Washington State Auditor's Office

Financial Statements and Federal Single Audit Report

King County

Audit Period
January 1, 2009 through December 31, 2009

Report No. 1004330

Issue Date
September 30, 2010

WASHINGTON
BRIAN SONNTAG
STATE AUDITOR

Washington State Auditor
Brian Sonntag

September 30, 2010

County Council and Executive
King County
Seattle, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on King County's financial statements and compliance with federal laws and regulations.

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

Sincerely,

BRIAN SONNTAG, CGFM
STATE AUDITOR

Insurance Building, P.O. Box 40021 • Olympia, Washington 98504-0021 • (360) 902-0370 • TDD Relay (800) 833-6388
FAX (360) 753-0646 • http://www.sao.wa.gov

Table of Contents

King County
January 1, 2009 through December 31, 2009

Federal Summary 1

Schedule of Federal Audit Findings and Questioned Costs 3

Schedule of Audit Findings and Responses 35

Schedule of Prior Federal Audit Findings 52

Status of Prior Audit Findings 58

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters in Accordance with *Government Auditing Standards* 59

Independent Auditor's Report on Compliance with Requirements Applicable to each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133 61

Independent Auditor's Report on Financial Statements 64

Financial Section 66

Federal Summary

King County
January 1, 2009 through December 31, 2009

The results of our audit of King County are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

FINANCIAL STATEMENTS

An unqualified opinion was issued on the 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.

Internal Control Over Financial Reporting:

- ***Significant Deficiencies:*** We identified deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.

- ***Material Weaknesses:*** We identified deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the County.

FEDERAL AWARDS

Internal Control Over Major Programs:

- ***Significant Deficiencies:*** We identified deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.

- ***Material Weaknesses:*** We identified no deficiencies that we consider to be material weaknesses.

We issued an unqualified opinion on the County's compliance with requirements applicable to its major federal programs, with the exception of the Public Health Emergency Preparedness Grant in which we issued a qualified opinion on compliance with applicable requirements.

We reported findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

Identification of Major Programs:

The following were major programs during the period under audit:

CFDA No.	Program Title
10.557	Special Supplemental Nutrition Program for Women, Infants and Children
11.555	Public Safety Interoperable Communication Grant Program
14.218	Community Development Block Grants Entitlement Cluster
14.253	ARRA – Community Development Block Grants Cluster Entitlement Grants (Recovery Act)
17.258	WIA Cluster – WIA Adult Program
17.259	WIA Cluster – WIA Youth Program
17.260	WIA Cluster – WIA Dislocated Workers
20.106	Airport Improvement Program
20.205	Highway Planning and Construction Cluster
20.205	ARRA – Highway Planning and Construction Cluster (Recovery Act)
20.500	Transit Cluster – Federal Transit – Capital Investment Grants
20.507	Transit Cluster – Federal Transit – Formula Grants
20.507	ARRA – Transit Cluster – Federal Transit – Formula Grants (Recovery Act)
93.069	Public Health Emergency Preparedness
93.217	Family Planning Services
93.224	Health Centers Cluster – Consolidated Health Centers – Health Care for the Homeless
93.703	ARRA – Health Centers Cluster – Health Center Integrated Services Development Initiative (Recovery Act)
93.283	Centers for Disease Control and Prevention – Investigation and Technical Assistance
93.563	Child Support Enforcement
97.036	Public Assistance Grants
97.067	Homeland Security Grant Program

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was $3,000,000.

The County did not qualify as a low-risk auditee under OMB Circular A-133.

Schedule of Federal Audit Findings and Questioned Costs

King County
January 1, 2009 through December 31, 2009

1. King County's internal controls were inadequate to ensure compliance with requirements of its Public Health Emergency Preparedness Grant.

CFDA Number and Title:	93.069 Public Health Emergency Preparedness Grant
Federal Grantor Name:	U.S. Department of Health and Human Services
Federal Award/Contract Number:	NA
Pass-through Entity Name:	Department of Health
Pass-through Award/Contract Number:	C14961-24
Questioned Cost Amount:	$919,211

Description of Condition

The Public Health Emergency Preparedness and Response Grant funds activities and supplies to help public health departments upgrade, integrate and evaluate and coordinate responses to public health and other emergencies. It is passed through to the County by the state Department of Health through reimbursements.

Federal law and grant rules require recipients of federal funds to establish and follow internal controls to ensure program requirements are followed. These controls include knowledge of grant requirements and monitoring of program activities.

During 2009 the County charged $3,396,423 to the grant. We found weaknesses in internal controls and noncompliance with the following federal requirements:

Allowable cost Principles

Fringe Benefits

The County charges fringe benefits for its employees, such as retirement, medical, and dental to its grant programs. To determine fringe benefit rates, the County pools individual benefit costs by project and then divides by this amount by the projects' total salary costs. For the time period we reviewed, we found fringe benefit rates varied from 36.66 percent to 38.13 percent between different projects.

At the end of the fiscal year, the County transferred many employees' salaries to the emergency preparedness grant and charged 38.1 percent of their fringe benefits to the grant. It did not calculate this rate based on actual hours employees charged to the grant and did not keep documentation to support the calculation. Thus the County cannot demonstrate the rate was appropriate.

Fringe benefits reimbursed by this grant, including associated administrative costs, were $761,680. We are questioning these costs because the County cannot demonstrate the reimbursements reflected the actual costs of benefits for the time employees worked on the program.

Overhead

The County is allowed to charge overhead costs it incurs for indirect benefits to the program. The County annually reviews prior actual costs to determine the indirect rate that will be charged to the program. Our audit found the County inappropriately billed the grant for overhead costs, such as general administration costs, as direct costs. These costs are already included in the indirect cost rate. The unallowed overhead billed as direct costs to the grant was $70,359. In addition, the indirect cost rate of 18.17 percent was applied to these unallowed costs. The costs reimbursed by the grant for unallowed overhead resulted in questioned costs of $83,143.

Telecommunications Costs

During 2009 telecommunications costs charged to the grant totaled $50,410. Those costs include cell phones, pagers, personal digital assistants and wireless services. They are billed through the County's Office of Information Resource Management. We examined $14,626 of these costs. The County issued cellular telephones to 30 employees and volunteers without keeping track of who they were assigned to. In addition, the County does not routinely review detailed reports to ensure cell phone use is appropriate for the grant. Program staff charged a lump sum of cellular telephone expenses in the expenditure reports for the grant. The County does not have a policy for the use of cell phones and does not require cell phone users to sign a use agreement. The cost reimbursed by the grant for the unassigned cell phones was $4,091. In addition, $213 for fees and penalties was charged to the grant for three unreturned pagers. Fees and penalties are unallowed costs for federal grants. The unallowable telecommunications costs charged to the grant resulted in questioned costs of $5,087.

Salaries and Wages

During 2009 the County charged $2,108,210 in wages and benefits to the grant. We examined $135,140 of these expenditures sampled from the population of general ledger transactions and noted salary costs associated with two employees did not have adequate time and effort documentation, resulting in questioned costs of $28,845.

We also noted salaries for 78 employees totaling $942,948 charged to the program through retroactive corrections referred to as fiscal adjustments. The supporting time and effort documentation was not corrected in a timely manner, as required. The adjustments occurred in January 2010 but the time and effort re-certifications were not completed until March 2010. The County does not have a process to ensure salaries charged to programs through fiscal adjustments comply with federal time and effort requirements. The County provided alternative time and effort documentation and we excluded these charges from the questioned costs.

Paid Time Off

During 2009 direct expenditures for paid time off totaled $119,345. We examined $12,243 of these transactions sampled from the general ledger transactions. The County's method of allocating paid time off to the grant is inadequate to ensure charges to the program are appropriate.

The County relies on an automated, monthly calculation for these costs based on year-to-date actual hours. We determined this automated calculation creates unallowed costs. Moreover, we found the hours used in the calculation were not reliable. We compared the paid time amounts charged to the grant taken from the general ledger system, and related hours used to calculate these, to the paid time off amounts and hours in the separate payroll system. We found they did not reconcile.

We noted one error occurred when an employee who retired. Unused leave was paid as a retirement benefit. When the employee returned as a temporary employee, these benefit costs were treated as paid time off and redistributed through the automated system and charged to the grant. We examined the period when the employee worked as a temporary employee and took no paid time off. No paid time off should have been charged to the grant for this pay period. The amount off this error was $2,045. For two other employees, actual paid time off was different than what was billed to the grant. Paid time off to three employees resulted in questioned costs of $12,838.

Cash Management

The consolidated contract between the County and the state Department of Health for management of numerous federal programs requires accurate and timely billing. During the audit, we found billing errors and late billings. The County did not review program expenditures or certify payroll monthly as required by its procedures. It claimed expenditures for one project that were $27,617 more than what supporting documentation showed. We are questioning these costs. The questioned costs reported under Allowable Cost Principles also represent inaccurate billings that are not in compliance with cash management requirements. The County did not detect or correct errors prior to billing. The contract period started July 31, 2009, but the County did not bill for reimbursement until January and February 2010.

Cause of Condition

Key employees were activated into emergency status during the grant period for the H1N1 flu outbreak. Controls over compliance with federal requirements were not designed to operate effectively during an emergency.

Allowable Cost Principles

Internal controls over fringe benefits, paid time off, overhead and telecommunications costs were inadequate to detect and correct errors in billing and ensure charges to the grant were adequately supported and accurate. Also, staff made manual adjustments to accounting records after the end of the fiscal year because they failed to follow established procedures to receive reimbursements, which bypassed established controls. Correction and recertification of required time and effort documents were not timely.

Cash Management

The County did not monitor expenditures, make required corrections to the accounting system and bill the grant monthly. At the time of billing, the general ledger was closing and no revenue had been received at year end. Program managers did not perform an adequate review of expenditures prior to billing and made errors in amounts claimed.

Effect of Condition and Questioned Costs

Allowable Cost Principles

Untimely monitoring of eligible costs coupled with inadequate documentation to support billings resulted in unallowable costs charged to the grant. This could jeopardize future funds under this grant. We are questioning $919,211 in expenditures related to this program.

Cash Management

Claiming amounts unsupported by underlying expenditures increases risk for cash advances. By not submitting timely invoices, the County increases the risk that the Department of Health will not pay reimbursement requests.

Recommendation

Allowable Cost Principles

We recommend the County distribute fringe benefits and paid time off in a manner that ensures the dollar amount charged to the program reflects employee time worked on the program and is based on actual costs, not projected amounts and that it be supported by adequate documentation. We recommend the County not seek reimbursement for unallowable costs from the grantor. We further recommend the County contact the state Department of Health to resolve the questioned costs.

Cash management

We recommend the County monitor and bill expenditures for its Public Health Emergency Preparedness and Response Grant monthly to ensure compliance with grant requirements.

County's Response

We partially agree with this finding.

Allowable Cost Principles

Fringe Benefits

We respectfully disagree with the way the auditor has calculated the questioned costs for this finding. As noted above, the benefit rates varied by projects from a low of 36.6% to a high of 38.13. This represents a variance of 1.47%. If any costs are to be

questioned, we believe the maximum amount that could be questioned would be the $761,680 multiplied by the difference between the high and low end of the range. The resultant figure is $29,400.

Overhead

We agree with this portion of the finding. The Department is implementing controls to ensure that all costs included in the indirect rate are excluded from billing as direct expenses. The Department will provide additional training on indirect costs to ensure that costs included in the indirect rate are not billed as a direct expense of the program.

Telecommunications

We agree with this portion of the finding. The Department will work with the County Office of Information Resource Management to ensure that fees and penalties in the billing information to ensure that unallowable costs are not charged to the grant. The Department will request a report showing detailed billing information on a quarterly basis from OIRM to ensure unallowable costs are excluded from grant billings.

Salaries and Wages

The Department has controls to ensure time and effort documentation is completed for all staff charging to federal grants. The missing documentation for the two employees in question was an isolated incident. All employees working on multiple cost objectives are required to complete timesheets and all employees working on a single cost objective complete a semi-annual certification form. The program will implement a review process to ensure all staff time billed to the grant is supported by time and effort documentation.

Paid Time Off

The County is moving to a new payroll and general ledger system in 2012. The paid time off is allocated using an automated process. We will ask the County ARMS programmers to review the logic created for this distribution.

Cash Management

The Department is developing procedures to ensure that all charges, including staff time, submitted to the funding agency are reviewed and approved, and reconciled with the general ledger prior to billing. The Program Manager will review all charges and payroll on a monthly basis prior to submitting bills.

Auditor's Remarks

We thank the County for its cooperation and assistance during the audit and look forward to reviewing the County's corrective action during our next audit.

Applicable laws and Regulations

U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section 300 Auditee responsibilities states in part:

> The auditee shall:
>
> > (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

U.S. Office of Management and Budget Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments* (2 CFR Part 225), states:

> Attachment A, Section C(1):
>
> > To be allowable under Federal awards, costs must meet the following general criteria:
> >
> > > b. Be allocable to Federal awards under the provisions of this Circular . . .
> > >
> > > d. Conform to any limitations or exclusions set forth in these principles, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items . . .
> > >
> > > f. Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.
> > >
> > > j. Be adequately documented.
>
> Attachment B, Section 8(d) Fringe benefits.
>
> > (1) Fringe benefits are allowances and services provided by employers to their employees as compensation in addition to regular salaries and wages. Fringe benefits include, but are not limited to, the costs of leave, employee insurance, pensions, and unemployment benefit plans. Except as provided elsewhere in these principles, the costs of fringe benefits are allowable to the extent that the benefits are reasonable and are required by law, governmental unit-employee agreement, or an established policy of the governmental unit.
> >
> > (2) The cost of fringe benefits in the form of regular compensation paid to employees during periods of authorized absences from the

job, such as for annual leave, sick leave, holidays, court leave, military leave, and other similar benefits, are allowable if: (a) they are provided under established written leave policies; (b) the costs are equitably allocated to all related activities, including Federal awards; and, (c) the accounting basis (cash or accrual) selected for costing each type of leave is consistently followed by the governmental unit.

(3) When a governmental unit uses the cash basis of accounting, the cost of leave is recognized in the period that the leave is taken and paid for. Payments for unused leave when an employee retires or terminates employment are allowable in the year of payment provided they are allocated as a general administrative expense to all activities of the governmental unit or component.

(4) The accrual basis may be only used for those types of leave for which a liability as defined by Generally Accepted Accounting Principles (GAAP) exists when the leave is earned. When a governmental unit uses the accrual basis of accounting, in accordance with GAAP, allowable leave costs are the lesser of the amount accrued or funded.

Attachment B, Section 8(h) Support of salaries and wages.

(1) Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit.

(2) No further documentation is required for the salaries and wages of employees who work in a single indirect cost activity.

(3) Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

(4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on: (a) More than one Federal award, (b) A Federal award and a non-Federal award, (c) An indirect cost activity and a direct cost activity, (d) Two or more indirect activities

which are allocated using different allocation bases, or (e) An unallowable activity and a direct or indirect cost activity.

(5) Personnel activity reports or equivalent documentation must meet the following standards: (a) They must reflect an after-the-fact distribution of the actual activity of each employee, (b) They must account for the total activity for which each employee is compensated, (c) They must be prepared at least monthly and must coincide with one or more pay periods, and (d) They must be signed by the employee.

Attachment B, Section 16

16. Fines and penalties. Fines, penalties, damages, and other settlements resulting from violations (or alleged violations) of, or failure of the governmental unit to comply with, Federal, State, local, or Indian tribal laws and regulations are unallowable except when incurred as a result of compliance with specific provisions of the Federal award or written instructions by the awarding agency authorizing in advance such payments.

Title 45, Code of Federal Regulations, Section 92.21 – Payment, states in part:

(a) Scope. This section prescribes the basic standard and the methods under which a Federal agency will make payments to grantees, and grantees will make payments to subgrantees and contractors.

(b) Basic standard. Methods and procedures for payment shall minimize the time elapsing between the transfer of funds and disbursement by the grantee or subgrantee, in accordance with Treasury regulations at 31 CFR part 205 . . .

(i) Interest earned on advances…grantees and subgrantees shall promptly, but at least quarterly, remit interest earned on advances to the Federal agency. The grantee or subgrantee may keep interest amounts up to $100 per year for administrative expenses.

2007 - 2011 Washington State Department of Health Consolidated Contract, states in part:

Article 5. Funding and Billing

C. The LHJ will submit accurate and timely billings which, for clarity and consistency, will be prepared using the form provided and following the instructions located at:
www.doh.wa.gov/concon/portal.htm.

Schedule of Federal Audit Findings and Questioned Costs

King County
January 1, 2009 through December 31, 2009

2. The County does not have adequate internal controls over reporting and did not comply with reporting requirements for the Special Supplemental Nutrition Program for Women, Infants and Children.

CFDA Number and Title:	10.557 Special Supplemental Nutrition Program for Women, Infants and Children (WIC)
Federal Grantor Name:	U.S. Department of Agriculture
Federal Award/Contract Number:	NA
Pass-through Entity Name:	Department of Health
Pass-through Award/Contract Number:	C14961
Questioned Cost Amount:	$0

Description of Condition

The objective of the Special Supplemental Nutrition Program for Women, Infants and Children (WIC) is to provide supplemental nutritious foods, nutrition education and referrals to health care for low-income people during critical periods of growth and development. People eligible for the program include pregnant women, breast-feeding women up to one year postpartum, non-breast-feeding women up to six months postpartum, infants less than one year of age, and children under age five determined to be at nutritional risk. The County charged $4,870,683 to the federal program for 2009.

Each year, the County must submit an expenditure report to the state that identifies the costs it incurred in administering the WIC program in the following categories: client services, nutrition education, breastfeeding promotion and administration for the current October through September fiscal year. Included in these costs are employees' salaries and benefits. To support the payroll expenditures reported, the state requires grantees to use a time study, or another reasonable system, to calculate personnel costs for all federally funded WIC employees. A time study must to be completed at least once each federal fiscal year. Summary forms are to be retained on file at the local agency for four years.

We reviewed the County's internal controls and compliance with reporting requirements for the WIC program and found the time studies were not completed at King County Public Health Centers in the 2009 fiscal year for federally funded WIC employees. The County lacked internal controls to ensure it completed the time study as required. Further, we found the County lacked adequate internal controls to ensure the expenditure report was completed as required. For 2009 the County did not complete the King County Public Health Centers activity portion of the expenditure report for the required categories, resulting in noncompliance with reporting requirements.

Cause of Condition

Program employees' lack understanding of reporting requirements and the County does not have adequate internal controls to ensure compliance with reporting requirements.

Effect of Condition

Without adequate supporting documentation, the grantor cannot be assured the financial information reported by the County is accurate and can be relied upon.

Recommendation

The County should establish adequate internal controls to ensure compliance with federal grant requirements and develop processes that provide reasonable assurance that financial reports include all activity during the reporting period for both King County Public Health Agencies and County subrecipients and that proper support is maintained on file.

County's Response

We agree with this finding. The previous WIC Program Manager neglected to initiate a time study for the FFY09.

The Department has taken the following corrective action to ensure compliance with the WIC expenditure report:

The WIC Expenditure Report requires reporting all costs (except Breastfeeding Peer Counseling funds and Farmers Market Nutrition Program funds) up to the amount of the grant. Personnel costs are the largest part of the grant. The WIC program has set up a system for completing Public Health staff monthly time studies via timesheets. Time studies are completed for one week each month during the 1st week of the second pay period of each month for these staff. Option codes are used to gather the actual amount of time spent working per the required categories: Client Services, Nutrition Education, Breastfeeding Promotion and Administration. The report will be reviewed and approved by the Program Manager on a monthly basis. Additional expenses beyond personnel and up to the amount of the grant will be reported using the WIC program's new automated expense report which was implemented in 2010. This same report is used for billing against the grant.

Auditor's Remarks

We thank the County for its cooperation and assistance during the audit and look forward to reviewing the County's corrective action during our next audit.

Applicable laws and Regulations

U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, Subpart C, section 300 -- Auditee responsibilities, states in part:

> The auditee shall:

(b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

Volume 2 of the Washington State WIC Manual, Chapter 12 Expenditure Report, states in part:

Section 1, page 1 - Policy: Annual Expenditure Report: Each local agency shall submit the annual Expenditure Report Totals form to the State WIC Program with details of federal funding expenditures for Client Services, Nutrition Education, Breastfeeding Promotion, and Administration for the current October through September federal fiscal year.

Submission of the Expenditure Report Totals form to the State WIC Program is required. However, staff Time Study – Daily Logs; Time Study Summary; Personnel Costs Summaries; and the Expenditure Report Summary shall be kept on file at the local agency and do not need to be submitted to the State WIC Program.

Section 1, page 2 – Policy: Time Study for Calculating Personnel Costs: A time study or another reasonable system for documentation the required categories, i.e. Clients services, Nutrition Education, Breastfeeding Promotion and Administration shall be used to calculate personnel costs for all federally funded WIC employees . . .

A time study shall be completed at least one time each federal fiscal year (October through September) . . .

Section 1, page 5 – Policy: Completing the Expenditure Report Summary Form: An Expenditure Report Summary form or another reasonable system for documenting the summary information shall be complied.

The Expenditure Report Summary form shall be retained on file at the local agency for four years. It is not required to submit the Expenditure Report Summary to the State WIC Program.

Title 7 Code of Federal Regulations, Part 3016.20 - Standards for financial management systems, states in part:

(b) The financial management systems of other grantees and subgrantees must meet the following standards:

(1) Financial reporting. Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.

Schedule of Federal Audit Findings and Questioned Costs

King County
January 1, 2009 through December 31, 2009

3. King County's internal controls were inadequate to ensure compliance with federal grant requirements of the Homeland Security Grant Program.

CFDA Number and Title:	97.067 Homeland Security Grant Program
Federal Grantor Name:	U.S. Department of Homeland Security
Federal Award/Contract Number:	NA
Pass-through Entity Name:	Military Department
Pass-through Award/Contract Number:	E08-196, E09-178, E08-102, E07-174 and E09-165
Questioned Cost Amount:	$0

Background

The Homeland Security Grant program provides support to state and local governments to prepare for, prevent, respond to and recover from disasters.

In 2009 the County spent $3.4 million of Homeland Security grant program funding it received through the state Military Department to pay for equipment, planning, training and exercises, management and administration.

Federal regulations require recipients of federal funds to establish and follow internal controls to ensure compliance with program requirements. These controls include knowledge of grant requirements and monitoring of program activities.

Description of Condition

We reviewed five of the County's contracts totaling $3,266,901 with the Military Department that account for approximately 95 percent of the County's reported Homeland Security program grant expenditures for 2009. We found weaknesses in internal controls and noncompliance with the following federal requirements:

Equipment Management

The County cannot provide reasonable assurance that proper records are kept for equipment paid for with federal grant funds. Without these records, it is possible that equipment could be used for unauthorized purposes or disposed of in a manner that violates federal requirements. Moreover, the Department of Homeland Security would not be appropriately compensated for its share of any property sold or converted to non-federal use. The County Office of Emergency Management has improved this record-keeping since our audit last year by requesting other County departments update the official King County capital asset database to include the grant number. We examined

29 items with a total value of $704,343 at four locations and found seven items totaling $367,346 did not have County asset tags. In addition, 10 items totaling $34,691 were not in the location indicated in program records. The County later was able to determine where the equipment was, and we confirmed these locations.

Reporting

The Military Department requires the County, at a minimum, to submit quarterly invoices. We reviewed all 35 invoices for four of the five major contracts with $2.6 million in billings. We found 16 invoices totaling $1.1 million were not billed in a timely manner. We found invoices up to 25 days late.

Also, the grant agreement required semi-annual progress reports for the January 1, 2009, through June 30, 2009, period to be submitted by July 15, 2009, and for the period July 1, 2009, through December 31, 2009, to be submitted by January 15, 2010. The County submitted these reports in late July 2009 and early February 2010, respectively. The report for one of the grants was not submitted until the Department requested it.

Subrecipient Monitoring

The County did not monitor to ensure subrecipients submitted invoices quarterly as required. The Military Department requests the quarterly invoices because it relies on the reports to monitor grant activity and costs that occurred during that quarter. Additionally, the County did not monitor to ensure subrecipients obtained audits required by federal Office of Management and Budget (OMB) Circular A-133.

Cause of Condition

At the County, individual departments are responsible for ensuring compliance with federal grant requirements. Staff that administers this grant was inadequately monitored to ensure compliance with grant requirements.

Effect of Condition

The County is not complying with grant requirements. This could jeopardize the County's ability to qualify for future federal grants and funds.

Equipment

When equipment records are incomplete and do not contain the required elements, it increases the risk federally funded equipment may be lost, misappropriated or used for unallowable purposes. In addition, the County is required to reimburse the federal government for the fair market value of federally funded equipment when it is sold or converted to other uses. Since the County does not track the funding source for equipment or conduct adequate physical inventories, it increases the risk it will not comply with this requirement.

Reporting

By not submitting invoices within the time period specified in the grant agreement, the County is at risk that the Military Department will deny payment and equipment requests.

Subrecipient monitoring

Allowing subrecipients to consistently submit late reimbursement requests to the County increases the County's risk of noncompliance with federal reporting requirements and may result in loss of federal funding. Without quarterly invoicing, the County cannot ensure the related invoices report all activity to the Military Department. This increases risk the state will not pay the County's invoices. Also, failing to ensure subrecipients arrange for audits increases the risk that federal funds are used for unauthorized purposes. As a result, the County is unable to ensure subrecipients took action to resolve audit findings and is unable to evaluate the effect of any subrecipient noncompliance.

Recommendation

We recommend the County establish effective controls, including additional monitoring, to ensure compliance with federal requirements for equipment management, reporting and subrecipient monitoring. We encourage the County to continue improving its equipment management.

County's Response

We would like to take this opportunity to thank the State Auditor's Office for helping us identify areas that can be further improved since their last audit. In response to the issues identified by the State Auditor's Office, King County Office of Emergency Management would like to respond as follows:

Equipment

We partially concur with this finding. The State Auditor's finding is directed at the official county inventory system IVIS. Currently, King County Office of Emergency Management staff does not have access to this inventory system. The King County Office of Emergency Management does maintain detailed equipment records that allow our office to identify equipment purchased with grant funds.

As corrective action King County Office of Emergency Management will do the following:

- *Request access to IVIS from County Central Finance in order to conduct periodic reviews and compare our internal records to IVIS.*
- *Continue to request that other su-recipients update their equipment records for prior year purchases to reflect federal funding.*
- *Effective with the Federal Fiscal Year 2010 grant cycle, King County Office of Emergency Management will require, via a contractual clause, that sub-grantees submit proof that purchased equipment has been properly inventoried and recorded in order to receive reimbursement.*

Per OMB Circular A-133, Part 3, Section J, auditors must:

> *Identify equipment acquired under Federal awards and trace selected purchases to the property records. Verify that the property records*

contain the following information about the equipment: description (including serial number or other identification number), source, who holds title, acquisition date and cost, percentage of Federal participation in the cost, location, condition, and any ultimate disposition data including, the date of disposal and sales price or method used to determine current fair market value.

The County concurs that seven items did not have asset tags affixed to them. However, we followed up with Central Finance's Fixed Asset Accountant and found that the County did have the required information recorded in IVIS although the seven physical assets were not tagged. In addition, based on the information in IVIS, the County could locate the seven assets.

Subrecipient Monitoring

We concur with this finding.

As of January 2010, King County Office of Emergency Management has streamlined the reporting function for all subgrantees. All subgrantees are required to invoice King County Office of Emergency Management on a calendar quarter basis rather than staggered dates throughout the year. This has enabled King County Office of Emergency Management to improve the monitoring of billing and has resulted in improved billing timeliness by subgrantees. King County Office of Emergency Management will continue to send reminders of reporting requirements to sub-grantees during the last month of each quarter.

As of the second quarter of 2010, King County Office of Emergency Management developed a database to track audit findings by sub-grantees as of 2002. This database will be maintained by King County Office of Emergency Management grant administrative staff. In addition, King County Office of Emergency Management will issue a management decision on audit findings within six months after receipt of the subgrantee's audit report and ensure that the sub-grantee takes appropriate and timely corrective action.

Reporting

We concur with this finding.

King County Office of Emergency Management continues to strive to improve our reporting timeliness in lieu of budgetary constraints and a human resource shortage. Although we frequently have competing deadlines, we plan to do the following:

- *Timely semi-annual narrative progress report submittals – King County Office of Emergency Management will request from the Washington State Military Department revised narrative report submittal dates from the current January 15 and July 15 to January 31 and July 31, respectively, for FFY10 and later years grant programs. If this request is denied King County Office of Emergency Management will make this a priority deadline over all other competing deadlines. King County Office of Emergency Management will prioritize administrative staff support to assist with sending out sub-grantee reminders and other tasks related to narrative progress reporting.*

- *Timely quarterly invoice submittals – King County Office of Emergency Management will prioritize administrative staff support to assist with sending out sub-grantee reminders and other tasks related to quarterly billings.*

Auditor's Remarks

We thank the County for its cooperation and assistance during the audit and look forward to reviewing the County's corrective action during our next audit.

Applicable laws and Regulations

Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, states in part:

> Section .300
>
> The auditee shall:
>
> (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.
>
> Section .400
>
> A pass-through entity shall perform the following . . .
>
> 1. Identify Federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year . . . and name of Federal agency . . .
>
> 2. Advise subrecipients of requirements imposed on them by Federal laws, regulations, and the provisions of contract or grant agreements as well as any supplemental requirements imposed by the pass-through entity.
>
> 3. Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
>
> 4. Ensure that subrecipients expending $500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.

