372	\$ 469,743	\$ 565,358

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, 2010
(IN THOUSANDS)

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

Net change in fund balances - total governmental funds	\$ 43,736
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	83,190
The net effect of various miscellaneous transactions involving capital assets (e.g., sales, trade-ins, and donations) is to increase net assets	(33,253)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.	1,672
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	(7,963)
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.	(7,297)
The net revenues and expenses of certain activities of internal service funds are reported with governmental activities	(6,388)
Change in net assets of governmental activities	\$ 73,697

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, 2010
(IN THOUSANDS)

	BUDGETED AMOUNTS			
	ORIGINAL	FINAL	ACTUAL	VARIANCE
REVENUES				
Taxes				
Property taxes	\$ 270,366	\$ 270,366	\$ 271,832	\$ 1,466
Retail sales and use taxes	86,470	86,470	82,759	(3,711)
Business and other taxes	6,972	6,972	6,241	(731)
Penalties and interest - delinquent taxes	15,000	15,000	21,328	6,328
Licenses and permits	8,071	8,367	8,242	(125)
Intergovernmental revenues	101,092	101,321	108,719	7,398
Charges for services	107,136	107,240	109,034	1,794
Fines and forfeits	9,687	9,687	8,740	(947)
Interest earnings	3,062	3,062	2,115	(947)
Miscellaneous revenues	15,542	15,693	14,490	(1,203)
Sale of capital assets	100	100	294	194
Transfers in	23	23	951	928
TOTAL REVENUES	623,521	624,301	634,745	10,444
EXPENDITURES				
Current				
General government services	103,549	105,463	99,730	5,733
Law, safety and justice	457,258	461,206	458,588	2,618
Physical environment	2,451	4,951	4,742	209
Economic environment	608	607	425	182
Mental and physical health	24,725	24,663	24,563	100
Debt service				
Principal	34	34	-	34
Interest and other debt service costs	3	3	-	3
Capital outlay	1,048	1,815	1,268	547
Transfers out	42,855	48,832	43,276	5,556
TOTAL EXPENDITURES	632,531	647,574	632,592	14,982
Deficiency of revenues under expenditures (budgetary basis)	\$ (9,010)	\$ (23,273)	2,153	\$ 25,426
Adjustment from budgetary basis to GAAP basis			3,664 ^(a)	
Net change in fund balance			5,817	
Fund balance - January 1, 2010			82,426	
Fund balance - December 31, 2010			\$ 88,243	
(a) Elements of adjustment from budgetary basis to GAAP basis				
Adjustments to revenues				
Recognition of unrealized loss on investments on a GAAP basis			\$ (48)	
Recognition of donation revenue on a GAAP basis			32	
Adjustments to expenditures				
Encumbrances, not included in GAAP basis expenditures			3,274	
Budgeted transfers out reported as a reduction of advance on a GAAP basis			594	
Non-budgeted transfers out			(183)	
Non-budgeted interest and other debt service costs			(5)	
Adjustment from budgetary basis to GAAP basis			\$ 3,664	

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, 2010
(IN THOUSANDS)

	BUDGETED AMOUNTS			
	ORIGINAL	FINAL	ACTUAL	VARIANCE
REVENUES				
Licenses and permits	\$ 12,771	\$ 12,894	\$ 12,434	\$ (460)
Intergovernmental revenues	130,458	146,489	137,295	(9,194)
Charges for services	15,222	13,228	11,260	(1,959)
Miscellaneous revenues	12,478	11,737	6,275	(5,462)
Transfers in	26,575	26,667	26,713	46
Sale of capital assets	-	-	7	7
Total Revenues	197,504	211,015	193,993	(17,022)
EXPENDITURES				
Current				
Mental and physical health	197,451	210,111	190,902	19,209
Debt service				
Interest and other debt service costs	40	40	14	26
Capital outlay	667	770	234	536
Transfers out	94	94	95	(2)
Total Expenditures	198,252	211,015	191,246	10,769
Excess (Deficiency) of revenues over (under) expenditures (budgetary basis)	\$ (748)	\$ -	2,747	\$ 2,747
Adjustment from budgetary basis to GAAP basis - encumbrances			318	
Net change in fund balance			3,065	
Fund balances - January 1, 2010			4,307	
Fund balance - December 31, 2010			\$ 7,372	

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

STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 DECEMBER 31, 2010
 (IN THOUSANDS)
 (PAGE 1 OF 2)

	BUSINESS-TYPE ACTIVITIES				INTERNAL SERVICE FUNDS
	PUBLIC TRANSPOR- TATION	WATER QUALITY	OTHER ENTERPRISE FUNDS	TOTAL	
ASSETS					
Current assets					
Cash and cash equivalents	\$ 342,809	\$ 24,018	\$ 74,335	\$ 441,162	\$ 287,361
Restricted cash and cash equivalents	11,522	185,042	212	197,676	1,519
Investments					551
Accounts receivable	14,576	27,529	11,546	55,653	1,493
Estimated uncollectible:					
accounts receivable	(178)		(113)	(291)	(2)
Due from other funds	1,333	5,845	2,358	9,536	4,189
Interfund short-term loans receivable	116,118			116,118	
Property tax receivable delinquent	347			347	
Due from other governments, net	106,797	9,550	1,944	118,291	571
Inventory of supplies	17,462	5,758	1,542	24,762	1,387
Prepayments and other assets	404	77		481	2,629
Total current assets	611,100	250,719	93,826	955,735	279,709
Noncurrent assets					
Restricted assets					
Cash and cash equivalents	34,640	191,036	39,253	264,929	10,055
Due from other governments, net	22	354		376	414
Assessments receivable	420			420	
Property tax receivable delinquent	63			63	
Total restricted assets	35,145	191,390	39,253	285,788	10,469
Capital assets					
Non-depreciable assets	246,567	2,143,881	78,953	2,469,701	20,395
Depreciable assets, net of depreciation	855,549	1,715,105	176,060	2,746,734	379,159
Total capital assets	1,102,116	3,858,986	255,033	5,216,135	399,554
Other noncurrent					
Prepayments	7,293			7,293	
Notes receivable	815			815	
Regulatory assets - environmental remediation		47,079		47,079	
Other utility assets, net of accumulated depreciation		22,703		22,703	
Deferred charges	1,088	28,525	94	29,707	4,319
Other assets	283			283	
Total other noncurrent	9,479	98,307	94	107,880	4,339
Total noncurrent assets	1,147,040	4,149,693	294,380	5,591,113	405,402
TOTAL ASSETS	1,758,140	4,407,402	388,206	6,553,838	685,110

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



STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2010
(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	\$ 50,088	\$ 39,520	\$ 10,844	\$ 100,452	\$ 7,681
Retainage payable	1,537	18,106	190	19,833	120
Claims and judgments payable	-	-	-	-	2,237
Estimated claim settlements	-	-	-	-	99,784
Due to other funds	966	2,068	4,728	7,762	1,515
Interest payable	605	76,145	244	76,995	1,621
Interfund short-term loans payable	-	96,313	-	96,313	-
Wages payable	19,893	3,690	1,857	25,440	3,630
Compensated absences payable	8,224	393	135	8,752	662
Taxes payable	150	-	193	343	11
Unearned revenues	10,523	-	3,728	14,251	2,217
Environmental remediation - current portion	-	5,599	-	5,599	-
Revenue bonds payable	-	33,850	-	33,850	10,465
General obligation bonds payable	9,490	2,630	3,449	15,569	125
Capital leases payable	94	-	-	94	-
State revolving loan payable	-	7,896	-	7,896	-
Notes payable	-	100,000	-	100,000	-
Landfill closure and post-closure care liability	-	-	5,928	5,928	-
Other liabilities	-	-	265	265	1,481
Total current liabilities	101,570	386,221	31,558	519,359	131,549
Noncurrent liabilities					
Retainage payable	660	1,340	31	2,031	-
Rate stabilization	-	51,090	-	51,090	-
Compensated absences payable	43,595	10,681	5,703	59,980	16,862
Other postemployment benefits	4,028	673	567	5,268	595
Advances from other funds	3,500	-	-	3,500	-
General obligation bonds payable	143,885	827,885	43,872	1,015,642	-
Revenue bonds payable	-	2,399,490	-	2,399,490	365,525
Deferred bond premium, discount and refunding loss	2,212	7,452	1,768	11,432	-
Capital leases payable	3,185	-	-	3,185	-
State revolving loans payable	-	128,099	-	128,099	-
Landfill closure and post-closure care liability	-	-	79,559	79,559	-
Estimated claim settlements	-	-	-	-	63,541
Environmental remediation	351	32,157	4,433	36,941	-
Other liabilities	-	-	425	425	-
Total noncurrent liabilities	202,817	3,458,787	136,358	3,797,162	460,923
TOTAL LIABILITIES	303,587	3,845,008	167,926	4,316,521	592,472
NET ASSETS					
Invested in capital assets, net of related debt	592,595	407,161	205,944	1,575,700	(11,882)
Restricted for					
Capital projects	10,068	-	-	10,068	218
Debt service	11,473	204,126	-	215,599	11,770
Regulatory assets and environmental liabilities	-	30,302	-	30,302	-
Other purposes	3,308	-	-	3,308	-
Unrestricted	487,119	(79,195)	14,336	402,260	81,832
TOTAL NET ASSETS	\$ 1,454,643	\$ 562,394	\$ 220,280	2,237,317	\$ 92,638
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds				16,291	
Net assets of business-type activities				\$ 2,253,608	

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010
(IN THOUSANDS)

	BUSINESS-TYPE ACTIVITIES				INTERNAL SERVICE FUNDS
	PUBLIC TRANSPORTATION	WATER QUALITY	OTHER ENTERPRISE FUNDS	TOTAL	
OPERATING REVENUES					
Net fees	\$ -	\$ -	\$ 2,820	\$ 2,820	\$ -
Radio services	-	-	3,741	3,741	-
Solid waste disposal charges	-	-	84,877	84,877	-
Airfield fees	-	-	3,481	3,481	-
Hangar, building, and site rentals and leases	-	-	13,835	13,835	-
Reimbursement for services to tenants	-	-	1,673	1,673	-
Passenger	194,148	-	-	194,148	-
Special service contracts	10,949	-	-	10,949	-
Sewage disposal fees	-	253,684	-	253,684	-
Other operating revenues	18,939	51,141	469	70,549	439,231
Total operating revenues	223,136	304,825	119,896	638,857	439,231
OPERATING EXPENSES					
Personal services	392,754	41,597	49,411	483,762	84,147
Materials and supplies	63,479	9,417	7,872	80,768	10,786
Contract services and other charges	23,065	14,711	26,731	64,507	287,285
Utilities	5,580	11,608	3,408	20,596	-
Purchased transportation	52,220	-	-	52,220	-
Internal services	52,621	26,349	13,895	92,865	22,807
Environmental related amortization	-	1,535	-	1,535	-
Depreciation and amortization	101,760	92,622	21,948	216,330	17,935
Total operating expenses	691,479	197,844	122,355	1,012,678	422,960
OPERATING INCOME (LOSS)	(468,343)	106,981	(12,459)	(373,821)	15,271
NONOPERATING REVENUES					
Sales tax	375,943	-	-	375,943	-
Property tax	22,174	-	-	22,174	-
Intergovernmental	57,514	-	-	57,514	37
Interest earnings	4,358	3,229	1,150	8,736	2,897
DNR administration	-	-	3,623	3,623	-
Rental income	-	-	1,355	1,355	-
Landfill closure and post-closure care	-	-	19,330	19,330	-
Other nonoperating revenues	142	628	2,354	3,324	-
Total nonoperating revenues	460,120	4,048	27,812	491,980	2,844
NONOPERATING EXPENSES					
Interest	3,447	81,099	2,311	86,857	19,675
DNR administration	-	-	3,343	3,343	-
(Gain) Loss on disposal of capital assets	5,192	10,171	1,419	16,782	(481)
Other nonoperating expenses	236	2,937	1,741	4,914	955
Total nonoperating expenses	8,875	94,207	8,814	111,896	20,149
Income (loss) before contributions and transfers	(17,083)	16,822	6,539	6,278	(2,034)
Capital grants and contributions	17,638	2,431	6,161	26,230	1,137
Transfers in	-	-	574	574	1,054
Transfers out	(10)	(632)	(1,565)	(2,207)	(1,217)
CHANGE IN NET ASSETS	539	18,621	11,709	30,869	(1,090)
NET ASSETS JANUARY 1, 2010	1,454,104	543,773	208,571	2,206,448	94,698
NET ASSETS DECEMBER 31, 2010	\$ 1,454,643	\$ 562,394	\$ 220,280	2,237,317	\$ 92,638
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds				4,328	
Change in net assets of business-type activities				\$ 35,197	

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, 2010
 (IN THOUSANDS)
 (PAGE 1 OF 2)

	BUSINESS-TYPE ACTIVITIES				INTERNAL SERVICE FUNDS
	PUBLIC TRANSPOR- TATION	WATER QUALITY	OTHER ENTERPRISE FUNDS	TOTAL	
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash received from customers	\$ 214,040	\$ 308,538	\$ 108,311	\$ 630,897	\$ 451,044
Cash payments to suppliers for goods and services	(186,442)	(77,713)	(49,898)	(314,054)	(315,852)
Cash payments for employee services	(388,341)	(40,110)	(48,085)	(477,116)	(83,129)
Other receipts	-	-	5,742	5,742	1,226
Other payments	-	-	(4,611)	(4,611)	-
Net cash provided (used) by operating activities	(360,736)	190,715	10,879	(159,142)	53,289
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Operating grants and subsidies received	471,858	-	-	471,858	38
Interfund loan principal amounts loaned to other funds	(116,118)	-	-	(116,118)	-
Interfund loan principal repayments from other funds	131,483	-	-	131,480	-
Interest paid on short-term loans	-	(762)	-	(762)	-
Interfund loan principal borrowed from other funds	-	96,313	-	96,313	-
Interfund loan principal repayment amounts	-	(82,633)	-	(82,633)	-
Transfers in	-	-	574	574	1,054
Transfers out	(10)	(837)	(1,565)	(2,207)	(2,217)
Net cash provided (used) by noncapital financing activities	487,210	12,288	(991)	498,505	(1,125)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition of capital assets	(81,189)	(409,691)	(19,554)	(510,434)	(14,133)
Financing of environmental remediation	-	3,719	-	3,719	-
Proceeds from capital debt	27,573	436,909	-	464,482	-
Principal paid on capital debt	(8,354)	(78,625)	(4,915)	(91,894)	(6,585)
Interest paid on capital debt	(6,558)	(142,454)	(2,423)	(151,435)	(19,699)
Assessment principal interest and penalties received	400	-	-	400	(34)
Deferred Cost	-	18,666	-	18,666	-
Capital grants and contributions	29,853	2,431	7,691	39,975	196
Other capitalized payments	-	-	(3,324)	(3,324)	-
Proceeds from disposal of capital assets	559	-	665	1,224	889
Net cash used by capital and related financing activities	(37,716)	(169,045)	(21,860)	(228,621)	(39,360)
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest on investments (including unrealized gains/losses reported as cash and cash equivalents)	4,241	3,220	1,150	8,611	2,811
Proceeds from sales of investments	-	-	-	-	9,609
Net cash provided by investing activities	4,241	3,220	1,150	8,611	12,420
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	92,699	37,175	(10,822)	119,353	25,218
CASH AND CASH EQUIVALENTS JANUARY 1, 2010	295,672	363,820	524,622	784,414	253,717
CASH AND CASH EQUIVALENTS DECEMBER 31, 2010	\$ 388,371	\$ 400,995	\$ 113,603	\$ 903,767	\$ 278,935

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, 2010
 (IN THOUSANDS)
 (PAGE 2 OF 2)

	BUSINESS-TYPE ACTIVITIES				
	PUBLIC TRANSPOR- TATION	WATER QUALITY	OTHER ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES					
Operating income (loss)	\$ (468,343)	\$ 106,581	\$ (12,458)	\$ (373,821)	\$ 15,271
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES					
Depreciation and amortization	101,760	94,162	21,948	217,870	17,935
Other nonoperating revenue/expense	-	-	2,723	2,723	-
Changes in assets - (increase) decrease					
Accounts receivable, net	1,467	(1,850)	(2,108)	(591)	-1,991
Due from other funds	285	(727)	156	(286)	263
Due from other governments - net	(5,935)	(9,550)	(392)	(15,877)	243
Inventory of supplies	(1,507)	(374)	(213)	(2,094)	236
Prepayments	404	75	-	479	2,879
Changes in liabilities - increase (decrease)					
Accounts payable	11,720	521	2,994	15,244	(3,438)
Due to other funds	66	(1,434)	212	(1,156)	(559)
Retainage payable	(153)	(14,416)	(41)	(14,610)	79
Rate stabilization	-	15,850	-	15,850	-
Wages payable	1,644	536	60	2,460	329
Taxes payable	92	-	(26)	66	(4)
Unearned revenues	(8,600)	-	-	(8,600)	1,434
Claims and judgments payable	-	-	-	-	2,237
Estimated claim settlements	-	-	-	-	10,395
Compensated absences	1,370	761	521	2,652	447
Other postemployment benefits	1,180	170	(44)	1,494	242
Customer deposits and other liabilities	5	-	(2,655)	(2,655)	207
Total adjustments	107,607	63,734	23,338	214,679	38,618
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ (360,736)	\$ 190,215	\$ 10,870	\$ (159,142)	\$ 13,259

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:

Public Transportation received land from a government with a value of \$1,723 thousand and transferred land with a book value of \$4 thousand to the same entity. During 2010, the Enterprise transferred capital assets to other funds in the amount of \$235 thousand.