5. Issue a management decision on audit findings within six months after receipt of the subrecipient‘s audit report and ensure that the subrecipient takes appropriate and timely corrective action.

6. Consider whether subrecipient audits necessitate adjustment of the pass-through entity‘s own records.

U.S. Office of Management and Budget Circular A-102, *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*, states:

Section .20 – Financial Management

(b) The financial management systems of other grantees and subgrantees must meet the following standards:

(1) Financial reporting. Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.

Section .32 - Equipment

d. Management requirements. Procedures for managing equipment (including replacement equipment), whether acquired in whole or in part with grant funds, until disposition takes place will, as a minimum, meet the following requirements:

(1) Property records must be maintained that include:

(a) a description of the property

(b) a serial number or other identification number

(c) the source of property

(d) who holds title

(e) the acquisition date and cost of the property

(f) percentage of federal participation in the cost of the property

(g) the location, use and condition of the property

(h) any ultimate disposition data including the date of disposal and sales price of the property.

(2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.

(3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft shall be investigated.

(4) Adequate maintenance procedures must be developed to keep the property in good condition.

(5) If the grantee or subgrantee is authorized or required to sell the property, proper sales procedures must be established to ensure the highest possible return.

e. Disposition. When original or replacement equipment acquired under a grant or subgrant is no longer needed for the original project or program or for other activities currently or previously supported by a federal agency, disposition of the equipment will be made as follows:

(1) Items of equipment with a current per-unit fair market value of less than $5,000 may be retained, sold or otherwise disposed of with no further obligation to the awarding agency.

(2) Items of equipment with a current per-unit fair market value in excess of $5,000 may be retained or sold and the awarding agency shall have a right to an amount calculated by multiplying the current market value or proceeds from sale by the awarding agency share of the equipment.

(3) In cases where a grantee or subgrantee fails to take appropriate disposition actions, the awarding agency may direct the grantee or subgrantee to take excess and disposition actions.

Schedule of Federal Audit Findings and Questioned Costs

King County
January 1, 2009 through December 31, 2009

4. King County's internal controls were inadequate to ensure compliance with requirements of its Child Support Enforcement Grant.

CFDA Number and Title:	93.563 Child Support Enforcement Grant
Federal Grantor Name:	Administration for Children and Families, U.S. Department of Health and Human Services
Federal Award/Contract Number:	75-1501-0-1-609
Pass-through Entity Name:	Department of Social and Health Services Division of Child Support
Pass-through Award/Contract Number:	2110-80581
Questioned Cost Amount:	$0

Description of Condition

The Child Support Enforcement (CSE) program objectives are to enforce support obligations owed by non-custodial parents, locate absent parents, establish paternity, and obtain child and spousal support.

During 2009 the County charged $8,008,481 to the Child Support Enforcement grant. The grant was divided among four County departments. We focused on two County departments that received the bulk of the grant money: the Prosecuting Attorney's Office and the Department of Judicial Administration.

Federal regulations require recipients of federal funds to establish and follow internal controls to ensure program requirements are followed. These controls include knowledge of the grant requirements and monitoring program activities. Federal audit standards require the auditor to report deficiencies in internal controls.

In 2009 the County Department of Judicial Administration was reimbursed $2,352,118 in federal grant funds for its Child Support Enforcement program. We found the County Department of Judicial Administration did not have adequate internal controls in place to ensure compliance with the following grant requirements:

<u>Reimbursement of Costs</u>

Under its grant agreement, the state reimburses the County for a portion of its costs related to child-support enforcement activities. The amount paid to the Department of Judicial Administrations is based on the ratio of child-support pleadings in relation to total pleadings. Our concerns over internal controls are:

- The Finance Manager determines the allowable costs and activities that are claimed for reimbursement; however, the County does not review or monitor the work to ensure its accuracy. In reviewing reimbursement claims, we found the County was not consistent from month to month on how certain costs were being included or excluded from the claim, which increases the risk of overpayment.

- The County received $182,153 of grant funding in excess of its approved budget of $2,352,118. Federal regulations require grantees to obtain the prior approval of the awarding agency whenever any revision to the budget would result in the need for additional funding. We found the County was not aware of this requirement.

Equipment

In 2009 the County charged $61,635 to the grant for equipment costs. Since 2002, the County Department of Judicial Administration has acquired more than $1.6 million in assets such as servers, scanners, computers and other electronic equipment. We found the County was not aware it must record and monitor the amount of federal money it spent on the equipment. The purpose of doing this is so the County can compensate the federal government for its share when the equipment is no longer used for federal purposes or the County disposes of the equipment.

Suspension/Debarment

When a grantee uses federal funds to pays for goods and services, it must ensure the vendors and subrecipients are not suspended or debarred from participating in federal programs. We reviewed eight procurement transactions that exceeded $25,000 between the County and four vendors. We found the County was not monitoring which of its vendor contracts are funded by the Child Support Enforcement grant and it was not aware it must ensure these vendors are not suspended or debarred.

Cause of Condition

For all the above compliance requirements, the internal controls were primarily the responsibility of employees who lacked adequate training and knowledge to reliably administer the grant requirements. The County did not monitor the program managers adequately to ensure internal controls were in place..

Effect of Condition

Deficiencies in internal controls lead to noncompliance with grant requirements that could result in repayment of grant funding or loss of eligibility for future federal awards.

Recommendation

We recommend the County:

- Establish adequate internal control to ensure compliance with federal grant requirements.

- Provide training to employees who are responsible for the use of the federal grant funds to ensure they have adequate knowledge of the grant and its compliance requirements.

County's Response

Judicial Administration (Department) concurs with the finding.

Reimbursement of Costs

The County offers additional comments and will be taking immediate corrective action as noted below:

To improve consistency with federal claims submissions, as of the July 2010 reimbursement claim and thereafter, the Accounting Supervisor will be trained in the compilation of IVD reimbursement claims. Monthly, Department staff will compile the claim and management will review it prior to distribution.

Grant Funding in Excess of Budget

The Department was following written instructions from the awarding agency which stated that revised budgetary approval was not necessary in the event that the approved budget amount was going to be exceeded. In 2010, the County will seek prior approval from the awarding agency for budget changes.

Equipment

The Department we will go back and update the property records from January 2010 onward and will continue, on a go forward basis, to record and track the portion of federal fund reimbursement on equipment purchased by the Department (capital asset purchases). This doesn't account for equipment costs passed through our central service plan. The Department will continue to follow Federal and County procedures for proper asset recording.

Suspension/Debarment

Effective September 2010, suspension and debarment requirements will be met for vendor purchases exceeding $25,000 and all subrecipient agreements made by Judicial Administration. Department staff will either review the Excluded Parties Listing System website and check the database for suspended and debarred individuals and companies and/or add a certification. This includes all sub-awards and covered contracts. In addition, when a requisition is submitted to procurement, staff will note "federal funds "on the requisition and/or record of contract. This doesn't account for other costs passed through our central service plan.

Training

To improve staff's knowledge of federal compliance requirements, the County's Grants Financial Officer conducted a federal compliance requirements training with the Grant Administrator and Finance Manager in August 2010.

Auditor's Remarks

We thank the County for its cooperation and assistance during the audit and look forward to reviewing the County's corrective action during our next audit.

Applicable laws and Regulations

Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section 300, states in part:

> The auditee shall:
>
> > (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.
> >
> > (c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.

Office of Management and Budget Circular A-133, *Compliance Supplement*, March 2009, page 4-93.563-2, states in part:

> Awards made under the State program with funding periods beginning on or after October 1, 2003, are subject to the HHS implementation of the A-102 Common Rule, 45 CFR part 92 (Federal Register, September 8, 2003, 68 FR 52843-52844). The State program also is subject to 45 CFR part 95….Both programs are subject to the cost principles under 2 CFR PART 225 – Cost Principles for State, Local, and Indian Tribal Governments (OMB Circular A-87,) as provided in Cost Principles and Procedures for Developing Cost Allocation Plans and Indirect Cost Rates for Agreements with the Federal Government, HHS Publication ASMB C-10 . . . .

U.S. Office of Management and Budget Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments* (2 CFR Part 225), states in part:

> Attachment A, Section C(1):
>
> > To be allowable under Federal awards, costs must meet the following general criteria:
> >
> > > b. Be allocable to Federal awards under the provisions of this Circular.
> > >
> > > d. Conform to any limitations or exclusions set forth in these principles, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.

f. Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.

j. Be adequately documented.

Title 45, Code of Federal Regulations, Part 92 (U.S. Office of Management and Budget Circular A-102, *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*), states in part:

Section 30 - Changes

(c) Budget changes.

(1) Nonconstruction projects. Except as stated in other regulations or an award document, grantees or subgrantees shall obtain the prior approval of the awarding agency whenever any of the following changes is anticipated under a nonconstruction award:

(i) Any revision which would result in the need for additional funding.

Section 32 - Equipment

d. Management requirements. Procedures for managing equipment (including replacement equipment), whether acquired in whole or in part with grant funds, until disposition takes place will, as a minimum, meet the following requirements:

(1) Property records must be maintained that include:

(a) a description of the property

(b) a serial number or other identification number

(c) the source of property

(d) who holds title

(e) the acquisition date and cost of the property

(f) percentage of federal participation in the cost of the property

(g) the location, use and condition of the property

(h) any ultimate disposition data including the date of disposal and sales price of the property.

(2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.

(3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft shall be investigated.

(4) Adequate maintenance procedures must be developed to keep the property in good condition.

(5) If the grantee or subgrantee is authorized or required to sell the property, proper sales procedures must be established to ensure the highest possible return.

e. Disposition. When original or replacement equipment acquired under a grant or subgrant is no longer needed for the original project or program or for other activities currently or previously supported by a federal agency, disposition of the equipment will be made as follows:

(1) Items of equipment with a current per-unit fair market value of less than $5,000 may be retained, sold or otherwise disposed of with no further obligation to the awarding agency.

(2) Items of equipment with a current per-unit fair market value in excess of $5,000 may be retained or sold and the awarding agency shall have a right to an amount calculated by multiplying the current market value or proceeds from sale by the awarding agency share of the equipment.

(3) In cases where a grantee or subgrantee fails to take appropriate disposition actions, the awarding agency may direct the grantee or subgrantee to take excess and disposition actions.

Title 45 Code of Federal Regulations, Part 95, states in part:

Section 95.707 - Equipment management and disposition.

(b) Other items of equipment whose costs are claimed for Federal financial participation (i.e., equipment that is capitalized and depreciated or is claimed in the period acquired and charged to more than one program) are not subject to the specific requirements in subpart O of 45 CFR part 74. However, the State agency is responsible for adequately managing the equipment, maintaining records on the equipment, and taking periodic physical inventories. Physical inventories may be made on the basis of statistical sampling. The following requirements apply to the disposition of this equipment:

(1) If the cost of the equipment was claimed in the period acquired and the equipment is later sold, the proceeds of

the sale shall be credited to current expenditures in approximate proportion to the distribution of the equipment's cost.

2) If the cost of the equipment was claimed in the period acquired and the equipment is later transferred to an activity which is not involved in the performance of programs currently or previously funded by the Federal Government, an amount equal to the fair market value of the equipment on the date of the transfer shall be credited to current expenditures in approximate proportion to the distribution of the equipment's costs.

Title 2, Code of Federal Regulations, Section 180.220 - Are any procurement contracts included as covered transactions?

(b) Specifically, a contract for goods or services is a covered transaction if any of the following applies:

(1) The contract is awarded by a participant in a nonprocurement transaction that is covered under Sec. 180.210, and the amount of the contract is expected to equal or exceed $25,000.

Title 2, Code of Federal Regulations, Section 180.300 - What must I do before I enter into a covered transaction with another person at the next lower tier?

When you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified. You do this by:

(a) Checking the EPLS; or

(b) Collecting a certification from that person if allowed by this rule; or

(c) Adding a clause or condition to the covered transaction with that person.

Schedule of Federal Audit Findings and Questioned Costs

King County
January 1, 2009 through December 31, 2009

5. The County's internal controls are inadequate to ensure compliance with subrecipient monitoring requirements for the Community Development Block Grant Program.

CFDA Number and Title:	14.218 Community Development Block Grants
Federal Grantor Name:	U.S. Department of Housing and Urban Development
Federal Award/Contract Number:	B-09-UC-53-0001
Pass-through Entity Name:	NA
Pass-through Award/Contract Number:	NA
Questioned Cost Amount:	$0

Description of Condition

Recipients use Community Development Block Grants money to provide housing and expanded economic opportunities, principally for persons of low and moderate income.

The County spent $7,656,525 in federal funding under this program. It paid $4,550,097 of this to 30 subrecipients. The County is responsible for ensuring subrecipients who spend $500,000 or more in federal money in a fiscal year have audits made in accordance with federal Office of Management and Budget (OMB) Circular A-133. Subrecipients are required to take prompt corrective action on audit findings.

During our review of County contracts for the block grant program, we verified the County informed subrecipients who spent $500,000 or more in federal money that they were required to have an audit. However, County employees responsible for grant monitoring were unable to show these audits occurred.

Cause of Condition

County employees stated they believed that keeping track of the subrecipient audit reports the County did receive was adequate to satisfy the compliance requirement.

Effect of Condition

Without proper controls in place to ensure that all subrecipients receive the required audit, the County cannot ensure it is spending grant funds only for allowable purposes and meeting grant requirements. Noncompliance could jeopardize future federal funding and require the County to return federal funds to the grantor.

Recommendation

The County should establish internal controls that provide reasonable assurance that subrecipients who spend $500,000 or more in federal money during a fiscal year have the required audits.

County's Response

We respectfully disagree with the finding that the County does not have adequate internal controls to ensure compliance with subrecipient monitoring requirements for the CDBG Program, but do agree that our documentation of certain review and confirmation procedures could be improved.

We believe that, beyond the inclusion of A-133 audit requirements in our CDBG contract conditions and the use of audit report track lists, internal controls to provide reasonable assurance of A-133 compliance do exist in the form of regularly scheduled subrecipient agency site visits where County program and fiscal staff inquire and review agency documentations as appropriate. We also believe that the risk of noncompliance is low given that most of the 30 CDBG funded activities are with a small number of municipal cities and towns as well special governmental units which are all subject to annual audits by the State Auditor's Office. For these governmental entities, we will also search the SAO audit report website annually to ensure A-133 compliance.

We would acknowledge that documentation of our internal controls in this area may be improved by requiring more detailed description of our A-133 audit review procedures during the regularly scheduled site visits. Additionally, we believe that monitoring CDBG subrecipients for audit compliance may be made more efficient through a new system of positive confirmation where all recipient agencies will be contacted annually by email and be required to respond affirmatively to questions regarding their compliance with the A-133 audit requirements. This annual audit survey would enable us to identify CDBG recipient agencies subject to the audit requirement prior to an onsite monitoring visit. Respondents who are subject to an A-133 audit would be required to submit an electronic or hard copy of their audit for our review and follow up on any audit exceptions and management comments. Finally, negative responses from the annual A-133 compliance survey will be subject to verification during monitoring site visits and further confirmed through review of their SEFA, a step which we currently perform.

Auditor's Remarks

We thank the County for its cooperation and assistance during the audit. We reaffirm our finding. We look forward to reviewing the County's corrective action during our next audit.

Applicable laws and Regulations

U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, states in part:

Section 300.

The auditee shall:

(b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and provisions of contracts or grant agreements that could have a material effect on each of its federal programs.

Section 400.

(d) Pass-through entity responsibilities. A pass-through entity shall perform the following for the Federal awards it makes:

(1) Identify Federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year, if the award is R&D, and name of Federal agency. When some of this information is not available, the pass-through entity shall provide the best information available to describe the Federal award.

(2) Advise subrecipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity.

(3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

(4) Ensure that subrecipients expending $300,000 *($500,000 for fiscal years ending after December 31, 2003)* or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.

(5) Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.

(6) Consider whether subrecipient audits necessitate adjustment of the pass-through entity's own records.

(7) Require each subrecipient to permit the pass-through entity and auditors to have access to the records and financial statements as necessary for the pass-through entity to comply with this part.

Schedule of Federal Audit Findings and Questioned Costs

King County
January 1, 2009 through December 31, 2009

6. King County did not maintain adequate records to support expenditures charged to its Centers for Disease Control and Prevention Investigations and Technical Assistance Grant.

CFDA Number and Title:	93.283 Centers for Disease Control and Prevention Investigations and Technical Assistance Grant
Federal Grantor Name:	U.S. Department of Health and Human Services
Federal Award/Contract Number:	NA
Pass-through Entity Name:	Department of Health
Pass-through Award/Contract Number:	NA
Questioned Cost Amount:	$856 known; $50,775 projected

Background

The objective of the Centers for Disease Control and Prevention Investigations and Technical Assistance Grant is to assist state and local health authorities and other health organizations in controlling communicable and chronic diseases and disorders, and preventable health conditions.

We reviewed the County's internal controls and compliance with program requirements. The County reported spending $4,845,087 in federal funding under the program during fiscal year 2009. Of this amount $1,767,470 was reported for the Emergency Preparedness program.

Description of Condition

We reviewed payroll transactions to determine whether salaries and benefits charged to the grant were supported by adequate time and effort documentation as required by federal regulations. We noted several transactions charged to the grant for payroll, benefits and other areas were not supported by required time and effort documentation. Further, the County's method of allocating paid time off to the grant is inadequate to ensure charges are appropriate. These transactions totaled $856 in known questioned costs. Because we randomly sampled charges to the grant, the questioned costs likely could be more.

Cause of Condition

Program staff was not knowledgeable of federal requirements because the County employees were not sufficiently trained and monitored.

Effect of Condition

Without adequate time and effort records and knowledge of proper grant requirements, the County is unable to demonstrate the appropriateness of certain payroll costs and other expenses allocated to its federal programs.

Recommendation

We recommend the County:

- Prepare and maintain adequate time and effort documentation for staff members whose salaries and benefits are directly and indirectly charged to federal programs.
- Review its methodology for paid time off distributions to ensure costs are allocable to their respective programs.
- Consult with the Department of Health about repayment of questioned costs.

County's Response

We partially agree with this finding.

Salaries and Wages

The Department has controls to ensure time and effort documentation is completed for all staff charging to federal grants. The missing documentation for the two employees in question was an isolated incident. All employees working on multiple cost objectives are required to complete timesheets and all employees working on a single cost objective will complete semi-annual certifications. The program will implement a review process to ensure all staff time billed to the grant is supported by time and effort documentation.

Paid Time Off Methodology

The County is moving to a new payroll and general ledger system in 2012. The paid time off is allocated using an automated process. We will ask the County ARMS programmers to review the logic created for this distribution and change to a month-to-date allocation to ensure paid time off is recorded and allocated in the month it was taken.

Auditor's Remarks

We thank the County for its cooperation and assistance during the audit and look forward to reviewing the County's corrective action during our next audit.

Applicable Laws and Regulations

U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section 300, states in part:

> The auditee shall:

(b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

U.S. Office of Management and Budget Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments* (2 CFR Part 225), states in part:

Attachment A, Section C(1):

To be allowable under Federal awards, costs must meet the following general criteria:

b. Be allocable to Federal awards under the provisions of this Circular. . .

d. Conform to any limitations or exclusions set forth in these principles, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items…

f. Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.

j. Be adequately documented.

Attachment B, section 8, states in part:

d. Fringe benefits.

(2) The cost of fringe benefits in the form of regular compensation paid to employees during periods of authorized absences from the job, such as for annual leave, sick leave, holidays, court leave, military leave, and other similar benefits, are allowable if: They are provided under established written leave policies; the costs are equitably allocated to all related activities, including Federal awards; and, the accounting basis (cash or accrual) selected for costing each type of leave is consistently followed by the governmental unit.

h. Support of salaries and wages.

(1) Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally

accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit.

(2) No further documentation is required for the salaries and wages of employees who work in a single indirect cost activity.

(3) Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

(4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on: (a) More than one Federal award, (b) A Federal award and a non-Federal award, (c) An indirect cost activity and a direct cost activity, (d) Two or more indirect activities which are allocated using different allocation bases, or (e) An unallowable activity and a direct or indirect cost activity.

(5) Personnel activity reports or equivalent documentation must meet the following standards: (a) They must reflect an after-the-fact distribution of the actual activity of each employee, (b) They must account for the total activity for which each employee is compensated, (c) They must be prepared at least monthly and must coincide with one or more pay periods, and (d) They must be signed by the employee.

Schedule of Audit Findings and Responses

King County
January 1, 2009 through December 31, 2009

7. King County should continue to strengthen its internal controls to ensure complete accounting and financial reporting.

Background

County management, the state Legislature, state and federal agencies and bondholders rely on the information included in the financial statements and reports to make decisions. It is the responsibility of the County management to design and follow internal controls that provide reasonable assurance regarding the reliability of financial reporting. Controls must ensure that financial data is reliably authorized, processed and reported. Our audit identified significant deficiencies in controls that adversely affect the County's ability to produce reliable financial statements.

Government Auditing Standards, prescribed by the Comptroller General of the United States, require the auditor to communicate significant deficiencies, as defined below in the Applicable Laws and Regulations section, as a finding.

Description of Condition

We issued a similar finding to the County during previous audits of its 2008 and 2005 financial statements. The County has improved its documentation of the financial statement preparation process and provided more timely financial information for the current audit. However, the following significant deficencies in controls over financial reporting persist:

- The County's financial statement process is complex. The County's year-end financial statements are prepared by multiple employees, each of whom prepares a different section of the statements. When many people and departments are involved in a process, the risk that the County's financial statements could contain material misstatements or errors is increased. We noted the County did not perform a sufficiently detailed review and reconciliation of the financial statements to ensure the statements were accurate and complete.

- The County prepares and submits for audit a comprehensive annual financial report (CAFR) in a Governmental Accounting Standards Board Statement No. 34 reporting format. These types of statements are complex and require employees from various departments to have a high level of understanding of the accounting principles required and the relationship the statements have to one another. The County requested the financial statement audit be completed by June 30 and provided financial statements and notes on April 15, 2010. The County subsequently provided the final reporting package, including changes identified by our audit, as well as changes identified by an outside auditing firm for the Water Quality Fund on September 1, 2010. The delay caused by the Water

Quality Audit was the significant contributing factor to the County's inability to timely complete and produce a single, final set of financial statements and notes.

- The County does not perform a final accounting for the County's capital asset projects in a timely manner. The County does not have a policy that states at what point a project will be moved from the Work in Progress (WIP) account to the appropriate capital asset account. Currently, projects are moved at the discretion of employees. Also, the County's financial or accounting management does not monitor this process.

- The County does not have an adequate reconciliation process over escrow accounts to ensure all funds are accounted for. The County reported only the 2009 additions to escrow accounts on the Statement of Fiduciary Net Assets rather than the ending account balances in accordance with accounting standards. County employees were unsure which balances to report. Additionally, the initial list of escrow accounts the County provided did not include 12 accounts. Further, we were unable to confirm six accounts because the banks indicated the accounts had been closed. One account of $10,665 was omitted because the County mistakenly thought the account was closed. We determined another account's actual balance was $882,935 more than the County's recorded balance because other entities made deposits into the account without the County's knowledge. Funds held in escrow for King County projects should be maintained separately from all other funds.

The County receives approximately $250 million in federal grant funds each year. The County has not adequately communicated information and applicable reporting requirements to its departments that spend grant funds. Additionally, the County does not perform a sufficiently detailed review and reconciliation of the Schedule of Expenditures of Federal Awards (SEFA) that employees prepare to ensure it is accurate, complete and adequately supported.

Cause of Condition

The County's controls over preparation of the financial statements do not make adequate allowance for the complexity of its accounting function. The County's internal controls lack sufficient monitoring and review to ensure the financial information provided for audit is accurate and complete, as well as the time necessary to appropriately perform these functions. The County has high expectations for meeting certain reporting deadlines; however, this is unrealistic given its current financial reporting processes.

Effect of Condition

The original and subsequent revisions of the financial statements we received for audit contained misstatements. In addition, a few of the financial statement notes were incomplete.

We identified the following errors:

Statement of Net Assets

- The Custodial Account of the Public Health Fund was overstated by $1,214,715. The County erroneously coded revenue to this liability account rather than to a revenue account.

- Net assets restricted for debt service were understated by $10,457,000 and unrestricted net assets were overstated in the same amount in the Government-Wide Statement of Net Assets. The County used preliminary rather than final amounts in its calculation of net assets.

- Based on the County's current practice for capitalizing assets, accumulated depreciation was understated by $3,350,143.

- The cash balance related to escrow accounts in aggregate remaining funds was understated by $857,507. Statement of Revenue, Expenditures and Changes in Fund Balances.

- We identified a known understatement of $2,454 in the Public Health Fund and projected a likely understatement of expenditures of $888,938 in this fund; and identified a known understatement of $17,126 in aggregate remaining funds and projected an understatement of $7,184,425 in these funds.

Notes to the Financial Statements

- The notes to the financial statements do not contain certain elements required by the *Budgeting, Accounting and Reporting System* (BARS) manual prescribed by the State Auditor's Office. Specifically we noted:

    - The cash and cash equivalents portion of Note 1 does not include a detailed account of the County's cash and investment figures, which should tie to the financial statements.

    - The capital asset portion of Note 1 does not reference the capital asset note.

    - The long-term obligations portion of Note 1 does not reference the long-term debt note.

    - Note 13, related to environmental remediation, does not address the estimated cleanup cost for each site that requires cleanup, method of cleanup, any estimated recoveries, where the County's position is regarding their benchmarks and the potential for changes due to price increases or reductions, technology or applicable laws and regulations.

Schedule of Expenditures of Federal Awards (SEFA)

- The SEFA is used for audit planning and grantor oversight. An incorrect SEFA can affect the amount of audit coverage required and can affect the selection of

programs for audit. Further, an incorrect SEFA can delay an audit beyond the required nine-month reporting deadline and cause unnecessary audit costs.

The lack of understanding at the department level of the proper calculation of federal grant expenditures caused a delay in providing information necessary for preparing the schedule. This also affected our planning process for the County's required single audit.

Additionally, the County incorrectly reported the information on the SEFA. We identified the following errors, which were subsequently corrected by the County, resulting in the County providing us four versions of the SEFA throughout the audit:

- Six programs were reported incorrectly, causing a net over-reporting of $655,821.
- Titles for six programs with American Recovery and Reinvestment Act (ARRA) funds did not include the prefix "ARRA" as required.
- Total federal expenditures reported on the original SEFA were $255,840,935. The actual total should have been $255,185,114.

We noted additional, less significant errors; the County corrected some of the errors. The deficiencies noted in internal controls make it reasonably possible that more serious misstatements could occur and not be prevented or detected by the County in the future. None of the errors noted was material to the fair presentation of the financial statements.

Recommendation

We recommend the County:

- Dedicate sufficient resources to ensure accurate, complete and timely preparation of its financial statements.
- Perform a detailed review and reconciliation of the financial statements and notes.
- Implement policies and procedures to ensure assets are reported and recorded timely to ensure WIP and capital assets are corrected reported, as well as, the associated accumulated depreciation and depreciation expense.
- Reconcile escrow accounts to ensure accounts are accounted for properly.
- Improve processes to ensure adequate oversight of financial reporting, including a detailed review of the financial statements and the SEFA.
- Provide necessary information and training to departments that expend grant funds to allow them to correctly identify federal grants, the amounts expended and reporting requirements.

County's Response

The county appreciates the auditor's acknowledgement of improvement since the prior audit and acknowledgement that the accounting misstatements were immaterial to the accurate presentation of the county's financial statements. The county concurs that we need to continue our efforts to strengthen internal controls involving financial statement reporting. We also disagree with certain statements or characterizations in the finding. The county's response provides additional facts and context for the identified accounting misstatements, the delays in the audit schedule, the SEFA reporting, and other areas of this finding.

Accounting Misstatements:

During the county's exit interview on September 15, the audit team presented a document to the county executive stating:

> *We agree with management's representation that these misstatements are immaterial to the fair presentation of the financial statements.*

When added together, the accounting classification errors noted by the auditor are inconsequential. The misstatements reflect an extremely small 0.25 percent (.0025) of the county's total $9.7 billion in assets. The County reviewed the six misstatements as shown in the table below and concluded the items did not materially affect the county's financial statements, nor did they impact the General Fund or budgetary compliance. The audit finding arrives at the same conclusion by stating "None of the errors noted were material to the fair presentation of the financial statements" (see above under Effects of Conditions).

Net Asset and Other Areas					
Category	**Finding Amount**	**Percentage of Total County Assets**	**Effect on General Fund Deficit**	**Effect on Budgetary Compliance**	**Other Comments**
Public Health Custodial Account	1,214,715	0.0125%	None	None	County is leaving error uncorrected because it does not materially impact financial statements.
Fund Balance Classification (Government-Wide Statement of Net Assets)	10,457,000	0.1079%	None	None	County has made correction even though it would not have materially impacted statements.
Capitalization of Fixed Assets	3,350,143	0.0346%	None	None	County is leaving error uncorrected because it does not materially impact financial statements.
Escrow cash balances understated	857,507	0.0088%	None	None	County is leaving error uncorrected because it does not materially impact financial statements.
Public Health Projected Expenditure understatement	888,938	0.0092%	None	None	Projection is based on known misstatement of $2,454. County is leaving uncorrected since there is no material impact on statements.
Other Funds Projected Expenditure understatement	7,200,000	0.0743%	None	None	Projection is based on known misstatement of $17,126. County is leaving uncorrected since there is no material impact on statements.
The following disclosure items were noted by the auditors, any additional comments are listed below.					
Disclosure Items					
Summary of Significant Accounting Policy does not include cash and investment account details.					The county shows cash and investment account details in the cash and investment detail note.
Summary of Significant Accounting Policy does include a cross reference to either capital asset or long-term debt note.					The notes not cross referenced are easy to locate without additional reference
Environmental remediation note needs additional elements.					Concur. These elements are being added and the note is being restructured which is currently underway.

Delays in Audit Schedule:

The County offers the following sequence of events tied to the audit schedule. The county delivered financial statements for audit on April 15 as agreed with the auditor. In March 2010, the county alerted the SAO that extra time would be needed by an independent CPA firm to complete the Water Quality Fund audit. The Water Quality financial statements were delivered to the SAO on July 6, 2010 and a final management letter from the CPA firm was delivered on August 13, 2010. Throughout the audit period, the SAO team had access to the CPA firm's work papers that were in progress and were invited to multiple status report meetings. While the county acknowledges the delays in the Water Quality Fund audit slowed the processing of the countywide financial audit, we were doing our best to keep the SAO updated and informed of our progress.

Another reason for delay was the extra time required by the SAO to audit payroll in the Public Transportation Fund. During the audit, the SAO team questioned the county's practice of reconciling total payroll system output to the general ledger and relying upon budgetary review to detect fund level errors. The county demonstrated the effectiveness of its controls in late June and submitted a reconciliation report to the auditor. The auditing team did not acknowledge the results of the report at that time. Later on July 20, the SAO started to review the county's methodology and requested access to

detailed payroll files. The SAO completed their review of payroll issues in late August 2010. We appreciated the fact that the SAO arrived at the same conclusion that there were no material errors in the payroll reconciliation.

With the exception of accounting adjustments made to the Water Quality Fund, there was only one other accounting adjustment made by the county and reported to the auditor after the initial April 15th submittal. All other issues or reasons noted about the delay did not affect the auditor's ability to complete the audit.

SEFA Reporting

The County submitted the Consolidated SEFA to the SAO on April 1, one month earlier than any prior year, and the county dedicated additional staff to the review period to make the earlier date.

The County believes that it has adequately communicated information and applicable reporting requirements to its departments spending grant funds. Annually, the Grants Financial Officer and Chief Accountant do the following:

- *Send a memo to all County Finance Managers to communicate year end audit reporting requirements for Federal, State and local assistance grant funding. This communication includes SEFA instructions and templates.*
- *Conduct an annual SEFA preparation training January to grant financial, programmatic and administration staff.*
- *Offer staff the opportunity to attend an annual SAO-presented Federal Grants requirements class*

The County believes that it performs a sufficiently detailed review and reconciliation of the information shown on the SEFA. The Grants Financial Officer performs due diligence by reviewing individual agency schedules, reconciling them with the financial systems and communicating with SEFA owners when accounting and presentation issues are identified. This second level of review aims to ensure the SEFA's accuracy, completeness, timeliness and adequacy. This review resulted in a schedule that over-reported federal assistance by a fractional 0.26 percent (.0026) and the departments that submitted schedules containing errors will be contacted to determine whether corrective actions are necessary.

The SAO indicated that titles for six (or five) programs with ARRA funds did not include the prefix "ARRA" as required. The programs' titles indicated ARRA when presented on the SEFA and were also footnoted as ARRA. The following is a representative line item cited as an error that shows ARRA in the title and with footnote 5 listed, which also indicates the grant is ARRA funded:

ARRA JAG Drug Court	*16.803*	*0963-68039*	*289,872*	*(5)*

The County concurs that it submitted multiple versions of the SEFA throughout the audit as the County became aware of needed corrections. The county followed an iterative process in which errors were identified, changes were made and revised schedules were given to the auditor. The county believed that keeping the most up-to-date information in the auditor's hands important. This iterative practice will likely be discontinued in the

future unless there is a clear understanding between the county and the auditor that there are benefits to updating information in stages versus waiting until all corrections have been identified.

Other County Comments

The county is addressing escrow accounts with a new escrow agreement and reviewing accounting procedures to assure all accounts are reported correctly and disclosed to the auditor upon request.

The county is addressing fixed asset capitalization for general government assets with revised accounting review procedures. This has been a low priority item in past years because the county believes a material misstatement in fixed assets to be a remote possibility.

For the last 28 years, the county has received an award from the Government Finance Officers Association for excellence in financial reporting. The county believes its financial statement review procedures are adequate, and has researched techniques to improve the review process. The county is developing a customized quality control checklist to supplement industry standard checklists already used, which should reduce errors beyond the already very low rate.

Auditor's Remarks

We thank the County for its cooperation and assistance during the audit and look forward to reviewing the County's corrective action during the next audit.

Applicable Laws and Regulations

RCW 43.09.200 states:

> The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class.
>
> The system shall exhibit true accounts and detailed statements of funds collected, received, and expended for account of the public for any purpose whatever, and by all public officers, employees, or other persons.
>
> The accounts shall show the receipt, use and disposition of all public property, and the income, if any, derived there from; all sources of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction; all statements and reports made or required to be made, for the internal administration of the office to which they pertain; and all reports published or required to be published, for the information of the people regarding any and all details of the financial administration of public affairs.

Budget Accounting and Reporting System Manual - Part 3, Accounting, Chapter 1. Accounting Principles and General Procedures, Section B. Internal Control, states:

> Internal control is a management process for keeping an entity on course in achieving its business objectives, as adopted by the governing body. This management control system should ensure that resources are guarded against waste, loss and misuse; that reliable data is obtained, maintained, and fairly disclosed in financial statement and other reports; and resource use is consistent with laws, regulations and policies.
>
> Each entity is responsible for establishing and maintaining an effective system of internal control throughout their government.

U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section 300 - Auditee responsibilities, states:

> The auditee shall:
>
> > (a) Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity.
> >
> > (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.
> >
> > (c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.
> >
> > (d) Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with §___.310**.**

Government Auditing Standards, July 2007 Revision – Section 5.11 provides that auditors should report material weaknesses and significant deficiencies in internal control.

The American Institute of Certified Public Accountants, Statement on Auditing Standards No. 115 defines significant deficiencies and material weaknesses as follows:

> a. Significant deficiency: A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

b. Material weakness: A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Schedule of Audit Findings and Responses

King County
January 1, 2009 through December 31, 2009

8. King County does not have adequate internal controls to ensure accurate accounting and financial reporting for the Water Quality Enterprise fund.

Background

County management, its Council, taxpayers, bondholders, creditors, banks, the state Legislature, and state and federal agencies rely on information in financial statements and reports to make decisions. It is the responsibility of County management to design and follow effective internal controls to provide reasonable assurance regarding the reliability of financial reporting.

Government Auditing Standards, prescribed by the Comptroller General of the United States, require the auditor to communicate material weaknesses and significant deficiencies in internal controls over financial reporting, as defined below in the Applicable Laws and Regulations section below, as audit findings.

The Water Quality Enterprise fund is included in King County's financial statements, which were audited by a Certified Public Accounting (CPA) firm that provided its reports to our Office. In our audit work on the County's financial statements, we are relying on the CPA firm's audit work related to the fund and are including its findings in our report. The CPA firm identified material weaknesses and a significant deficiency in internal controls that have the potential to adversely affect the County's ability to prepare accurate financial statements.

Description of Condition

The CPA firm identified the following material weaknesses in internal controls in its communication to the County:

- There is a lack of formal documentation of accounting policies and procedures specific to Water Quality. Existing County policies do not provide sufficient guidance for the appropriate treatment of complex accounting matters and transactions.

- Controls over capital assets are not robust and do not prevent or detect material errors in the identification, classification, and depreciation of capital assets.

Additionally, the CPA firm identified the following significant deficiency in internal controls in its report to the County:

> Management's review of account classification and reconciliations needs improvement; we noted significant errors in various accounts during our substantive testing.

Cause of Condition

The CPA firm identified the following causes in its communication to County management:

> There is a lack of formal documentation of significant accounting policies and procedures specific to the Fund. Currently, Water Quality uses the King County general policies and procedures manual, which does not address the industry specific treatment of accounting transactions not found in the general county environment. The County's general policy and procedures manual does not provide an adequate internal control structure governing management estimation accounts as part of the financial close and reporting process, including capital assets, environmental liabilities, regulatory assets and deferred charges.
>
> Capital Assets, which include plant in service and construction work in progress (CWIP), are one of Water Quality's largest and most complex financial statement accounts. We performed internal control and substantive tests on CWIP, plant in service, overhead allocation, capitalized interest, and depreciation. During our testing procedures, we noted deficiencies in controls that had a material impact on the financial statements.
>
> Throughout our substantive testing of various accounts, we noted errors that we would expect to be identified and resolved as part of management's review of the month end reconciliations or through their analysis of the year end account balance.

Effect of Condition

The CPA firm noted the following effects on the financial statements from the control deficiencies mentioned above:

- Environmental liabilities – Management relies on a specialist within Water Quality to analyze future remediation costs based on budgeted estimates. There is a lack of documentation behind the specialist's analysis that considers all the elements required by GASB 49, *Accounting and Financial Reporting for Pollution Remediation Obligations.* This is a very complex accounting standard which details certain types of obligating events which must occur prior to application of the standard. Once it is determined that it does apply, there are specific allowed methods of calculation of the liability and related expense. Within Water Quality, there is a lack of detailed and robust documentation surrounding management's analysis and their review of the specialist's estimates. This review should also incorporate a reference back to the accounting standard to ensure that the liability is complete and calculated in accordance with allowed methodologies. In addition, the policy should incorporate procedures surrounding the deferral of regulatory assets in accordance with generally accepted accounting principles.

- Capitalization policy – During our testing of construction projects recorded within CWIP, we noted numerous projects that were placed in service in prior years, but had not been closed from CWIP to capital assets. This resulted in a reclassification adjustment of $143 million. The current policy does not address the monitoring of CWIP projects to ensure a timely transfer and closeout from

CWIP to the appropriate capital asset account policies and procedures related to appropriate depreciable lives and review for impairment should also be expanded.

- Regulatory assets – Water Quality has a policy to treat all pollution remediation costs as regulatory assets and amortize the capitalized costs over 30 years, which is the period that management has built into the proposed annual sewer rates. During our testing of the amortization, we noted that actual remediation costs rather than the deferred capitalized costs were being amortized over the rate recovery period. The existence of a formal policy on the amortization period and accounting treatment could have prevented the error and the resulting $1,226,000 adjustment to the regulatory asset balance.

- Projects retained in CWIP after being placed in service - During our testing of construction projects recorded in CWIP, we noted numerous projects that were placed in service in prior years, but had not been closed from CWIP to capital assets, which resulted in a reclassification of $143 million It is our understanding that the Water Quality Business Officer meets with Project Managers on a regular basis to monitor the status of projects; the projects placed in service should be identified and documented during these meetings and then closed in a timely manner to capital assets.

- Skewing of depreciation on pooled assets - The treatment of additions to pooled assets is causing a skewed usage of the straight line depreciation methodology. Additions of infrastructure (i.e., sewage pipes) should be pooled and assigned a useful life consistent with Water Quality's capitalization policy. We noted that infrastructure additions are not being consistently applied across all similar assets. The result is that the depreciation methodology used on these assets is a hybrid between straight line and group or pool depreciation. We recommend that all assets with skewed depreciation be identified and alternative methods of calculating depreciation be used.

- There is divergent practice by municipal utilities with respect to the accounting for gains and losses on the retirement of utility plant assets. It is not clear which practices are being followed by Water Quality. We recommend that management examine the various alternatives and formally document the policy that is best suited for Water Quality.

- Reconciliation of the FAS subledger to the general ledger - As part of our audit procedures, we reviewed the reconciliation of the December 2009 reconciliation of FAS to the general ledger noting a material difference. It is our understanding that the reconciliation is performed on a monthly basis; however, it appears that the reconciliation is not adequately reviewed to ensure that reconciling items had been identified and resolved. Due to the lack of controls over the monthly reconciliation process, a material difference between FAS and the general ledger was identified at year end, resulting in an adjustment of $3,584,600.

- Reclassification of capital assets within asset categories - During our analysis of asset categories, we noted several instances in which assets had been capitalized to one class of capital assets and then in a subsequent year, a

correction entry was made to reclassify the asset to a more appropriate class. This appears to be caused by a delayed review of the assets capitalized through the closure of a construction project. Changes in asset category may affect the useful life assigned and ultimately impact depreciation expense. When projects are closed and transferred from CWIP to capital assets, the asset classification should be reviewed on a timely basis for compliance with Water Quality's capitalization and asset classification policy to ensure consistent and appropriate treatment and to avoid future correction.

- As a part of our testing of accounts payable we obtained a detail listing of goods and services received but not invoiced noting several immaterial items dating back to 2005. We recommend that this list be reviewed for aged items as part of the year-end financial close process.

- During our testing of deferred bond issuance costs, premium and discount, and refunding losses we noted that three journal entries were posted in the current year to correct the prior year activity. We reviewed the correcting journal entry noting that it was incorrectly prepared and posted without giving consideration to the prior year impact. Journal entries are reviewed by management upon entry; however, the review did not identify the error. An adjusting journal entry in the amount of $4,190,700 was posted in order to correct these accounts.

- During our testing of the arbitrage liability we noted that the arbitrage calculation had not been completed for 5 of the 12 applicable revenue bond issuances. Currently the arbitrage liability is reviewed by the investment manager; however, there is no review of the calculation for accuracy and to check that all bonds had been reviewed.

- During our testing of interest payable we identified a payable account with a debit balance. Based on inquiry with management this account should have been reconciled as a part of the year end close procedures; however, the account balance had been overlooked.

- We identified a receivable balance that was recorded in 2007 and remained as a receivable as of year end 2009. We recommend that all accounts receivable balances be reviewed as part of management's assessment of collectability during the year end close process.

- During our testing of the inventory receipts liability account, we noted that a manual adjustment was prepared in error which resulted in a material fluctuation in the account balance and year end debit balance. Journal entries are reviewed by management upon entry; however, the review did not identify the error.

- We noted an immaterial difference between the year end balance of the inventory listing and the general ledger (GL). The inventory listing was not reconciled to the GL or reviewed at year end. The inventory listing should be reconciled to the GL at year end to ensure that the system is appropriately calculating the year end balance and that automatic updates to the GL are accurate.

Recommendation

The CPA firm had the following recommendations for the County:

- We recommend that management develop and implement sound policies and procedures, particularly over the industry specific and management estimate accounts. This ensures consistent treatment of management's policies and procedures that are in accordance with generally accepted accounting principles as well as guidance from industry standards.

- We recommend that Water Quality designate a fixed asset accountant for the purpose of reviewing and monitoring procedures surrounding construction work in progress and assets in service. Given the scale of the current projects in progress, we recommend that the accountant also serve as a liaison between the project managers and the accounting and finance departments to ensure timely transfers of projects to in service status. In addition, the accountant would be responsible for reviewing monthly reconciliations from the project management system to the general ledger and for ensuring proper classification of projects in the financial statements.

We believe the underlying cause for these observations is that there is no designated financial manager responsible for the external financial reporting function for the Fund. As a result, there is insufficient review and monitoring of amounts and transaction. We recommend a financial manager be designated as responsible for performing a more robust review of correcting journal entries, reviewing monthly reconciliations and reviewing year-end balances to ensure account balances are appropriately reflected in the financial statements.

County's Response

The county concurs with the specific findings from the external CPA firm and the three recommendatIons.

The identified errors have all been corrected. Since the corrections mainly involved adjustments to fixed asset account classfications and depreciation expenses, neither utiliy rates nor bond reserve requirements were affected.

In the first of three recommendations, the external CPA firm recommended that King County Water Quality develop and implement sound policies and procedures, particularly over the industry specific and management estimate accounts. This would ensure consistent treatment of management's policies and procedures that are in accordance with generally accepted accounting principles as well as guidance from industry standards. King County concurs that policies and procedures should be reviewed and revised. Finance and Business Operations and Water Quality have immediately begun review of existing policies, and will update the documentation of our policies and procedures, as necessary. A work program will be developed, implemented and monitored to ensure ongoing compliance by the end of 2010.

In the second of three recommendations, the external CPA firm recommended that Water Quality designate a fixed asset accountant for the purpose of reviewing and monitoring procedures surrounding construction work in progress and assets in service. Given the scale of the current projects in progress, they recommend that the

accountant also serve as a liaison between the project managers and the accounting and finance departments to ensure timely transfers of projects to in service status. In addition, they advised that the accountant should be responsible for reviewing monthly reconciliations from the project management system to the general ledger and for ensuring proper classification of projects in the financial statements. King County is committed to a working relationship between Water Quality and the Finance and Business Operations Division to determine the funding, placement and roles and responsibilities of a fixed asset accountant. This position, with the support of management, will ensure the capitalization policies and procedures are strengthened, clearly communicated and implemented. The work program for this effort was begun in August 2010 and will result in Water Quality policies and procedure statements before the end of 2010. Effective immediately, Water Quality has initiated a quarterly review of capital projects to determine their proper accounting status.

In the third of three recommendations, the external CPA firm expressed a belief that the Water Quality Enterprise could strengthen management review and monitoring of account balances if there was a designated financial manager responsible for the external financial reporting function for the Fund. They noted that there is insufficient review and monitoring of amounts and transactions. The external CPA firm recommended that a financial manager be designated as responsible for performing a more robust review of correcting journal entries; reviewing monthly reconciliations, and reviewing year end balances to ensure account balances are appropriately reflected in the financial statements. King County notes, in response, that the Finance and Business Operations Division (FBOD) has a financial accountant position assigned to Water Quality fund, in which there was turnover during the audit period. FBOD will establish a work program to develop and document a more formal review process of accounting journal entries and a quarterly review of account balances. Water Quality will work with FBOD to formally document the roles and responsibilities between the two agencies. This work began at the August 2010 monthly accounting status meeting. Progress will be monitored at the FBOD and Water Quality ongoing monthly accounting status meetings and reported to senior management.

Auditor's Remarks

We appreciate the County's commitment to updating their policies and procedures and we will review the County's corrective action during our next audit.

Applicable Laws and Regulations

Although the CPA firm did not specify the laws and regulations used in its audit report, the following laws and regulations were applicable to the financial statement audit of the King County Water Quality Enterprise Fund:

RCW 43.09.200 states:

> The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class.

> The system shall exhibit true accounts and detailed statements of funds collected, received, and expended for account of the public for any purpose whatever, and by all public officers, employees, or other persons.
>
> The accounts shall show the receipt, use and disposition of all public property, and the income, if any, derived there from; all sources of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction; all statements and reports made or required to be made, for the internal administration of the office to which they pertain; and all reports published or required to be published, for the information of the people regarding any and all details of the financial administration of public affairs.

Budget Accounting and Reporting System Manual - Part 3, Accounting, Chapter 1. Accounting Principles and General Procedures, Section B. Internal Control, states:

> Internal control is a management process for keeping an entity on course in achieving its business objectives, as adopted by the governing body. This management control system should ensure that resources are guarded against waste, loss and misuse; that reliable data is obtained, maintained, and fairly disclosed in financial statement and other reports; and resource use is consistent with laws, regulations and policies.
>
> Each entity is responsible for establishing and maintaining an effective system of internal control throughout their government.

Government Auditing Standards, July 2007 Revision – Section 5.11 provides that auditors should report material weaknesses and significant deficiencies in internal control.

The American Institute of Certified Public Accountants, Statement on Auditing Standards No. 115 defines significant deficiencies and material weaknesses as follows:

> a. Significant deficiency: A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.
>
> b. Material weakness: A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Schedule of Prior Federal Audit Findings

King County
January 1, 2009 through December 31, 2009

This schedule presents the status of federal findings reported in prior audit periods. The status listed below is the representation of King County. The State Auditor's Office has reviewed the status as presented by the County.

Audit Period: 1/1/08 – 12/31/08	**Report Reference No:** 1002519	**Finding Reference No:** 1	**CFDA Number(s):** 16.738
Federal Program Name and Granting Agency: Edward Byrne Memorial Justice Assistance Grant Program, U.S. Department of Justice		**Pass-Through Agency Name:** NA	

Finding Caption:
King County's internal controls were inadequate to ensure compliance with requirements of its Edward Byrne Justice Assistance Grant.

Background:
The County does not have sufficient internal controls to ensure only allowable costs were charged to the program and that charges were made only during the grant period specified in the contract. Time and effort certifications were not prepared to support salaries and wages and quarterly financial reports were not prepared and submitted. The County also did not maintain proper records for equipment purchased with federal dollars. Lastly, the audit found the County paid $377,748 in project costs that were previously paid with nonfederal dollars. Total questioned costs were $378,456.

Status of Corrective Action: (check one)

☐ Fully Corrected ◆ Partially Corrected ☐ No Corrective Action Taken ☐ Finding is considered no longer valid

Corrective Action Taken:
Internal controls around allowable cost charges and period of availability - Office of Management and Budget (OMB)) required staff to review the County's Grants Financial Administration Unit's resource manuals, training materials and reporting templates. In addition, these tools were included in OMB's training "tool kit" for JAG grant program staff. On November 12, 2009 and December 9, 2009, training was provided to all staff working on JAG-funded projects where OMB required project managers to provide more detailed budgets, to include all categories of cost, to the grant administrator during the grant application stage. In addition, agencies have and will request verification in writing from the grantor on allowability of any uncertain costs. Lastly, OMB required project/finance managers to monitor project expenditures and progress to verify the project activities and expenditures have not changed from the approved grant award. Any necessary change of activity or expenditures from the approved grant award will be reported to the grant administrator, who will work with the project manager to describe the changes and request approval from the grantor. As of May 1, 2010, FY10 JAG was not yet open for applications but OMB Grant Administrator will require budget and narrative detail from project managers to submit with the application. Grant administrator is in regular communication with project managers and finance staff during the pre-award, award and post award stages. As of May 1, OMB requested clarification and approval from grantor for expenses not on original 2007 grant application. OMB requested and received

approval from grantor for change in project budget for SO IRIS/TESS project so that costs will be allowable.

Time and effort certifications - On November 12, 2009 and December 9, 2009, training was provided to all staff working on JAG-funded projects on time and effort documentation requirements for federal grants. We required project/finance managers to use the county's time and effort documentation model, and we provided instruction on its use. In addition, project managers were instructed to provide correct CFDA number to direct supervisors who have knowledge of staff's day-to-day activities on their time and effort reports. 100% timekeeping certifications have been received for the periods 4/29/09 through 6/30/09 and 7/1/09 through 12/31/09. Next certification is not due until 6/30/10.

Quarterly financial reports - Reports were submitted timely to the City of Seattle in 2009 and 2010. Funds were not released for the June-Sept 09 (3Q09) period and Seattle submitted the quarterly report for that period (zero expenditures) on behalf of the entire disparate jurisdiction (which included the County); 4Q09 period report was submitted to the City of Seattle on 1/7/10; 1Q10 quarterly report was submitted to the City of Seattle on 3/31/10.

Proper records for equipment purchased – OMB Grant Administrator performed a check on a sample of equipment purchased with JAG funds to confirm that correct procedures are being followed on 3/2010 (while preparing the quarter report for the ARRA JAG).The only equipment purchased at that time were computers for DAJD's Computer Center. Each was under the $5000 cost threshold for asset management requirements.

Supplantation – OMB Grant Administrator and OIRM program staff developed and sent a letter and petition to DOJ on December 21, 2009. This letter requested that DOJ reprogram the costs as allowable expenditures so that repayment is not an issue. DOJ has not responded as of April 14, 2010.

Audit Period: 1/1/08 – 12/31/08	**Report Reference No:** 1002519	**Finding Reference No:** 2	**CFDA Number(s):** 97.067
Federal Program Name and Granting Agency: Homeland Security Grant Program, U.S. Department of Homeland Security		**Pass-Through Agency Name:** Military Department	
Finding Caption: King County's internal controls were inadequate to ensure compliance with federal grant requirements of the Homeland Security Grant Program.			
Background: The County did not monitor its decentralized departments that received the grant awards to ensure proper records were maintained for equipment purchased with federal dollars. Further, the County did not submit timely invoices to the State Military Department as required in the grant agreement and the County did not monitor its subrecipients to ensure they submitted invoices timely to the County. There was no questioned cost.			
Status of Corrective Action: (check one)			
☐ Fully Corrected	◆ Partially Corrected	☐ No Corrective Action Taken	☐ Finding is considered no longer valid

Corrective Action Taken:
Equipment - Office of Emergency Management (OEM) staff sent out an email to all County agencies that receive Homeland Security funds. This email communicated that each agency point of contact needs to update their DHS grant-funded equipment in the County's Official Fixed Asset system by tying together the Asset tag number and the CFDA number. OEM offered to provide each point of contact with a list of equipment based upon hand receipts that also note the CFDA. OEM communicated to all affected agencies that they must contact the County's Fixed Asset Accountant directly to ensure that the IVIS system is updated no later than May 1, 2010. Office of Emergency Management and the Finance and Business Operations Division intend to work together to merge the data pertaining to homeland security grant-funded equipment into the county's IVIS system. In addition, the county has hired additional staff to increase the frequency of monitoring and verification efforts to meet the biennial inventory requirements.

Subrecipient monitoring - OEM communicated with all subrecipients to reiterate and reinforce that invoicing and narrative progress reports are due to the County on a quarterly basis. Future iterations of the subgrant agreement and amendment clearly specify this requirement, and existing subrecipients were notified by December 15, 2009, that invoices and reports are due quarterly.

Submission of timely invoices to the State Military Department - OEM has prepared three sets of invoices, one for each of the first three quarters in 2009, and has met or exceeded the deadline for two of the three quarters. In addition, 1Q10 invoice was sent out on 5/3/10.

Audit Period: 1/1/08 – 12/31/08	**Report Reference No:** 1002519	**Finding Reference No:** 3	**CFDA Number(s):** 20.516
Federal Program Name and Granting Agency: Job Access Reverse Commute Grant, Federal Transit Administration		**Pass-Through Agency Name:** NA	

Finding Caption:
King County did not comply with the allowable activities of its federal Job Access Reverse Commute Grant.

Background:
The County was reimbursed $11,238 for payments to a subrecipient to provide transportation to individuals for non-employment related activities. The federal Job Access Reverse Commute grant does not cover transportation costs that are not employment-related. Questioned costs were $11,238.

Status of Corrective Action: (check one)

◆ Fully Corrected ☐ Partially Corrected ☐ No Corrective Action Taken ☐ Finding is considered no longer valid

Corrective Action Taken:
County Department of Transportation (Transit Division) added a new step to its procedures to reduce the risk of future mistakes. They utilize the Business and Finance Officer for Transit's Market Development Group to provide an extra level of review for payments to sub-recipients. These procedures require the subrecipient to complete a reimbursement form, and submit with the form an invoice and supporting documentation. The Program Manager performs a detailed review of the documents submitted, and follows up with the subrecipient if necessary. After review, the Program Manager prepares the payment document for review and approval of account coding and amount, which is submitted to the Business and Finance Officer. Once approved by the Business and Finance Officer, the Administrative Assistant processes the

invoice for payment and enters the data in the JARC Loaner Van spreadsheet. Documentation is retained in both the Grants Office and by the JARC Program Manager.

Audit Period: 1/1/08 – 12/31/08	**Report Reference No:** 1002519	**Finding Reference No:** 4	**CFDA Number(s):** 20.205
Federal Program Name and Granting Agency: Highway Planning and Construction, Federal Highway Administration		**Pass-Through Agency Name:** Department of Transportation	
Finding Caption: King County's internal controls were inadequate to ensure compliance with requirements of its Highway Planning and Construction Program.			
Background: The employee responsible for investigating wage discrepancies from site interviews did not follow up on the reported discrepancies to discover the proper certified payrolls were not submitted from the subcontractor. Staff responsible to verify the correct wage was paid, to be the higher of state or federal rates, lacked adequate knowledge of how to perform the review in order to comply with the Davis Bacon Act. There was no question cost.			
Status of Corrective Action: (check one) ◆ Fully Corrected ☐ Partially Corrected ☐ No Corrective Action Taken ☐ Finding is considered no longer valid			
Corrective Action Taken: *Roads Service Division (RSD) established additional controls to ensure the certified payrolls are crosschecked with the on-site interviews. RSD made it a requirement that responsible employee(s) verify that both FHWA Davis-Bacon and WSDOT prevailing wage rates be included in its contracts, and will cooperate with WSDOT Highway Local Programs to ensure that it complies with WAC 296-127-025 in all contracts that use FHWA funds. In addition, RSD counseled the employee responsible for performing these reviews and provided additional training on December 9, 2009 to ensure that its staff understands the verification of wages paid and compliance with requirements of the Davis-Bacon Act. Employee's Supervisor followed up with the employee on these procedures. Finance staff, Supervisor and employee reviewed the WASDOT construction manual portion related to Davis-Bacon.* *RSD will operate under the assumption that all emergency projects qualify for federal funding and will therefore ensure that all of its emergency contracts comply with Davis-Bacon requirements.*			

Audit Period: 1/1/08 – 12/31/08	**Report Reference No:** 1002519	**Finding Reference No:** 5	**CFDA Number(s):** 14.235
Federal Program Name and Granting Agency: Supportive Housing Program , U.S. Department of Housing and Urban Development		**Pass-Through Agency Name:** City of Seattle	
Finding Caption: The County has inadequate internal controls to ensure compliance over subrecipient monitoring requirements for the Supportive Housing Program.			