The King County International Airport issued capital bonds during 2010. The bond proceeds of \$5,691 thousand were placed in an escrow account with the purpose of defeasing \$5,280 thousand of outstanding bond principal.

The Stadium Fund transferred land to the General Government with a book value of \$473 thousand.

During 2010, Internal Service Funds received \$551 thousand of capital assets from other funds and transferred \$521 thousand of capital assets to other funds.

The Water Quality Fund issued capital bonds. The proceeds of \$39,289 thousand were placed in an escrow account for the defeasance of \$36,250 thousand of outstanding bond principal. In addition, the Enterprise received contributions of capital assets from the General Government in the amount of \$1,239 thousand.

STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 DECEMBER 31, 2010
 (IN THOUSANDS)

	INVESTMENT TRUST FUNDS	AGENCY FUNDS
ASSETS		
Cash and cash equivalents	\$ -	\$ 106,093
Assets held in trust - external investment pool	-	2,648,969
Assets held in trust - external impaired investment pool	-	9,994
Investments	2,658,454	2,790
Assets held in trust - individual investment accounts	-	891
Taxes receivable - delinquent	-	79,086
Accounts receivable	-	7,463
Interest receivable	1,400	-
Assessments receivable	-	7,086
Notes and contracts receivable	-	52
TOTAL ASSETS	2,659,854	2,862,424
LIABILITIES		
Warrants payable	-	73,149
Accounts payable	-	445
Wages payable	-	3,903
Custodial accounts - County agencies	-	51,741
Due to special districts/other governments	-	2,733,186
TOTAL LIABILITIES	-	\$ 2,862,424
NET ASSETS		
Held in trust for pool/individual investment account participants	\$ 2,659,854	-

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, 2010
(IN THOUSANDS)

	INVESTMENT TRUST FUNDS
ADDITIONS	
Contributions	\$ 8,417,320
Net investment earnings	
Interest	24,655
Increase in the fair value of investments	58
TOTAL ADDITIONS	8,442,033
DEDUCTIONS	
Distributions	8,308,361
Change in net assets	133,672
Net assets - January 1, 2010	2,526,182
Net assets - December 31, 2010	\$ 2,659,854

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

STATEMENT OF NET ASSETS
COMPONENT UNITS
DECEMBER 31, 2010
(IN THOUSANDS)

	Harborview Medical Center	WSMLB Stadium Public Facilities District	Cultural Development Authority	Total
ASSETS				
Cash and cash equivalents	\$ 198,117	\$ 3,435	\$ 5,885	\$ 207,437
Investments	-	-	42,944	42,944
Receivables, net	128,115	3	832	128,950
Due from primary government	-	-	1,103	1,103
Inventories	8,234	-	-	8,234
Prepayments	1,956	13	-	1,969
Non-depreciable assets	17,272	38,424	-	55,696
Depreciable assets, net of depreciation	395,923	371,259	-	767,182
Deposits with other governments	600	-	-	600
Other assets	12,261	-	-	12,261
Total assets	762,478	413,134	50,764	1,226,376
LIABILITIES				
Accounts payable and other current liabilities	50,679	36	674	51,389
Accrued liabilities	34,552	-	-	34,552
Unearned revenues	230	-	5,997	6,227
Noncurrent liabilities				
Due within one year	1,366	3,271	451	5,088
Due in more than one year	22,169	32,770	1,904	56,843
Total liabilities	108,996	36,077	9,026	154,099
NET ASSETS				
Invested in capital assets, net of related debt	408,341	373,642	-	781,983
Restricted for				
Expendable	20,852	-	17,715	38,567
Nonexpendable	2,518	-	26,378	28,896
Unrestricted	221,771	3,415	(2,355)	222,831
Total net assets	\$ 653,482	\$ 377,057	\$ 41,738	\$ 1,072,277

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

STATEMENT OF ACTIVITIES
COMPONENT UNITS
FOR THE YEAR ENDED DECEMBER 31, 2010
(IN THOUSANDS)

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Component units:				
Harborview Medical Center	\$ 720,823	\$ 696,146	\$ 7,180	\$ 5,661
WSMLB Stadium	15,107	4,123	-	974
Cultural Development Authority	9,657	85	11,140	-
Total component units	<u>\$ 745,587</u>	<u>\$ 700,354</u>	<u>\$ 18,320</u>	<u>\$ 6,635</u>
General revenues				
Interest earnings				
Change in net assets				
Net assets - January 1, 2010 (Restated - see Note 17)				
Net assets - December 31, 2010				



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

Net (Expense) Revenue and Changes in Net Assets

Harborview Medical Center	WSMLB Stadium Public Facilities District	Cultural Development Authority	Total
\$ (11,836)	\$ -	\$ -	\$ (11,836)
-	(10,010)	-	(10,010)
-	-	1,568	1,568
(11,836)	(10,010)	1,568	(20,278)
3,796	40	1,734	5,570
(8,040)	(9,970)	3,302	(14,708)
661,522	387,027	38,436	1,086,985
\$ 653,482	\$ 377,057	\$ 41,738	\$ 1,072,277

Notes to the Financial Statements
For the Year Ended December 31, 2010
(DOLLARS IN THOUSANDS)

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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 (FBOD) 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 FBOD 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. 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 financial data is as of its fiscal year-end, June 30, 2010, rather than the County's fiscal year-end of December 31, 2010.

The primary classification of HMC is that of a component unit, however the County is the issuer of HMC's general obligation bonds. Note 14 "Debt," reports on all the general obligation bonds issued by the County as of December 31, 2010, including bonds reported by HMC as a component unit as of June 30, 2010.

HMC hires 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, P.O. Box 94445, Seattle, Washington 98124.

Cultural Development Authority of King County (CDA)

The Cultural Development Authority of King County (CDA) is a public authority organized pursuant to chapter 35.21 RCW and King County Ordinance 14482. The CDA commenced operations on January 1, 2003, and began doing business as "4Culture" effective April 4, 2004. It 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.

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 nonrestrictive 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 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. It issues its own financial statements, which are audited by the State Auditor. 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 quasi-municipal corporation and independent taxing authority; (2) King County 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. It issues its own financial statements, which are audited by the State Auditor. 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 a single-purpose entity 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 IRS Revenue Ruling 63-20 and Revenue Procedure 82-26. Under the agreements, the buildings are 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 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 report the activities of the corporations.

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) NJB Properties for the Ninth & 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 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 grantors 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 responsible for one-half of the disallowed amount. As of December 31, 2010, 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 2010 the WDC reimbursed King County approximately \$1.9 million for the Work Training Program and \$2.7 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.

Related Organizations

Four entities are classified as related organizations because they are legally separate entities, though each is related to King County. These are the King County Library System (KCLS), the Library Capital Facility District (LCFD), the King County Housing Authority (KCHA), and the Washington State Convention Center (WSCC) public facilities district. The County Council appoints a majority of the board of the KCLS and the KCHA and selected Councilmembers make up the three-member board of the LCFD. There is no evidence that the County Council can influence the programs and activities of these four organizations or that they create a significant financial benefit or burden to the County. For these reasons, they are related organizations.

The WSCC was created in July 2010 to acquire, own and operate the convention and trade center transferred from the public nonprofit corporation that owned the Washington State Convention Center. The district's initial board of directors consists of those nine directors who served at the time of the transfer. Following the expiration of the terms of the initial board, three members will be nominated by the County Executive subject to confirmation by the County Council, three members will be nominated by the City of Seattle, and three members will be appointed by the Washington state governor.

The County serves as the treasurer for the KCLS and the LCFD, 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 non-fiduciary 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 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. The County also has 67 nonmajor Special Revenue and Capital Projects funds that are combined into 16 roll-up funds.

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, capital improvements, and maintenance of the County's water pollution control facilities. The enterprise has two large 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 Vashon Island Treatment Plants.

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, the 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, and special assessment debt for certain Districts.

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 the Undistributed Taxes Fund and the 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.

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 have been met.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, are generally 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.

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.

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.

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. This function includes expenditures for employment opportunity and development, veterans' services, child-care 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.
- 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 or 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 (See Note 4 – "Deposits, Investments and Receivables")

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 transaction between willing parties, other than in a forced or liquidation sale. See Note 4 - "Deposits, Investments and Receivables."

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 noncurrent 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; 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 used by the Motor Pool Equipment Rental Fund, Public Works Equipment Rental Fund, 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 (See Note 6 – "Capital Assets")

Capital assets include: Land (fee simple land, rights-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 assets are maintained and preserved at the predetermined condition level set by the Road Services Division. The asset management system tracks the 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 normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item, or extend its useful life beyond the original estimate, 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.

Using the straight-line method, capital assets and their components are depreciated over their estimated useful lives as follows:

Description	Estimated Useful Life
Buildings - constructed	40 - 60 years
Buildings - transfer stations, shops, scales offices, etc	10 - 30 years
Buses and trolleys	12 - 18 years
Cars, vans, and trucks	5 - 10 years
Data processing equipment	3 - 10 years
Downtown transit tunnel	50 years
Heavy equipment	7 - 20 years
Medical and office equipment, software	3 - 25 years
Sewer lines	50 years
Shop equipment	5 - 20 years
Telecommunications equipment	3 - 20 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.

Rate Stabilization - The County 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 County 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 that has been paid out is being amortized over a recovery period of 30 years.

Rebatable 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 certain 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. An unlimited amount of sick leave and a maximum of 60 days of vacation may be carried over at year-end. An employee leaving employment at King County is entitled to be paid for unused vacation leave and, if leaving employment due to death or retirement, 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

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 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.

New Accounting Standard

In June 2007, the Governmental Accounting Standards Board issued Statement No. 51, *Accounting and Reporting for Intangible Assets*. This Statement establishes accounting and financial reporting requirements for recognition, initial measurement and amortization of intangible assets. The statement is effective for reporting periods beginning after June 15, 2009, and was adopted by the County in 2010 without a material impact on the County's financial statements.

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 (in thousands):

Bonds payable	\$ 724,999
Less: Deferred charge on refunding (to be amortized as interest expense)	(9,021)
Deferred charge for issuance costs (to be amortized over the life of the debt)	(3,838)
Plus: Unamortized premiums on bonds sold	24,233
Accrued interest payable	5,351
Compensated absences	82,935
Unemployment compensation payable	2,466
Other postemployment benefits	23,877
Net adjustment to reduce fund balance - total governmental funds to arrive at net assets - governmental activities	<u>\$ 851,002</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 (in thousands):

The governmental funds statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in*

Capital outlay	\$ 115,402
Depreciation expense	(32,212)
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ 83,190</u>

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."

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."

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."

King County, Washington

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.

\$ 116,036

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

(82,783)

Net adjustment to decrease *net changes in fund balances - total governmental funds* to arrive at *changes in net assets of governmental activities*

\$ 33,253

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."

Property tax accrual	\$ 38
Surface Water Management service charge accrual	92
Probation and parole service charge accrual	82
Fines and forfeits net accrual	1,460

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

\$ 1,672

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."

Debt issued or incurred	
Issuance of general government debt	\$ 82,465
Issuance of refunding bonds	41,250
Premium on bonds sold	6,520
Bond issuance costs	(815)
Principal repayments	(62,901)
Receipts from component units for principal repayments	1,211
Payment to escrow agent	(59,767)

Net adjustment to decrease *net changes in fund balances - total governmental funds* to arrive at *changes in net assets of governmental activities*

\$ 7,963

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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."

Compensated absences	\$ 2,806
Accrued unemployment compensation	(112)
Other postemployment benefits	6,092
Accrued rebatable arbitrage	(17)
Accrued interest	(310)
Amortization of issuance costs	705
Amortization of deferred charge on refunding	2,977
Amortization of bond premiums	(4,844)

Net adjustment to decrease *net changes in fund balances - total governmental funds* to arrive at *changes in net assets of governmental activities*

\$ 7,297

Another element of that reconciliation states, "Net internal service funds are reported with revenues and expenses of certain activities of governmental activities."

Investment interest earnings	\$ (2,723)
Revenues related to services provided to outside parties	(4,154)
Expenses related to services provided to outside parties	4,408
Gain on disposal of capital assets	(406)
Interest on long-term debt	19,675
Capital contributions	(1,096)
Transfers in	(1,054)
Transfers out	2,635
Internal service fund gains allocated to governmental activities	(10,897)

Net adjustment to decrease *net changes in fund balances - total governmental funds* to arrive at *changes in net assets of governmental activities*

\$ 6,388

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

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.

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Net assets of the business-type activities internal service fund	\$ 11,173
Internal receivable representing charges in excess of cost to the enterprise funds by the governmental activities internal service funds - prior years	1,818
Internal payable representing the amount overcharged to the enterprise funds by the governmental activities internal service funds - current year	3,300
Net adjustment to increase net assets - total enterprise funds to arrive at net assets of business-type activities	\$ 16,291

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 (in thousands):

The proprietary funds statement of revenues, expenses, and changes in fund net assets includes

Investment interest earnings	\$ 84
Revenues related to services provided to outside parties	85
Expenses related to services provided to outside parties	(83)
Gain on disposal of capital assets	75
Transfers in	41
Transfers out	(102)
Internal service fund gains allocated to business-type activities	4,228
Net adjustment to increase net assets - total enterprise funds to arrive at net assets of business-type activities	\$ 4,328

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."

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**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) Basis 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.

Two Special Revenue Funds (the County Road Fund and the Marine Operating Fund) have adopted biennial budgets for 2010 and 2011.

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 multiyear 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, the King County Ferry District Fund, the Parks Trust and Contribution Fund, the Road Improvement Districts Maintenance Fund, and the Treasurer's Operations and Maintenance Fund are not budgeted.

Four Debt Service Funds have annual budgets. Three have annual budgets with budgeting concepts identical to the General Fund. 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.

All funds in the Capital Projects Fund type, except the Road Improvement Districts Construction Fund, are controlled by multiyear 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.

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 during the fiscal year. Estimated revenues are based on the amount estimated to be earned and available during the fiscal year. Several divisions within the Department of Transportation are appropriated as biennial budgets for the 2010-2011 biennium.

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 claims 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 and the Trust and Agency Funds are not budgeted.

Encumbrances

Encumbrances outstanding as of December 31, 2010, by fund type (in thousands):

General Fund	\$	3,274
Public Health Fund		318
Special Revenue Funds		9,107
Capital Projects Funds		48,150
Enterprise Funds		2,590
Internal Service Funds		4,900
Total All Funds	\$	68,339

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. 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 year-end. 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, Materially in Excess of Amounts Legally Authorized

Funds with Annual or Biennial Budgets

Except for the departments/funds listed below, all other funds and departments/divisions with annual or biennial budgets completed the year within their legally authorized expenditures, including other financing uses. In the General Fund, expenditures for Adult and Juvenile Detention and the appropriation unit used to pay State Auditor billings exceeded their legally authorized budgets. Expenditures in the Road Improvement Guaranty Fund also exceeded the legally authorized budget.

Funds with Multi-year Budgets

One hundred three capital projects in twenty Capital Projects and Enterprise Funds with multi-year budgets have a combined total of \$8.6 million of expenditures in excess of budget. These deficits are expected to be corrected by additional appropriations in 2011.

Material Fund Balance and Net Asset Deficits

Building Development and Management Corporations - The deficit of \$19.0 million is the result of assets being depreciated at a greater rate than the principal payments of the lease revenue bonds, especially in the earlier years of the bonds, and bond interest expenses exceeding rent collected by NJB Properties. Once the bond principal payments begin to increase and additional rent is assessed

and collected by NJB Properties, the fund balance deficit will be reduced.

Building Repair and Replacement Fund - The deficit of \$268 thousand is the result of critical building and improvement projects funded with a short-term loan. The County plans to issue general obligation bonds, which will eliminate this deficit.

County Road Fund - The fund ended 2010 with a deficit of \$10.7 million as a result of a combination of lower than anticipated revenues including unrealized property sales (Covington and Summit pit sites), under collection of property taxes, lower timber tax receipts and delayed grant receipts. Under expenditure in 2010 was less than projected resulting from extra unanticipated storm response expenses and additional expenses incurred for non-billable costs by staff budgeted to distribute their labor to cost centers outside the fund. In 2011, the deficit will be addressed by constraining expenditures in the operating and capital improvement program budgets; matching one-time revenue shortfalls with one-time reductions; and matching ongoing revenue shortfalls with ongoing expenditure reductions.

Green River Flood Mitigation Fund - The deficit of \$15.7 million is the result of expenditures related to flood control mitigation projects financed with short-term financing through the issuance of bond anticipation notes. The County plans to issue general obligation bonds, which will eliminate this deficit.

Office of Information Resource Management Capital Fund - The deficit of \$16.9 million was the result of expenditures for a major project funded by a short-term loan. The County plans to issue general obligation bonds, which will eliminate this deficit.

Renton Maintenance Facilities Construction - The deficit of \$3.2 million was the result of costs to

begin the design of a new regional maintenance facility in Ravensdale. The deficit will be eliminated from proceeds received from the sale of property at a future date.

Safety and Workers' Compensation Fund - The deficit of \$1.2 million was the result of a change in 2004 of the method for estimating workers' compensation claim liabilities. In that year the County changed from using the case reserves liabilities to an actuarially developed estimate of liabilities. 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 each year since its inception.

Work Training Program/Youth Employment - The deficit of \$47 thousand is due to an error in the division's internal allocation of Information Technology application development costs during year end 2010 and a one-time unbudgeted common area charge related to the program's WorkSource Renton facilities lease. The cost allocation model has been corrected and will resolve this deficiency.

Unrestricted Net Asset Deficits

Solid Waste Enterprise Fund - The deficit of \$17.4 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 \$79.2 million in unrestricted net assets is the result of short term borrowing by the Water Quality Enterprise from other County funds. The Enterprise plans to issue general obligation bonds, which will eliminate this deficit.

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) 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 their public deposits. 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 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, Incorporated. 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.

As of December 31 the County's total deposits, excluding the equity in the component units, were \$78.7 million in carrying amount and \$60.3 million in bank balance, of which \$11.6 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	\$ 67,072	\$ 48,768	\$ -
Money Market Accounts	11,574	11,574	11,574
Total deposits	\$ 78,646	\$ 60,342	\$ 11,574

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. All of the \$11.6 million held in money market accounts is exposed to custodial credit risk as uninsured and uncollateralized.

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, its agencies, or in any corporation wholly owned by the U.S. 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 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 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.

Although the County is authorized to enter into reverse repurchase agreements, the County has chosen to not enter into this type of transaction 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 U.S. 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.

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, which reviews pool performance monthly, consists of the Chair of the County Council, the County Executive, the Director of the Office of Performance, Strategy and Budget, and the Director of the Finance and Business Operations Division, or their designees. All investments are subject to written policies adopted by the EFC.

As of December 31, 2010, all four impaired commercial paper investments have completed enforcement events. The King County impaired investment pool (Impaired Pool) holds one commercial paper asset where the Impaired Pool accepted an exchange offer and is receiving the cash flows from the investment's underlying securities. In the other three commercial paper investments the County accepted the cash out option. The fair value of the total impaired investments at December 31, 2010, was \$17.6 million and the principal balance was \$38.2 million.

The King County Investment Pool, excluding the equity in the component units, has a balance of \$4.0 billion. The change in the fair value of the total investments for the reporting entity as of December 31, 2010, after considering purchases, sales and maturities, resulted in a net markup from cost of \$13.4 million. The following schedule shows the types of investments, the average interest rate, and the effective duration limits of the various components of the King County Investment Pool as of December 31, 2010 (in thousands):

Investment Type	Fair Value	Principal	Average Interest Rate	Effective Duration (Yrs)
Repurchase Agreements	\$ 350,000	\$ 350,000	0.18%	0.010
U.S. Treasury Bills	959,381	960,000	0.18%	0.387
U.S. Agency Discount Notes	929,581	930,306	0.36%	0.422
Taxable Municipal Notes	15,303	15,000	5.17%	0.485
U.S. Treasury Notes	1,083,655	1,075,000	0.92%	1.198
U.S. Agency Notes	828,009	820,000	1.49%	1.392
U.S. Agency Zero Coupon Notes	19,211	19,312	2.20%	0.640
U.S. Agency Collateralized				
Mortgage Obligations	34,459	32,625	4.50%	3.091
State Treasurer's Investment Pool	493,235	493,235	0.26%	0.008
Totals	\$ 4,712,834	\$ 4,695,478	0.68%	0.711

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 2010, 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 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.

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-6 percent, Federal National Mortgage Association-21 percent, Federal Home Loan Bank-6 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 projected cash flows, the Executive Finance Committee established the maximum amount that can be invested in the core portfolio at \$2.2 billion, and the County is in compliance with this policy. As of December 31, 2010, the combined effective duration of the liquidity and core portfolios was 0.711 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, 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 deposit issued by qualified public depositaries, 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." This 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):

Credit Quality Distribution

Investment Type	AAA or A-1	AA	Not Rated	Total
Repurchase Agreements	\$ 350,000	\$ -	\$ -	\$ 350,000
U.S. Agency Discount Notes	929,581	-	-	929,581
Taxable Municipal Notes	-	15,303	-	15,303
U.S. Agency Notes	828,009	-	-	828,009
U.S. Agency Zero Coupon Notes	19,211	-	-	19,211
U.S. Agency Collateralized				
Mortgage Obligations	34,459	-	-	34,459
State Treasurer's Investment Pool	-	-	493,235	493,235
TOTAL	\$ 2,161,260	\$ 15,303	\$ 493,235	\$ 2,669,798

The King County Investment Pool's policies limit the maximum amount that can be invested in various securities. At year-end the Pool was in compliance. The Pool's actual composition consisted of Repurchase agreements, 7.4 percent, U.S. Treasury Bills, 20.4 percent, U.S. Treasury

Notes, 23.0 percent, Agency Securities, 37.7 percent, Agency Mortgage Backed Securities, 0.7 percent, the State Treasurer's Investment Pool, 10.5 percent, and Municipal Notes, 0.3 percent. The following table summarizes the Pool's diversification policy.

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

<u>Investment Type</u>	<u>Maximum Maturity</u>	<u>Security Type Limit</u>	<u>Single Issuer Limit</u>	<u>Minimum Credit Rating</u>
U.S. Treasury	5 Years	100%	None	N/A
U.S. Federal Agency	5 Years	75%	75%	N/A
U.S. Federal Agency MBS	5 Year WAL	25%	25%	N/A
Certificates of Deposit	5 Years	20%	7.50%	PDPC ⁽¹⁾
Municipal Securities ⁽²⁾	5 Years	20%	5%	A ⁽³⁾
Bank Securities	5 Years	20%	5%	A ⁽³⁾
Repurchase Agreements	60 Days ⁽⁴⁾	40%	10%	Collateral
Commercial Paper	180 Days	25%	5%	A1/P1 ⁽⁵⁾
Bankers' Acceptances	180 Days	25%	10%	Top 50 ⁽⁶⁾
State LGIP ⁽⁷⁾	N/A	None	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 issuers: General Obligation and Revenue bonds. Other states: only GO bonds.

(3) Must be rated A or better by two rating agencies.

(4) 102% collateralized, over 30 days 105%.

(5) Must be rated in top credit category by at least two rating agencies. Maturities > 100 days must have AA long-term rating.

(6) Bankers' acceptances can only be purchased from the 50 largest banks in the world by asset size

(7) The State LGIP is a money market-like fund managed by the State Treasurer's Office.

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 \$4.2 million and the carrying amount of \$4.2 million. In addition, HMC has equity in the Investment Pool (reported as cash equivalents on June 30, 2010). 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, 2010, HMC's equity in the pool was \$209.4 million and the carrying amount was \$198.1 million, as shown in the following table (in thousands):

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Cash in other banks	\$ 4,229	\$ 4,230
Equity in Investment Pool		
Investments	193,888	205,153
Total Equity in Investment Pool	193,888	205,153
Total	\$ 198,117	\$ 209,383

King County Investment Pool (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, 2010 (in thousands):

Condensed Statement of Net Assets

	<u>Total</u>	<u>Main Pool</u>	<u>Impaired Pool</u>
Assets	\$ 4,731,732	\$ 4,714,180	\$ 17,552
Net assets held in trust for pool participants	\$ 4,731,732	\$ 4,714,180	\$ 17,552
Equity of internal pool participants	\$ 2,074,163	\$ 2,066,605	\$ 7,558
Equity of external pool participants	2,657,569	2,647,575	9,994
Total equity	\$ 4,731,732	\$ 4,714,180	\$ 17,552

Condensed Statement of Changes in Net Assets

Net assets - January 1, 2010	\$ 4,351,668	\$ 4,335,604	\$ 16,064
Net change in investments by pool participants	380,064	378,576	1,488
Net assets - December 31, 2010	\$ 4,731,732	\$ 4,714,180	\$ 17,552

Washington 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 \$16 thousand and the carrying amount of \$16 thousand. In addition, the PFDD has equity in the King County Investment Pool. The PFDD's equity in the pool applies the same criteria as the Investment Pool to classify the amounts of deposits and investments exposed to custodial credit risk as uninsured and uncollateralized. As of December 31, 2010, the PFDD's equity in the pool was \$3.4 million and the carrying amount was \$3.4 million as shown in the following table (in thousands):

	Carrying Amount	Bank Balance
Cash in other banks	\$ 16	\$ 16
Equity in Investment Pool Investments	3,435	3,435
Total Equity in Investment Pool	3,435	3,435
Total	\$ 3,451	\$ 3,451

Cultural Development Authority of King County (CDA)

Deposits The CDA 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.

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. Funds in the amount of \$5.2 million were held in the LGIP at December 31, 2010; the interest rate for these funds was 0.26% at December 31, 2010.

Investments The CDA has an Investment Policy to guide the management of its assets and ensure that

investment activity is within 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, 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.

All investment securities are recorded at fair market value based on reports provided by the CDA's investment trustee.

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, 2010 (in thousands):

Investment Type	Fair Value	Principal	Average Interest Rate	Effective Duration (Yrs)	Concentration
U.S. Treasury Notes	\$ 21,219	\$ 20,217	3.13%	4.353	49.41%
Federal Home Loan Mortgage Corp Debentures	6,608	6,430	4.09%	2.868	15.39%
Federal National Mortgage Association Notes	9,587	9,322	4.28%	3.027	22.32%
Federal Home Loan Bank Bonds	3,187	3,182	4.29%	8.002	7.42%
Federal Farm Credit Bank Bonds	1,368	1,303	3.91%	4.963	3.19%
Other	976	976	0.19%	0.003	2.27%
Totals	\$ 42,945	\$ 41,430	3.58%	4.020	100.00%

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, 2010, the combined weighted average effective duration of the CDA's portfolio was 4.02 years.

Credit risk Credit risk is the risk that an issuer will not fulfill its obligations. As of December 31, 2010, all issuers of investments in the CDA portfolio had a Standard & Poor's rating of "AAA."

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, 2010, the CDA had concentrations greater than 5

percent of its total portfolio, excluding U.S. Treasury obligations, in the following issuers: Federal National Mortgage Association-22 percent, Federal Home Loan Mortgage Corporation-15 percent, and Federal Home Loan Bank-7 percent.

Receivables

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
Accounts receivable				
Accounts receivable	\$ 82,582	\$ 799	\$ 31,555	\$ 114,936
Estimated uncollectible accounts receivable	(73,095)	(30)	(7,524)	(80,649)
Net accounts receivable	\$ 9,487	\$ 769	\$ 24,031	\$ 34,287
Other receivables				
Abatements receivable	\$ -	\$ -	\$ 666	\$ 666
Estimated uncollectible abatements receivable	-	-	(133)	(133)
Assessments receivable - current	-	-	55	55
Net other receivables	\$ -	\$ -	\$ 580	\$ 588
Due from other governments	\$ 41,898	\$ 29,197	\$ 57,457	\$ 128,552
Estimated uncollectible due from other governments	(79)	(5)	-	(84)
Net due from other governments	\$ 41,819	\$ 29,192	\$ 57,457	\$ 128,468

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 rate limitations and amount limitations 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 \$1.16171 per thousand in 2010. 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 \$1.93572 per thousand in 2010. 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 84.52.069); (2) a voted levy to finance affordable housing for very low income households, limited to \$0.50 per thousand (authorized by RCW 84.52.105), however, the County has not sought approval from voters for this levy; (3) a non-voted levy for conservation futures, limited to \$0.0625 per thousand (authorized by RCW 84.34.230); and (4) 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 2010 is \$0.04918 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 2010 rate was \$0.30 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 \$0.04468 per thousand for Veterans and Human Services in 2010. 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 2010 levy rate is \$0.04571 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 by voters in 2007 for a six-year period beginning in 2008. The 2010 levy rate is \$0.05451 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.

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 \$0.10514 and \$0.00348, respectively for the 2010 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 portions 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.

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 due.
May 31	Assessed value of property established for next year's levy at 100 percent of market value.
October 31	Second installment 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, a federal civil judgment lien is senior to a lien on real property taxes once the federal 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 \$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 2010 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 2010 countywide assessed valuation was \$342.0 billion, a decrease of \$44.9 billion from 2009; the assessed valuation for the unincorporated area levy was \$44.0 billion, a decrease of \$8.8 billion from 2009.