Background:
The County does not have sufficient internal controls to ensure subrecipients comply with grant requirements. The County does not perform a detailed review of expenditures to determine if they are for allowable activities, meet applicable cost principles, and are properly classified. Specifically, in 2008, the County conducted three biannual site visits to its subrecipients, but did not review any supporting documentation for costs and activities related to the grant, such as invoices, receipts, and payroll documents. As an alternative, this information could have been submitted by the subrecipients to Public Health with their reimbursement requests, but this did not occur. There was no questioned cost.

Status of Corrective Action: (check one)

◆ Fully Corrected ☐ Partially Corrected ☐ No Corrective Action Taken ☐ Finding is considered no longer valid

Corrective Action Taken:
The Department's fiscal subrecipient monitor works with the program to develop the annual site-visit schedule for monitoring. Site visits consist of a programmatic review as well as a fiscal review of invoices submitted and the related supporting documents. In addition, the program staff requests periodic detailed support for invoices from sub-recipients based on the results of site reviews and other monitoring activities. These procedures were implemented in January, 2010.

Audit Period:	**Report Reference No:**	**Finding Reference No:**	**CFDA Number(s):**
1/1/08 – 12/31/08	1002519	6	20.106

Federal Program Name and Granting Agency:	**Pass-Through Agency Name:**
Airport Improvement Program, U.S. Department of Transportation	NA

Finding Caption:
King County's internal controls were inadequate to ensure compliance with federal Davis-Bacon Act requirements over the Airport Improvement Program.

Background:
King County contracted with an engineering firm to oversee the Airport Improvement projects and to ensure federal requirements were met. Although the firm had collected the weekly certified payrolls from the contractor and subcontractors who worked on the project, the engineering firm failed to verify that laborers were paid in accordance with Davis-Bacon Act requirements. Further, King County was unable to demonstrate adequate monitoring of the engineering firm to ensure compliance requirements were met. There was no questioned cost.

Status of Corrective Action: (check one)

◆ Fully Corrected ☐ Partially Corrected ☐ No Corrective Action Taken ☐ Finding is considered no longer valid

Corrective Action Taken:
The County relied on its contract with the engineering firm to conduct the review of weekly certified payrolls as required by the Davis-Bacon Act. When the auditor discovered that this review was not being conducted, and brought this to the County's attention, the County directed the engineering firm to review all certified payrolls and report any discrepancies. This review was completed, with only a few immaterial exceptions noted.

In addition, the County developed, documented and implemented additional internal control procedures to review payroll data for compliance with the Davis-Bacon Act, whether or not the function is contracted out to a third party. They completed this documentation and implemented the procedures in December 2009.

Audit Period: 1/1/08 – 12/31/08	**Report Reference No:** 1002519	**Finding Reference No:** 7	**CFDA Number(s):** 10.557
Federal Program Name and Granting Agency: Supplemental Nutrition for Women, Infants and Children, Department of Agriculture		**Pass-Through Agency Name:** Department of Health	

Finding Caption:
The County's internal controls are inadequate to ensure compliance with cash management requirements for the Special Supplemental Nutrition Program.

Background:
The County requests reimbursement based on the contractual caseloads of its subrecipients rather than actual cash disbursements. The County does not have adequate controls in place to ensure subrecipients are paid prior to requesting reimbursement. There was no questioned cost.

Status of Corrective Action: (check one)

☒ Fully Corrected ☐ Partially Corrected ☐ No Corrective Action Taken ☐ Finding is considered no longer valid

Corrective Action Taken:
Caseload management reports now arrive electronically on the first working day of the month to the Contracts Specialist via a web portal. The Contracts Specialist is now able to initiate payment on the first working day of the month. As of May 2010, the Contract Specialist marks in red on the invoices the word "RUSH" and delivers them to Accounts Payable. The Accounts Payable supervisor has indicated that these invoices will be handled promptly if marked in this way. These payments should go out from procurement by the 20th of the month when the WIC manager sends the billing to PH Accounts Receivable. It is important to note that the Accounts Receivable staff does not send the WIC billing to State Department of Health (DOH) until the first week of the next month. This provides more time for the payments to be processed before Public Health is actually reimbursed from DOH.

Status of Prior Audit Findings

King County
January 1, 2009 through December 31, 2009

The status of findings contained in the prior years' audit reports of King County is provided below:

1. King County does not have adequate internal controls to ensure accurate accounting and financial reporting.

Report No. 1002407, dated October 26, 2009.

Background

The prior audit identified the following which represents a significant deficiency in internal controls over accounting and financial reporting.

- A sufficient detailed review and reconciliation of the financial statements was not performed to ensure the statements were accurate and complete.
- The County was unable to complete and produce a single, final set of financial statements and notes that were ready for auditing purposes in a timely manner. This reflects a lack of sufficient control over the financial statement preparation process.

Status

The condition reported during the 2008 audit has not been resolved. Our audit identified a significant deficiency in internal controls over accounting and financial reporting.

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

King County
January 1, 2009 through December 31, 2009

County Council and Executive
King County
Seattle, Washington

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of King County, Washington, as of and for the year ended December 31, 2009, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 10, 2010. Our report was modified to include a reference to other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Building Development and Management Corporations and Water Quality Enterprise funds, as described in our report on the County's financial statements. Those financial statements were not audited in accordance with *Government Auditing Standards*. This report includes our consideration of the results of the other auditors' testing of internal control over financial reporting that has been reported on separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the reports of the other auditors.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Audit Findings and Responses, we identified certain deficiencies in internal control over financial

reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Audit Findings and Responses as Finding 8 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Audit Findings and Responses as Findings 7 and 8 to be significant deficiencies.

We also noted certain additional matters that we have reported to the management of the County in a separate letter dated September 10, 2010.

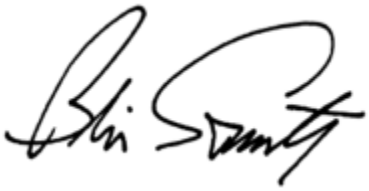
COMPLIANCE AND OTHER MATTERS

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

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

The County's responses to the finding identified in our audit are described in the accompanying Schedule of Audit Findings and Responses. We did not audit the County's response and, accordingly, we express no opinion on it.

This report is intended for the information and use of management, the Council, federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



BRIAN SONNTAG, CGFM
STATE AUDITOR

September 10, 2010

Independent Auditor's Report on Compliance with Requirements Applicable to each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133

King County
January 1, 2009 through December 31, 2009

County Council and Executive
King County
Seattle, Washington

COMPLIANCE

We have audited the compliance of King County, Washington, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the year ended December 31, 2009. The County's major federal programs are identified in the Federal Summary. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

The County's basic financial statements include the operations of the Harborview Medical Center, which expended $5,798,467 in federal awards. Our audit, described below, did not include the operations of the Harborview Medical Center because it has arranged for a separate audit of its federal awards in accordance with OMB Circular A-133.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the County's compliance with those requirements.

As described in Finding 1 in the accompanying Schedule of Federal Audit Findings and Questioned Costs, the County did not comply with requirements regarding allowable costs/cost principles, and cash management that are applicable to the Public Health Emergency Preparedness Grant. Compliance with such requirements is necessary, in our opinion, for the County to comply with requirements applicable to the grant.

In our opinion, except for the noncompliance described in the preceding paragraphs, the County complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended December 31, 2009. The results of our auditing procedures also disclosed instances of noncompliance with those requirements which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Findings 2 and 3.

INTERNAL CONTROL OVER COMPLIANCE

The management of the County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses as defined below. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Findings 1, 2, 3, 4, 5 and 6. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The County's responses to the findings identified in our audit are described in the accompanying Schedule of Federal Audit Findings and Questioned Costs. We did not audit the County's response and, accordingly, we express no opinion on it.

This report is intended for the information of management, the Council, federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

BRIAN SONNTAG, CGFM
STATE AUDITOR

September 10, 2010

Independent Auditor's Report on Financial Statements

King County
January 1, 2009 through December 31, 2009

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

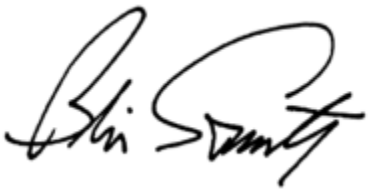
In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of King County, as of December 31, 2009, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General and

Public Health funds, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

The management's discussion and analysis on pages 67 through 83, infrastructure modified approach on pages 188 through 190 and information on postemployment benefits other than pensions on page 190 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 Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. This schedule is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of the other auditors, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



BRIAN SONNTAG, CGFM
STATE AUDITOR

September 10, 2010

Financial Section

King County
January 1, 2009 through December 31, 2009

REQUIRED SUPPLEMENTAL INFORMATION

Management's Discussion and Analysis – 2009

BASICFINANCIAL STATEMENTS

Statement of Net Assets – 2009
Statement of Activities – 2009
Balance Sheet – Governmental Funds – 2009
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – 2009
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities – 2009
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund – 2009
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Public Health Fund – 2009
Statement of Net Assets – Proprietary Funds – 2009
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds – 2009
Statement of Cash Flows – Proprietary Funds – 2009
Statement of Fiduciary Net Assets – Fiduciary Funds – 2009
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds – 2009
Statement of Net Assets – Component Units – 2009
Statement of Activities – Component Units – 2009
Notes to Financial Statements – 2009

REQUIRED SUPPLEMENTAL INFORMATION

Condition Assessments and Preservation of Infrastructure Eligible for Modified Approach – 2009
Postemployment Healthcare Plan – Schedule of Funding Progress for the Plan – 2009

SUPPLEMENTAL INFORMATION

Schedule of Expenditures of Federal Awards – 2009
Notes to the Schedule of Expenditures of Federal Awards – 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

FINANCIAL HIGHLIGHTS – PRIMARY GOVERNMENT

- As of December 31, 2009, the assets of the County exceeded its liabilities by $4,267.9 million (net assets). Because all of the County's net assets are either invested in capital assets or restricted as to use, the combined unrestricted net assets showed a $311.0 million deficit at the end of the year.
- In 2009 the County's total net assets increased by 4.7 percent or $190.3 million. The governmental net assets increased by 6.4 percent or $124.1 million, and the business-type net assets increased by 3.1 percent or $66.2 million.
- As of December 31, 2009, the County's governmental funds reported combined ending fund balances of $521.6 million. Approximately 74 percent or $386.4 million is unreserved fund balance available for spending at the government's discretion within the purposes specified for the County's funds.
- At the end of 2009 the unreserved, undesignated fund balance for the General Fund was $64.3 million, amounting to 10.8 percent of total General Fund expenditures for 2009. Total fund balance for the General Fund decreased 10.5 percent or $9.7 million for the year.
- The County's total bonded debt increased by 12.5 percent or $471.9 million in 2009 due to new bond issuance of $580.8 million offset by $137.3 million of debt service principal payments.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide Financial Statements

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

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

The **statement of activities** presents information showing how the County's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. As a result, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods, such as revenues pertaining to uncollected taxes and expenses pertaining to earned but unused vacation and sick leave.

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

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

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

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

Fund Financial Statements

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

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

Governmental funds. Most of the services provided by the County are accounted for in governmental funds. Governmental funds are used to account for essentially the same functions that are reported as governmental activities in the government-wide financial statements. Unlike the government-wide financial statements, however, the governmental funds financial statements focus on how cash and other financial assets can readily be converted to available resources, and the balances left at year-end that are available for future spending. Such information may be useful in determining whether there will be adequate financial resources available to meet the current needs of the County.

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

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

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

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

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

The County maintains the following two types of proprietary funds:

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

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

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

Notes to the financial statements

The notes provide additional information essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the individual component unit financial statements in the Basic Statements section of this report.

Other information

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Analysis of Net Assets

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

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

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

Net Assets
(in thousands)

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Assets						
Current and other assets	$ 1,004,062	$ 1,012,265	$ 1,173,751	$ 924,301	$ 2,177,813	$ 1,936,566
Capital assets	2,646,938	2,538,928	4,869,586	4,467,868	7,516,524	7,006,796
Total Assets	3,651,000	3,551,193	6,043,337	5,392,169	9,694,337	8,943,362
Liabilities						
Long-term liabilities	1,406,265	1,444,180	3,472,369	2,937,263	4,878,634	4,381,443
Other liabilities	195,239	181,632	352,557	302,689	547,796	484,321
Total Liabilities	1,601,504	1,625,812	3,824,926	3,239,952	5,426,430	4,865,764
Net Assets						
Invested in capital assets, net of related debt	1,851,259	1,805,977	1,603,232	1,697,903	3,454,491	3,503,880
Restricted	474,425	454,219	649,948	564,854	1,124,373	1,019,073
Unrestricted	(276,188)	(334,815)	(34,769)	(110,540)	(310,957)	(445,355)
Total net assets	$ 2,049,496	$ 1,925,381	$ 2,218,411	$ 2,152,217	$ 4,267,907	$ 4,077,598

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

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

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

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

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

Analysis of Changes in Net Assets

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

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

Governmental activities. Governmental activities accounted for 65.2 percent of the total growth in net assets of the County, resulting in an increase in the County's governmental activities net assets of $124.1 million. Program revenues for governmental activities total $854.1 million and include the amount paid by those who directly benefit from the programs ($571.7 million), and by other governments and organizations that subsidized certain programs with operating grants and contributions ($206.8 million), and capital grants and contributions ($75.6 million). In 2009 the cost of all governmental activities was $1,608.6 million. The County paid for the $754.5 million remaining public benefit portion of governmental activities with $624.4 million in property taxes, $179.1 million in retail sales and use taxes, and $74.3 million in other revenues, including other taxes and interest earnings. As discussed earlier, all of the increase in governmental activities net assets was either restricted as to use or used to acquire capital assets for use in providing services.

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

Changes In Net Assets
(In thousands)

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Revenues						
Program revenues						
Charges for services	$ 571,653	$ 538,951	$ 632,427	$ 581,870	$ 1,204,080	$ 1,120,821
Operating grants and contributions	206,826	188,597	90,570	72,458	297,396	261,055
Capital grants and contributions	75,592	78,259	38,020	43,155	113,612	121,414
General revenues						
Property taxes	624,448	599,583	-	-	624,448	599,583
Retail sales and use taxes	179,077	193,827	376,968	432,934	556,045	626,761
Other taxes	54,234	57,297	-	-	54,234	57,297
Unrestricted interest earnings	20,029	34,897	13,558	22,850	33,587	57,747
Total revenues	1,731,859	1,691,411	1,151,543	1,153,267	2,883,402	2,844,678
Expenses [(a)]						
General government [(b)]	128,051	168,271	-	-	128,051	168,271
Law, safety and justice	607,191	580,105	-	-	607,191	580,105
Physical environment	84,732	75,638	-	-	84,732	75,638
Transportation	119,169	115,090	-	-	119,169	115,090
Economic environment	105,515	99,839	-	-	105,515	99,839
Mental and physical health	458,184	421,355	-	-	458,184	421,355
Culture and recreation	51,788	56,285	-	-	51,788	56,285
Interest and other debt service costs	54,010	51,455	-	-	54,010	51,455
Airport	-	-	24,725	15,842	24,725	15,842
Public transportation	-	-	673,436	667,651	673,436	667,651
Solid waste	-	-	91,347	110,348	91,347	110,348
Water quality	-	-	287,792	257,249	287,792	257,249
Other enterprises activity	-	-	7,153	7,540	7,153	7,540
Total expenses	1,608,640	1,568,038	1,084,453	1,058,630	2,693,093	2,626,668
Increase in net assets before transfers	123,219	123,373	67,090	94,637	190,309	218,010
Transfers	896	2,858	(896)	(2,858)	-	-
Increase in net assets	124,115	126,231	66,194	91,779	190,309	218,010
Net assets, beginning of year (restated) [(c)]	1,925,381	1,799,150	2,152,217	2,060,438	4,077,598	3,859,588
Net assets, end of year	$ 2,049,496	$ 1,925,381	$ 2,218,411	$ 2,152,217	$ 4,267,907	$ 4,077,598

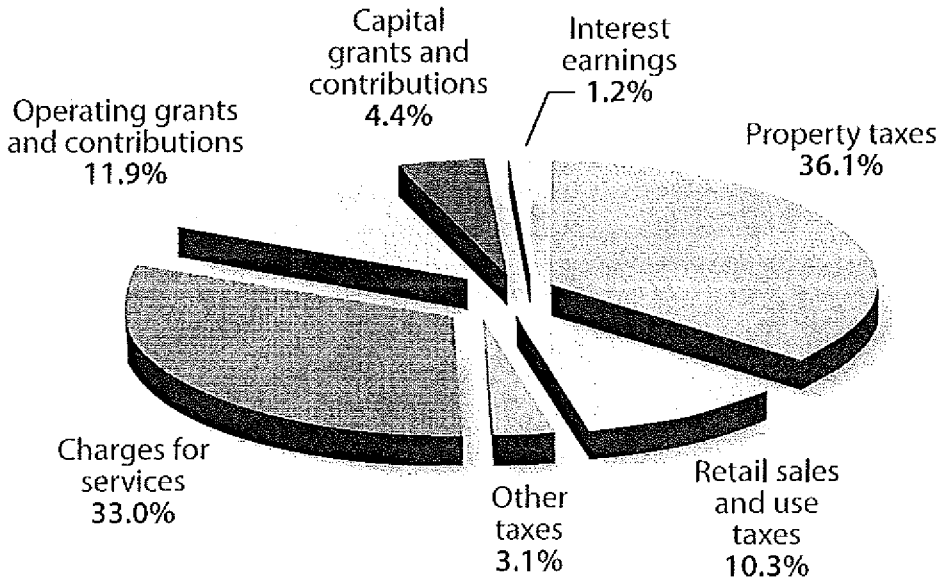
(a) Expenses for all functions include the allocation of indirect expenses from the general government function. The amount of indirect general government expenses allocated to each function is shown in a separate column on the County's government-wide Statement of Activities alongside the column that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

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

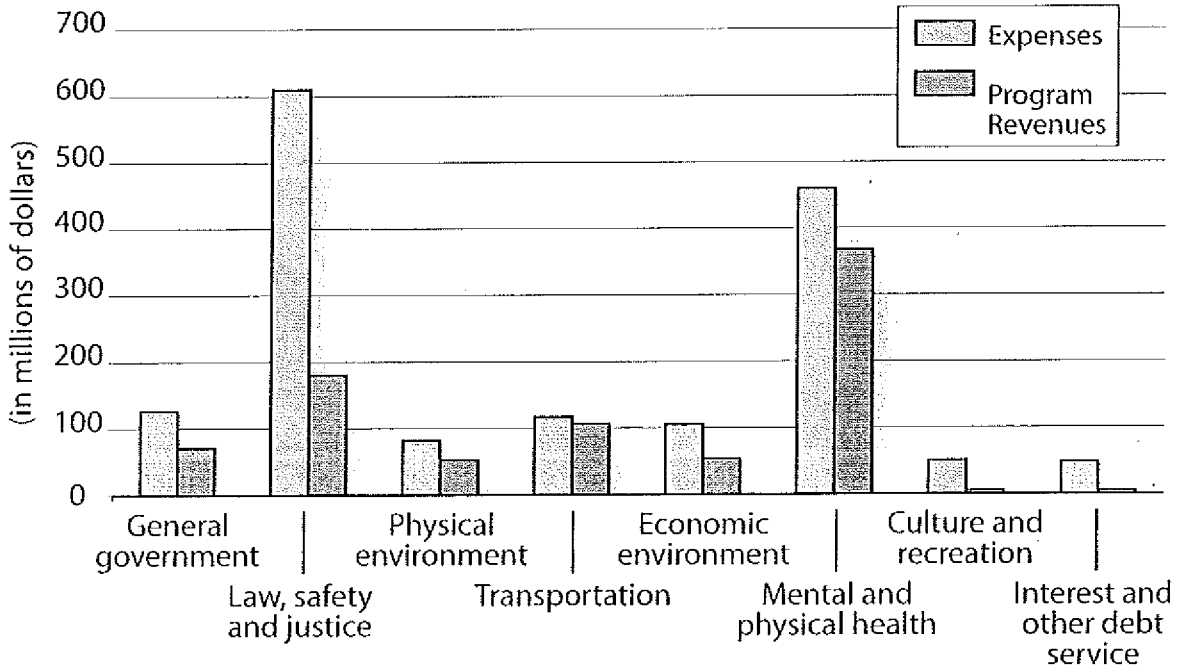
(c) Net assets, beginning of year has been restated, see Note 17, "Restrictions, Reserves, Designations, and Changes in Equity" – Restatements of Beginning Balances.

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

Revenues by Source — Governmental Activities 2009



Expenses and Program Revenues — Governmental Activities 2009



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

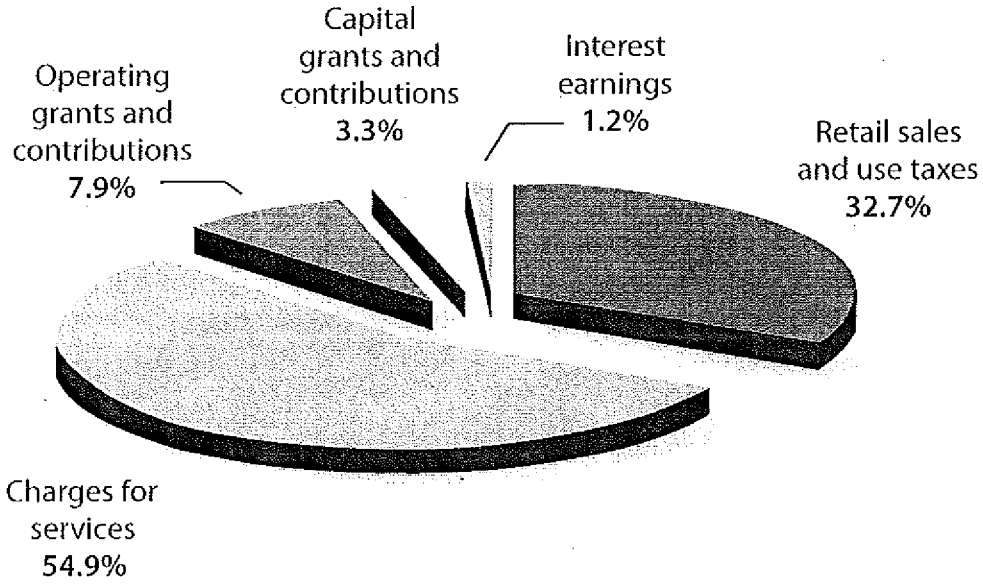
A comparison of the cost of services by function for the County's governmental activities is shown below, along with the revenues used to cover the net expenses of the governmental activities (in thousands):

(Expenses) Net of Program Revenues	
General government	$ (54,064)
Law, safety and justice	(426,628)
Physical environment	(31,134)
Transportation	(10,307)
Economic environment	(48,881)
Mental and physical health	(91,002)
Culture and recreation	(44,662)
Interest and other debt service costs	(47,891)
Total expenses	(754,569)
General revenues	
Property taxes	624,448
Retail sales and use taxes	179,077
Other taxes	54,234
Unrestricted interest earnings	20,029
Transfers from Business-type	896
Increase in net assets	$ 124,115

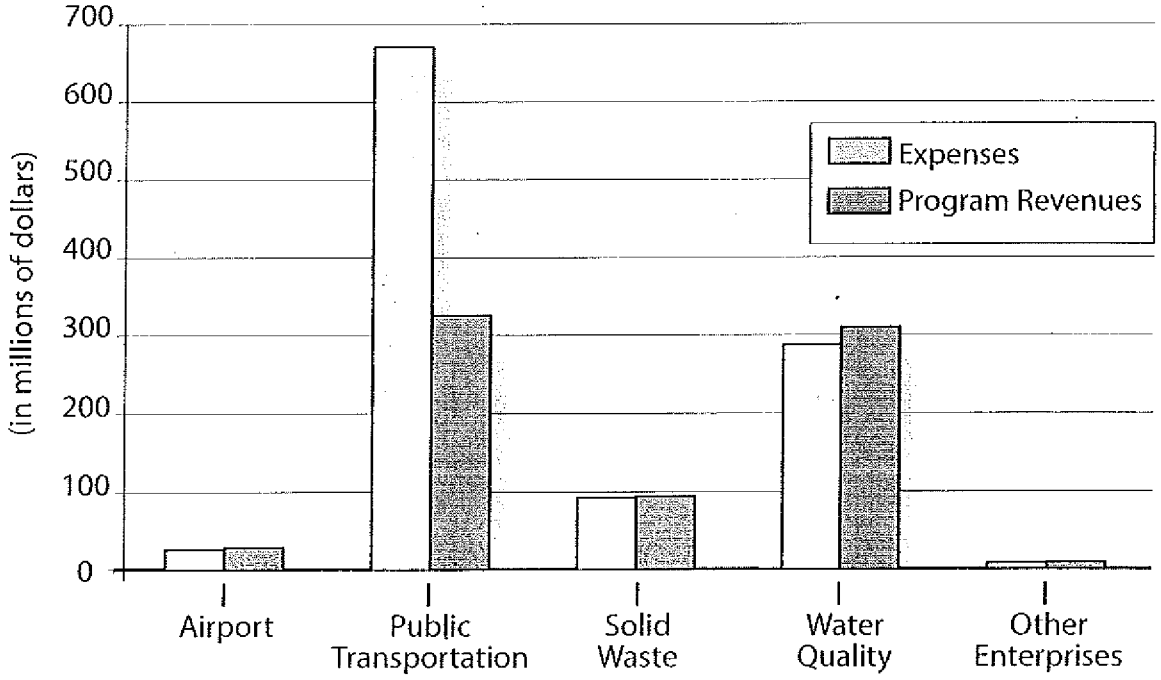
Business-type activities. Business-type activities increased the County's net assets by $66.2 million in 2009, accounting for 34.8 percent of the total growth in net assets of the County. Total revenues for business-type activities were $1,151.5 million. The cost of all business-type activities for 2009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

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

Revenues by Source — Business-type Activities
2009



Expenses and Program Revenues — Business-type Activities
2009



FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

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

Governmental Funds

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

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

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

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

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

$22.8 million. While property tax revenues increased by $7.2 million, intergovernmental revenues were up $10.7 million and charges for services were up $13.1 million, several other revenue categories were down in 2009 (including retail sales and uses taxes down $17.1 million, business and other taxes down $1.9 million, and interest earnings down $7.3 million), which resulted in the net increase in revenues in 2009 from the 2008 level of $9.6 million. Expenditures were down $4.5 million due to transfer of the Children and Family Services Program from the General Fund to a new special revenue fund which had expenditures of $15.2 million in 2008. Excluding that factor expenditures would have been up $10.7 million in 2009 (due to an increase of $ 11.5 million in expenditures in the Law, safety, and justice function includin g increased expenditures of $4.1 million in the Sheriff's Office and $12.1 million in Adult and Juvenile Detention).

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

Proprietary Funds

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

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

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

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

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

General Fund Budgetary Highlights

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

CAPITAL ASSETS, INFRASTRUCTURE, AND DEBT ADMINISTRATION

Capital assets

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

Major capital asset events during 2009 included the following:

- Construction continued on the new Brightwater Treatment Plant and the associated conveyance system. This project comprised the bulk of the 17 percent increase in business-type work in progress during the year. Construction activities are simultaneously ongoing in the treatment plant, the conveyance systems (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. For the Solid Waste Enterprise improvements to existing transfer stations and development of landfill ancillary systems continued.

- For governmental activities, significant construction activity came from additions and upgrades to parks facilities, development and improvements to the trail system, renovations and upgrades to various county buildings, and technology related projects. The Harborview Medical Center 9th & Jefferson building was completed. This b uilding provides labs for the King County Medical Examiner, houses the King County Superior Court Civil Commitment Court, and also provides space for several other County agencies.

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

King County's Capital Assets
(In millions)

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

* Net of depreciation

Infrastructure

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

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

It is the policy of the King County Road Services Division to maintain at least 80.0 percent of the road system at a PCI of 40 or better. In the most recent condition assessments, 91.1 percent of the arterial roads in the County and 89.1 percent of the local access roads in the County had a PCI rating at 40 and above. The majority of roads that fall below the established rating are local access roads that are situated in rural areas. The amount budgeted in 2009 for road preservation and maintenance was $64.6 million. The amount actually expended was $60 million. Underspending of the budgeted amount is a result of the removal of roads from the project list because of conflicts with anticipated utility work, cost efficiencies related to relatively few roads to be resurfaced in remote locations, and fewer weather-related work reductions or stoppages.

The County currently maintains 182 bridges. Physical inspections to uncover deficiencies are carried out at least every two years and documented. There is also an annual evaluation to determine which bridges are due for replacement or rehabilitation using a 10-point priority scale based on various factors of bridge condition. A key element in the priority scale is the sufficiency rating, which is a numerical rating (on a 100-point scale) of a bridge based on its structural adequacy and safety, 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 8 bridges at or below this threshold. The amount budgeted in 2009 for bridge preservation and maintenance was $13.4 million, while

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

Debt Administration

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

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

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
General obligation bonds	$ 724.3	$ 725.7	$ 919.7	$ 638.1	$ 1,644.0	$ 1,363.8
General obligation bond anticipation notes	27.1	48.8	-	-	27.1	48.8
Lease revenue bonds [a]	402.5	408.6	-	-	402.5	408.6
Revenue bonds	-	-	2,167.4	1,947.9	2,167.4	1,947.9
Total	$ 1,153.9	$ 1,183.1	$ 3,087.1	$ 2,586.0	$ 4,241.0	$ 3,769.1

(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.

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

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

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

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

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

State statutes limit the amount of general obligation debt that the County may issue to 2 ½ percent of its total assessed valuation for general county purposes and 2½ percent for metropolitan functions. The current debt limitation of total general obligations for general county purposes is $8,549.3 million which is significantly higher than the County's outstanding net general obligation long-term liabilities of $1,176.4 million. For metropolitan functions, the debt limitation is $8,549.3 million and the County's outstanding net general obligation debt is $953.6 million.

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

ECONOMIC OUTLOOK AND 2010 BUDGET

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

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

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

Other considerations

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

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

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

REQUESTS FOR INFORMATION

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

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

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
ASSETS				
Cash and cash equivalents	$ 820,789	$ 792,327	$ 1,613,116	$ 226,646
Investments	10,159	-	10,159	37,901
Receivables, net	196,618	189,288	385,906	120,062
Due from primary government	-	-	-	1,082
Internal balances	(47,996)	47,996	-	-
Inventories	2,283	22,273	24,556	7,172
Prepayments and other assets	13,708	9,362	23,070	1,759
Capital assets				
Land	798,833	360,442	1,159,275	40,010
Infrastructure	943,117	-	943,117	-
Buildings	990,902	1,253,002	2,243,904	877,314
Improvements other than buildings	33,915	2,381,994	2,415,909	39,576
Furniture, machinery and equipment	202,765	1,571,883	1,774,648	331,512
Accumulated depreciation	(390,941)	(2,464,215)	(2,855,156)	(456,575)
Work in progress	68,347	1,766,480	1,834,827	14,693
Deferred charges	8,501	36,199	44,700	-
Deposits with other governments	-	-	-	600
Regulatory assets - environmental remediation	-	51,946	51,946	-
Other utility assets		24,360	24,360	
Other assets	-	-	-	10,530
TOTAL ASSETS	3,651,000	6,043,337	9,694,337	1,252,282
LIABILITIES				
Accounts payable and other current liabilities	96,937	103,089	200,026	65,738
Due to component unit	1,082	-	1,082	-
Accrued liabilities	37,955	93,468	131,423	34,053
Notes payable	27,322	100,000	127,322	-
Unearned revenues	31,943	20,850	52,793	7,772
Rate stabilization	-	35,150	35,150	-
Noncurrent liabilities				
Due within one year	170,709	75,498	246,207	4,596
Due in more than one year	1,235,556	3,396,871	4,632,427	53,007
TOTAL LIABILITIES	1,601,504	3,824,926	5,426,430	165,166
NET ASSETS				
Invested in capital assets, net of related debt	1,851,259	1,603,232	3,454,491	803,441
Restricted for:				
Capital projects	133,042	402,393	535,435	-
Debt service	72,270	211,685	283,955	-
General government	12,258	-	12,258	-
Law, safety and justice	74,667	-	74,667	-
Physical environment	31,785	-	31,785	-
Transportation	30,252	-	30,252	-
Economic environment	31,792	-	31,792	-
Mental and physical health	74,728	-	74,728	-
Culture and recreation	13,631	-	13,631	-
Regulatory assets and environmental liabilities	-	35,870	35,870	-
Expendable	-	-	-	39,285
Nonexpendable	-	-	-	25,263
Unrestricted	(276,188)	(34,769)	(310,957)	219,127
TOTAL NET ASSETS	$ 2,049,496	$ 2,218,411	$ 4,267,907	$ 1,087,116

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

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

			Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
						Primary Government			Component Units Total
Functions/Programs	Expenses	Indirect Expenses Allocation	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	
Primary government:									
Governmental activities:									
General government	$ 188,963	$ (60,912)	$ 66,962	$ 6,863	$ 162	$ (54,064)	$	$ (54,064)	$
Law, safety & justice	578,041	29,150	148,236	32,327	-	(426,628)		(426,628)	
Physical environment	83,824	908	42,878	4,629	6,091	(31,134)		(31,134)	
Transportation	116,545	2,624	16,125	23,867	68,870	(10,307)		(10,307)	
Economic environment	103,760	1,755	26,955	29,218	461	(48,881)		(48,881)	
Mental & physical health	452,998	5,186	262,928	104,254	-	(91,002)		(91,002)	
Culture & recreation	51,062	726	6,688	430	8	(44,662)		(44,662)	
Interest and other debt service costs	54,010	-	881	5,238	-	(47,891)		(47,891)	
Total governmental activities	1,629,203	(20,563)	571,653	206,826	75,592	(754,569)		(754,569)	
Business-type activities:									
Airport	24,401	324	20,774	-	6,490		2,539	2,539	
Public Transportation	658,436	15,000	205,170	90,570	27,035		(350,661)	(350,661)	
Solid Waste	89,014	2,333	92,343	-	603		1,599	1,599	
Water Quality	284,970	2,822	307,556	-	1,843		21,607	21,607	
Institutional Network	3,091	58	2,913	-	-		(236)	(236)	
Radio Communications Services	3,978	26	3,671	-	2,049		1,716	1,716	
Total business-type activities	1,063,890	20,563	632,427	90,570	38,020	-	(323,436)	(323,436)	
Total primary government	$ 2,693,093	$ -	$ 1,204,080	$ 297,396	$ 113,612	(754,569)	(323,436)	(1,078,005)	
Component units	$ 697,973		$ 673,452	$ 18,448	$ 2,804				(3,269)
General revenues									
Property taxes						624,448	-	624,448	-
Retail sales and use taxes						179,077	376,968	556,045	-
Business and other taxes						36,555	-	36,555	-
Penalties and interest - delinquent taxes						17,679	-	17,679	-
Interest earnings						20,029	13,558	33,587	5,824
Transfers						896	(896)	-	-
Total general revenues and transfers						878,684	389,630	1,268,314	5,824
Change in net assets						124,115	66,194	190,309	2,555
Net assets - January 1, 2009 (Restated)						1,925,381	2,152,217	4,077,598	1,084,561
Net assets - December 31, 2009						$ 2,049,496	$ 2,218,411	$ 4,267,907	$ 1,087,116

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

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

	GENERAL FUND	PUBLIC HEALTH FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS				
Cash and cash equivalents	$ 37,283	$ 243	$ 537,459	$ 574,985
Taxes receivable - delinquent	7,597	-	10,900	18,497
Accounts receivable, net	7,859	704	23,816	32,379
Other receivables, net	-	-	676	676
Interest receivable	14,323	-	-	14,323
Due from other funds	7,063	4,549	49,390	61,002
Interfund short-term loans receivable	2,859	-	16,266	19,125
Due from other governments, net	40,185	24,932	50,985	116,102
Inventory of supplies	-	655	-	655
Prepayments	-	-	8,120	8,120
Advances to other funds	3,800	-	-	3,800
TOTAL ASSETS	$ 120,969	$ 31,083	$ 697,612	$ 849,664
LIABILITIES AND FUND BALANCE				
Liabilities				
Accounts payable	$ 6,371	$ 17,007	$ 40,791	$ 64,169
Due to other funds	1,883	2,636	59,846	64,365
Interfund short-term loans payable	589	-	67,378	67,967
Due to other governments	167	-	7,697	7,864
Due to component unit	-	-	1,082	1,082
Interest payable	-	-	1,692	1,692
Wages payable	15,028	4,059	7,070	26,157
Taxes payable	180	-	57	237
Bonds payable	-	-	3,160	3,160
Deferred revenues	13,035	1,544	39,027	53,606
Notes and contracts payable	-	-	27,322	27,322
Custodial accounts	1,290	1,530	7,301	10,121
Advances from other funds	-	-	300	300
Total liabilities	38,543	26,776	262,723	328,042
Fund balances				
Reserved	14,915	1,477	118,872	135,264
Unreserved				
Designated, reported in				
General Fund	3,207			3,207
Public Health Fund		256		256
Special Revenue Funds			41,914	41,914
Undesignated, reported in				
General Fund	64,304			64,304
Public Health Fund		2,574		2,574
Special Revenue Funds			210,705	210,705
Debt Service Funds			36,704	36,704
Capital Projects Funds			26,694	26,694
Total fund balances	82,426	4,307	434,889	521,622
TOTAL LIABILITIES AND FUND BALANCES	$ 120,969	$ 31,083	$ 697,612	

Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds.	2,252,784
Other long-term assets are not available to pay for current-period expenditures and are deferred in the funds.	29,402
Governmental activities internal service funds assets and liabilities are included in the governmental activities in the statement of net assets.	82,735
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(837,047)
Net assets of governmental activities	$ 2,049,496

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, 2009
(IN THOUSANDS)

	GENERAL FUND	PUBLIC HEALTH FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES				
Taxes				
Property taxes	$ 265,665	$ -	$ 356,188	$ 621,853
Retail sales and use taxes	83,004	-	96,073	179,077
Business and other taxes	7,611	-	28,944	36,555
Penalties and interest - delinquent taxes	17,679	-	-	17,679
Licenses and permits	8,338	10,936	5,059	24,333
Intergovernmental revenues	101,105	129,791	313,450	544,346
Charges for services	121,533	13,633	107,361	242,527
Fines and forfeits	9,903	-	239	10,142
Interest earnings	7,969	-	7,755	15,724
Miscellaneous revenues	14,280	5,808	35,408	55,496
TOTAL REVENUES	637,087	160,168	950,477	1,747,732
EXPENDITURES				
Current				
General government	103,404	-	60,211	163,615
Law, safety and justice	454,874	-	105,185	560,059
Physical environment	4,813	-	102,991	107,804
Transportation	-	-	124,880	124,880
Economic environment	530	-	104,615	105,145
Mental and physical health	27,899	190,394	241,913	460,206
Culture and recreation	-	-	49,168	49,168
Debt Service				
Principal	-	-	117,736	117,736
Interest and other debt service costs	289	36	36,887	37,212
Refunding bond issuance costs	-	-	226	226
Payment to escrow agent	-	-	21,050	21,050
Capital outlay	1,535	379	83,247	85,161
TOTAL EXPENDITURES	593,344	190,809	1,048,109	1,832,262
Excess (deficiency) of revenues over (under) expenditures	43,743	(30,641)	(97,632)	(84,530)
OTHER FINANCING SOURCES (USES)				
Transfers in	2,223	30,647	138,230	171,100
Transfers out	(55,724)	(79)	(115,912)	(171,715)
General government debt issued	-	-	84,810	84,810
Premium on bonds sold	-	-	5,831	5,831
Refunding bonds issued	-	-	42,869	42,869
Sale of capital assets	92	29	2,598	2,719
Payment to refunded bond escrow agent	-	-	(46,067)	(46,067)
TOTAL OTHER FINANCING SOURCES (USES)	(53,409)	30,597	112,359	89,547
Net changes in fund balances	(9,666)	(44)	14,727	5,017
Fund balances - January 1, 2009 (Restated)	92,092	4,351	420,162	516,605
Fund balances - December 31, 2009	$ 82,426	$ 4,307	$ 434,889	$ 521,622

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

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

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

Net change in fund balances – total governmental funds	$ 5,017
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	56,477
The net effect of various miscellaneous transactions involving capital assets (e.g., sales, trade-ins, and donations) is to increase net assets.	16,708
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.	2,922
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, and similar items when debt is first issued; whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	51,368
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	(13,745)
The net revenues and expenses of certain activities of internal service funds are reported with governmental activities.	5,368
Change in net assets of governmental activities	$ 124,115

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

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

	BUDGETED AMOUNTS			
	ORIGINAL	FINAL	ACTUAL	VARIANCE
REVENUES				
Taxes				
Property taxes	$ 264,165	$ 264,165	$ 265,665	$ 1,500
Retail sales and use taxes	93,344	93,344	83,004	(10,340)
Business and other taxes	9,147	9,147	7,611	(1,536)
Penalties and interest - delinquent taxes	15,000	15,000	17,679	2,679
Licenses and permits	9,080	9,080	8,338	(742)
Intergovernmental revenues	96,668	96,668	101,105	4,437
Charges for services	120,196	120,196	121,533	1,337
Fines and forfeits	9,834	9,834	9,903	69
Interest earnings	8,728	8,728	8,936	208
Miscellaneous revenues	14,883	14,883	14,195	(688)
Sale of capital assets	50	50	92	42
Transfers in	23	23	2,223	2,200
TOTAL REVENUES	641,118	641,118	640,284	(834)
EXPENDITURES				
Current				
General government services	106,393	104,938	104,260	678
Law, safety and justice	430,135	461,754	456,855	4,899
Physical environment	4,688	4,475	4,813	(338)
Economic environment	712	705	530	175
Mental and physical health	28,755	28,806	27,975	831
Debt service				
Principal	34	31	-	31
Interest and other debt service costs	3	3	-	3
Capital outlay	1,728	1,920	1,928	(8)
Transfers out	59,272	61,047	56,296	4,751
TOTAL EXPENDITURES	631,720	663,679	652,657	11,022
Deficiency of revenues under expenditures (budgetary basis)	$ 9,398	$ (22,561)	(12,373)	$ 10,188
Adjustment from budgetary basis to GAAP basis			2,707 [a]	
Net change in fund balance			(9,666)	
Fund balance – January 1, 2009 (Restated)			92,092	
Fund balance – December 31, 2009			$ 82,426	

(a) Elements of adjustment from budgetary basis to GAAP basis:

Adjustments to revenues	
Recognition of unrealized loss on investments on a GAAP basis	$ (967)
Recognition of donation revenue on a GAAP basis	85
Adjustments to expenditures	
Encumbrances, not included in GAAP basis expenditures	3,306
Budgeted transfers out reported as a reduction of advance on a GAAP basis	300
Non-budgeted interest and other debt service costs	(289)
Budgeted transfer out	272
Adjustment from budgetary basis to GAAP basis	$ 2,707

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

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

	BUDGETED AMOUNTS			
	ORIGINAL	FINAL	ACTUAL	VARIANCE
REVENUES				
Licenses and permits	$ 14,235	$ 14,235	$ 10,936	$ (3,299)
Intergovernmental revenues	123,346	126,430	129,791	3,361
Charges for services	14,781	13,367	13,633	266
Miscellaneous revenues	8,331	8,956	5,808	(3,148)
Transfers in	31,056	30,474	30,647	173
Sale of capital assets	-	-	29	29
Total revenues	191,749	193,462	190,844	(2,618)
EXPENDITURES				
Current				
Mental and physical health	190,732	191,885	191,198	687
Debt service				
Interest and other debt service costs	40	40	36	4
Capital outlay	943	1,047	379	668
Transfers out	491	491	79	412
Total expenditures	192,206	193,463	191,692	1,771
Deficiency of revenues under expenditures (budgetary basis)	$ (457)	$ (1)	(848)	$ (847)
Adjustment from budgetary basis to GAAP basis - encumbrances			804	
Net change in fund balance			(44)	
Fund balance – January 1, 2009			4,351	
Fund balance – December 31, 2009			$ 4,307	

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

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

	BUSINESS-TYPE ACTIVITIES				
	PUBLIC TRANSPORTATION	WATER QUALITY	OTHER ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
ASSETS					
Current assets					
Cash and cash equivalents	$ 48,080	$ 21,625	$ 60,153	$ 129,858	$ 242,673
Restricted cash and cash equivalents	17,533	169,998	4,335	191,866	2,404
Investments	-	-	-	-	4,978
Accounts receivable	17,278	25,639	6,935	49,852	833
Estimated uncollectible accounts receivable	(7)	-	(88)	(95)	(4)
Due from other funds	709	5,118	2,240	8,067	4,452
Due from other governments, net	83,132	-	217	83,349	765
Inventory of supplies	15,555	5,384	1,329	22,268	1,633
Prepayments and other assets	404	152	-	556	5,612
Total current assets	182,684	227,916	75,121	485,721	263,346
Noncurrent assets					
Restricted assets					
Cash and cash equivalents	230,359	172,197	60,134	462,690	8,640
Accounts receivable	574	384	4,479	5,437	6,067
Due from other funds	1,577	-	272	1,849	-
Interfund loans receivable	131,475	-	-	131,475	-
Due from other governments	46,432	-	3,521	49,953	-
Assessments receivable	792	-	-	792	-
Notes receivable and other assets	808	-	-	808	5,181
Total restricted assets	412,017	172,581	68,406	653,004	19,888
Capital assets					
Land	164,124	153,290	43,028	360,442	20,395
Buildings	355,319	802,905	94,778	1,253,002	375,428
Improvements other than buildings	737,969	1,427,387	216,638	2,381,994	2,509
Furniture, machinery and equipment	838,171	643,841	78,631	1,560,643	92,036
Accumulated depreciation and amortization	(1,089,986)	(1,151,861)	(213,515)	(2,455,362)	(93,826)
Work in progress	117,626	1,607,537	41,317	1,766,480	-
Total capital assets	1,123,223	3,483,099	260,877	4,867,199	396,542
Other noncurrent					
Prepayments	7,697	-	-	7,697	-
Regulatory assets - environmental remediation	-	51,946	-	51,946	-
Other utility assets	-	24,360		24,360	-
Deferred charges	1,065	34,954	180	36,199	4,773
Other assets	301	-	-	301	-
Total other noncurrent	9,063	111,260	180	120,503	4,773
Total noncurrent assets	1,544,303	3,766,940	329,463	5,640,706	421,203
TOTAL ASSETS	1,726,987	3,994,856	404,584	6,126,427	684,549

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

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

	BUSINESS-TYPE ACTIVITIES				
	PUBLIC TRANSPORTATION	WATER QUALITY	OTHER ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
LIABILITIES					
Current liabilities					
Accounts payable	$ 39,146	$ 57,105	$ 9,655	$ 105,906	$ 11,117
Estimated claim settlements	-	-	-	-	95,474
Due to other funds	916	3,502	4,513	8,931	2,074
Interest payable	520	70,098	309	70,927	1,648
Interfund short-term loans payable	-	82,633	-	82,633	-
Wages payable	17,610	3,154	1,777	22,541	3,300
Compensated absences payable	7,431	387	123	7,941	691
Environmental remediation	-	3,126	-	3,126	-
Taxes payable	58	-	219	277	14
Unearned revenues	17,123	-	3,727	20,850	783
Revenue bonds payable	-	32,090	-	32,090	6,465
General obligation bonds payable	8,265	2,530	4,815	15,610	120
Assessments payable	-	-	-	-	15
Capital leases payable	89	-	-	89	-
State revolving loan payable	-	7,771	-	7,771	-
Notes payable	-	100,000	-	100,000	-
Landfill closure and post-closure care liability	-	-	7,809	7,809	-
Other liabilities	-	-	2,362	2,362	3,426
Total current liabilities	91,158	362,396	35,309	488,863	125,127
Noncurrent liabilities					
Retainage payable	-	15,756	-	15,756	-
Rate stabilization reserve	-	35,150	-	35,150	-
Compensated absences payable	43,019	9,906	5,194	58,119	10,386
Other postemployment benefits	3,448	503	423	4,374	753
Advances from other funds	3,500	-	-	3,500	-
General obligation bonds payable	125,965	730,515	47,591	904,071	125
Revenue bonds payable	-	2,135,275	-	2,135,275	395,990
Deferred bond premium, discount and refunding loss	2,168	(13,298)	1,732	(9,398)	-
Capital leases payable	3,279	-	-	3,279	-
Assessments payable	-	-	-	-	15
State revolving loans payable	-	133,394	-	133,394	-
Landfill closure and post-closure care liability	-	-	100,341	100,341	-
Estimated claim settlements	-	-	-	-	57,455
Environmental remediation	346	41,486	5,423	47,255	-
Total noncurrent liabilities	181,725	3,088,687	160,704	3,431,116	464,724
TOTAL LIABILITIES	272,883	3,451,083	196,013	3,919,979	589,851
NET ASSETS					
Invested in capital assets, net of related debt	983,457	410,649	206,739	1,600,845	(1,385)
Restricted for:					
Capital projects	390,429	-	11,964	402,393	271
Debt service	26,443	185,242	-	211,685	20,950
Regulatory assets and environmental liabilities	-	35,870	-	35,870	-
Unrestricted	53,775	(87,988)	(10,132)	(44,345)	74,862
TOTAL NET ASSETS	$ 1,454,104	$ 543,773	$ 208,571	2,206,448	$ 94,698
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds				11,963	
Net assets of business-type activities				$ 2,218,411	

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

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

	BUSINESS-TYPE ACTIVITIES				
	PUBLIC TRANSPORTATION	WATER QUALITY	OTHER ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
OPERATING REVENUES					
I-Net fees	$ -	$ -	$ 2,913	$ 2,913	$ -
Radio services	-	-	3,670	3,670	-
Solid waste disposal charges	-	-	87,788	87,788	-
Airfield fees	-	-	3,352	3,352	-
Hangar, building, and site rentals and leases	-	-	12,547	12,547	-
Reimbursement for services to tenants	-	-	792	792	-
Passenger	175,866	-	-	175,866	-
Special service contracts	7,588	-	-	7,588	-
Sewage disposal fees	-	256,160	-	256,160	-
Other service revenues	21,553	50,696	52	72,301	441,902
Total operating revenues	205,007	306,856	111,114	622,977	441,902
OPERATING EXPENSES					
Personal services	382,982	39,318	49,368	471,668	81,707
Materials and supplies	60,891	10,091	6,527	77,509	8,674
Contract services and other charges	18,204	16,115	25,917	60,236	286,449
Utilities	5,280	10,713	3,767	19,760	-
Purchased transportation	46,098	-	-	46,098	-
Internal services	55,036	26,881	14,405	96,322	26,379
Landfill closure and post-closure care	-	-	488	488	-
Depreciation and amortization	116,451	91,595	15,513	223,559	16,723
Total operating expenses	684,942	194,713	115,985	995,640	419,932
OPERATING INCOME (LOSS)	(479,935)	112,143	(4,871)	(372,663)	21,970
NONOPERATING REVENUES					
Sales tax	376,968	-	-	376,968	-
Intergovernmental	90,570	-	-	90,570	1
Interest earnings	6,839	4,776	1,840	13,455	4,408
DNR administration	-	-	3,009	3,009	-
Rental income	-	-	1,262	1,262	-
Miscellaneous	163	674	4,316	5,153	1,114
Total nonoperating revenues	474,540	5,450	10,427	490,417	5,523
NONOPERATING EXPENSES					
Interest	2,362	69,893	2,538	74,793	18,381
DNR administration	-	-	3,492	3,492	-
(Gain) Loss on disposal of capital assets	(10,217)	19,996	751	10,530	(313)
Environmental remediation	-	1,565	-	1,565	-
Miscellaneous	-	3,196	1,366	4,562	486
Total nonoperating expenses	(7,855)	94,650	8,147	94,942	18,554
Income (loss) before contributions and transfers	2,460	22,943	(2,591)	22,812	8,939
Capital grants and contributions	27,035	1,843	9,219	38,097	1,386
Transfers in	-	-	60	60	2,364
Transfers out	(55)	(140)	(790)	(985)	(1,111)
CHANGE IN NET ASSETS	29,440	24,646	5,898	59,984	11,578
NET ASSETS - JANUARY 1, 2009 (RESTATED)	1,424,664	519,127	202,673		83,120
NET ASSETS - DECEMBER 31, 2009	$ 1,454,104	$ 543,773	$ 208,571		$ 94,698

Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds	6,210
Change in net assets of business-type activities	$ 66,194

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

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

	BUSINESS-TYPE ACTIVITIES				
	PUBLIC TRANSPORTATION	WATER QUALITY	OTHER ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash received from customers	$ 216,241	$ 316,985	$ 113,914	$ 647,140	$ 436,551
Cash payments to suppliers for goods and services	(178,949)	(47,458)	(53,492)	(279,899)	(320,541)
Cash payments for employee services	(377,763)	(37,816)	(48,529)	(464,108)	(80,389)
Other receipts	-	-	4,555	4,555	6,004
Other payments	-	-	(4,857)	(4,857)	-
Net cash provided (used) by operating activities	(340,471)	231,711	11,591	(97,169)	41,625
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Operating grants and subsidies received	441,439	-	-	441,439	1,114
Advances to other funds received	300	-	-	300	-
Interfund loan principal to other funds	(130,886)	-	-	(130,886)	-
Interfund loan principal payment from other funds	208,670	-	-	208,670	-
Interest paid on short-term loans	-	(2,242)	-	(2,242)	-
Interfund loan principal received	-	82,633	-	82,633	-
Interfund loan principal paid	-	(184,041)	-	(184,041)	(1,059)
Transfers in	-	-	60	60	2,364
Transfers out	(55)	(140)	(790)	(985)	(1,002)
Net cash provided (used) by noncapital financing activities	519,468	(103,790)	(730)	414,948	1,417
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition of capital assets	(104,996)	(450,268)	(28,217)	(583,481)	(59,324)
Principal paid on general obligation bonds	(8,285)	(3,905)	(4,714)	(16,904)	(175)
Proceeds from new revenue bond issue	-	550,000	-	550,000	-
Interest paid on general obligation bonds	(6,367)	(25,342)	(2,466)	(34,175)	(17)
Principal paid on revenue bonds	-	(30,540)	-	(30,540)	(6,185)
Interest paid on revenue bonds	-	(90,789)	-	(90,789)	(19,975)
Principal paid on capital leases	(85)	-	-	(85)	-
Interest paid on capital leases	(170)	-	-	(170)	-
Assessment principal, interest, and penalties received	431	-	-	431	(19)
Interest paid on notes payable	-	(853)	-	(853)	-
Principal paid on state loans	-	(7,228)	-	(7,228)	-
Interest paid on state loans	-	(2,123)	-	(2,123)	-
Proceeds from new state loans	-	19,208	-	19,208	-
Capital grants and contributions	19,263	1,843	6,577	27,683	135
Other capitalized payments	-	(13,065)	(5,017)	(18,082)	-
Proceeds from disposal of capital assets	14,136	-	11	14,147	687
Net cash used by capital and related financing activities	(86,073)	(53,062)	(33,826)	(172,961)	(84,873)
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest on investments (including unrealized gains/losses reported as cash and cash equivalents)	6,362	4,776	1,840	12,978	5,360
Purchase of investments	-	-	-	-	(6,236)
Net cash provided (used) by investing activities	6,362	4,776	1,840	12,978	(876)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	99,286	79,635	(21,125)	157,796	(42,707)
CASH AND CASH EQUIVALENTS – JANUARY 1, 2009	196,686	284,185	145,747	626,618	296,424
CASH AND CASH EQUIVALENTS – DECEMBER 31, 2009	$ 295,972	$ 363,820	$ 124,622	$ 784,414	$ 253,717

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

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

	BUSINESS-TYPE ACTIVITIES				
	PUBLIC TRANSPORTATION	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)	$ (479,935)	$ 112,143	$ (4,871)	$ (372,663)	$ 21,970
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES					
Depreciation and amortization	116,451	91,595	15,513	223,559	16,723
Landfill closure and post-closure care	-	-	488	488	-
Other nonoperating revenue/expense	-	-	3,729	3,729	-
Changes in assets - (increase) decrease					
Accounts receivable, net	458	(4,053)	(4,911)	(8,506)	(6,698)
Due from other funds	(1,219)	(1,218)	1,289	(1,148)	509
Due from other governments, net	13,706	-	564	14,270	(182)
Inventory of supplies	(355)	188	(183)	(350)	(135)
Prepayments	(4,879)	(35)	-	(4,914)	1,499
Changes in liabilities - increase (decrease)					
Accounts payable	12,639	12,735	(1,406)	23,968	2,503
Due to other funds	350	741	(110)	981	(1,453)
Retainage payable	-	2,713	-	2,713	40
Rate Stabilization	-	15,400	-	15,400	-
Wages payable	612	413	61	1,086	(17)
Taxes payable	25	-	29	54	(18)
Unearned revenues	(2,910)	-	(231)	(3,141)	(82)
Claims and judgments payable	-	-	-	-	(2,600)
Estimated claim settlements	-	-	-	-	7,143
Compensated absences	3,415	922	631	4,968	1,087
Other postemployment benefits	1,171	167	146	1,484	248
Customer deposits and other liabilities	-	-	853	853	1,088
Total adjustments	139,464	119,568	16,462	275,494	19,655
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	$ (340,471)	$ 231,711	$ 11,591	$ (97,169)	$ 41,625

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:

Water Quality Fund and Internal Service Funds received contributions of capital assets from general government in the amount of $632 thousand and $1,251 thousand, respectively.

Public Transportation Fund and Other Enterprise Funds issued capital bonds. The bond proceeds received, $51,448 thousand and $3,268 thousand, respectively, were placed in escrow for the defeasance of $50,015 thousand and $3,233 thousand, respectively, of outstanding bond principals.

Public Transportation Fund received contributions of capital assets from other governments in the amount of $5,123 thousand. In addition to cash receipts of $2,794 thousand, Public Transportation Fund received $18,500 thousand of capital assets from other governments and organizations and transferred out capital assets with the net book value of $4,908 thousand.