ALLOCATION OF 2010 AND 2009 TAX LEVIES

	2010 Original Taxes Levied (in thousands)	2010 Levy Rate (per thousand)	2009 Original Taxes Levied (in thousands)	2009 Levy Rate (per thousand)
Countywide Levy Assessed Valuation:				
\$341,971,517 thousand ^(a)				
Items Within Operating Levy^(b)				
General Fund	\$ 274,311	\$ 0.80597	\$ 268,565	\$ 0.69697
Veterans' Relief	2,539	0.00746	2,478	0.00643
Human Services	5,640	0.01657	5,510	0.01430
Intercounty River Improvement	50	0.00015	50	0.00013
Limited G.O. Bonds Debt Service	22,850	0.06714	21,814	0.05661
Automated Fingerprint Identification System ^(c)	15,557	0.04571	17,236	0.04473
Parks Levy ^(d)	37,103	0.10902	36,598	0.09498
Veterans and Human Services ^(e)	15,207	0.04468	14,859	0.03856
Public Transportation ^(f)	22,124	0.06501	-	-
Total Operating Levy	395,381	1.16171	367,110	0.95271
Conservation Futures Levy^(g)				
Conservation Futures Levy	9,734	0.02860	9,302	0.02414
Farmland and Park Debt Service	7,004	0.02058	7,059	0.01832
Total Conservation Futures Levy	16,738	0.04918	16,361	0.04246
Unlimited Tax GO Bonds (Voter-approved Excess Levy)				
	25,044	0.07410	39,286	0.10255
Total Countywide Levy	437,163	1.28499	422,757	1.09772
EMS Levy Assessed Valuation:				
\$218,205,271 thousand ^{(a) (h)}	65,162	0.30000	68,010	0.27404
Unincorporated County Levy Assessed Valuation:				
\$44,017,625 thousand ^{(a) (i)}	84,684	1.93572	83,476	1.58880
County Road Fund				
Total County Tax Levies ⁽ⁱ⁾	\$ 587,009		\$ 574,243	

(a) Assessed valuation for taxes payable in 2010.

(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 assessed for six years beginning in 2007 at a levy rate of not more than \$0.05680 per thousand of assessed valuation (RCW 84.55.050).

(d) 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 not more than \$0.05 per \$1,000 of assessed value for each part, as authorized by RCW 84.55.050 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 2008 at a levy rate of not more than \$0.05 per thousand of assessed valuation as authorized by RCW 84.55.050 and a proposition approved by a majority of voters in the County.

(f) The non-voted levy for transit-related purposes is limited to \$0.075 per \$1,000 of assessed value.

(g) The Conservation Futures levy tax rate is statutorily limited to \$0.0625 per thousand of assessed value.

(h) 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.

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

(j) Excludes tax levy of the blended component units a) the Flood Control Zone District (in 2010 and 2009, the original taxes levied were \$35,783 and \$35,152 thousand, respectively) and b) the Ferry District (in 2010 and 2009 the original taxes levied were \$1,186 thousand and \$19,335 thousand).

Note
Capital Assets**Primary Government**

A summary of changes in capital assets for the King County Primary Government (in thousands):

	Balance 1/1/2010	Increases	Decreases	Balance 12/31/2010
Governmental Activities:				
Capital assets not being depreciated				
Land	\$ 383,914	\$ 55,419	\$ (2,556)	\$ 436,777
Right of way and easements	414,919	38,353	(30,236)	423,036
Infrastructure	943,117	61,923	(79,583)	925,457
Art collections	8,497	311	-	8,808
Work in progress	106,809	35,484	(63,452)	78,841
Total capital assets not being depreciated	1,857,256	191,490	(175,827)	1,872,919
Capital assets being depreciated				
Buildings	990,902	30,065	-	1,020,967
Improvements other than buildings	33,915	25,263	-	59,178
Infrastructure	-	5,294	-	5,294
Furniture, machinery & equipment	161,273	20,044	(15,919)	165,398
Software	32,995	6,577	-	39,572
Total capital assets being depreciated	1,219,085	87,243	(15,919)	1,290,409
Less accumulated depreciation for:				
Buildings	(259,328)	(30,689)	-	(290,017)
Improvements other than buildings	(6,769)	(1,548)	-	(8,317)
Furniture, machinery & equipment	(99,644)	(16,754)	6,885	(109,513)
Software	(25,198)	(472)	-	(25,670)
Total capital assets being depreciated - net	828,146	37,780	(9,034)	856,892
Governmental activities capital assets - net	\$ 2,685,402	\$ 229,270	\$ (184,861)	\$ 2,729,811
Business-type Activities:				
Capital assets not being depreciated				
Land	\$ 320,954	\$ 3,996	\$ (1,650)	\$ 323,300
Right of way and easements	37,399	60	-	37,459
Work in progress	1,766,480	571,526	(229,064)	2,108,942
Total capital assets not being depreciated	2,124,833	575,562	(230,714)	2,469,701
Capital assets being depreciated				
Buildings	1,620,229	42,977	(3,368)	1,659,838
Improvements other than buildings	978,345	46,028	(5,557)	1,018,816
Infrastructure	1,023,221	41,675	-	1,064,897
Furniture, machinery & equipment	1,518,375	91,287	(51,517)	1,558,145
Software	68,798	9,241	(502)	77,537
Total capital assets being depreciated	5,208,968	231,209	(60,944)	5,379,233
Less accumulated depreciation for:				
Buildings	(608,052)	(48,774)	3,491	(651,335)
Improvements other than buildings	(480,581)	(41,866)	65	(522,382)
Infrastructure	(314,227)	(22,397)	-	(336,624)
Furniture, machinery & equipment	(1,021,583)	(98,399)	46,944	(1,073,038)
Software	(39,772)	(7,866)	488	(47,150)
Total capital assets being depreciated - net	2,744,753	13,907	(9,956)	2,748,704
Business-type activities capital assets - net	\$ 4,869,586	\$ 589,469	\$ (240,670)	\$ 5,218,405

Beginning balances have been restated; see Note 17 - "Restrictions, Reserves, Designations and Changes in Equity." Governmental activities include capital assets of governmental internal service funds

except for the Wastewater Equipment Rental Fund, which is reported under business-type activities because it provides services exclusively to the Water Quality Enterprise.

Depreciation Expense

Depreciation and amortization expense charged to functions of the Primary Government (in thousands):

Governmental Activities	
General government services	\$ 12,023
Law, safety and justice	14,964
Physical environment	84
Transportation	358
Economic environment	141
Mental and physical health	1,638
Culture and recreation	3,004
Capital assets held by the County's governmental internal service funds are charged to governmental activities based on their usage of the assets	17,252
Total depreciation/amortization expense - governmental activities	<u>\$ 49,464</u>
Business-type Activities	
Water Quality	\$ 92,627
Public Transportation	101,760
Solid Waste	15,260
King County International Airport	4,178
Radio Communications	1,093
Institutional Network	1,417
Capital assets held by the Wastewater Equipment Rental internal service fund are charged to business-type activities based on their usage of the assets	683
Total depreciation and amortization expense - business-type activities	<u>\$ 217,018</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 non-depreciable 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. Under the modified approach depreciation is not recorded; instead, costs incurred to extend an asset's useful life are 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.

Rights-of-Way and Easements

Rights-of-Way

Historical costs for infrastructure-related rights-of-way 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 ensures that land will not be developed in a nonagricultural use.

Governmental Buildings in Internal Service Funds

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 nonprofit property management corporations that are recognized as blended component units of the County in accordance with GASB Statement 14. These buildings are the King Street Center building, the Patricia Bracelin Steel Memorial building, the Chinook building and Goat

Hill parking garage; and the Ninth & Jefferson Building.

Construction Commitments

Project commitments are defined as authorized and planned expenditures for the capital budget period.

Proprietary Funds

Public Transportation Enterprise - \$239 million is committed to the maintenance of existing infrastructure, service delivery and partnership efforts

Water Quality Enterprise - \$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 - \$160 million is committed to improving the County's solid waste regional landfill and transfer stations, \$50 million is committed to runway rehabilitation and facilities improvements at the King County International Airport, and \$2 million is committed to maintaining the radio communications systems within the county.

Capital Projects Funds

\$457 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 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, 2010 (in thousands):

	Balance 07/01/09	Increases	Decreases	Balance 06/30/10
Capital assets not being depreciated:				
Land	\$ 1,586	\$ -	\$ -	\$ 1,586
Work in progress	14,693	13,288	(12,295)	15,686
Total capital assets not being depreciated	16,279	13,288	(12,295)	17,272
Capital assets being depreciated:				
Buildings	387,428	2,160	-	389,588
Improvements other than buildings	12,946	1,012	-	13,958
Equipment	331,447	26,143	(7,310)	350,280
Total capital assets being depreciated	731,821	29,315	(7,310)	753,826
Less accumulated depreciation for:				
Buildings	(107,323)	(13,392)	-	(120,715)
Improvements other than buildings	(1,382)	(856)	-	(2,238)
Equipment	(215,847)	(25,748)	6,645	(234,950)
Total accumulated depreciation	(324,552)	(39,996)	6,645	(357,903)
HMC capital assets, net	\$ 423,548	\$ 2,607	\$ (12,960)	\$ 413,195

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

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

Capital assets activity for the PFD for the fiscal year ended December 31, 2010 (in thousands):

	Balance 01/01/10	Increases	Decreases	Balance 12/31/10
Capital assets not being depreciated:				
Land	\$ 38,424	\$ -	\$ -	\$ 38,424
Capital assets being depreciated:				
Baseball stadium	489,886	225	(860)	489,251
Improvements other than buildings	26,630	239	-	26,869
Equipment	65	-	-	65
Total capital assets being depreciated	516,580	464	(860)	516,185
Less accumulated depreciation for:				
Baseball stadium	(130,694)	(12,187)	-	(142,881)
Improvements other than buildings	(1,264)	(716)	-	(1,980)
Equipment	(65)	-	-	(65)
Total accumulated depreciation	(132,023)	(12,903)	-	(144,926)
PFD capital assets, net	\$ 422,982	\$ (12,439)	\$ (860)	\$ 409,683

**Net
Restricted Assets**

Within the Statement of Net Assets are amounts that are restricted to their use.

The restricted assets for these funds (in thousands):

Proprietary Funds

<u>Public Transportation</u> - restricted for future construction projects, debt service and obligations.	\$ 46,667
<u>Water Quality</u> - restricted for future construction projects, debt service, and reserves and obligations.	377,332
<u>King County International Airport</u> - restricted for construction projects and obligations.	668
<u>Solid Waste</u> - restricted for landfill closure and post-closure care costs.	38,797
<u>Building Development & Management Corporations</u> - restricted for construction projects and debt service.	11,988
Total Proprietary Funds restricted assets	\$ 475,452

Component Unit - Harborview Medical Center (HMC)

<u>HMC Construction Fund</u> - restricted for construction projects, seismic, public safety and other improvements, and furnishings of HMC buildings.	\$ 15,005
<u>HMC Special Purpose Fund</u> - restricted donations, gifts, and bequests from various sources for specific uses.	9,947
<u>HMC Operating Fund</u> - restricted resources that are board-designated for specific purposes, including planned capital and service components, self-insurance, commuter services, net fixed assets held for future use, research and training.	39,558
<u>HMC Plant Fund</u> - restricted resources that are board-designated for building improvements, furnishings, and repair and replacement.	21,615
Total HMC restricted assets	\$ 86,125

Component Unit - Cultural Development Authority of King County

<u>Public Arts Projects Fund</u> - restricted for the one percent for public art programs operated for the benefit of King County.	\$ 5,997
<u>Cultural Grant Awards Fund</u> - restricted for arts and heritage cultural programs.	18,389
<u>Cultural Endowment Fund</u> - a long-term endowment for the benefit of the arts and heritage cultural programs.	26,378
Total CDA restricted assets	\$ 50,764

Note B 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.

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. Employees who fail to choose within 90 days default to PERS Plan 3. 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 of service, or at the age of 55 with 25 years of service. The annual benefit is 2 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 3 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 3 percent annually. The benefit is reduced to offset the cost of this annual adjustment.

PERS Plan 2 members are vested after the completion of five years of service. Plan 2 members may retire at the age of 65 with five years of service with an allowance of 2 percent of the AFC per year

of service. The AFC is based on the greatest compensation during any eligible consecutive 60-month period.

PERS Plan 2 members who have at least 20 years of service credit and are 55 years of age or older are eligible for early retirement with a reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age for each year before age 65. PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

- With a benefit that is reduced by 3 percent for each year before age 65.
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

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 3 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 for normal retirement at age 65, or they may retire early with the following conditions and benefits:

- If they have at least ten service credit years and are 55 years old, they have the choice of a benefit that is reduced by 3 percent for each year before age 65.
- If they have 30 service credit years and are at least 55 years old, they have the choice of a benefit that is reduced by 3 percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules

PERS Plan 3 defined benefit retirement benefits are also actuarially reduced to reflect the choice, if made, 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.

PERS Plan 3 defined contribution retirement benefits are solely dependent upon the results of investment activities. 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 Director of the Department of Retirement Systems.

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 percent multiplier. The benefit would be capped at 75 percent of AFC. Judges in PERS Plan 3 could elect a 1.6 percent of pay per year of service benefit, capped at 37.5 percent of average compensation.

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 percent of AFC, 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 in JBM 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 1,189 participating employers in PERS. Membership in PERS consisted of the following as

of the latest actuarial valuation date for the plans of June 30, 2009:

Retirees and beneficiaries receiving benefits	74,857
Terminated plan members entitled to, but not yet receiving benefits	28,074
Active plan members vested	105,339
Active plan members nonvested	53,896
Total	262,166

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 6.0 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 5.0 percent to 15.0 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, 2010, for members not participating in the JBM were as follows:

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

The employer rates include the employer administrative expense fee currently set at 0.16%. PERS Plan 3 is the defined benefit portion only. Variable rate: 5.0% minimum/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 government	5.31%	5.31%	5.31%
Employee - Local government	12.26%	9.75%	7.50%

The employer rates include the employer administrative expense fee currently set at 0.16%. PERS Plan 3 is the defined benefit portion only. PERS Plan 3: 7.5% is the minimum rate.

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

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2008	\$ 3,501	\$ 47,203	\$ 6,923
2009	\$ 3,097	\$ 46,437	\$ 7,159
2010	\$ 2,197	\$ 37,286	\$ 6,083

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:

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 2 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 3 percent for each year prior to age 53. There is no cap on years of service credit

Retirees and beneficiaries receiving benefits	9,454
Terminated plan members entitled to, but not yet receiving benefits	674
Active plan members vested	13,363
Active plan members nonvested	3,944
Total	27,435

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

and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

Effective June 2010, benefits to LEOFF Plan 2 members who are catastrophically disabled include payment of eligible health care insurance premiums.

There are 372 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2009:

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. 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, 2010, were as follows:

	LEOFF Plan 1	LEOFF Plan 2
Employer	0.16%	5.24%
Employee	None	8.46%

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

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

	LEOFF Plan 1	LEOFF Plan 2
2008	\$ 1	\$ 3,537
2009	\$ 1	\$ 4,099
2010	\$ 1	\$ 4,035

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 2 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 3 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 allowance is granted based on the Consumer Price Index and capped at 3 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, 2009:

Retirees and beneficiaries receiving benefits	2
Terminated plan members entitled to, but not yet receiving benefits	-
Active plan members vested	-
Active plan members nonvested	4,340
Total	4,342

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, 2010, 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 (in thousands):

	PSERS
	Plan 2
2008	\$ 1,806
2009	\$ 2,156
2010	\$ 2,039

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 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 2008, 2009, and 2010 ending December 31 were \$644, \$615, and \$596 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 2010 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 2010 were \$400.

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 Health Care 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 health care 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 \$30.7 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, 2010, 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, 2010, by approximately \$7.8 million.

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, 2010 (in thousands):

Normal cost - Unit Credit Method	\$ 4,746
Amortization of unfunded actuarial accrued liability (UAAL)	369
Amortization of unfunded actuarial accrued liability (UAAL) at transition	7,989
Annual Required Contribution (ARC)	13,104
Interest on net OPEB obligation	603
Adjustment to annual required contribution	(872)
Annual OPEB cost (expense)	12,835
Contributions made	(5,007)
Increase in net OPEB obligation	7,828
Net OPEB obligation - beginning of year	22,912
Net OPEB obligation - end of year	\$ 30,740

Plan Description The King County Health Plan (the Health Plan) is a single-employer defined-benefit health care 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 stand-alone financial report.

Funding Policy LEOFF 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, 2010, the County contributed an estimated \$5.0 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 County's annual OPEB cost, the percentage of annual OPEB cost contributed to the Health Plan, and the net OPEB obligation (in thousands):

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2008	\$ 11,675	27.8%	\$ 15,083
12/31/2009	12,836	39.0%	22,912
12/31/2010	12,835	39.0%	30,740

Funded Status and Funding Progress

The funded status of the Health Plan as of December 31, 2010 (in thousands):

Actuarial accrued liability (AAL) - Unit Credit (12/31/09 Valuation)	\$ 149,390
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	\$ 149,390
Funded ratio (actuarial value of plan assets + AAL)	0.00%
Covered payroll (2010)	\$ 969,082
UAAL as a percentage of covered payroll	15.4%

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 health care cost trends. 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 multiyear 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 includes 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 projected unit credit actuarial cost method. The actuarial assumptions included a 4.0 percent investment rate of return (net of administrative expenses) and an initial annual health care cost trend rate of 11.0 percent for KingCare medical, 8.5 percent for KingCare pharmacy, and 11.0 percent for HMO medical/pharmacy, each reduced by decrements to an ultimate rate of 5.2 percent after 71 years and 12 years for medical and pharmacy, respectively. The vision trend rate is 1.0 percent, the miscellaneous trend rate is 7.0 percent, and the Medicare Premium trend rate is 8.5 percent, for all years. All trend rates include a 3.0 percent 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.

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 \$54,773 and \$38,828, for health care expenses for the years ended June 30, 2010, and 2009, respectively, which included funding of the OPEB liability.

Note 10 – Risk Management

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 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, 2010, is \$65.0 million.

The County purchases excess liability coverage that currently provides \$97.5 million in limits above a \$3.5 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. Effective September 1, 2010, 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 2010 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.

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 2010, there was significant change made in the County's insurance program. In April 2010, the County renewed its excess insurance program with a new \$3.5 million SIR that eliminates the "corridor deductible" of \$1.0 million above the \$2.5 million SIR of prior years.

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, towers 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.

Changes in the Insurance Fund's estimated claims liability in 2009 and 2010 (in thousands):

	Beginning of Year Liability	Claims and Changes in Estimates	Claim Payments	End of Year Liability
2009	\$ 59,269	\$ 18,045	\$ (14,673)	\$ 62,641
2010	62,641	20,718	(18,316)	65,043

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 3 percent, the County's average forecasted rate of return on investments. As of December 31, 2010, the total discounted claim liability is \$79.4 million and the undiscounted

carrying amount of the claim liability is \$88.2 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 claim adjustment expenses are not included as part of the liability.

Changes in the Safety and Workers' Compensation Fund's claims liability in 2009 and 2010 (in thousands):

	Beginning of Year Liability	Claims and Changes in Estimates	Claim Payments	End of Year Liability
2009	\$ 72,691	\$ 23,502	\$ (19,376)	\$ 76,817
2010	76,817	22,336	(19,722)	79,431

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, 2010, is \$18.9 million.

The Fund's claims liability is based on historical experience. Changes in the Employee Benefits Program Fund's claims liability in 2009 and 2010 (in thousands):

	Beginning of Year Liability	Claims and Changes in Estimates	Claim Payments	End of Year Liability
2009	\$ 13,826	\$ 160,660	\$ (161,015)	\$ 13,471
2010	13,471	173,807	(168,427)	18,851

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 \$2.5 million is recorded in governmental long-term liability for the estimated future claims liability for employees as of December 31, 2010.

	Beginning of Year Liability	Claims and Changes in Estimates	Claim Payments	End of Year Liability
2009	\$ 1,181	\$ 4,049	\$ (2,652)	\$ 2,578
2010	2,578	3,327	(3,439)	2,466

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, 2010, 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 was approximately \$1.7 million in the period July 1, 2008 to June 30, 2009, and \$2.0 million in the period July 1, 2009 to June 30, 2010.

Employee Benefits Program

Eligible permanent employees of HMC receive the basic insurance benefits package 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 available to employees.

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 – WSMJBS 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. Commercial personal property losses are covered up to the replacement value not exceeding \$67 thousand.

Component Unit – Cultural Development Authority of King County

Insurance Fund

The Cultural Development Authority of King County (CDA) 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), which 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 – Capital 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 2010. Such assets and liabilities related to proprietary funds are accounted for within the proprietary funds (Business-type Activities).

Capital assets and outstanding liabilities relating to capital lease agreements and installment purchase contracts as of December 31, 2010 (in thousands):

	Business-type Activities	
	Capital Assets	Capital Leases Payable
Leasehold improvements	\$ 4,900	\$ 3,279
Less depreciation	(1,430)	-
Totals	\$ 3,470	\$ 3,279

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, 2010 (in thousands):

	Minimum Lease Payments
2011	\$ 255
2012	255
2013	255
2014	255
2015	255
2016-2020	1,275
2021-2025	1,275
2026-2030	1,275
2031-2035	148
Total minimum lease payments	5,248
Less: Amount representing interest	(1,969)
Present value of net minimum lease payments	\$ 3,279

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, 2010, for operating lease and rental agreements for office space, equipment, and other operating leases amount to \$40.4 million. The patterns of future lease payment requirements are systematic and rational.

Future minimum lease payments for these leases (in thousands):

Year	Office Space	Equipment	Other	Total
2011	\$ 6,927	\$ 315	\$ 1,299	\$ 8,541
2012	5,930	276	1,131	7,337
2013	5,868	161	1,126	7,155
2014	5,164	-	1,082	6,246
2015	4,286	-	1,006	5,292
2016-2020	10,718	-	4,385	15,103
2021-2025	1,385	-	3,550	4,935
2026-2030	1,036	-	2,656	3,692
2031-2035	817	-	2,582	3,399
2036-2040	418	-	2,784	3,202
2041-2045	-	-	3,007	3,007
2046-2050	-	-	3,020	3,020
2051-2055	-	-	1,685	1,685

The County currently leases some of its property to various tenants under long-term, renewable, and noncancelable 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 County's investment in property under long-term, noncancelable operating leases as of December 31, 2010 (in thousands):

	Governmental Activities	Business-type Activities	
		Airport	Other
Land	\$ 819	\$ 11,220	\$ 3,657
Buildings	2,548	33,375	1,218
Less depreciation	(1,839)	(16,206)	(595)
Total cost of property under lease	\$ 1,528	\$ 28,389	\$ 4,280

Minimum future lease receipts on noncancelable operating leases based on contract amounts and terms as of December 31, 2010 (in thousands):

Year	Governmental Activities	Business-type Activities		Total
		Airport	Other	
2011	\$ 2,268	\$ 5,008	\$ 987	\$ 8,263
2012	18,905	4,859	7,446	31,210
2013	1,797	4,637	6,901	13,335
2014	1,732	4,518	6,673	12,923
2015	1,656	4,295	6,343	12,294

Note 12

Landfill Closure and Post-Closure 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, deflation, changes in technology, or changes in laws or 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, Duvall, 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 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, 2010, cash and cash equivalents of \$32.9 million were held in the Landfill Reserve Fund. Cash and cash equivalents and other restricted assets of \$5.0 million were held in the Landfill Post-closure Maintenance Fund.

The County expects that future cost increases resulting from inflation will be covered by the interest income earned on these annual contributions. 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. Because landfill investigations and foreseeable remediation efforts are complete there is no liability recorded for custodial landfills.

In 2010, estimated Cedar Hills Landfill capacity increased due to the approval of Area 8, and the post-closure estimate was revised based on historical post-closure costs, resulting in a negative landfill closure and post-closure expense recognition.

The \$85.5 million reported as landfill closure and post-closure care liability as of December 31, 2010, 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	74%	\$ 56,376	\$ 58,524	2024
Covered	100%	21,906	-	Closed
Custodial	100%	7,215	-	Closed

Note 13

Environmental Remediation

The County accounts for pollution remediation liabilities in accordance with GASBS 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This guidance mandates recognition and reporting of a liability for pollution remediation whenever the County is obligated for future cleanup and the amounts are reasonably estimable.

Liabilities reported at the end of 2010 do not include potential costs of cleanup that may arise out of the legal issues described in Note 18 - "Legal Matters, Contingent Liabilities, and Other Commitments." The likelihood of negative outcomes in these matters and the amount of liabilities that may arise cannot be reasonably estimated. The major sites where the County is conducting remediation activities are:

Elliott Bay and the Lower Duwamish Waterway – These ongoing projects include the sediment management of aquatic habitats along Elliott Bay and the cleanup of certain sites along the Lower Duwamish Waterway. The Sediment Management Project has been approved by the King County Council as a self-obligated pollution remediation program. The Lower Duwamish Waterway project became an 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.

Both projects may result in additional cleanup efforts as a result of additional regulatory orders. The EPA has announced its intention to negotiate an agreement with local governments, including King County, and other Potentially Responsible Parties (PRPs) for the remediation of Combined Sewer Outflows which may result in the recording of additional pollution remediation liabilities in the future. These potential cleanup liabilities cannot be currently estimated. Ongoing regulatory action may identify other PRPs for the Lower Duwamish Waterway cleanup.

There are no estimated recoveries at this time that will reduce the amount of these obligations. However, the State of Washington has indicated that it intends to fund grants in support of the Lower Duwamish Waterway cleanup. These

amounts are forecast at \$1.2 million over the period from 2011 to 2016. The total environmental remediation liability at December 31, 2010, stands at \$37.8 million. This liability is an estimate and is subject to changes resulting from price increases or reductions, changes in technology, or changes in applicable laws or regulations.

The methods for estimating liabilities are based on internal engineering analysis, program experience, and cost projections for the remediation activities scheduled to be undertaken in future years as programmed under Water Quality's Regional Wastewater Services Plan. Certain costs were developed by consulting engineers. Costs were estimated using the expected cash flow method. For the Lower Duwamish Waterway Project a weighted average method is used to calculate the liability. The Sediment Management Plan does not employ a weighted average cost estimate because the remaining work is well-defined and negates the utility of multiple estimates. The cost estimates continue to be remeasured as succeeding benchmarks are reached or when cost assumptions are modified.

Lake Union Tank and Dearborn Groundwater Monitoring – The Public Transportation Enterprise reported an environmental remediation liability of \$351 thousand at year-end. The remediation obligation is primarily related to monitoring soil and groundwater contamination at the Lake Union Tank and Dearborn (under consent decrees from the DOE), and groundwater monitoring at two bus operation bases on a voluntary basis. The liability was measured at the estimated amounts compiled by Public Transportation staff with knowledge of environmental issues at the sites, using the expected cash flow technique. This liability is an estimate and is subject to changes resulting from additional information regarding the level of contamination at specific sites, price increases or reductions, changes in technology, or changes in applicable laws or regulations.

Gasworks Park – In 2005, the City of Seattle and Puget Sound Energy (PSE) entered an agreed order with the DOE for investigating and identifying cleanup options for Lake Union sediments surrounding Gasworks Park. The City and PSE named the Public Transportation Enterprise and Chevron Corporation as additional potentially liable parties (PLPs) related to this site. Subsequently, the DOE notified the Public Transportation Enterprise and Chevron Corporation that they might be PLPs

under the Model Toxics Control Act. The DOE has not issued a final decision regarding the Enterprise's status as a PLP. No liability has been recorded because outlays for the site cleanup were not reasonably estimable at December 31, 2010.

Lower Duwamish Waterway Slip 4 – Remediation work includes an approved dredge and cap operation. Slip 4, which is within the Lower Duwamish Waterway, was designated an early action site for cleanup by the EPA and the DOE. The EPA has designated King County and the City of Seattle as PRPs. The total liability, which was estimated using the expected cash flow technique, is estimated to be \$6.9 million. King County and the City of Seattle have agreed to each bear 50 percent of this cost, with the City acting as Project Manager. The County and the City expect to recover the full \$6.9 million from Boeing. Remediation cost estimates are subject to changes due to price increases or reductions, changes in technology, or changes in applicable laws or agreements.

Lower Duwamish Waterway North Boeing Field – Remediation work involves source control of contaminants which may feed into Slip 4. The DOE has issued a determination that King County, the City of Seattle, and the Boeing Company are PLPs to this site. The total liability, estimated by an independent engineering firm using the expected cash flow technique, is estimated to be \$2.5 million; the County expects to recover all but \$869 thousand from the City and Boeing. Remediation cost estimates are subject to changes due to price increases or reductions, changes in technology, or changes in applicable laws or agreements.

7777 Perimeter Road – Remediation work involved DOE-required cleanup of a contaminated site. Work at this site, which involved building an underground wall to seal off the contaminants, was substantially completed in 2010. Contaminated levels will continue to be monitored for one year after completion of the project. If the contaminant levels pass standards for one year the DOE will issue a "no further action" determination. The remaining amount of the contract under which remediation work was performed is \$114 thousand; this amount remains as a potential liability due to the possible need for using these funds if further work is required.

Maury Island Gravel Mine Site – In December 2010, King County acquired approximately 250 acres of property on Vashon Island. The property is within the footprint of the former ASARCO smelter plume, and contains elevated levels of lead and arsenic. King County is investigating the extent of contamination and potential remedial actions. King County is negotiating with the Washington State DOE regarding a potential Agreed Order under the Model Toxics Control Act. The Agreed Order is not final and the scope of required remediation has not been determined. Due to the high level of regulatory review, approval requirements, and environmental permitting associated with any remediation project, at present the County is unable to determine what type of remediation activity may be required or the schedule of any required remediation. In addition, the County is unable to determine any potential cost obligations or possible recoveries that would reduce the amount of these obligations.

Note 14 Debt

Short-term Debt Instruments and Liquidity

For governmental activities, the County has three short-term debt instruments outstanding at year-end. On June 9, 2010, the County completed the sale of \$6.3 million Series B tax-exempt and \$17.8 million Series C taxable limited tax general obligation (GO) Bond Anticipation Notes with a maturity date of December 1, 2011. The proceeds of the notes are accounted for in the Green River Flood Mitigation fund. Proceeds from the sale of the notes are used to refinance two Bond Anticipation Notes issued on December 29, 2009. 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 bonds in 2011. In addition, the

County completed the sale of \$60.2 million tax-exempt limited tax general obligation (GO) Bond Anticipation Notes with a maturity date of June 15, 2011. The proceeds of the Notes have been accounted for in the Office of Information Resource Management capital project fund. The proceeds were used to provide interim financing to upgrade the County's technology infrastructure. The County has financed the repayment of the Notes by issuing new Bond Anticipation Notes in June 2011.

For business-type activities, the County has \$100 million of commercial paper outstanding in the Water Quality Enterprise Fund at year-end. The commercial paper has maturity dates ranging from 62 to 94 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. The debt will be repaid from operating revenues.

CHANGES IN SHORT-TERM DEBT FOR THE YEAR ENDED DECEMBER 31, 2010 (IN THOUSANDS)

	Balance 01/01/10	Additions	Reductions	Balance 12/31/10
Governmental activities:				
Limited tax GO bond anticipation notes	\$ 27,095	\$ 84,290	\$ (27,095)	\$ 84,290
Unamortized premium bonds sold	-	630	-	630
Governmental activities short-term debt	<u>\$ 27,095</u>	<u>\$ 84,920</u>	<u>\$ (27,095)</u>	<u>\$ 84,920</u>
Business-type activities:				
Commercial paper	\$ 100,000	\$ 953,409	\$ (953,409)	\$ 100,000
Business-type activities short-term debt	<u>\$ 100,000</u>	<u>\$ 953,409</u>	<u>\$ (953,409)</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 consisted 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; and Sewer Revenue Bonds and State of Washington revolving loans accounted for in the Water Quality Enterprise Fund.