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

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

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

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

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

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

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

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

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

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

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

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**Harborview Medical Center**	**WSMLB Stadium Public Facilities District**	**Cultural Development Authority**	**Total**
Component units:								
Harborview Medical Center	$ 675,175	$ 670,573	$ 7,934	$ 2,804	$ 6,136	$ -	$ -	$ 6,136
WSMLB Stadium	13,547	2,668	-	-	-	(10,879)	-	(10,879)
Cultural Development Authority	9,251	211	10,514	-	-	-	1,474	1,474
Total component units	$ 697,973	$ 673,452	$ 18,448	$ 2,804	6,136	(10,879)	1,474	(3,269)
	General revenues							
	Interest earnings				5,512	27	285	5,824
	Change in net assets				11,648	(10,852)	1,759	2,555
	Net assets - January 1, 2009				649,874	397,879	36,808	1,084,561
	Net assets - December 31, 2009				$ 661,522	$ 387,027	$ 38,567	$ 1,087,116

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

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. HMC staff members are employees of UW. The management contract between the HMC Board of Trustees and the UW Board of Regents recognizes the Trustees' desire to maintain HMC as a means of meeting the King County Government's obligation to provide the community with a resource for health services, and UW's desire that HMC be maintained as a continuing resource for education, training, and research. The general conditions of the management contract specify that King County retains title to all real and personal property acquired for King County with HMC capital or operating funds. The Trustees determine major institutional policies and retain control of programs and fiscal matters. The Trustees agree to secure UW's recommendations on any changes to the above. The Trustees are accountable to the public and King County Government for all financial aspects of HMC's operation and agree to maintain a fiscal policy that keeps the operating program and expenditures of HMC within the limits of operating income.

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

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

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

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

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

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

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

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

Cultural Development Authority of King County (CDA)

The Cultural Development Authority of King County (CDA), dba 4Culture, is a public authority organized pursuant to chapter 35.21 RCW and King County Ordinance 14482. The CDA commenced operations on January 1, 2003, and began doing business as "4Culture" effective April 4, 2004. The CDA was created to support, advocate for and preserve the cultural resources of the region in a manner that fosters excellence, vitality, and diversity.

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

NOTE 1 – CONTINUED

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

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

Component Units – Blended

King County Ferry District

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

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

Flood Control Zone District

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

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

Building Development and Management Corporations

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

NOTE 1 – CONTINUED

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

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

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

Joint Venture

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

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

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

Related Organizations

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

NOTE 1 – CONTINUED

no evidence that the Council can influence the programs and activities of these organizations or that they create a significant financial benefit or burden to the County. For these reasons, they are related organizations. The County serves as the treasurer for the KCLS and the 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 nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Exceptions to this general rule include interfund services provided and used between functions which are not eliminated because to do so would misstate both the expenses of the purchasing function and the program revenues of the selling function. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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

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

Bases of Accounting, Measurement Focus, and Financial Statement Presentation

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

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

NOTE 1 – CONTINUED

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

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the County considers revenues, such as retail sales and use taxes, to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. Debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when the payments are due.

Major Governmental Funds

The County reports two major governmental funds:

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

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

Major Proprietary Funds

The County reports two major proprietary funds:

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

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

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

Nonmajor Governmental Funds

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

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

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

Nonmajor Proprietary Funds

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

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

Fiduciary Funds

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

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

Terminology

Expenditure Functions

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

NOTE 1 – CONTINUED

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

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

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

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

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

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

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

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

Certain Accounts are Grouped on the Statement of Net Assets:

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

NOTE 1 – CONTINUED

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

Cash and Cash Equivalents

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

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

Investments

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

Investments purchased for individual funds are reported as investments, regardless of length of maturity. Those attributed to both the external portion of the Pool and those in individual investment accounts are classified as "Investments" in separate investment trust funds. Statements of participants in the Pool's internal portion report pooled investments as cash equivalents. Statements of participants in the external portion report pooled investments as "Assets held in trust – external investment pool." Special district funds with individual investment accounts report their portion of net assets as "Assets held in trust – individual investment accounts." Investments are reported at fair value in compliance with the GASB Codification, Section I50.105, which provides for reporting investments of governmental entities using fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. (See Note 4, "Deposits, Investments and Receivables.")

NOTE 1 – CONTINUED

Receivables

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

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

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

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

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

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

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

Inventories

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

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

Prepayments

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

Capital Assets

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

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

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

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

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

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

NOTE 1 – CONTINUED

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

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

Deferred Charges

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

Deferred Revenues

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

Regulatory Deferrals

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

NOTE 1 – CONTINUED

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

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

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

Compensated Absences

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

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

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

Long-term Obligations

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

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

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

Fund Equity

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

Component Units – Summary of Significant Accounting Policies

Harborview Medical Center (HMC)

Harborview Medical Center (HMC), as a county hospital within King County, maintains its own distinct set of accounting records, prepared in accordance with generally accepted governmental accounting principles. In addition, based on GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, HMC has elected to apply the provision of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

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

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

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

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

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

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

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

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

NOTE 1 – CONTINUED

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

Cultural Development Authority of King County (CDA)

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

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

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

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

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

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Explanation of certain differences between the Governmental Funds Balance Sheet and the Government-wide Statement of Net Assets:

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

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

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

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

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

NOTE 2 – CONTINUED

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

In the statement of activities, only the gain on the sale of capital assets is reported. In the governmental funds, the proceeds from the sale increase financial resources. The change in net assets differs from the change in fund balance by the book value of the capital assets sold.	$ (40,542)
Donations of capital assets increase net assets in the statement of activities, but do not appear in the governmental funds because they are not financial resources.	57,250
Net adjustment to increase *net changes in fund balances – total governmental funds* to arrive at *changes in net assets of governmental activities*	$ 16,708

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

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

NOTE 2 – CONTINUED

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

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

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

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

NOTE 2 – CONTINUED

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

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

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

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

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

NOTE 2 – CONTINUED

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

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

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

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.

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

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

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

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

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

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

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

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

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

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

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

NOTE 3 – CONTINUED

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

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

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

The Trust and Agency Funds are not budgeted.

Encumbrances

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

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

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

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

Budgeted Level of Expenditures

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

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

NOTE 3 – CONTINUED

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

Expenditures Including Other Financing Uses, in Excess of Amounts Legally Authorized

Funds with Annual or Biennial Budgets

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

Funds with Multi-year Budgets

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

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

Fund Balance and Net Asset Deficits

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

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

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

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

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

NOTE 3 – CONTINUED

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

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

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

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

Unrestricted Net Asset Deficits

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

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

NOTE 4 – DEPOSITS, INVESTMENTS AND RECEIVABLES

Deposits

The County maintains deposit relationships with several local commercial banks and thrift institutions in addition to its concentration bank. All deposits that are not insured by the Federal Deposit Insurance Corporation (FDIC) up to $250 thousand per bank are fully collateralized by the Public Deposit Protection Commission of the State of Washington (PDPC). The PDPC is a statutory authority established under chapter 39.58 RCW. It constitutes a multiple financial institution collateral pool that can make *pro rata* assessments to all public depositaries within the state for all their public deposits. Therefore, PDPC protection is of the nature of collateral, not of insurance, in accordance with GASB *Codification of Governmental Accounting and Financial Reporting Standards*, Section I50.110.

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 depositaries in the State of Washington and provides that the total deposits cannot exceed the net worth of the financial institution. The County establishes deposit limitations for all financial institutions with which deposits are placed, based on publications by IDC Financial Publishing Company. The County's diversification policy limits the maximum amount of investment in certificates of deposit to 20 percent of the total amount of the portfolio and 7.5 percent of a single issuer. The County's Investment Pool had $522.3 million in bank deposits of which $307 million in certificates of deposit were rated "Superior" and $215.3 million in NOW Accounts were rated "Excellent" by IDC.

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

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

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

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

NOTE 4 – CONTINUED

Investments

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

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

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

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

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

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

NOTE 4 – CONTINUED

The King County Investment Pool is not registered with the Securities and Exchange Commission (SEC) as an investment company. Oversight is provided by the King County Executive Finance Committee (EFC) pursuant to RCW 36.29.020. The EFC consists of the Chair of the County Council, the County Executive, the Director of the Office of Management and Budget, and the Director of the Finance and Business Operations Division. All investments are subject to written policies and procedures adopted by the EFC. The EFC reviews pool performance monthly.

As of December 31, 2009, all impaired commercial paper investments have completed enforcement events. The King County impaired investment pool (Impaired Pool) held one commercial paper asset where the Impaired Pool accepted an exchange offer and is receiving the cash flows from the investment's underlying securities; and the residual investments in four commercial paper assets that were part of completed enforcement events, where the Impaired Pool accepted the cash out option. The fair value of the total impaired investments at December 31, 2009 was $16.1 million and the principal balance was $43.7 million.

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

KING COUNTY INVESTMENT POOL

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

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

NOTE 4 – CONTINUED

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

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

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

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

Credit risk of Debt Securities Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. As of December 31, 2009, the King County Investment Pool was not rated by a nationally recognized statistical rating organization (NRSRO). In compliance with state statutes, Pool policies authorize investments in U.S. Treasury securities, U.S. agency securities and mortgage-backed securities, municipal securities (rated at least "A" by two NRSROs), commercial paper (rated at least the equivalent of "A-1" by two NRSROs), certificates of deposits issued by qualified public 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." The following table shows the credit quality for all securities in the King County Investment Pool not backed by the full faith and credit of the United States (in thousands):

NOTE 4 – CONTINUED

Credit Quality Distribution

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

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

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

Investment Type	Maximum Maturity	Security Type Limit	Single Issuer Limit	Minimum Credit Rating
US Treasury	5 Years	100%	None	N/A
US Federal Agency	5 Years	75%	75%	N/A
US Federal Agency MBS	5 Year WAL	25%	25%	N/A
Certificates of Deposit	5 Years	20%	7.5%	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 obligations and revenue bonds. Other states: only general obligation 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. Suspended new purchases of commercial paper in August 2007.
(6) Bankers' acceptances can only be purchased from the 50 largest banks in the world by asset size.
(7) The state investment pool (LGIP) is a money market-like fund managed by the State Treasurer's Office.

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

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

NOTE 4 – CONTINUED

Condensed Statement of Net Assets

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

Condensed Statement of Changes in Net Assets

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

Individual Investment Accounts

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

Component Units

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

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

Harborview Medical Center

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

NOTE 4 – CONTINUED

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

The Washington State Major League Baseball Stadium Public Facilities District (PFD) 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 PFD's deposits may not be recovered. The PFD maintains demand deposit accounts in various banks (insured up to $250 thousand per bank) totaling $76 thousand and the carrying amount of $76 thousand. In addition, the PFD has equity in the Investment Pool – Certificates of Deposit and Investments (reported as cash equivalents on December 31, 2009). The PFD'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 December 31, 2009, the PFD's equity in the pool was $5.5 million and the carrying amount was $5.5 million as shown in the following table (in thousands):

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

Cultural Development Authority of King County (CDA)

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

Investments The CDA does not participate in the County's investment pool. The CDA has an Investment Policy to guide the management of its assets and ensure that all investment activity is within the regulations established by State and County Code. The primary objective is the preservation of principal.
State statutes authorize the CDA to invest in certificates, notes, or bonds of the United States, and other obligations of the United States or its agencies or any corporation wholly owned by the government of the United States. Statutes also authorize the CDA to invest in bankers' acceptances purchased on the secondary market, federal home loan bank notes and bonds, federal land bank bonds, federal national mortgage association notes and debentures and guaranteed certificates of participation. The CDA is also authorized to invest in the Washington State Local Government Investment Pool (LGIP), which is comparable to a Rule 2a-7 money market fund recognized by the Securities and Exchange Commission. The LGIP funds are limited to high quality obligations with limited maximum and average maturities, with the effect of minimizing both market and credit risk.

NOTE 4 – CONTINUED

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

Cultural Development Authority (CDA)

Investment Type	Fair Value	Principal	Average Interest Rate	Effective Duration (Yrs)
State Treasurer's Investment Pool	$ 9,033	$ 9,033	0.35%	0.003
US Treasury Notes	18,474	17,771	3.45%	4.170
Federal Home Loan Mortgage Corp Debentures	6,837	6,723	4.22%	4.335
Federal National Mortgage Association Notes	9,357	9,071	4.52%	3.323
Federal Home Loan Bank Bonds	1,347	1,288	4.25%	3.503
Federal Farm Credit Bank Bonds	1,007	998	3.93%	3.886
Other	879	879	0.18%	0.003
Totals	$ 46,934	$ 45,763	3.15%	3.120

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

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

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

NOTE 4 – CONTINUED

Receivables

Analysis of Estimated Uncollectible Accounts Receivable

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

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

NOTE 5 – PROPERTY TAXATION

Taxing Powers

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

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

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

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

The $1.80 per thousand limitation on the general purposes levy is exclusive of the following regular property taxes: (1) a voted levy for emergency medical services, limited to $0.50 per thousand (authorized by RCW 84.52.069); (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; and (3) a non-voted levy for conservation futures, limited to $0.0625 per thousand (authorized by RCW 84.34.230). The County's levy rate for conservation futures in 2009 is $0.04246 per $1,000 of assessed value.

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

NOTE 5 – CONTINUED

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

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

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

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

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

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

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

NOTE 5 – CONTINUED

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

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

Property Tax Calendar

January 1	Taxes are levied and become an enforceable lien against properties.
February 14	Tax bills are mailed.
April 30	First of two equal installment payments is due.
May 31	Assessed value of property established for next year's levy at 100 percent of market value.
October 31	Second installment is due.

Tax Collection Procedures

Property taxes are levied in specific amounts by the County Council and the rate for all taxes levied for all taxing districts in the County is determined, calculated and fixed by the County Assessor (the "Assessor") based upon the assessed valuation of the property within the various taxing districts. The Assessor extends the tax levied within each taxing district upon a tax roll that contains the total amounts of taxes levied and to be collected and assigns a tax account number to each tax lot. The tax roll is delivered to the Treasury Operations Section Manager who is responsible for the billing and collection of taxes due for each account. All taxes are due and payable on April 30 of each tax year, but if the amount due from a taxpayer exceeds fifty dollars, one-half may be paid then and the balance no later than October 31 of that year (except that the half to be paid on April 30 may be paid at any time prior to October 31 if accompanied by penalties and interest accrued until the date of payment).

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

NOTE 5 – CONTINUED

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

Assessed Valuation Determination

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

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

Accounting for Property Taxes Receivable

In the governmental funds, property taxes levied for the current year are recorded on the balance sheet as taxes receivable and deferred revenue at the beginning of the year. Property taxes are recognized as revenue when collected in cash at which time the accounts Taxes receivable and Deferred revenues on the balance sheet are reduced by the amount of the collection. The amount of taxes receivable at year-end that would be collected soon enough to be used to pay liabilities of the current period is not material. At year-end, all uncollected property taxes are reported on the balance sheet as Taxes receivable-delinquent and Deferred revenues. For the government-wide financial statements, the deferred revenue related to the current period, net of the allowance for uncollectible property taxes, is reclassified to revenue.

Allocation of Tax Levies

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

NOTE 5 – CONTINUED

ALLOCATION OF 2009 AND 2008 TAX LEVIES

	2009 Original Taxes Levied (in thousands)	2009 Levy Rate (per thousand)	2008 Original Taxes Levied (in thousands)	2008 Levy Rate (per thousand)
Countywide Levy Assessed Valuation:				
$386,889,728 thousand[a]				
Items Within Operating Levy[b]				
General Fund	$ 268,565	$ 0.69697	$ 260,345	$ 0.76686
Veterans' Relief	2,478	0.00643	2,397	0.00706
Human Services	5,510	0.01430	5,331	0.01570
Intercounty River Improvement	50	0.00013	51	0.00015
Limited G.O. Bonds Debt Service	21,814	0.05661	20,109	0.05923
Automated Fingerprint Identification System[c]	17,236	0.04473	17,470	0.05146
Parks Levy[d]	36,598	0.09498	33,947	0.10000
Veterans and Human Services[e]	14,859	0.03856	14,368	0.04232
Total Operating Levy	367,110	0.95271	354,018	1.04278
Conservation Futures Levy[f]				
Conservation Futures Levy	9,302	0.02414	8,450	0.02489
Farmland and Park Debt Service	7,059	0.01832	7,306	0.02152
Total Conservation Futures Levy	16,361	0.04246	15,756	0.04641
Unlimited Tax G.O. Bonds				
(Voter-approved Excess Levy)	39,286	0.10255	39,989	0.11851
Total Countywide Levy	422,757	1.09772	409,763	1.20770
EMS Levy Assessed Valuation:				
$248,967,760 thousand [a] [g]	68,010	0.27404	65,519	0.30000
Unincorporated County Levy Assessed Valuation:				
$52,794,447 thousand [a] [h]				
County Road Fund	83,476	$ 1.58880	81,145	$ 1.61081
Total County Tax Levies [i]	$ 574,243		$ 556,427	

(a) Assessed valuation for taxes payable in 2009.

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

(c) The Automated Fingerprint Identification System (AFIS) levy is a regular property tax to be assessed for six years beginning in 2007 at a levy rate of not more than $0.05680 per thousand of assessed valuation as authorized by RCW 84.55.050 and a proposition approved by a majority of the voters of King County.

(d) The Parks Levy was renewed as a two-part regular property tax (parks and open space/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 2006 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 Conservation Futures levy tax rate is statutorily limited to $.0625 per thousand of assessed valuation.

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

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

(i) Excludes tax levy of the blended component units a) the Flood Control Zone District (in 2009 and 2008, the original taxes levied were $35,152 and $33,94 thousand, respectively) and b) the Ferry District (in 2009 and 2008 the original taxes levied were $19,335 and $18,671 thousand).

NOTE 6 – CAPITAL ASSETS

Primary Government

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

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

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

NOTE 6 – CONTINUED

Depreciation Expense

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

Governmental Activities	
General government services	$ 10,865
Law, safety and justice	13,225
Physical environment	62
Transportation	347
Economic environment	105
Mental and physical health	1,396
Culture and recreation	2,684
Capital assets held by the County's governmental internal service funds are charged to governmental activities based on their usage of the assets	15,883
Total depreciation expense – governmental activities	$ 44,567

Business-type Activities	
Water Quality	$ 91,595
Public Transportation	116,451
Solid Waste	9,424
King County International Airport	4,133
Radio Communications	561
Institutional Network	1,395
Capital assets held by the Wastewater Equipment Rental internal service fund are charged to business-type activities based on their usage of the assets	840
Total depreciation expense – business-type activities	$ 224,399

Infrastructure

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

Roads and Bridges Infrastructure Valuation

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

NOTE 6 – CONTINUED

Land

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

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

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

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

Governmental Buildings in Internal Service Fund

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

Construction Commitments

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

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

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

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

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

NOTE 6 – CONTINUED

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

Discretely Presented Component Units

Harborview Medical Center (HMC)

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

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

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

NOTE 6 – CONTINUED

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

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

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

NOTE 7 – RESTRICTED ASSETS

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

Proprietary Funds

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

Component Unit – Harborview Medical Center (HMC)

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

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

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

NOTE 8 – PENSION PLANS

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

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

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

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

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

Plan Descriptions

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

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

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

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

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

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

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

Judicial Benefit Multiplier

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

NOTE 8 – CONTINUED

Members who chose to participate in JBM would: accrue service credit at the higher multiplier beginning with the date of their election, be subject to the benefit cap of 75% of 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 would: continue to accrue service credit at the regular multiplier; continue to participate in JRA, if applicable; never be a participant in the JBM Program; and continue to pay contributions at the regular PERS rate.

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

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

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

Funding Policy

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

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

Members not participating in the JBM:

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

NOTE 8 – CONTINUED

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

Members participating in the JBM:

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

* The employer rates include the employer administrative expense fee currently set at 0.16%.
** Plan 3 defined benefit portion only.
*** Minimum rate.

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

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

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

Plan Descriptions

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

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

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

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

NOTE 8 – CONTINUED

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

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

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

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

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

Funding Policy

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

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

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

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

NOTE 8 – CONTINUED

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

	LEOFF Plan 1	LEOFF Plan 2
2007	$ 2	$ 3,225
2008	1	3,537
2009	1	4,099

Public Safety Employees' Retirement System (PSERS) Plan 2

Plan Description

PSERS is a cost-sharing multiple-employer retirement system comprised of a single defined benefit plan, PSERS Plan 2. PSERS became effective July 1, 2006. PSERS Plan 2 membership includes full-time employees of a covered employer on or before July 1, 2006, who met at least one of the PSERS eligibility criteria, and elected membership during the election period of July 1, 2006 to September 30, 2006; and those full-time employees, hired on or after July 1, 2006 by a covered employer, that meet at least one of the PSERS eligibility criteria.

A covered employer is one that participates in PSERS. Covered employers include:

- State of Washington agencies: Department of Corrections; Parks and Recreation Commission; Gambling Commission; Washington State Patrol; and Liquor Control Board.
- Washington state counties and Washington state cities, except for Seattle, Tacoma and Spokane.

To be eligible for PSERS, an employee must work on a full-time basis and:

- have completed a certified criminal justice training course with authority to arrest, conduct criminal investigations, enforce the criminal laws of Washington, and carry a firearm as part of the job; or
- have primary responsibility to ensure the custody and security of incarcerated or probationary individuals; or
- function as a limited authority Washington peace officer, as defined in RCW 10.93.020; or
- have primary responsibility to supervise eligible members who meet the above criteria.

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

PSERS Plan 2 members are vested after the completion of five years of eligible service. PSERS Plan 2 members may retire at the age of 65 with five years of service, or at the age of 60 with at least ten years of PSERS service credit, with an allowance of two percent of the average final compensation (AFC) per year of service. The AFC is the monthly average of the member's 60 consecutive highest-paid service credit months, excluding any severance pay such as lump-sum payments for deferred sick leave, vacation or annual leave. Plan 2 members who retire prior to the age of 60 receive reduced benefits. If retirement is at age 53 or older with at least 20 years of service, a three percent per year reduction for each year between the age at retirement and age 60 applies. There is no cap on years of service credit; and a cost-of-living

NOTE 8 – CONTINUED

allowance is granted (based on the Consumer Price Index), capped at three percent annually.

There are 73 participating employers in PSERS. Membership in PSERS consisted of the following as of the latest actuarial valuation date for the plan of June 30, 2008:

Retirees and Beneficiaries Receiving Benefits	1
Terminated Plan Members Entitled to, But Not Yet Receiving, Benefits	0
Active Plan Members Vested	0
Active Plan Members Nonvested	3,981
Total	3,982

Funding Policy

Each biennium, the state Pension Funding Council adopts PSERS Plan 2 employer and employee contribution rates. The employer and employee contribution rates for Plan 2 are developed by the Office of the State Actuary to fully fund Plan 2. All employers are required to contribute at the level established by the Legislature. The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.37 and 41.45 RCW.

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

	PSERS Plan 2
Employer*	7.85%
Employee	6.55%

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

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

	PSERS Plan 2
2007	$ 1,473
2008	1,806
2009	2,156

Seattle City Employees' Retirement System (SCERS)

SCERS is a cost-sharing, multiple-employer retirement plan administered in accordance with chapter 4.36 of the Seattle Municipal Code. County employees of the Department of Public Health who have established membership in SCERS remain covered by the City Retirement System. Employees of Public Transportation who are former employees of Seattle Transit are also covered by the system. SCERS provides retirement, death, and disability benefits.

Employees covered by this plan may retire after 30 years of service regardless of age; after age 52 with 20 years or more of service; after age 57 with ten or more years of service; and after age 62 with five or more years of service. Disability retirement is available after ten years of service. The unmodified monthly retirement allowance is based on a percentage of average salary for every year of service to a maximum of 60 percent. The average salary for this plan is

defined as the highest consecutive twenty-four months' average rate of pay. The percentage for each year of service used to compute the retirement benefit depends on the age at retirement and the years of service. It ranges from 1.2 percent at age 52 with 20 years of service to a maximum of 2 percent for each year of service. The maximum allowance a member can receive is the unmodified plan, which has no provision for a beneficiary and, at the member's death, stops all payments. Several optional retirement benefit formulas exist which provide for beneficiaries with reduced monthly allowances.

The SCERS member contribution rate is 8.03 percent of compensation except for members qualifying for lower rates prior to June 1972. The County is required to contribute at an actuarially determined rate. The current rate is 8.03 percent of annual covered payroll. The contribution requirements of plan members and the County are established and may be amended by the Board of Administration. Both the County and the employees made the required contributions. The County's required contributions for the years 2007, 2008, and 2009 ending December 31 were $666, $644, and $615 thousand, respectively.

Component Unit – Harborview Medical Center (HMC)

HMC personnel are University of Washington (UW) employees. HMC faculty and professional staff participate in the University of Washington Retirement Plan (UWRP), an IRC Section 403 (b) defined contribution retirement plan, authorized by the Board of Regents. HMC staff participate in a plan authorized by the State of Washington Department of Retirement Systems (DRS). Plan participation is defined by position, with the majority of HMC employees enrolled in one of the three Public Employees' Retirement Systems (PERS) plans.

All plans include contributions by both employee and employer. Employee contributions are tax-deferred. Employer contributions are paid semi-monthly by the UW in accordance with rates specified by the retirement systems.

Component Unit – Washington State Major League Baseball (WSMLB) Stadium Public Facilities District (PFD)

Employees of the District have the option of participating in either the Public Employees' Retirement System (PERS) or the Stadium PFD Retirement Plan (in 2009 no employees elected to participate in PERS). Employer contributions are paid by the District in accordance with rates specified by the individual plans.

Employees are also able to select the Stadium PFD Retirement Plan as an alternative benefit plan to PERS. The Plan is designated as a profit-sharing plan in accordance with Section 401 (a) (27) (B) of the Internal Revenue Code. No contributions by participants are required or permitted other than authorized rollover contributions. All contributions to the plan vest immediately. Actual contributions made to the plan in 2009 were $3 thousand.

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

All CDA personnel participate in the Public Employees' Retirement System (PERS). PERS is a statewide local government retirement system administered by the State of Washington Department of Retirement Systems under cost-sharing, multiple-employer defined benefit public employee retirement systems.

NOTE 9 – POSTEMPLOYMENT HEALTHCARE PLAN

During the year ended December 31, 2007, the County elected to adopt the provisions of GASB Statement No. 45, "*Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*" (GASB No. 45), which requires the County to accrue other postemployment benefits (OPEB) expense related to its postretirement healthcare plan based on a computed annual required contribution (ARC) that includes the current period's service cost and an amount to amortize unfunded actuarial accrued liabilities. Instead of recording expense on a "pay-as-you-go" basis, the County, under GASB No. 45, has recorded a liability of $22.9 million for the difference between the actuarially calculated ARC and the estimated contributions made since the adoption of GASB No. 45. Such liability is included in other noncurrent liabilities in the accompanying December 31, 2009 balance sheet.

The effect of GASB No. 45 for the current fiscal year was to decrease the County's excess of revenue over expenses before capital contributions and the County's increase in net assets for the year ended December 31, 2009 by approximately $7.8 million.

Plan Description The King County Health Plan (the Health Plan) is a single-employer defined-benefit healthcare plan administered by the County. The Health Plan provides medical, prescription drug, vision, and other unreimbursed medical benefits to eligible retirees. The Health Plan's actuary is Healthcare Actuaries. The Health Plan does not issue a separate 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, 2009, the County contributed an estimated $5.007 million to the Health Plan. The County's contribution was entirely to fund "pay-as-you-go" costs under the Health Plan and not to prefund benefits.

Annual OPEB Cost and Net OPEB Obligation The basis for the County's annual OPEB cost (expense) is the ARC. The ARC represents a level of funding that, if paid on an ongoing basis, the actuary projects will cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following displays the components of the County's annual OPEB cost, the estimated amount contributed to the Health Plan, and changes in the County's net OPEB obligation to the Health Plan for the year ended December 31, 2009 (in thousands):

Normal cost — Unit Credit Method	$ 4,746
Amortization of unfunded actuarial accrued liability (UAAL)	370
Amortization of unfunded actuarial accrued liability (UAAL) at transition	7,989
Annual Required Contribution (ARC)	13,105
Interest on net OPEB obligation	603
Adjustment to annual required contribution	(872)
Annual OPEB cost (expense)	12,836
Contributions made	(5,007)
Increase in net OPEB obligation	7,829
Net OPEB obligation — beginning of year	15,083
Net OPEB obligation — end of year	$ 22,912

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the Health Plan, and the net OPEB obligation follows (in thousands):

NOTE 9 - CONTINUED

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2007	$11,795	43.6%	$ 6,648
12/31/2008	$11,675	27.8%	$15,083
12/31/2009	$11,835	39.0%	$22,912

Funded Status and Funding Progress The funded status of the Health Plan as of December 31, 2009 (in thousands),

Actuarial accrued liability (AAL) — Unit Credit	$149,390
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	$149,390
Funded ratio (actuarial value of plan assets ÷ AAL)	0.0%
Covered payroll	$947,530
UAAL as a percentage of covered payroll	15.8%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. GASB 45 requires that the schedule of funding progress, presented as required additional information following the notes to the financial statements, presents multi-year trend information that shows whether the actuarial value of Health Plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions The basis of projections of benefits for financial reporting purposes is the substantive plan (the Health Plan as understood by the County and members of the Health Plan) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the County and Members of the Health Plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The December 31, 2009 valuation used the unit credit actuarial cost method. The actuarial assumptions included a 4.0% investment rate of return (net of administrative expenses) and an initial annual healthcare cost trend rate of 11.0% for KingCare medical, 8.5% for KingCare pharmacy, and 11.0% for HMO medical/pharmacy, each reduced by decrements to an ultimate rate of 5.2% after 71 years and 12 years for medical and pharmacy, respectively. The vision trend rate is 1.0%, the miscellaneous trend rate is 7.0%, and the Medicare Premium trend rate is 8.5%, for all years. All trend rates include a 3.0% inflation assumption, with the exception of vision trends. The amortization of the UAAL at transition uses a level dollar amount on a closed basis. The remaining amortization period at December 31, 2009 was 27.0 years. The UAAL is recalculated each year and amortized as a level dollar amount on an open basis over 30 years.