SCHEDULE OF LONG-TERM DEBT (IN THOUSANDS)

	Issue Date	Final Maturity	Interest Rates	Original Issue Amount	Outstanding at 12/31/10
I. GOVERNMENTAL ACTIVITIES – LONG-TERM DEBT					
IA. Limited Tax General Obligation Bonds (LTGO)					
2001 Various Purpose (Partial)	11/01/01	12/01/21	3.00-5.00%	\$ 26,865	\$ 1,200
2002 Refunding 1997B Bonds (Baseball Stadium)	06/04/02	12/01/14	4.00-5.00%	124,575	37,365
2002 Various Purpose (Road CIP) Bonds	10/01/02	12/01/16	2.00-5.00%	38,340	8,910
2003 Limited Tax GO (Payoff BAN 2003B) Series A	10/30/03	06/01/23	2.00-5.25%	27,606	20,755
2003 Various Purpose Refunding Bonds Series B (Partial)	10/30/03	06/01/23	2.00-5.25%	27,890	9,400
2004 Refunding Bonds Series A	09/21/04	01/01/16	2.00-5.00%	57,045	40,445
2004 Limited Tax GO (Payoff BAN2003A) Series B	10/01/04	01/01/25	2.50-5.00%	82,435	68,690
2005 Refunding Bonds Series A	06/29/05	01/01/19	5.00%	22,510	22,510
2006 Refunding Bonds (Partial)	12/14/06	01/01/19	4.00-5.00%	38,330	28,455
2006 HUD Section 108 Bonds – Greenbridge Project	03/01/06	08/01/24	3.96-5.70%	6,783	1,905
2007 Kingdom Debt Series A Refunding 1997F	03/05/07	12/01/15	4.00-5.00%	48,665	48,100
2007 Various Purpose Series C	11/01/07	01/01/28	4.00-4.50%	10,695	9,915
2007 Various Purpose Series D	11/01/07	01/01/28	4.00-5.00%	34,630	32,185
2007 Various Purpose Series E (Partial)	11/27/07	12/01/17	4.00-5.00%	3,070	2,290
2009 Multi-Modal Limited Tax GO Bond Series A	02/26/09	06/01/29	Variable**	50,000	48,100
2009 Various Purpose Capital Facilities Project Series B2	05/12/09	06/01/29	2.00-5.15%	34,810	33,895
2009 Limited Tax GO (Refg 1993B) Series C	12/10/09	01/01/24	4.50%	17,150	16,975
2009 Refunding Bonds Series D (Partial)	12/10/09	12/01/12	4.50-5.25%	6,149	4,154
2010 Partial Refunding 2001VP Series A	10/18/10	12/31/21	2.00-5.00%	11,695	11,475
2010 Partial Refunding 2002 VP Series A	10/18/10	12/31/21	2.00-5.00%	9,600	9,600
2010 Tax Exempt Series A	11/15/10	12/01/14	2.00-5.00%	21,970	21,570
2010 Taxable BABs Series B	11/15/10	12/01/30	2.85-6.05%	24,460	24,480
2010 Taxable RZEDBs Series C	11/15/10	12/01/30	4.58-6.05%	23,165	23,165
2010 Taxable QECBs Series D	11/15/10	12/01/25	4.33-5.05%	2,825	2,825
2010 Tax Exempt Series E	11/15/10	12/01/30	2.00-4.50%	10,025	10,025
Total Payable From Limited Tax GO Redemption Fund				<u>761,367</u>	<u>541,789</u>
Payable From Internal Service Funds					
2001 Various Purpose (Partial)	11/01/01	12/01/11	3.00-5.00%	1,050	125
Total Payable From Internal Service Funds				<u>1,050</u>	<u>125</u>
Total Limited Tax General Obligation Debt				<u>762,357</u>	<u>541,914</u>
IB. Unlimited Tax General Obligation Bonds (ULTGO)					
Payable From Unlimited Tax GO Redemption Fund					
2003 Refunding 1993 Series C Bonds	04/23/03	06/01/19	2.00-5.25%	108,795	12,985
2004 Harborview Medical Center Series A	05/04/04	12/01/23	2.00-5.10%	110,000	89,790
2004 Harborview Medical Center Series B	09/14/04	06/01/23	3.00-5.00%	54,000	45,085
2009 Refunding 2001HMC Series A	12/10/09	12/01/20	4.30-5.00%	19,570	19,325
2010 Partial Refunding 2009 UTGO Series A	10/18/10	12/31/15	3.00-5.00%	16,305	15,915
Total Payable From Unlimited Tax GO Bond Redemption Fund				<u>308,670</u>	<u>183,060</u>
Payable From Stadium GO Bond Redemption Fund					
2010 Refunding 2000 UTGO Series A	10/18/10	12/31/12	3.00-5.00%	3,500	3,435
Total Unlimited Tax General Obligation Bonds				<u>312,170</u>	<u>186,495</u>
IC. Lease Revenue Bonds					
Payable From Internal Service Funds					
2002 Broadway Office Property – HMC Office Space	11/13/02	12/01/31	4.00-5.38%	62,540	55,915
2005 Gashill Property – Clwbrook Building	02/03/05	12/01/33	4.00-5.25%	101,035	94,360
2006A NJB Properties – HMC	12/05/06	12/01/36	5.00%	179,285	179,285
2006B NJB Properties – HMC (Taxable)	12/05/06	12/01/36	5.51%	10,435	10,435
2007 King Street Center Project Refunding 1997	03/08/07	06/01/25	4.00-5.00%	62,400	55,995
Total Lease Revenue Bonds Payable from Internal Service Funds				<u>415,695</u>	<u>385,990</u>
TOTAL GOVERNMENTAL ACTIVITIES – LONG-TERM DEBT				<u>1,490,227</u>	<u>1,124,399</u>

King County, Washington

King County, Washington

SCHEDULE OF LONG-TERM DEBT
(IN THOUSANDS)

	Issue Date	Final Maturity	Interest Rates	Original Issue Amount	Outstanding at 12/31/10
II BUSINESS-TYPE ACTIVITIES - LONG-TERM DEBT					
IIA Limited Tax General Obligation Bonds (LTGO)					
Payable From Enterprise Funds					
2001 LTGO Various Purpose (Partial)	11/01/01	12/01/21	3 00-5 00%	\$ 8,635	\$ 415
2002 LTGO (Public Transp Sales Tax) Refunding Bonds	11/05/02	12/01/19	3 00-5 50%	64,285	40,640
2004 LTGO (Public Transp Sales Tax) Bonds	06/08/04	06/01/34	2 50 5 50%	49,695	44,590
2005 LTGO (WQ-LTGO) Bonds	04/21/05	01/01/35	5 00%	200,000	200,000
2006 Refunding Bonds (Partial)	12/14/06	01/01/15	4 00-5 00%	7,995	3,100
2007 Various Purpose Series E (Partial)	11/27/07	12/01/27	4 00-5 00%	40,635	36,685
2008 LTGO (WQ-LTGO) Refunding Bonds	02/12/08	01/01/34	3 25-5 25%	236,950	230,515
2009 LTGO (Public Transp Sales Tax) Refunding Bonds	02/18/09	12/01/19	2 00-4 00%	48,535	40,535
2009 LTGO (WQ-LTGO) Bonds Series B	04/08/09	01/01/39	5 00-5 25%	300,000	300,000
2009 Refunding Bonds Series D (Partial)	12/10/09	12/01/12	2 00-4 00%	3,126	2,111
2010 Partial Refunding 2001VP Series A	10/18/10	12/31/21	2 00-5 00%	5,110	5,010
2010 Tax Exempt Series A	11/15/10	12/01/14	2 00-5 00%	3,855	3,855
2010 Taxable BABs Series B	11/15/10	12/01/30	2 85-6 05%	20,555	20,555
2010 Taxable QECBs Series D	11/15/10	12/01/25	4 33-5 43%	3,000	3,000
2010 LTGO (WQ) Series A	01/12/10	01/01/40	Variable ^(a)	50,000	50,000
2010 LTGO (WQ) Series B	01/12/10	01/01/40	Variable ^(a)	50,000	50,000
Total Limited Tax GO Bonds Payable From Enterprise Funds				1,092,376	1,031,211
IIIB Revenue Bonds, Capital Leases and Loans					
Payable From Enterprise Funds					
2001 WQ Revenue Bonds Junior Lien Series A	08/06/01	01/01/32	Variable ^(a)	50,000	50,000
2001 WQ Revenue Bonds Junior Lien Series B	08/06/01	01/01/32	Variable ^(a)	50,000	50,000
2001 WQ Revenue and Refunding Bonds	11/28/01	01/01/35	3 00-5 25%	270,060	183,555
2002 WQ Revenue Bonds Series A	08/14/02	01/01/35	5 00-5 50%	100,000	94,960
2002 WQ Revenue Refunding Bonds Series B	10/03/02	01/01/33	3 00-5 50%	346,130	228,670
2003 WQ Revenue Refunding Bonds	04/24/03	01/01/35	2 00-5 25%	96,470	90,905
2004 WQ Revenue Bonds Series A	03/18/04	01/01/35	4 50-5 00%	185,000	185,000
2004 WQ Revenue Refunding 1999-2 Bonds Series B	03/18/04	01/01/35	2 00-5 00%	61,760	57,015
2006 WQ Revenue and Refunding 1999-1 Bonds Series A	05/16/06	01/01/36	5 00%	124,070	124,070
2006 WQ Revenue and Refunding Bonds Series B-2	11/30/06	01/01/36	3 50-5 00%	193,435	186,810
2007 WQ Revenue Bonds	09/26/07	01/01/47	5 00%	250,000	250,000
2008 WQ Revenue Bonds	08/14/08	01/01/48	5 00-5 75%	350,000	350,000
2009 WQ Revenue Bonds	08/12/09	01/01/42	4 00-5 25%	250,000	250,000
2010 WQ Revenue Bonds	07/19/10	01/01/50	2 00-5 00%	334,365	334,365
2000-2010 State of Washington Revolving Loans	Various	Various	0 50-3 10%	177,834	135,995
2000 Public Transp. Park and Ride Capital Leases	03/30/00	12/31/31	5 00%	4,722	3,279
Total Revenue Bonds, Capital Leases and Loans Payable From Enterprise Funds				2,843,846	2,572,624
TOTAL BUSINESS-TYPE ACTIVITIES - LONG-TERM DEBT				3,936,222	3,603,835
TOTAL LONG-TERM DEBT (EXCLUDING GO LONG-TERM LIABILITIES)				\$ 5,426,444	\$ 4,728,234

DEBT SERVICE REQUIREMENTS TO MATURITY
(IN THOUSANDS)

Year	GOVERNMENTAL ACTIVITIES					
	General Obligation Bonds		Lease Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ 51,588	\$ 33,207	\$ 10,465	\$ 19,390	\$ 62,053	\$ 52,597
2012	68,235	31,098	10,955	18,892	79,200	49,898
2013	81,415	27,831	11,490	18,365	92,905	46,196
2014	67,497	23,977	12,050	17,795	79,557	41,772
2015	64,172	21,016	12,675	17,180	76,847	38,196
2016-2020	192,650	71,744	73,225	76,050	265,875	147,794
2021-2025	151,284	29,958	90,940	56,581	242,224	86,539
2026-2030	51,568	6,900	88,205	35,217	139,773	42,117
2031-2035	-	-	73,365	13,106	73,365	13,106
2036-2040	-	-	12,600	634	12,600	634
TOTAL	\$ 728,409	\$ 245,639	\$ 395,990	\$ 273,210	\$ 1,124,399	\$ 518,849

Year	BUSINESS-TYPE ACTIVITIES						Debt Service Requirements to Maturity	
	General Obligation Bonds		Revenue Bonds, Capital Leases and Loans		Total		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ 15,848	\$ 48,720	\$ 42,098	\$ 114,861	\$ 57,944	\$ 164,581	\$ 119,797	\$ 217,178
2012	16,260	49,320	46,621	114,761	62,881	164,081	142,081	213,979
2013	15,776	48,666	46,936	112,992	62,712	161,558	155,617	207,854
2014	21,551	47,448	52,139	110,568	74,090	158,516	153,647	200,288
2015	24,505	46,770	54,474	108,135	78,979	154,905	155,826	193,101
2016-2020	175,126	211,737	260,750	506,262	435,876	717,999	701,751	855,793
2021-2025	168,466	168,130	297,266	462,755	465,732	630,885	707,956	717,424
2026-2030	202,562	121,137	343,312	408,245	545,874	529,382	686,647	571,499
2031-2035	215,670	67,348	528,370	297,300	744,040	354,648	817,405	377,754
2036-2040	175,247	30,288	349,300	190,537	524,547	220,825	537,147	221,459
2041-2045	-	-	340,110	96,944	340,110	96,944	340,110	96,944
2046-2050	-	-	211,250	20,185	211,250	20,185	211,250	20,185
TOTAL	\$ 1,031,211	\$ 840,964	\$ 2,572,624	\$ 2,543,645	\$ 3,603,835	\$ 3,394,809	\$ 4,728,234	\$ 3,903,458

(a) The Multi-Modal 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 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.

(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 to 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 Modes" conditions.

Summary of changes in long-term liabilities for the year ended December 31, 2010 (in thousands):

	Balance 01/01/10	Additions	Reductions	Balance 12/31/10	Due Within One Year
Governmental activities:					
Bonds payable:					
General obligation bonds	\$ 724,295	\$ 125,175	\$ (121,061)	\$ 728,409	\$ 51,588
Lease revenue bonds ^(a)	402,455	-	(6,465)	395,990	10,465
Less deferred amounts:					
Unamortized premium bonds sold	22,557	6,520	(4,844)	24,233	
Refunding	(8,340)	(3,658)	2,977	(9,021)	
Total bonds payable	1,140,967	128,037	(129,393)	1,139,611	62,053
Claims and judgments payable	-	2,237	-	2,237	2,237
Compensated absences liability	91,206	6,397	(3,144)	94,459	4,106
Other postemployment benefits	18,538	6,334	-	24,872	-
Unemployment compensated liabilities	2,578	(2,764)	2,652	2,466	2,466
Estimated claims settlements and other liabilities	152,959	216,861	(206,495)	163,325	99,784
Rebatable arbitrage	17	-	(17)	-	-
Total Governmental activities long-term liabilities	\$ 1,406,265	\$ 357,102	\$ (336,397)	\$ 1,426,970	\$ 170,646
Business-type activities:					
Bonds payable:					
General obligation bonds	\$ 919,681	\$ 132,520	\$ (20,990)	\$ 1,031,211	\$ 15,569
Revenue bonds	2,167,365	334,365	(68,380)	2,433,350	33,860
Less deferred amounts:					
Unamortized premium bonds sold	52,927	22,783	(4,635)	71,075	
Refunding	(62,325)	(3,007)	5,699	(59,633)	
Total bonds payable	3,077,648	486,661	(88,306)	3,476,003	49,429
Capital leases	3,368	-	(89)	3,279	94
State revolving loans	141,165	2,545	(7,715)	135,995	7,896
Retainage payable	23,834	1,644	(3,614)	21,864	19,833
Compensated absences liability	66,060	21,074	(18,402)	68,732	8,752
Other postemployment benefits	4,374	2,214	(720)	5,868	-
Landfill closure and post-closure care liability	108,150	-	(22,653)	85,497	5,938
Environmental remediation and other liabilities	50,381	3,980	(11,821)	42,540	5,599
Customer Deposits ^(b)	2,362	336	(2,008)	690	265
Total Business-type activities long-term liabilities	\$ 3,477,342	\$ 518,454	\$ (155,328)	\$ 3,840,468	\$ 97,806

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 \$163.4 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) Customer deposits in business-type activities were reclassified from current liabilities to non-current liabilities in 2010.