NOTE 9 - CONTINUED

Component Unit – Harborview Medical Center (HMC)

Health care and life insurance programs for employees of the State of Washington are administered by the Washington State Health Care Authority (HCA). All University of Washington employees, including Medical Center employees, are employees of the State of Washington. State of Washington retirees may elect coverage through state health and life insurance plans, for which they pay less than the full cost of the benefits, based on their age and other demographic factors.

An actuarial study performed by the Washington Office of the State Actuary calculated the total OPEB obligation of the State of Washington. Since sufficient specific employee data and other actuarial data are not available at levels below the statewide level, such amounts have not been determined nor recorded in the University's nor the Medical Center's financial statements. This liability is recorded at the statewide level. The Medical Center was billed and paid $38,828 and $44,012, respectively, for health care expenses for the years ended June 30, 2009 and 2008, respectively, which included its funding of the OPEB liability.

NOTE 10 – RISK MANAGEMENT

As a municipal organization, the County has a wide range of loss exposures.

The County uses three internal service funds to account for and finance property/casualty, workers' compensation, and employee medical and dental benefits self-insurance programs. Unemployment liability is accounted for in the funds with loss experience and as governmental long-term liability. The County contracts with a plan administrator to process medical and dental claims. County fund/claims managers, together with the Civil Division of the King County Prosecuting Attorney's Office, are responsible for processing all tort and workers' compensation claims.

Claims settlements and loss expenses are accrued in the three internal service funds for the estimated settlement value of both reported and unreported claims. These funds are responsible for collecting interfund premiums from insured funds and departments for paying claim settlements and for purchasing certain policies. Interfund premiums are assessed on the basis of claims experience and are reported as revenues and expenses or expenditures.

Insurance Fund

The Insurance Fund, an internal service fund, accounts for the County's property/casualty program. The Fund, established in 1977, accounts for the County's exposures to loss due to the tortious conduct of the County, including those commonly covered by general liability, automobile liability, police professional, public officials, errors and omissions, and professional malpractice insurance policies. The estimated liability for probable self-insurance losses (reported and unreported) recorded in the fund as of December 31, 2009, is $62.6 million.

The County purchases excess liability coverage that currently provides $97.5 million in limits above a $2.5 million per occurrence self-insured retention (SIR) for its general liability, automobile liability, police liability, public officials, errors and omissions, and Health Department professional malpractice exposures. The reinsurance policy has a "corridor" deductible that requires the County to pay an additional $1 million above the $2.5 million SIR before the reinsurance company becomes responsible for losses. This $1 million may either be satisfied by one large loss exceeding $3.5 million or through a combination of losses above the $2.5 million SIR. Effective September 1, 2009, the County renewed the property insurance policy. This policy has a blanket limit of $500 million above a $250 thousand per occurrence deductible and provides an overall earthquake sublimit of $100 million. The 2009 policy was endorsed to cover Certified and Non-Certified Acts of Terrorism on a blanket basis up to $250 million.

In addition to its excess liability policy and property insurance policies, the County has specific liability insurance policies to cover some of its other exposures. The County has a liability policy for the King County International Airport with policy limits of $300 million per occurrence and an annual aggregate deductible of $50 thousand; a liability policy to cover police helicopter activities with a limit of $50 million per occurrence; a policy to cover the King County International Airport properties with a limit of $160 million above a $100 thousand per occurrence deductible; several flood insurance policies to cover County property in the Green River Valley with limits of $250 to $500 thousand and a deductible of $1 thousand; and excess statutory coverage for the Workers' Compensation program over a $2.5 million per occurrence SIR.

NOTE 10 – CONTINUED

In the past three years, there were three occurrences that resulted in payment in excess of the self-insured retention of $2.5 million.

During 2009 there was significant change made in the County's insurance program. In September 2009, the County renewed its property insurance with a new blanket limit of $500 million and a $250 thousand deductible. This reduction in coverage from the blanket limit of $1 billion and $100 thousand deductible in previous years to the new coverage was due to budget constraint.

The County has extensively reviewed and revised its marine policies to better address some new and expanding County exposures due mainly to the Homeland Security Act. The marine program now has limits of $50 million with additional coverage for sudden and accidental pollution, maritime employers' liability, 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. The changes in the Insurance Fund's estimated claims liability in 2008 and 2009 were as follows (in thousands):

	Beginning of Year Liability	Claims and Changes in Estimates	Claim Payments	End of Year Liability
2008	$ 58,192	$ 11,938	$ (10,861)	$ 59,269
2009	59,269	18,045	(14,673)	62,641

Safety and Workers' Compensation Fund

The Safety and Workers' Compensation Fund, an internal service fund, accounts for the County's self-insurance for workers' compensation as certified under Title 51 Revised Code of Washington (RCW), Industrial Insurance Act. Interfund premiums are based on the hours worked by the fund/department-covered employees times an hourly rate that varies for different classes of employees and are recorded as quasi-external interfund transactions. Public Transportation and Water Quality internal fund charges are derived from actuarial projections of their future claims and administrative costs. The estimated liability for probable self-insurance losses (reported and unreported) recorded in the financial statements is discounted at 4.25 percent, the County's average forecasted rate of return on investments. As of December 31, 2009, the total discounted claim liability is $76.8 million and the undiscounted carrying amount of the claim liability is $93.7 million.

The County purchases an excess workers' compensation policy that provides statutory limits coverage. The amount of loss retained by King County (the self-insured retention) under this policy, effective September 1, 2004, was $2.5 million. In the prior three years, there has been no settlement in excess of the insurance coverage.

The Fund's claims liability is estimated by an independent actuary and discounted. The claim liability represents the estimated ultimate amount to be paid for reported and incurred but not reported claims based on past experience and other actuarial techniques. Nonincremental

NOTE 10 – CONTINUED

claim adjustment expenses are not included as part of the liability. Changes in the Safety and Workers' Compensation Fund's claims liability in 2008 and 2009 were (in thousands):

	Beginning of Year Liability	Claims and Changes in Estimates	Claim Payments	End of Year Liability
2008	$ 64,481	$ 26,314	$ (18,104)	$ 72,691
2009	72,691	23,502	(19,376)	76,817

Employee Benefits Program Fund

The Employee Benefits Program Fund, an internal service fund, accounts for employee medical, dental, vision, life, accidental death and dismemberment (AD&D), and long-term disability (LTD) benefit programs. There are two self-insured medical plans. The pharmacy, dental and vision plans are also self-insured. The life, AD&D and LTD are fully insured. Interfund premiums are determined on a per employee, per month basis and charged to departments through a composite rate of expected claims and expenses. In some cases, there are employee contributions towards premiums. The estimated liability for probable self-insurance losses (reported and unreported) recorded in the fund as of December 31, 2009, is $13.5 million.

The Fund's claims liability is based on historical experience. Changes in the Employee Benefits Program Fund's claims liability in 2008 and 2009 were (in thousands):

	Beginning of Year Liability	Claims and Changes in Estimates	Claim Payments	End of Year Liability
2008	$ 13,872	$ 138,090	$ (138,136)	$ 13,826
2009	13,826	160,660	(161,015)	13,471

Unemployment Liability

The County has elected to retain the risk for unemployment compensation payable to former County employees. The State of Washington Employment Security Department bills the County for the unemployment compensation benefits paid to former employees. Expenditures are then recognized in various county funds. In addition, a long-term liability of $2.6 million is recorded in governmental long-term liability for the estimated future claims liability for employees as of December 31, 2009.

Changes in governmental long-term liability for unemployment compensation in 2008 and 2009 were (in thousands):

	Beginning of Year Liability	Claims and Changes in Estimates	Claim Payments	End of Year Liability
2008	$ 1,051	$ 1,081	$ (951)	$ 1,181
2009	1,181	4,049	(2,652)	2,578

NOTE 10 – CONTINUED

Component Unit – Harborview Medical Center

Insurance Fund

Harborview Medical Center (HMC) participates in a self-insurance revolving fund for professional liability coverage through the University of Washington (UW). As of June 30, 2009, the UW did not carry commercial general liability coverage at levels below $2 million per occurrence. The UW's philosophy with respect to its self-insurance programs is to fully fund its anticipated losses through the establishment of actuarially determined self-insurance reserves. These reserves are deposited in a statutorily created and regulated fund and can only be expended for payment of claim costs and related expenses.

The annual funding to the self-insurance revolving fund is determined by the UW administration based on recommendations from the UW's Risk Management Advisory Committee. The HMC's *pro rata* share of premiums paid to the self-insurance revolving fund were approximately $1.7 million in the period July 1, 2007 to June 30, 2008 and $1.7 million in the period July 1, 2008 to June 30, 2009.

Employee Benefits Program

Eligible permanent employees of HMC receive the basic insurance benefits package that is purchased by the University of Washington through the Public Employees Benefits Board (PEBB). HMC faculty and staff meeting PEBB eligibility rules receive this package of medical, dental, life, and long-term disability (LTD) insurance. In addition, there are optional employee-paid components to the life and LTD insurance that HMC employees may elect.

All employees of HMC are covered by Workers' Compensation and Medical Aid Acts for injuries and occupational diseases that occur during the course of their employment. Coverage includes doctors' services, hospital care, ambulance, appliances, compensation for permanent, partial, and total disability, and allowances and pensions to surviving spouses and children in the case of fatal injuries. A majority of the premium cost is paid by the UW and a small deduction is made from the employee's pay to conform with State law.

Component Unit – WSMLBS Public Facilities District

Insurance Fund

The Washington State Major League Baseball Stadium Public Facilities District (PFD) carries commercial general liability insurance with a general aggregate limit of $2 million and a per occurrence limit of $1 million. Excess liability coverage is in force at aggregate and per event limits of $5 million. Business automobile liability coverage limit is at $1 million per any one accident or loss. Commercial personal property losses are covered up to the replacement value not exceeding $100 thousand with separate coverage for earthquake and flood losses. The PFD also has purchased employee benefit liability coverage with an aggregate limit of $3 million and a per employee limit of $1 million.

NOTE 10 – CONTINUED

Component Unit – Cultural Development Authority of King County

Insurance Fund

The Cultural Development Authority of King County (CDA), dba 4Culture, carries comprehensive general liability, auto liability and employee benefit liability coverage with a limit of $10 million per occurrence and no aggregate limit. Commercial property losses are covered up to the replacement cost on file with Washington Governmental Entity Pool. The CDA also carries Public Official Errors and Omissions Liability coverage with a limit of $10 million per occurrence and an aggregate limit of $10 million.

Employee Benefits Program

Employees of the CDA have a comprehensive health benefits package through the Public Employees Benefits Board (PEBB). This package includes medical, dental, basic life, and long-term disability coverage. In addition, the PEBB offers the following optional products: long-term care, auto, and home insurance. The State of Washington Health Care Authority (HCA) is the administrating authority. The CDA also offers insurance with American Family Life Assurance Company (AFLAC). With the AFLAC coverage, the CDA employees can pick from a selection of insurance policies, at their own expense.

NOTE 11 – LEASES

Capital Leases

King County has entered into agreements to purchase buildings, machinery, and equipment through capital lease and installment purchase agreements. Assets acquired and liabilities incurred through such agreements for governmental funds are accounted for under Governmental Activities. All capital leases related to Governmental Activities were settled during 2009. Such assets and liabilities related to proprietary type funds are accounted for within the proprietary funds (Business-type Activities).

The following is a schedule of capital assets and outstanding liabilities relating to capital lease agreements and installment purchase contracts as of December 31, 2009 (in thousands):

	Capital Assets		Capital Leases Payable	
	Governmental Activities	Business-type Activities	Governmental Activities	Business-type Activities
Leasehold improvements	$ -	$ 4,900	$ -	$ 3,369
Less depreciation	-	(1,300)	-	-
Subtotal	-	3,600	-	3,369
Totals	$ -	$ 3,600	$ -	$ 3,369

The following is a schedule, by year, of future minimum lease payments under capital lease and installment purchase agreements together with the present value of the net minimum lease payments as of December 31, 2009 (in thousands):

	Governmental Activities	Business-type Activities
2010	$ -	$ 255
2011	-	255
2012	-	255
2013	-	255
2014	-	255
2015-2019	-	1,275
2020-2024	-	1,275
2025-2029	-	1,275
2030-2031	-	404
Total minimum lease payments	-	5,504
Less: Amount representing interest	-	(2,135)
Present value of net minimum lease payments	$ -	$ 3,369

Operating Leases

The County has numerous operating lease commitments for office space, equipment, radio towers, and railroad tracks. The Information and Telecommunications Services Fund leases computer hardware; these leases include maintenance agreements. Expenditures for the year ended December 31, 2009, for operating lease and rental agreements for office space, equipment, and other operating leases amount to $38.5 million. The patterns of future lease

NOTE 11 – CONTINUED

payment requirements are systematic and rational. Future minimum lease payments for these leases are as follows (in thousands):

Year	Office Space	Equipment	Other	Total
2010	$ 6,994	$ 348	$ 1,105	$ 8,447
2011	6,048	315	939	7,302
2012	5,459	276	776	6,511
2013	5,284	152	790	6,226
2014	5,024	-	785	5,809
2015-2019	12,890	-	3,834	16,724
2020-2024	2,094	-	3,561	5,655
2025-2029	1,036	-	2,873	3,909
2030-2034	845	-	2,546	3,391
2035-2039	-	-	2,744	2,744
2040-2044	-	-	2,959	2,959
2045-2049	-	-	3,100	3,100
2050-2053	-	-	2,225	2,225

The County currently leases some of its property to various tenants under long-term, renewable, and non-cancelable contracts. Under business-type activities, the King County Airport Enterprise leases out most of the buildings and grounds in the King County International Airport/Boeing Field complex to companies and government agencies in the aviation industry.

The following schedule is an analysis of the County's investment in property under long-term, non-cancelable operating leases as of December 31, 2009 (in thousands):

	Governmental Activities	Business-type Activities	
		Airport	Other
Land	$ 741	$ 11,220	$ 3,657
Buildings	5,209	59,061	1,218
Less depreciation	(485)	(29,521)	(207)
Total cost of property under lease	$ 5,465	$ 40,760	$ 4,668

The following is a schedule of minimum future lease receipts on non-cancelable operating leases based on contract amounts and terms as of December 31, 2009 (in thousands):

Year	Governmental Activities	Business-type Activities		Total
		Airport	Other	
2010	$ 13,429	$ 5,008	$ 1,204	$ 19,641
2011	10,787	5,008	937	16,732
2012	1,885	4,859	404	7,148
2013	1,791	4,637	114	6,542
2014	1,734	4,518	81	6,333

NOTE 12- LANDFILL CLOSURE AND POST-CLOSURE CARE COSTS

King County is legally responsible for closure and post-closure care costs associated with the County's solid waste landfills. Estimated costs of closure and post-closure care are recognized as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and post-closure care in current dollars. Actual cost may be different due to inflation, changes in technology, or changes in regulations.

State and federal laws and regulations require King County to place a final cover on its Cedar Hills Landfill site when the County stops accepting waste at this location. Certain maintenance and monitoring functions are also required at the sites for 30 years following closure. Enumclaw, Hobart, 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 $108.2 million reported as landfill closure and post-closure care liability as of December 31, 2009, represents the cumulative percentage reported based on the amount that each of the landfills has been filled to date as follows (dollars in thousands):

Landfill	Percent Filled	Estimated Liability	Estimated Remaining Liability	Estimated Year of Closure
Cedar Hills	85%	$69,237	$11,444	2018
Covered	100%	30,397	-	closed
Custodial	100%	8,516	-	closed

The County is required by state and federal laws and regulations to make annual contributions to a reserve fund to finance closure and post-closure care. The County is in compliance with these requirements. As of December 31, 2009, cash and cash equivalents of $33.3 million were held in the Landfill Reserve Fund. Cash and cash equivalents of $17.2 million were held in the Landfill Post-closure Maintenance Fund, a fund designated for these purposes.

The County expects that future cost increases resulting from inflation will be covered by the interest income earned on these annual contributions. However, if interest earnings are inadequate, or additional post-closure care requirements are determined (due to changes in technology or regulations), the County may need to increase future user fees or tax revenues.

The County also established the Environmental Reserve Fund for future investigation and possible remediation of custodial landfills. As of December 31, 2006 landfill investigations and foreseeable remediation efforts are complete; therefore there is no liability recorded for custodial landfills.

In 2009 estimated Cedar Hills Landfill capacity increased due to better compaction and reduced usage of cover material, resulting in a significantly lower landfill closure and post-closure expense recognition.

NOTE 13 – ENVIRONMENTAL REMEDIATION

In 2008 the County implemented GASB Statement No. 49 - *Accounting and Financial Reporting for Pollution Remediation Obligations.* This statement requires special accounting and reporting for governments that become obligated to perform environmental remediation work following the occurrence of one or more GASB-defined "obligating events." The applicable requirements are: 1) to estimate the components of expected pollution remediation outlays; and, 2) to accrue the future estimable outlays for those components as liabilities and expenses (or capitalize the costs in certain limited situations). Further requirements are for the liability to be recorded at the current value of the costs expected to be incurred to do the remediation work, and for the liability to be measured using the expected cash flow technique.

The impact of the implementation of GASBS No. 49 to King County operations follows:

Water Quality Enterprise - Accrued environmental remediation liabilities of $44.6 million are related to ongoing projects which include the sediment management of aquatic habitats along Elliott Bay and the clean-up of certain sites along the Lower Duwamish Waterway. The sediment management project has been approved by the Metropolitan King County Council as a self obligated pollution remediation program. The Lower Duwamish Waterway project became a Water Quality obligation when King County entered into an administrative order on consent (AOC) with the Washington State Department of Ecology (DOE) and the U.S. Environmental Protection Agency (EPA). This AOC also includes The Boeing Company, the City of Seattle and the Port of Seattle as parties to the cleanup. Each party has agreed to pay one fourth of the cleanup costs. The implementation of GASB Statement No. 49 resulted in a 2007 restatement of $27.9 million added to estimated remediation liability being carried forward to subsequent years. The methodology for estimating liabilities is based on Water Quality engineering analysis, program experience and cost projections for the remediation activities scheduled to be undertaken in future years as programmed under the Water Quality's Regional Wastewater Services Plan. Certain costs were developed by consulting engineers. Costs were estimated using the expected cash flow method. The remaining work is well-defined, but continues to be re-measured as succeeding benchmarks are reached or when cost assumptions are modified. Beginning in 2006, environmental remediation costs for Water Quality are deferred as regulatory assets in accordance with FAS 71 - Accounting for the Effects of Certain Types of Regulation (See Note 1, *Summary of Significant Accounting Policies* – Regulatory Deferrals). Water Quality operations are subject to rules and regulations enacted by the DOE and the EPA for environmental issues. Water Quality settled lawsuits related to certain environmentally damaged sites and agreed to pay its portion of remediation and cleanup costs. The initial settlement costs were capitalized as deferred environmental remediation costs and are being amortized over 40 years as offsetting revenues are collected from Water Quality's customers.

Public Transportation Enterprise – Accrued environmental remediation liability of $346 thousand is primarily related to: 1) monitoring soil and ground water contamination at the Lake Union Tank and Dearborn properties (under consent decrees from the DOE); 2) groundwater monitoring at two bus operation bases; and 3) the planned voluntary remediation of a third bus operation site. The liability was measured from the estimated amounts compiled by experienced Public Transportation staff using the expected cash flow technique. These cost estimates, however, are subject to change when contamination levels at specific sites are updated, when existing agreements and remediation alternatives are modified, or when new applicable regulations emerge.

King County International Airport (KCIA) Enterprise – Accrued remediation liabilities of $5.4 million are related to the ongoing investigation, pre-cleanup, cleanup, and monitoring

NOTE 13 – CONTINUED

activities at three sites along the Lower Duwamish Waterway (Slip 4, 7777 Perimeter Road, and the North Boeing Field/Georgetown steam plant and flume). These obligations were brought about by complaints filed by other governments to recover costs from the enterprise and the enterprise has agreed to share the cost, or as part of an existing agreed order from the DOE where the enterprise was identified as a potentially responsible party. Liabilities were estimated using the expected cash flow technique. The enterprise expects to recover portions of cleanup costs from a potentially responsible party. Estimated recoveries are realizable and reported as accounts receivable in the amount of $4.4 million for 2009. Remediation cost estimates are subject to change resulting from price increases or reductions, technology, or changes in applicable laws or agreements.

NOTE 14 – DEBT

Short-term Debt Instruments and Liquidity

King County has two short-term debt instruments outstanding for governmental activities as of December 31, 2009. On December 29, 2009, the County completed the sale of $9.5 million Series A tax-exempt and $17.6 million Series B taxable limited tax general obligation (GO) bond anticipation notes with a maturity date of December 1, 2010. The proceeds of the notes are accounted for in the Green River Flood Mitigation fund. Proceeds from the sale of the notes will be used to provide financing for the cost of flood planning and mitigation measures intended to prevent damage to facilities owned, and disruption of services provided by the County at locations in the Green River Valley that might result from possible flooding due to structural damage to the Howard Hanson Dam. Also, a portion of the proceeds from the sale of the notes will be used to pay for the costs of issuing the notes. The County intends to finance the repayment of the notes by issuing either a new bond anticipation note or general obligation bonds in 2010.

For business-type activities, the County has $100 million of commercial paper outstanding in the Water Quality Enterprise Fund as of December 31, 2009. The commercial paper has maturity dates between 11 and 63 days. At the time of initial issuance, the proceeds of the commercial paper were transferred to the construction fund for use in the capital activities of the Enterprise. Repayment of the debt will be made from operating revenues. The following schedule provides a summary of changes in short-term debt as of December 31, 2009:

CHANGES IN SHORT-TERM DEBT
FOR THE YEAR ENDED DECEMBER 31, 2009
(IN THOUSANDS)

	Balance 01/01/09	Additions	Reductions	Balance 12/31/09
Governmental activities:				
Limited tax GO bond anticipation notes	$ -	$ 27,095	$ -	$ 27,095
Unamortized premium bonds sold	-	227	-	227
Governmental activities short-term debt	$ -	$ 27,322	$ -	$ 27,322
Business-type activities:				
Commercial paper	$ 100,000	$ -	$ -	$ 100,000
Business-type activities short-term debt	$ 100,000	$ -	$ -	$ 100,000

Long-term Debt

King County has long-term debt reported with both governmental activities and business-type activities. For governmental activities, long-term debt consists of general obligation bonds, and lease revenue bonds accounted for in the Internal Service Funds.

For business-type activities, long-term debt consists of limited tax general obligation bonds accounted for in the King County International Airport, Institutional Network (I-NET), Solid Waste, Public Transportation, and Water Quality Enterprise Funds; capital leases accounted for in the Public Transportation Fund; Sewer Revenue Bonds and State of Washington revolving loans accounted for in the Water Quality Enterprise Fund.

NOTE 14 – CONTINUED

KING COUNTY, WASHINGTON
SCHEDULE OF LONG-TERM DEBT
(IN THOUSANDS)
(PAGE 1 of 3)

	Issue Date	Final Maturity	Interest Rates	Original Issue Amount	Outstanding at 12/31/09
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	$ 14,455
2002 Refunding 1997B Bonds (Baseball Stadium)	06/04/02	12/01/14	4.00-5.50%	124,575	53,510
2002 Various Purpose (Road CIP) Bonds	10/01/02	12/01/16	2.00-5.00%	38,340	21,760
2003 Limited Tax GO (Payoff BAN 2003B) Series A	10/30/03	06/01/23	2.00-5.25%	27,605	21,860
2003 Various Purpose Refunding Bonds Series B (Partial)	10/30/03	06/01/23	2.00-5.25%	27,890	12,605
2004 Refunding Bonds Series A	09/21/04	01/01/16	2.00-5.00%	57,045	45,330
2004 Limited Tax GO (Payoff BAN2003A) Series B	10/01/04	01/01/25	2.50-5.00%	82,435	71,850
2004 Baseball Stadium (Refg 1997D Partial) Series D	12/21/04	12/01/11	3.00-5.00%	32,075	14,335
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	32,435
2006 HUD Section 108 Bonds – Greenbridge Project	08/01/06	08/01/24	4.96-5.70%	6,783	5,491
2007 Kingdome Debt Series A Refunding 1997F	09/05/07	12/01/15	4.00-5.00%	48,665	48,100
2007 Kingdome Debt Series B Refunding 1997E (Taxable)	09/05/07	12/01/10	4.98-5.11%	5,900	805
2007 Various Purpose Series C	11/01/07	01/01/28	4.00-4.50%	10,695	10,280
2007 Various Purpose Series D	11/01/07	01/01/28	4.00-5.00%	34,630	33,345
2007 Various Purpose Series E (Partial)	11/27/07	12/01/17	4.00-5.00%	3,070	2,560
2009 Multi-Modal Limited Tax GO Bond Series A	02/26/09	06/01/29	Variable Rate [a]	50,000	50,000
2009 Various Purpose Capital Facilities Project Series B2	05/12/09	06/01/29	2.00-5.13%	34,810	34,810
2009 Limited Tax GO (Refg 1993B) Series C	12/10/09	01/01/24	4.50%	17,150	17,150
2009 Refunding Bonds Series D (Partial)	12/10/09	12/01/12	4.50-5.25%	6,149	6,149
Total Payable From Limited Tax GO Redemption Fund				695,522	519,340
Payable From Internal Service Funds					
2001 Various Purpose (Partial)	11/01/01	12/01/11	3.00-5.00%	1,050	245
Total Payable From Internal Service Funds				1,050	245
Total Limited Tax General Obligation Debt				696,572	519,585

NOTE 14 – CONTINUED

KING COUNTY, WASHINGTON
SCHEDULE OF LONG-TERM DEBT
(IN THOUSANDS)
(PAGE 2 of 3)

	Issue Date	Final Maturity	Interest Rates	Original Issue Amount	Outstanding at 12/31/09
I. GOVERNMENTAL ACTIVITIES – LONG-TERM DEBT					
IB. Unlimited Tax General Obligation Bonds (ULTGO)					
Payable From Unlimited Tax GO Redemption Fund					
2000 Refunding Bonds (Partial)	10/01/00	06/01/16	5.00-5.50%	$ 102,740	$ 23,830
2001 Harborview Medical Center	02/01/01	12/01/20	4.00-5.00%	29,130	1,265
2003 Refunding 1993 Series C Bonds	04/23/03	06/01/19	2.00-5.25%	108,795	14,085
2004 Harborview Medical Center Series A	05/04/04	12/01/23	2.00-5.00%	110,000	93,740
2004 Harborview Medical Center Series B	09/14/04	06/01/23	3.00-5.00%	54,000	47,000
2009 Refunding 2001 (HMC) Series A	12/10/09	12/01/20	4.30-5.00%	19,570	19,570
Total Payable From Unlimited Tax GO Bond Redemption Fund				424,235	199,490
Payable From Stadium GO Bond Redemption Fund					
2000 Refunding Bonds (Partial)	10/01/00	06/01/12	5.00-5.50%	18,880	5,220
Total Unlimited Tax General Obligation Bonds				443,115	204,710
IC. Lease Revenue Bonds [b]					
Payable From Internal Service Funds					
2002 Broadway Office Property – HMC Office Space	11/13/02	12/01/31	4.00-5.38%	62,540	57,370
2005 Goathill Property – Chinook Building	02/03/05	12/01/33	4.00-5.25%	101,035	96,695
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	58,670
Total Lease Revenue Bonds Payable from Internal Service Funds				415,695	402,455
TOTAL GOVERNMENTAL ACTIVITIES – LONG-TERM DEBT				1,555,382	1,126,750
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	6,090
2002 LTGO (Public Transportation Sales Tax) Refunding Bonds	11/05/02	12/01/19	3.00-5.50%	64,285	44,295
2004 LTGO (Public Transportation Sales Tax) Bonds	06/08/04	06/01/34	2.50-5.50%	49,695	45,515
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	5,130
2007 Various Purpose Series E (Partial)	11/27/07	12/01/27	4.00-5.00%	40,635	38,060
2008 LTGO (WQ-LTGO) Refunding Bonds	02/12/08	01/01/34	3.25-5.25%	236,950	233,045
2009 LTGO (Public Transportation Sales Tax) Refunding Bonds	02/18/09	12/01/19	2.00-4.00%	48,535	44,420
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	3,126
Total Limited Tax GO Bonds Payable From Enterprise Funds				959,856	919,681

NOTE 14 – CONTINUED

KING COUNTY, WASHINGTON
SCHEDULE OF LONG-TERM DEBT
(IN THOUSANDS)
(PAGE 3 of 3)

	Issue Date	Final Maturity	Interest Rates	Original Issue Amount	Outstanding at 12/31/09
II. BUSINESS-TYPE ACTIVITIES – LONG-TERM DEBT					
IIB. Revenue Bonds, Capital Leases and Loans Payable From Enterprise Funds					
2001 Sewer Revenue Bonds Junior Lien Series A	08/06/01	01/01/32	Variable Rate [c]	$ 50,000	$ 50,000
2001 Sewer Revenue Bonds Junior Lien Series B	08/06/01	01/01/32	Variable Rate [c]	50,000	50,000
2001 Sewer Revenue and Refunding Bonds	11/28/01	01/01/35	3.00-5.25%	270,060	223,375
2002 Sewer Revenue Bonds Series A	08/14/02	01/01/35	5.00-5.50%	100,000	94,960
2002 Sewer Revenue Refunding Bonds Series B	10/03/02	01/01/33	3.00-5.50%	346,130	249,350
2003 Sewer Revenue Refunding Bonds	04/24/03	01/01/35	2.00-5.25%	96,470	91,625
2004 Sewer Revenue Bonds Series A	03/18/04	01/01/35	4.50-5.00%	185,000	185,000
2004 Sewer Revenue Refunding 1999-2 Bonds Series B	03/18/04	01/01/35	2.00-5.00%	61,760	58,900
2006 Sewer Revenue and Refunding 1999-1 Bonds Series A	05/16/06	01/01/36	5.00%	124,070	124,070
2006 Sewer Revenue and Refunding Bonds Series B-2	11/30/06	01/01/36	3.50-5.00%	193,435	190,085
2007 Sewer Revenue Bonds	06/26/07	01/01/47	5.00%	250,000	250,000
2008 Sewer Revenue Bonds	08/14/08	01/01/48	5.00-5.75%	350,000	350,000
2009 Sewer Revenue Bonds	08/12/09	01/01/42	4.00-5.25%	250,000	250,000
2000-2009 State of Washington Revolving Loans	Various	Various	0.50-3.10%	177,834	141,165
2000 Public Transportation Park and Ride Capital Leases	03/30/00	12/31/31	5.00%	4,722	3,368
Total Revenue Bonds, Capital Leases and Loans Payable From Enterprise Funds				2,509,481	2,311,898
TOTAL BUSINESS-TYPE ACTIVITIES – LONG-TERM DEBT				3,469,336	3,231,579
TOTAL LONG-TERM DEBT (EXCLUDING GO LONG-TERM LIABILITIES)				$ 5,024,719	$ 4,358,329

(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.