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 2.5 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 1.5 percent of assessed value of property within the County for general county purposes and 0.75 percent for metropolitan functions, but the total of limited tax general obligation debt for general county purposes and metropolitan functions should not exceed 1.5 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 2.5 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, 2010 (in thousands):

2010 ASSESSED VALUE (2011 TAX YEAR)	\$ 330,414,999
Debt limit of limited tax (LT) general obligations for metropolitan functions	
0.75 % of assessed value	\$ 2,478,112
Less: Net LT general obligation indebtedness for metropolitan functions	(1,079,114)
LT GENERAL OBLIGATION DEBT MARGIN FOR METROPOLITAN FUNCTIONS	\$ 1,398,998
Debt limit of LT general obligations for general county purposes and metropolitan functions - 1.5 % of assessed value	\$ 4,956,225
Less: Net LT general obligation indebtedness for general county purposes	(963,289)
Net LT general obligation indebtedness for metropolitan functions	(1,079,114)
Net total LT general obligation indebtedness for general county purposes and metropolitan functions	(2,042,403)
LT GENERAL OBLIGATION DEBT MARGIN FOR GENERAL COUNTY PURPOSES AND METROPOLITAN FUNCTIONS	\$ 2,913,822
Debt limit of total general obligations for metropolitan functions	
2.5 % of assessed value	\$ 8,260,375
Less: Net total general obligation indebtedness for metropolitan functions	(1,079,114)
TOTAL GENERAL OBLIGATION DEBT MARGIN FOR METROPOLITAN FUNCTIONS	\$ 7,181,261
Debt limit of total general obligations for general county purposes	
2.5 % of assessed value	\$ 8,260,375
Less: Net unlimited tax general obligation indebtedness for general county purposes	(175,952)
Net LT general obligation indebtedness for general county purposes	(963,289)
Net total general obligation indebtedness for general county purposes	(1,139,241)
TOTAL GENERAL OBLIGATION DEBT MARGIN FOR GENERAL COUNTY PURPOSES	\$ 7,121,134

Refunding and Defeating General Obligation Bond Issues - 2010

Limited Tax General Obligation Refunding Bonds, 2010A - On October 18, 2010, the County issued \$16.8 million in limited tax general obligation bonds, 2010 Series A with an effective interest cost of 2.02 percent to advance refund \$17.4 million of outstanding limited tax general obligation refunding bonds, 2001 various purpose with an effective interest cost of 4.9 percent. The net proceeds were used to purchase U.S. 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 \$1.2 million. This amount, reported in the statement of net assets as a reduction in bonds payable, is being charged to operations through fiscal year 2021, using the outstanding principal balance method. This advance refunding was undertaken to reduce total debt service payments by \$2.6 million over the life of the bonds, resulting in an economic gain (difference between the present values of the old and new debt service payments) of \$2.1 million.

Limited Tax General Obligation Refunding Bonds, 2010A - Also on October 18, 2010, the County issued \$9.8 million in limited tax general obligation bonds, 2010 Series A with an effective interest cost of 1.37 percent to advance refund \$10.2 million of outstanding limited tax general obligation refunding bonds, 2002 various purpose with an effective interest cost of 1.37 percent. The net proceeds were used to purchase U.S. 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 \$1.1 million. This amount, reported in the statement of net assets as a reduction in bonds payable, is being charged to operations through fiscal year 2021, using the outstanding principal balance method. This advance refunding was undertaken to reduce total debt service payments by \$770 thousand over the life of the bonds, resulting in an economic gain

(difference between the present values of the old and new debt service payments) of \$668 thousand.

Unlimited Tax General Obligation Refunding Bonds, 2010A - Also on October 18, 2010, the County issued \$16.3 million in unlimited tax general obligation bonds, 2010 Series A with an effective interest cost of 0.8 percent to advance refund \$17 million of outstanding unlimited tax general obligation refunding bonds, 2001 Kingdome Bonds with an effective interest cost of 5.42 percent. The net proceeds were used to purchase U.S. 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 \$454 thousand. This amount, reported in the statement of net assets as a reduction in bonds payable, is being charged to operations through fiscal year 2016, using the outstanding principal balance method. This advance refunding was undertaken to reduce total debt service payments by \$2.0 million over the life of the bonds, resulting in an economic gain (difference between the present values of the old and new debt service payments) of \$19 million.

Unlimited Tax General Obligation Refunding Bonds, 2010A - Also on October 18, 2010, the County issued \$3.5 million in unlimited tax general obligation bonds, 2010 Series A with an effective interest cost of 0.55 percent to advance refund \$3.6 million of outstanding unlimited tax general obligation refunding bonds, 2000 with an effective interest cost of 5.25 percent. The net proceeds were used to purchase U.S. 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 \$93 thousand. This amount, reported in the statement of net assets as a reduction in bonds payable, is being charged to operations through fiscal year 2016, using the outstanding principal balance method. This advance refunding was undertaken to reduce total debt service payments by \$194 thousand over the life of the bonds, resulting in an economic gain

(difference between the present values of the old and new debt service payments) of \$197 thousand.

Partial Defeasances of Limited Tax General Obligation (Baseball Stadium) Refunding Bonds, 2010 - On September 7, 2010, the County completed defeasance of limited tax general obligation (Baseball Stadium) refunding bonds, 2002 for \$13.8 million using the excess proceeds from special taxes and revenues. The reacquisition price exceeded the net carrying amount of the old debt by \$1.2 million. This amount, reported in the statement of net assets as a reduction in bonds payable, was charged to operations during 2010, using the outstanding principal balance method. The transaction resulted in an economic gain of \$36 thousand for the year

Limited Tax General Obligation (Sewer Revenue) Refunding Bonds, 2010 - On July 19, 2010, the County issued \$34.4 million in limited tax general obligation (Sewer Revenue) bonds, 2010 with an effective interest cost of 2.56 percent to advance partial refund \$36.3 million of outstanding limited tax general obligation (Sewer Revenue) bonds, 2001 with an effective interest cost of 5.13 percent. The net proceeds were used to purchase U.S. 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 \$2.6 million. This amount, reported in the statement of net assets as a reduction in bonds payable, is being charged to operations through fiscal year 2023, using the outstanding principal balance method. This advance refunding was undertaken to reduce total debt service payments by \$4.0 million over the life of the bonds, resulting in an economic gain (difference between the present values of the old and new debt service payments) of \$3.1 million.

Refunded Bonds

King County has twelve outstanding refunded and defeased bond issues consisting of limited tax general obligation bonds (\$67.2 million), unlimited tax general obligation bonds (\$21.3 million) and sewer revenue bonds (\$41.3 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, U.S. Bank of Washington, and the liability for the defeased bonds has been removed from the statement of net assets.

Note 15: Interfund Balances and Transfers

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."

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Nonmajor Governmental Funds	\$ 5,730
	Nonmajor Enterprise Funds	2,833
	All Others	1,225
Public Health Fund	Nonmajor Governmental Funds	879
	All Others	292
Nonmajor Governmental Funds	General Fund	2,218
	Nonmajor Governmental Funds	18,031
	Public Transportation Enterprise	522
	Nonmajor Enterprise Funds	972
	Internal Service Funds	646
	All Others	479
Public Transportation Enterprise	Public Health Fund	2,289
	Nonmajor Governmental Funds	18,547
	Water Quality Enterprise	96,313
	All Others	302
Water Quality Enterprise	General Fund	2,192
	Nonmajor Governmental Funds	3,342
	All Others	311
Nonmajor Enterprise Funds	Nonmajor Governmental Funds	2,109
	All Others	249
Internal Service Funds	Nonmajor Governmental Funds	1,410
	Water Quality Enterprise	1,556
	All Others	1,223
Total		\$ 163,670

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 \$4,731 thousand due from Nonmajor Governmental Funds to the General Fund, \$2,289 thousand due

from the Public Health Fund to the Public Transportation Enterprise, \$17,516 thousand due from Nonmajor Governmental Funds to the Public Transportation Enterprise, and \$96,313 thousand due from the Water Quality Enterprise to the 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
Nonmajor Governmental Funds	Nonmajor Governmental Funds	407
Total		\$ 4,207

All three of these advances consisted of loans made for the purpose of cash flow. None of the advances is scheduled to be repaid in 2011.

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	\$ 26,667
	Nonmajor Governmental Funds	14,757
	Nonmajor Enterprise Funds	541
	Internal Service Funds	900
	All Others	96
Public Health Fund	Nonmajor Governmental Funds	96,318
Nonmajor Governmental Funds	All Others	494
Public Transportation Enterprise	All Others	10
Water Quality Enterprise	General Fund	521
	All Others	111
Nonmajor Enterprise Funds	Nonmajor Governmental Funds	1,542
	All Others	23
Internal Service Funds	Nonmajor Governmental Funds	2,079
	All Others	138
Total transfers out		\$ 144,197

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 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 and the Ninth & Jefferson Building. Rent is paid to two non-profit corporations which are reported under a blended component unit of the County - the building development and management corporations fund. The County is contractually obligated for the debt service on the lease revenue bonds issued by the nonprofits which funded construction of the buildings. HMC has agreed to include the annual rental payments in their operating budget for as long as they use the buildings. In 2010, the primary government, through the building development and management corporations fund, received \$12.7 million from HMC for rent on the two buildings.

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 2010, the King County primary government transferred \$418 thousand to the CDA. The CDA spent \$1.9 million of prior year funds on art projects for which the County recorded a corresponding receivable and work-in-progress.

The 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 \$36.9 thousand in 2010. Transit also provided loans to KCHA for which \$815.3 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 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)

Public Transportation Enterprise restricted for future construction projects (\$10,068), debt service (\$11,473) and other purposes (\$3,388).	\$ 24,929
Water Quality Enterprise restricted for debt service (\$204,126) and regulatory assets and environmental liabilities (\$30,302)	234,428
Total Business-type Restricted Net Assets	<u>\$ 259,357</u>

Restricted Net Assets - Internal Service Funds (in thousands)

Building Development & Management Corporations Fund restricted for future construction projects (\$218) and debt service (\$11,770)	\$ 11,988
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King County, Washington

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.

Reserves and designations used by King County, followed by a description of each (in thousands):

	General Fund	Public Health Fund	Nonmajor		
			Special Revenue	Debt Service	Capital Projects
Reserved for Inventory	\$ -	\$ 1,223	\$ -	\$ -	\$ -
Prepayments	-	-	5,997	-	2,073
Encumbrances	3,274	318	9,107	-	48,150
Advances to other funds	3,800	-	407	-	-
Animal services	-	-	209	-	-
Crime victim compensation program	51	-	-	-	-
Criminal justice	3,570	-	-	-	-
Debt service	-	-	389	-	-
Drug enforcement program	2,756	-	-	-	-
Antiprofitteering program	95	-	-	-	-
Dispute resolution centers	157	-	-	-	-
Inmate welfare	2,904	-	-	-	-
Real property title assurance	25	-	-	-	-
Training and equipment for Medic One	-	17	-	-	-
Youth sports facilities grant endowment	-	-	2,620	-	-
PFD stadium bond debt service	-	-	-	23,844	-
Traffic mitigation	-	-	-	-	437
Total reserved fund balances	\$ 16,632	\$ 1,558	\$ 18,729	\$ 23,844	\$ 50,660

Reserved for inventory - Segregates a portion of fund balance in the amount of the inventory of supplies carried as an asset; represents resources not available or spendable for the fund's current operations.

Reserved for prepayments - Segregates a portion of fund balance equal to the asset prepayments; 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 not 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.

King County, Washington

Reserved for animal services - Segregates a portion of fund balance to indicate resources reserved for the purpose of funding the animal services program.

Reserved for crime victim compensation program - Segregates a portion of fund balance to indicate resources legally restricted to the crime victim compensation program under chapter 7.68 RCW.

Reserved for criminal justice - Segregates a portion of fund balance to indicate resources to be used exclusively for criminal justice purposes under RCW 82.14.340.

Reserved for debt service - Segregates a portion of fund balance to indicate resources to be used solely for the payment of debt service.

Reserved for drug enforcement program - Segregates a portion of fund balance to indicate resources 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 resources 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 resources 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 resources 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 resources 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 donations from individuals to Medic One reserved for equipment purchases and training for paramedics and medical services officers.

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 PFD stadium bond debt service - Segregates 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 resources reserved for funding growth-related traffic mitigation projects (King County Code 14.75.030).

Designated Fund Balances (in thousands).

	General Fund	Nonmajor Special Revenue
Designated for:		
Capital projects	\$ 3,509	\$ 793
DDES	-	6,600
EMS	-	15,956
Equipment replacement	-	4,888
Mental health	-	27,573
SIP project commitments	-	7,481
Revenue stabilization	-	3,000
Reappropriation	492	4,745
Total designated fund balances	<u>\$ 4,001</u>	<u>\$ 71,036</u>

Designated for capital projects - Identifies a portion of fund balance 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 - Revenues designated for permit fee supported areas of DDES in the following categories: 1) reserve for staff reductions; 2) revenue shortfall reserve (amount to cover a 15 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 EMS - Sets aside funds to cover replacement of equipment for King County Medic One; outstanding retirement liabilities for moving paramedics from the PERS to LEOFF system; unanticipated costs including costs related to vehicles, risk/liability, diesel, pharmaceuticals, medical equipment, and call volumes; potential reduction to millage requirements for the next levy; and program and provider balances to cover unanticipated or extra anticipated future costs.

Designated for equipment replacement - Identifies a portion of fund balance that has been designated for the replacement of equipment.

Designated for mental health - Identifies revenues that are designated according to the King County Regional Support Network's (KCRSN) contract with the State Mental Health Division. These funds are

used to cover inpatient adjustments, outpatient tier benefits, and closeout expenditures in case the 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 SIP project commitments - Identifies funds used to cover planned Veterans and Human Services Levy (VHSL) Service Improvement Plan (SIP) project commitments. The voters of King County approved the 2005 VHSL requiring the expansion of services related to veterans and their families, and other low-income people in need for the six years from 2006 through 2011. The County Council has adopted a Levy SIP which laid out the goals and objectives, as well as the general activities to be funded, with the levy dollars.

Designated for revenue stabilization - According to the Mental Illness and Drug Dependency (MIDD) Action Plan, funds will be designated from MIDD sales tax revenue to stabilize mental illness and drug dependency services in the event that sales tax revenue falls short of forecast. \$3 million is designated in 2010, \$4 million in 2011, and 10% of annual MIDD revenues are to be designated every year thereafter.

Designated for reappropriation - Used at year-end for lapsed appropriations for which special requests have been made to obtain reappropriation in the coming year.

Management Plans for Internal Service Fund Unrestricted Net Assets

Insurance Fund - \$12.4 million for catastrophic losses. The catastrophic loss reserve will be used to

respond to large, nonrecurring losses exceeding \$1 million per incident.

Restatements of Beginning Balances

Detailed information regarding restatements of beginning balances (in thousands):

	Governmental Activities	Component Units	Cultural Development Authority
Net Assets - December 31, 2009	\$ 2,049,496	\$ 1,087,116	\$ 38,567
Prior year adjustments to construction work in progress	38,462	-	-
Revenue recognition correction	-	(131)	(131)
Net Assets - January 1, 2010 (Restated)	<u>\$ 2,087,958</u>	<u>\$ 1,086,985</u>	<u>\$ 38,436</u>

Governmental Activities - The beginning balance of construction work in progress for governmental capital assets was restated to include \$38.5 million of construction work in progress of prior periods

Cultural Development Authority - The adjustment for \$131 thousand was to reduce the beginning 2010 net assets for grant revenue recognized in 2009. The Cultural Development Authority recorded this income in 2010.

Component Unit - Harborview Medical Center (HMC)Restricted Net Assets

Restricted expendable net assets - The \$20.9 million 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 \$2.5 million consists of permanent endowments by donors.

Component Unit - Cultural Development Authority of King County (CDA)Restricted Net Assets

Restricted expendable net assets - \$17.7 million 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 - \$26.4 million 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****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 pending lawsuit 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. During litigation, various claims were dismissed by the court by summary judgment. In March 2011 a ruling came down in favor of the County with one issue left unresolved. Although still in dispute, the remaining claim is expected to be approximately \$2 million. Plaintiffs have indicated their intention to appeal the court's rulings.
- 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. The final draft of the report and public comments are being reviewed by the EPA. Due to the high level of regulatory review, the County is unable to determine the particular remediation alternative, the schedule and cost of any required remediation, or the extent of County responsibility.
- 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, which 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 a one-third share of the costs of the study, and that this portion may potentially be allocated among the several potentially responsible parties. Further remediation costs cannot be reasonably estimated until the study is completed.
- King County and two co-defendants in a property damage lawsuit won summary judgments of dismissal in August 2010 for all claims against them. In December 2010 a verdict was handed down against another co-defendant, the State of Washington, amounting to \$447 thousand for the plaintiff, with a hearing for the remaining specific performance claim scheduled for June 2011. Once this remaining claim is settled, the County will be entitled to entry of judgment based on the earlier summary dismissal action.
- In March, 2011, a contractor initiated a suit against the County related to its outstanding claim at the end of 2010 in the amount of \$3.7 million for the Juanita Bay Pump Station Replacement project alleging defective specifications. The County has issued counterclaims for defective work and breach of contract and is defending against all claims, pursuing damages, and negotiating insurance recoveries.
- A series of requests for change orders and claims for damages from the prime contractor for the Brightwater Treatment Plant central conveyance system alleging differing site conditions and defective specifications. The County is vigorously defending against the claims and has filed suit alleging contract default by the contractor for failure to complete the contract work within time limits. The contractor is asserting damages of approximately \$75 million. The County has updated its estimated damages amount to \$132 million.

- A claim by a vendor for additional compensation of approximately \$427 thousand to cover unexpected tariff increases on imported construction materials. The dispute is being handled through contract administration.
- A class action lawsuit filed in King County Superior Court against two counties and two conservation districts alleging that special assessments imposed by the counties on behalf of the conservation districts are illegal charges, their collection should be prohibited, and the funds previously collected should be returned to the class members, which are made up of owners of property within the two conservation districts. Pending before the Court are a motion on class certification and a motion to amend the complaint. The parties are awaiting a ruling. The potential exposure for the King County defendants, including the King Conservation District, range from \$0 to \$24 million, depending in part upon the applicable statute of limitations.
- A Public Defender sued the County alleging that he should have been enrolled in the State retirement system. The Pierce County Superior Court (Court) has certified a class of approximately 400 attorneys and staff who worked for four nonprofit public defender organizations under contract with the County within three years prior to filing the complaint (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.

- An individual, on behalf of a class of individuals, sued the County seeking increased PERS contributions based on the settlement proceeds from the *Duncan/Roberts v. King County* litigation. The plaintiff successfully argued in Superior Court that settlement proceeds were compensation earnable and should have been reported to the State Department of Retirement Systems (DRS). The Court also ruled that DRS could not collect additional PERS contributions from the County or from class members if the class members' retirement benefit was not increased or decreased because of the error. The matter has been briefed and argued at the Court of Appeals.
- A proposed class of Department of Transportation crew chiefs sued the County alleging that the County failed to pay them for all hours they worked. Plaintiff asserts double damages for unpaid wages and attorney fees.

Contingent Liability

King County has entered into several contingent loan agreements with the King County Housing Authority (KCHA) and other owners/developers of affordable housing; these agreements total \$172.6 million at the end of 2010. 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 \$8.4 million for rent on the Cedar Hills landfill site in 2010. The Enterprise is committed to paying rent to the General Fund 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.

Note 19 Subsequent Events

Debt Issuances in 2011

In January 2011 the County issued \$175 million of Sewer Revenue Bonds. The proceeds from these bonds will be used to finance capital construction and improvements to the sewer system of the County.

In February 2011 the County issued Limited Tax General Obligation Bond Anticipation Notes in the amount of \$40.0 million. The proceeds from these notes will provide interim financing for the County's Capital Improvement Program for the Solid Waste facilities.

In June 2011 the County issued Limited Tax General Obligation Bond Anticipation Notes in the amount of \$82.3 million. The proceeds of 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.

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 pave-

ment'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 most recent condition assessments of the County's roads are shown below.

Condition ratings	2010-2008		2007-2005		2004-2002	
	(miles)	%	(miles)	%	(miles)	%
Arterial roads						
Excellent to good	348.2	71.8	485.4	89.6	442.9	81.7
Fair	20.3	4.2	14.5	2.7	61.1	11.3
Poor to substandard	116.7	24.0	41.6	7.7	38.0	7.0
Total	485.2	100.0	541.5	100.0	542.0	100.0
Local access roads						
Excellent to good	867.0	75.6	1,094.5	83.4	1,075.4	81.6
Fair	74.2	6.5	127.3	9.7	139.0	10.6
Poor to substandard	205.8	17.9	91.2	6.9	102.9	7.8
Total	1,147.0	100.0	1,313.0	100.0	1,317.3	100.0

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	2010-2008		2007-2005		2004-2002	
	(miles)	%	(miles)	%	(miles)	%
Arterial roads						
PCI 40 - 100	360.0	74.2	493.4	91.1	475.6	87.7
PCI 0 - 39	125.3	25.8	48.1	8.9	66.4	12.3
Total	485.3	100.0	541.5	100.0	542.0	100.0
Local access roads						
PCI 40 - 100	900.0	78.5	1,170.3	89.1	1,165.6	88.5
PCI 0 - 39	247.0	21.5	142.7	10.9	151.7	11.5
Total	1,147.0	100.0	1,313.0	100.0	1,317.3	100.0

It is the policy of the King County Roads Services Division to maintain at least 80 percent of the road system at a PCI of 40 or better. The 2010 Condition Assessment indicates the arterial and local access road networks have fallen below the 80/40 threshold for Modified Approach. The accelerated condition deterioration observed between the 2009 and 2010 reports are primarily the result of weather and system age. The extreme ranges of weather experienced between 2007 and 2011 have resulted in a higher than normal amount of asphalt cracking caused by the freezing and thawing of a rain-saturated road base. Many of the arterial roadways are beyond their cost effective life cycles, resulting in roadway deterioration earlier than what was estimated or budgeted.

The County Roads Division's current budget conditions do not allow for additional funds to increase the number of miles overlaid, thereby

	2010	2009	2008	2007	2006
Budgeted	\$78,843	\$64,660	\$69,345	\$61,864	\$58,709
Expended	52,967	58,488	57,367	51,549	49,029
amounts for 2007-2009 restated					

Underspending 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 180 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, rotted timbers, deteriorated bridge decks, bank erosion, and cracked concrete. These are documented in an inspection report along with recommended repairs. Four pedestrian bridges are included in the list of bridges being maintained by the County. These are also subject to condition assessments, but are subject to different standards than the more heavily used vehicular bridges

Each year the County undergoes a bridge prioritization process to determine potential candidates for replacement or rehabilitation. A

increasing PCI scores. Bringing road system scores into compliance with GASH Modified Method Roads will reduce the number of Hot Mix Asphalt (HMA) miles resurfaced and increase the number of miles resurfaced with Bituminous Surface Treatment (Chip Seal) at a lower unit cost and reduced life cycle. Roads will also investigate a short section paving program that will only resurface road segments with PCI less than 40. While this methodology is not cost effective, it will most immediately correct the PCI deficiencies.

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 2006 to 2010. The budgeted amount is equivalent to the anticipated amount needed to maintain roads up to the required condition level (in thousands).

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, essentiality 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. 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

The three most recent bridge sufficiency ratings:

Bridge Sufficiency Rating	Number of Bridges		
	2010	2009	2008
0 - 20	6	8	8
21 - 30	1	2	2
31 - 49	13	12	14
50 - 100	160	160	159
Totals	180	182	183

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 (in thousands):

	2010	2009	2008	2007	2006
Budgeted	\$19,866	\$13,465	\$18,855	\$24,834	\$17,024
Expended	9,760	10,625	11,761	16,189	11,526
amounts for 2007-2009 restated					

The budgeted amount is equivalent to the anticipated amount needed to maintain and preserve the bridges up to the required condition level. Backlogs in maintenance work orders greatly affect the trend in maintenance costs. Factors

contributing to these backlogs include increased bridge traffic, higher weight loads, labor shortages, stringent environmental restrictions, and an aging inventory.

Postemployment Health Care Plan

Schedule of Funding Progress for the Plan
(in thousands)

Year	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a + b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) + c)
2008	12/31/2008	\$ -	\$ 145,393	\$ 145,393	0.0%	\$ 890,310	16.3%
2009	12/31/2009	\$ -	\$ 149,390	\$ 149,390	0.0%	\$ 947,530	15.8%
2010	12/31/2009	\$ -	\$ 149,390	\$ 149,390	0.0%	\$ 969,082	15.4%

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APPENDIX C
SUMMARY OF KING COUNTY'S INVESTMENT POLICY

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SUMMARY OF 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. However, to participate in the Investment Pool a district must sign an inter-local agreement that governs its participation in the Investment Pool, and a district may only exit the Investment Pool by providing the required notice prior to its anniversary date. The Treasury Operations Section selects the particular investment instruments.

The Investment Pool must maintain an effective duration of less than 1.5 years and 40% of its total value must be held in securities that mature in 12 months or less. As of March 31, 2012, the Investment Pool had a balance of \$4.3 billion, an effective duration of 0.82 years and 73% of the portfolio had a maturity of 12 months or less.

Under State law and the County's current investment policy, the County may invest in the following instruments:

- (i) Up to 100% of the portfolio in U.S. Treasury or Agency securities with maturities of five years or less;
- (ii) Up to 25% of the portfolio in certificates of deposit (CDs) with institutions that are public depositories in the State. 2.5% of the portfolio can be held with a single CD issuer, provided that deposit limitation established by the State are not exceeded. In addition, all CDs must be purchased from institutions on the County's approved credit list and have a maturity of one year or less;
- (iii) Up to 25% of the portfolio in bankers' acceptances. 2.5% of the portfolio can be held in a single issuer, provided the issuer has the highest ratings from two nationally recognized rating agencies, and further that the issuer is also on the County's approved credit list. Maturity is also limited to 180 days;
- (iv) Up to 40% of the portfolio in 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 a U.S. Treasury or U.S. Agency;
 - (c) all underlying securities used in repurchase agreements are held by a third party; and
 - (d) counterparties must come from the County's approved credit list, have a minimum rating of at least A-1/P-1/F1 by at least two rating agencies and have at least \$25 billion in assets and \$350 million in capital;

- (v) Up to 25% in commercial paper with the highest short-term rating from at least two nationally recognized credit rating agencies. Maturity is limited to 180 days, and no more than 2.5% of the County's portfolio may be invested in commercial paper of a single issuer;
- (vi) Up to 20% in general obligation municipal bonds, subject to the following limitations: bonds must be:
 - (a) rated in one of the three highest credit rating categories by a nationally recognized credit rating agency, and the issuer must be on the County's approved issuer list; and
 - (b) Maturity of 5 years or less and no more than 2.5% with any one issuer.
 In addition, bonds must have one of the three highest credit ratings of a nationally recognized credit rating agency ("A" or better);
- (vii) Up to 25% in 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) Up to 20% in 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 with a maturity of 5 years or less; and
 - (b) 2.5% maximum per issuer and the issuer must be on the County's approved credit list, and 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) Up to 25% in the State's Local Government Investment Pool.

The combined total of repurchase agreements greater than seven days, bankers' acceptances, CDs, commercial paper, and bank notes must not exceed 50% of Investment Pool assets. In addition, there is a 5% limitation on issuer exposure applied across investment types.

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 dealers that meet the credit standards established by the County and which have signed a master repurchase agreement with the County. There have been no reverse repurchase agreements in effect since 2007.

The County's entire investment policy is located on the County's website at the following link:

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

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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 fourteenth 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, the County seat, and 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
2011 ⁽²⁾	6,767,900	1,942,600	612,100	123,400	285,265

(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, the State, and the United States.

PER CAPITA INCOME						
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Seattle PMSA	\$ 50,202	\$ 53,327	\$ 54,621	\$ 51,118	\$ 51,698	N/A
King County	54,641	57,735	58,628	54,517	55,136	N/A
State of Washington	39,570	42,192	44,106	41,837	42,589	44,294
United States	37,725	39,506	40,947	38,846	39,937	41,663

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 King 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(\$)	
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	2,003	538,910,481	1,183	137,161,103	676,071,584
2010	2,532	694,969,240	3,425	325,068,029	1,020,037,269
2011	2,750	781,474,432	3,378	431,699,572	1,213,174,004

Source: U.S. Bureau of the Census

Retail Activity

The following table presents taxable retail sales in Seattle and King County.

THE CITY OF SEATTLE AND KING COUNTY TAXABLE RETAIL SALES (000)

<u>Year</u>	<u>King County</u>	<u>Seattle</u>
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
2010	39,275,353,182	14,783,168,934
2011	40,846,119,020	15,751,585,858

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	76,400
Joint Base Lewis-McChord	51,000
Navy Region Northwest	41,300
Microsoft	40,300
University of Washington	27,900
Providence Health & Services	19,100
Wal-Mart Stores, Inc.	18,000
Fred Meyer Stores	13,500
King County Government	13,400
U.S. Postal Service	12,400
City of Seattle	10,600
MultiCare Health System	9,000
Franciscan Health System	8,200
Costco	8,200
Group Health Cooperative	8,100

* Does not include part-time or seasonal employment figures.

Source: *Puget Sound Book of Lists, 2012 (rounded)*

KING COUNTY
RESIDENT CIVILIAN LABOR FORCE AND EMPLOYMENT
AND NONAGRICULTURAL WAGE AND SALARY EMPLOYMENT*

	Annual Average				
	2007	2008	2009	2010	2011
Civilian Labor Force	1,071,850	1,094,310	1,115,900	1,107,060	1,105,550
Total Employment	1,030,140	1,042,790	1,021,540	1,006,000	1,015,970
Total Unemployment	41,710	51,520	94,360	101,060	89,580
Percent of Labor Force	3.9	4.7	8.5	9.1	8.1
NAICS INDUSTRY					
	2007	2008	2009	2010	2011
Total Nonfarm	1,156,242	1,133,200	1,151,950	1,217,567	1,200,600
Total Private	991,450	966,233	984,750	1,051,158	1,037,175
Goods Producing	149,983	148,158	160,442	186,475	188,358
Natural Resources and Mining	500	467	508	583	692
Construction	48,792	49,675	57,142	73,883	74,525
Manufacturing	100,717	98,017	102,792	112,000	113,133
Services Providing	1,006,258	985,042	991,508	1,031,092	1,012,242
Trade, Transportation, and Utilities	212,233	206,350	209,175	224,667	224,392
Information	80,050	79,408	80,192	79,767	75,642
Financial Activities	67,292	67,658	71,192	77,525	78,683
Professional and Business Services	184,592	176,675	176,792	194,242	189,925
Educational and Health Services	142,908	138,142	137,683	133,258	127,683
Leisure and Hospitality	112,133	108,700	108,117	113,358	111,750
Other Services	42,258	41,142	41,158	41,867	40,742
Government	164,792	166,967	167,200	166,408	163,425
Workers in Labor/Management Disputes	0	0	0	958	0
Apr. 2012					
Civilian Labor Force	1,110,610				
Total Employment	1,042,470				
Total Unemployment	68,140				
Percent of Labor Force	6.1%				

* 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 Bonds. The Bonds 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 Bond certificate will be issued for each maturity of the Bonds, 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 a Standard & Poor's rating of AA+. 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.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("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 Bonds 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 Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds 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 Bonds 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 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds 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 Bonds 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 Bonds 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 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments on the Bonds 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 Bond 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 Bond 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 Bond 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 Bonds at any time by giving reasonable notice to the County or the Bond Registrar. Under such circumstances, in the event that a successor depository is not obtained, Bond 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, Bond certificates will be printed and delivered.