NOTE 14 – CONTINUED

KING COUNTY, WASHINGTON
DEBT SERVICE REQUIREMENTS TO MATURITY
(IN THOUSANDS)

GOVERNMENTAL ACTIVITIES

	General Obligation Bonds		Lease Revenue Bonds		Total Governmental Activities	
Year	Principal	Interest	Principal	Interest	Principal	Interest
2010	$ 62,071	$ 33,166	$ 6,465	$ 19,689	$ 68,536	$ 52,855
2011	58,232	30,612	10,465	19,390	68,697	50,002
2012	63,023	27,814	10,965	18,892	73,988	46,706
2013	74,791	24,774	11,490	18,365	86,281	43,139
2014	62,718	21,179	12,060	17,795	74,778	38,974
2015-2019	209,008	68,724	69,885	79,392	278,893	148,116
2020-2024	148,852	27,727	88,415	60,873	237,267	88,600
2025-2029	45,600	4,439	87,350	39,473	132,950	43,912
2030-2034	-	-	80,760	17,159	80,760	17,159
2035-2039	-	-	24,600	1,871	24,600	1,871
TOTAL	$ 724,295	$ 238,435	$ 402,455	$ 292,899	$ 1,126,750	$ 531,334

BUSINESS-TYPE ACTIVITIES

	General Obligation Bonds		Revenue Bonds, Capital Leases and Loans		Total Business-Type Activities		Total Long-Term Debt (Excluding General Obligation Long-Term Liabilities)	
Year	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2010	$ 15,610	$ 45,146	$ 39,950	$ 109,813	$ 55,560	$ 154,959	$ 124,096	$ 207,814
2011	14,654	44,568	41,946	109,506	56,600	154,074	125,297	204,076
2012	15,247	43,951	44,021	107,827	59,268	151,778	133,256	198,484
2013	14,720	43,341	46,931	105,998	61,651	149,339	147,932	192,478
2014	21,180	42,575	49,034	103,824	70,214	146,399	144,992	185,373
2015-2019	154,090	194,218	244,534	485,418	398,624	679,636	677,517	827,752
2020-2024	157,935	152,699	267,153	430,899	425,088	583,598	662,355	672,198
2025-2029	192,930	108,223	304,240	364,863	497,170	473,086	630,120	516,998
2030-2034	225,670	56,115	470,250	271,469	695,920	327,584	776,680	344,743
2035-2039	107,645	12,897	324,235	165,250	431,880	178,147	456,480	180,018
2040-2044	-	-	298,240	84,846	298,240	84,846	298,240	84,846
2045-2049	-	-	181,365	19,197	181,365	19,197	181,365	19,197
TOTAL	$ 919,681	$ 743,733	$ 2,311,899	$ 2,358,910	$ 3,231,580	$ 3,102,643	$ 4,358,330	$ 3,633,977

NOTE 14 – CONTINUED

The following table summarizes changes in long-term liabilities for the year ended December 31, 2009 (in thousands).

	Balance 01/01/09	Additions	Reductions	Balance 12/31/09	Due Within One Year
Governmental activities:					
Bonds payable:					
General obligation bonds	$ 725,698	$ 127,679	$ (129,082)	$ 724,295	$ 62,071
General obligation bond anticipation notes	48,755	-	(48,755)	-	-
Lease revenue bonds [a]	408,640	-	(6,185)	402,455	6,465
Less deferred amounts:					
Unamortized premium bonds sold	21,548	5,831	(4,821)	22,557	-
Refunding	(9,463)	(3,065)	4,188	(8,340)	-
Total bonds payable	1,195,178	130,445	(184,655)	1,140,967	68,536
Limited GO capital leases	4,000	-	(4,000)	-	-
Claims and judgments payable	2,600	-	(2,600)	-	-
Compensated absences liability	83,167	11,182	(3,143)	91,206	4,106
Other postemployment benefits	12,193	6,345	-	18,538	-
Unemployment compensated liabilities	1,181	(1,255)	2,652	2,578	2,578
Estimated claims settlements and other liabilities	145,831	202,207	(195,079)	152,959	95,489
Rebatable arbitrage	30	-	(13)	17	-
Total Governmental activities long-term liabilities	$ 1,444,180	$ 348,924	$ (386,838)	$ 1,406,265	$ 170,709
Business-type activities:					
Bonds payable:					
General obligation bonds	$ 638,065	$ 351,662	$ (70,046)	$ 919,681	$ 15,610
Revenue bonds	1,947,905	250,000	(30,540)	2,167,365	32,090
Less deferred amounts:					
Unamortized premium bonds sold	50,844 [b]	6,533	(4,450)	52,927	4,261
Refunding	(66,792) [b]	(1,315)	5,783	(62,325)	(5,660)
Total bonds payable	2,570,022	606,880	(99,253)	3,077,648	46,301
Capital leases	3,453	-	(85)	3,368	89
State revolving loans	129,186	19,207	(7,228)	141,165	7,941
Retainage payable	17,027 [c]	4,336	(140)	21,223	5,467
Compensated absences liability	61,165	22,001	(17,107)	66,060	8,065
Other postemployment benefits	2,890	2,118	(634)	4,374	-
Landfill closure and post-closure care liability	112,502	-	(4,352)	108,150	7,809
Environmental remediation and other liabilities	41,018	14,152	(4,789)	50,381	5,488
Total Business-type activities long-term liabilities and other liabilities	$ 2,937,263	$ 668,694	$ (133,588)	$ 3,472,369	$ 81,160

Governmental activities long-term liabilities, other than debt, are primarily estimated claims settlements liquidated by internal service funds. At year-end, internal service funds estimated claims settlements of $152.9 million are included in the above amount. Governmental activities compensated absences are liquidated by the governmental fund in which an employee receiving the payment is budgeted, including most notably the General Fund, the Public Health Fund, and the County Road Fund.

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

(b) Business-type activities deferred unamortized premium bonds sold and refunding losses were restated to record Water Quality's prior year refunding loss on retired bonds and correct duplicate bond amortization.

(c) Retainage payable in business-type activities was reclassified from current liabilities to noncurrent liabilities in 2009.

NOTE 14 – CONTINUED

Computation of Legal Debt Margin

Under Washington State law (RCW 39.36.020), a county may incur general obligation debt for general county purposes in an amount not to exceed 2½ percent of the assessed value of all taxable property within the county. State law requires all property to be assessed at 100 percent of its true and fair value. Unlimited tax general obligation debt requires an approving vote of the people; any election to validate such general obligation debt must have a voter turnout of at least 40 percent of those who voted in the last state general election and, of those voting, 60 percent must be in the affirmative. The County Council may by resolution authorize the issuance of limited tax general obligation debt in an amount up to 1½ percent of assessed value of property within the County for general county purposes and 3/4 percent for metropolitan functions, but the total of limited tax general obligation debt for general county purposes and metropolitan functions should not exceed 1½ percent of assessed value. No combination of limited and unlimited tax debt, for general county purposes, and no combination of limited and unlimited tax debt, for metropolitan functions, may exceed 2½ percent of the valuation. The debt service on unlimited tax debt is secured by excess property tax levies, whereas the debt service on limited tax debt is secured by property taxes collected within the $1.80 per $1,000 of assessed value operating levy. The legal debt margin computation for the year ended December 31, 2009 is as follows (in thousands):

2009 ASSESSED VALUE (2010 TAX YEAR)	$	341,971,517
Debt limit of limited tax (LT) general obligations for metropolitan functions		
3/4 % of assessed value	$	2,564,786
Less: Net LT general obligation indebtedness for metropolitan functions		(953,636)
LT GENERAL OBLIGATION DEBT MARGIN FOR METROPOLITAN FUNCTIONS	$	1,611,150
Debt limit of LT general obligations for general county purposes and metropolitan functions – 1½ % of assessed value	$	5,129,573
Less: Net LT general obligation indebtedness for general county purposes		(981,419)
Net LT general obligation indebtedness for metropolitan functions		(953,636)
Net total LT general obligation indebtedness for general county purposes and metropolitan functions		(1,935,055)
LT GENERAL OBLIGATION DEBT MARGIN FOR GENERAL COUNTY PURPOSES AND METROPOLITAN FUNCTIONS	$	3,194,518
Debt limit of total general obligations for metropolitan functions		
2½ % of assessed value	$	8,549,288
Less: Net total general obligation indebtedness for metropolitan functions		(953,636)
TOTAL GENERAL OBLIGATION DEBT MARGIN FOR METROPOLITAN FUNCTIONS	$	7,595,652
Debt limit of total general obligations for general county purposes		
2½ % of assessed value	$	8,549,288
Less: Net unlimited tax general obligation indebtedness for general county purposes		(194,982)
Net LT general obligation indebtedness for general county purposes		(981,419)
Net total general obligation indebtedness for general county purposes		(1,176,401)
TOTAL GENERAL OBLIGATION DEBT MARGIN FOR GENERAL COUNTY PURPOSES	$	7,372,887

NOTE 14 – CONTINUED

Refunding and Defeasing General Obligation Bond Issues – 2009

Limited Tax General Obligation Refunding Bonds, 2009C – On December 10, 2009, the County issued $17.2 million in limited tax general obligation bonds, 2009 Series C with an effective interest cost of 3.67 percent to advance refund $17.7 million of outstanding limited tax general obligation refunding bonds, 1993 Series B with an effective interest cost of 4.5 percent. The net proceeds were used to purchase US government securities that were deposited with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered defeased and the liability for those bonds has been removed from the governmental activities column of the statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by $420.9 thousand. This amount, reported in the statement of net assets as a reduction in bonds payable, is being charged to operations through fiscal year 2024, using the outstanding principal balance method. This advance refunding was undertaken to reduce total debt service payments by $1.7 million over the life of the bonds and resulted in an economic gain (difference between the present values of the old and new debt service payments) of $1.4 million.

Limited Tax General Obligation Refunding Bonds, 2009D – On December 10, 2009, the County issued $9.3 million in limited tax general obligation bonds, 2009 Series D with an effective interest cost of 0.87 percent to advance refund $9.6 million of outstanding limited tax general obligation refunding bonds, 1999 Series A with an effective interest cost of 5.13 percent. The net proceeds were used to purchase US government securities that were deposited with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered defeased and the liability for those bonds has been removed from the both governmental activities column of the statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by $53 thousand. This amount, reported in the statement of net assets as a reduction in bonds payable, is being charged to operations through fiscal year 2012, using the outstanding principal balance method. This advance refunding was undertaken to reduce total debt service payments by $735 thousand over the life of the bonds and resulted in an economic gain (difference between the present values of the old and new debt service payments) of $701 thousand.

Unlimited Tax General Obligation Refunding Bonds, 2009A – Also on December 10, 2009, the County issued $19.6 million in unlimited tax general obligation bonds, 2009 Series A with an effective interest cost of 2.45 percent to advance refund $20.3 million of outstanding unlimited tax general obligation refunding bonds, 2001HMC with an effective interest cost of 4.84 percent. The net proceeds were used to purchase US government securities that were deposited with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered defeased and the liability for those bonds has been removed from the governmental activities column of the statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by $999.6 thousand. This amount, reported in the statement of net assets as a reduction in bonds payable, is being charged to operations through fiscal year 2020, using the outstanding principal balance method. This advance refunding was undertaken to reduce total debt service payments by $2.7 million over the life of the bonds and resulted in an economic gain (difference between the present values of the old and new debt service payments) of $2.0 million.

Partial Defeasances of Limited Tax General Obligation (Baseball Stadium) Refunding Bonds, 2009 – On February 10, 2009, the County completed defeasance of limited tax general obligation (Baseball Stadium) refunding bonds, 2004 Series C (taxable) for $6.7 million using the excess proceeds from special taxes and revenues. The reacquisition price exceeded the net

carrying amount of the old debt by $309 thousand. This amount, reported in the statement of net assets as a reduction from bonds payable, are being charged to operations through fiscal year 2009, using the outstanding principal balance method. The transaction resulted in an economic gain of $22 thousand for the year ended December 31, 2009.

Also, on February 10, 2009, the County completed a partial defeasance of limited tax general obligation (Baseball Stadium) refunding bonds, 2004 Series D (tax-exempt) for $13.0 million using the excess proceeds from special taxes and revenues. The reacquisition price exceeded the net carrying amount of the old debt by $1 million. This amount, reported in the statement of net assets as a reduction from bonds payable, are being charged to operations through fiscal year 2009, using the outstanding principal balance method. The transaction resulted in an economic gain of $115 thousand for the year ended December 31, 2009.

Limited Tax General Obligation (Public Transportation Sales Tax) Refunding Bonds, 2009 – On February 18, 2009, the County issued $48.5 million in limited tax general obligation bonds, 2009 with an effective interest cost of 2.49 percent to advance refund $50 million of outstanding limited tax general obligation (sales tax) refunding bonds, 1998 Series A with an effective interest cost of 5.00 percent. The net proceeds were used to purchase US government securities that were deposited with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered defeased and the liability for those bonds has been removed from the business-type column of the statement of net assets.

The reacquisition price exceeded the net carrying amount of the old debt by $1.3 million. This amount, reported in the statement of net assets as a reduction in bonds payable, is being charged to operations through fiscal year 2019, using the outstanding principal balance method. This advance refunding was undertaken to reduce total debt service payments by $7.1 million over the life of the bonds and resulted in an economic gain (difference between the present values of the old and new debt service payments) of $6.2 million.

Refunding General Obligation Certificate of Participation Issues – 2009

Limited Tax General Obligation Refunding, 2009B2 (Issaquah District Court) – On May 12, 2009, the County issued $3.8 million in limited tax general obligation bonds, 2009 Series B2 with an effective interest cost of 2.64 percent to advance refund $4.0 million of outstanding limited tax general obligation certificate of participation bonds , 1998 with an effective interest cost of 4.45 percent. The net proceeds were used to purchase US government securities that were deposited with an escrow agent to provide for all future debt service payments on the refunded certificate of participation. As a result, the refunded bonds are considered defeased and the liability for those bonds has been removed from the governmental activities column of the statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by $16 thousand. This amount, reported in the statement of net assets as a reduction in bonds payable, is being charged to operations through fiscal year 2009, using the outstanding principal balance method.

NOTE 14 – CONTINUED

Refunded Bonds

King County has eleven outstanding refunded and defeased bond issues consisting of limited tax general obligation bonds ($90.7 million), unlimited tax general obligation bonds ($30.4 million) and sewer revenue bonds ($5.0 million) that were originally reported in the Primary Government's statement of net assets. The payments of principal and interest on these bond issues are the responsibility of the escrow agent, US Bank of Washington, and the liability for the defeased bonds has been removed from the statement of net assets.

Future Borrowing Plans

During the first half of 2010, the County completed the sale of $100 million of multi-modal limited tax general obligation bonds to finance the construction of improvements to the sewer system of the County.

The County expects to issue approximately $200 million of new limited tax general obligation debt through the end of 2010. The proceeds of these debt issues will be used to provide interim or permanent financing for road improvements, the Solid Waste Division's capital improvement program and various facility and technology projects.

The County also expects to issue approximately $350 million of new obligation bonds through the end of 2010 to provide continuing funding for the wastewater capital improvement program. While all of these bonds will be payable from the sewer revenues of the wastewater system, a portion may be additionally secured by a pledge of the full faith and credit of the County.

In addition, the County intends to take advantage of favorable interest rates by refinancing any outstanding higher rate bonds when and if market conditions permit.

NOTE 15 – INTERFUND BALANCES AND TRANSFERS

Interfund Balances

Due from/to other funds and interfund short-term loans receivable and payable (in thousands)

Fund types with account balances of less than $500 thousand are aggregated into "All Others."

Receivable Fund	Payable Fund	Amount
General Fund	Nonmajor Governmental Funds	$ 6,563
	Nonmajor Enterprise Funds	2,731
	All Others	628
Public Health Fund	Nonmajor Governmental Funds	4,101
	All Others	448
Nonmajor Governmental Funds	General Fund	1,279
	Public Health Fund	1,492
	Nonmajor Governmental Funds	59,188
	Water Quality Enterprise	1,898
	Nonmajor Enterprise Funds	798
	Internal Service Funds	740
	All Others	261
Public Transportation Enterprise	General Fund	654
	Nonmajor Governmental Funds	49,650
	Water Quality Enterprise	82,634
	Nonmajor Enterprise Funds	705
	All Others	118
Water Quality Enterprise	Nonmajor Governmental Funds	3,552
	Water Quality Enterprise	1,460
	All Others	106
Nonmajor Enterprise Funds	Nonmajor Governmental Funds	2,214
	All Others	298
Internal Service Funds	Public Health Fund	722
	Nonmajor Governmental Funds	1,955
	Public Transportation Enterprise	528
	Internal Service Funds	677
	All Others	570
Total		$ 225,970

The interfund balances resulted from the time lag between the dates: (1) when interfund goods and services were provided or reimbursable expenditures incurred, and when interfund payments were made; and (2) when interfund short-term loans were made and when the loans were repaid.

NOTE 15 – CONTINUED

$1,712 thousand due from Nonmajor Governmental Funds to General Fund, $16,266 thousand due from Nonmajor Governmental Funds to Nonmajor Governmental Funds, $48,253 thousand due from Nonmajor Governmental Funds to Public Transportation Enterprise, and $82,634 thousand due from Water Quality Enterprise to Public Transportation Enterprise were short-term loans made for the purpose of cash flow.

Advances from/to other funds (in thousands)

Receivable Fund	Payable Fund	Amount
General Fund	Public Transportation Enterprise	$ 3,500
	Nonmajor Governmental Funds	300
Total		$ 3,800

The advances from the General Fund to the Public Transportation Enterprise and Nonmajor Governmental Funds consisted of loans made for the purposes of cash flow. Neither advance is scheduled to be repaid in 2010.

Interfund Transfers (in thousands)

Fund types with account balances of less than $500 thousand are aggregated into "All Others."

Transfers Out	Transfers In	Amount
General Fund	Public Health Fund	$ 26,977
	Nonmajor Governmental Funds	27,926
	Internal Service Funds	821
Public Health Fund	All Others	79
Nonmajor Governmental Funds	General Fund	2,200
	Public Health Fund	3,670
	Nonmajor Governmental Funds	108,583
	Internal Service Funds	1,321
	All Others	60
Public Transportation Enterprise	All Others	41
Water Quality Enterprise	All Others	57
Nonmajor Enterprise Funds	Nonmajor Governmental Funds	775
	All Others	12
Internal Service Funds	Nonmajor Governmental Funds	809
	All Others	193
Total transfers in		173,524
Transfer out of capital assets		287
Total transfers out		$ 173,811

Transfers are used to move resources from a fund collecting them to the fund using them, as required by statute or budget, and to account for ongoing operating subsidies between funds in accordance with budget authorizations.

NOTE 15 – CONTINUED

In the fund financial statements, total transfers out exceed total transfers in because there were $287 thousand of capital assets transferred during the year.

Transfers Out	Transfers In	Amount
Nonmajor Governmental Funds	Nonmajor Enterprise Funds	$ 78
Public Transportation Enterprise	Nonmajor Governmental Funds	14
Water Quality Enterprise	Internal Service Funds	83
Nonmajor Enterprise Funds	Nonmajor Governmental Funds	3
Internal Service Funds	Nonmajor Governmental Funds	105
	Internal Service Funds	4
Total		$ 287

NOTE 16 – RELATED PARTY TRANSACTIONS

Harborview Medical Center (HMC), a discretely presented component unit of King County, makes monthly rental payments to the County for use of the Patricia Steel Memorial Building which houses HMC's administrative offices. The rent payments received are transferred to a blended component unit of the County – the building development and management corporations fund. The County is obligated for the debt service on the lease revenue bonds issued by the non-profit on behalf of the County for construction of the building. HMC has agreed to include the annual rental payments in their operating budget for as long as they use the building. In 2009, the primary government received $4.4 million from HMC for building rent.

The Cultural Development Authority (CDA), a discretely presented component unit of King County, annually receives funding from various County funds under the one-percent for art program. Revenues are used to support activities related to the development and maintenance of County public art. In 2009 the King County primary government transferred $2.7 million to the CDA ($2.3 million from business-type activities and $374.8 thousand from governmental activities). The CDA spent $1.4 million on current art projects for which the County recorded a corresponding receivable and work-in-progress.

Public Transportation Enterprise (Transit) has a ground lease agreement as lessor with the King County Housing Authority (KCHA), a related organization to the County, for the development of affordable housing units and a parking garage in the City of Redmond. The lease provides for a set-aside of a minimum of 150 parking stalls for use by park and ride commuters. The lease term is 50 years with an option to extend by an additional 25 years. Transit recorded revenues related to the lease of $35.8 thousand in 2009. Transit also provided loans to KCHA for which $808.0 thousand was outstanding at year-end.

NOTE 17 – RESTRICTIONS, RESERVES, DESIGNATIONS, AND CHANGES IN EQUITY

Net Assets

The government-wide and proprietary fund financial statements utilize a net assets presentation. Net assets are classified into three categories:

Invested in capital assets, net of related debt – Consists of capital assets net of accumulated depreciation and reduced by outstanding balances of bonds, notes and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets – Results when constraints are placed on net asset use either by external parties or by law through constitutional provision or enabling legislation.

Unrestricted net assets – Consists of net assets that do not meet the definition of the two preceding categories.

Restricted Net Assets – Business-type Activities (in thousands)

$ 416,872	Public Transportation Enterprise restricted for future construction projects ($390,429) and debt service ($26,443).
221,112	Water Quality Enterprise restricted for debt service ($185,242) and regulatory assets and environmental liabilities ($35,870).
8,482	King County International Airport Enterprise restricted for future construction projects.
3,482	Radio Communications Enterprise restricted for construction.
$ 649,948	Total Business-type Restricted Net Assets

Restricted Net Assets – Internal Service Funds (in thousands)

$ 21,221	Building Development & Management Corporations Fund restricted for future construction projects ($271) and debt service ($20,950).

Reserves and Designations

King County records two general types of reserves. One type indicates that a portion of the fund balance is legally segregated for a specific future use; the other type indicates that a portion of the fund balance is not available for appropriation. Designated fund balances, on the other hand, represent tentative plans (including those plans prescribed by local ordinance) for future use of financial resources.

NOTE 17 – CONTINUED

Following is a list of all reserves and designations used by King County and a description of each:

Reserved Fund Balances (in thousands)

	General Fund	Public Health Fund	Nonmajor Special Revenue	Nonmajor Debt Service	Nonmajor Capital Projects
Reserved for:					
Inventory	$ -	$ 656	$ -	$ -	$ -
Prepayments	-	-	7,488	-	632
Encumbrances	3,306	804	24,659	-	60,808
Advances to other funds	3,800	-	-	-	-
Animal services	151	-	-	-	-
Crime victim compensation program	77	-	-	-	-
Criminal justice	2,494	-	-	-	-
Debt service	-	-	347	-	-
Drug enforcement program	2,682	-	-	-	-
Antiprofiteering program	95	-	-	-	-
Dispute resolution centers	170	-	-	-	-
Inmate welfare	2,115	-	-	-	-
Real property title assurance	25	-	-	-	-
Training and equipment for Medic One	-	17	-	-	-
KC Medic One equipment replacement	-	-	1,811	-	-
Youth sports facilities grant endowment	-	-	2,620	-	-
PFD stadium bond debt service	-	-	-	19,427	-
Traffic mitigation	-	-	-	-	1,080
Total reserved fund balances	$ 14,915	$ 1,477	$ 36,925	$ 19,427	$ 62,520

Reserved for inventory – Segregates a portion of fund balance in the amount of the inventory of supplies carried as an asset; it represents resources that are not available nor spendable for the fund's current operations.

Reserved for prepayments – Segregates a portion of fund balance equal to the asset prepayments; it does not represent available, spendable resources for the fund's current operations.

Reserved for encumbrances – Segregates a portion of fund balance for commitments made for goods or services that have not been delivered or completed as of year-end. The budget for these commitments will be reestablished in the new year without reappropriation.

Reserved for advances to other funds – Segregates a portion of fund balance for advances to other funds (the noncurrent portion of interfund loans receivable) to indicate that they do not constitute available financial resources and are not available for appropriation.

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

NOTE 17 – CONTINUED

Reserved for crime victim compensation program – Segregates a portion of fund balance to indicate that resources are legally restricted to the crime victim compensation program (chapter 7.68 RCW).

Reserved for criminal justice – Segregates a portion of fund balance to indicate that resources are to be used exclusively for criminal justice purposes (RCW 82.14.340).

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

Reserved for drug enforcement program – Segregates a portion of fund balance to indicate that resources are legally restricted solely for the purpose of enhancing enforcement of the Uniform Controlled Substances Act, chapter 69.50 RCW, or other laws regulating controlled substances, including training, equipment, and operational expenses.

Reserved for antiprofiteering program – Segregates a portion of fund balance to indicate that resources are legally restricted for the purposes of the investigation and prosecution of any offense included in the definition of criminal profiteering set forth in chapter 9A.82 RCW.

Reserved for dispute resolution centers – Segregates a portion of fund balance to indicate that resources are legally restricted for the purpose of funding dispute resolution centers (RCW 7.75.035).

Reserved for inmate welfare – Segregates a portion of fund balance to indicate that resources are reserved for the purpose of the welfare of inmates held by the Department of Adult and Juvenile Detention.

Reserved for real property title assurance – Segregates a portion of fund balance to indicate that resources are legally restricted for the payment of damages to any person sustaining loss or damage, through any omission, mistake, or misfeasance of the registrar of titles, or of any examiner of titles, or of any deputy, or by the mistake or misfeasance of the clerk of the court, or any deputy, in the performance of their respective duties under the provisions of chapter 65.12 RCW Registration of Land Titles (Torrens Act).

Reserved for training and equipment for Medic One – Segregates a portion of fund balance to indicate that the use of donations from individuals to Medic One are reserved for equipment purchases and training for paramedics and medical services officers.

Reserved for King County Medic One equipment replacement - Segregates a portion of fund balance to indicate that resources are reserved for replacing equipment at King County Medic One. The Medic One/EMS 2008-2013 Strategic Plan adopted by Ordinance 15740 requires each Advanced Life Support (ALS) agency to develop a reserve fund to cover these costs.

Reserved for youth sports facilities grant endowment – Segregates a portion of fund balance pending a decision to establish a separate Permanent Fund for an endowment.

Reserved for PFD stadium bond debt service – Segregates the revenues collected by the County that are earmarked for future debt service payments on the tax exempt Baseball Stadium bond issues.

Reserved for traffic mitigation – Segregates a portion of fund balance related to the mitigation payment system revenues to indicate that resources are reserved for the purpose of funding growth-related traffic mitigation projects (King County Code 14.75.030).

NOTE 17 – CONTINUED

Designated Fund Balances (in thousands)

	General Fund	Public Health Fund	Nonmajor Special Revenue
Designated for:			
Equipment replacement	$ -	$ -	$ 4,888
Capital projects	2,496	-	-
DDES	-	-	6,600
Environmental health services	-	256	-
Operating	-	-	14,589
Risk and inpatient	-	-	8,694
Reappropriation	711	-	7,143
Total designated fund balances	$ 3,207	$ 256	$ 41,914

Designated for equipment replacement – Indicates that a portion of fund balance has been earmarked for the replacement of equipment.

Designated for capital projects – Identifies a portion of fund balance in the General Fund equal to the budget for capital projects not expended and expected to be reappropriated for the coming year. The projects may be changed in scope by the County Council in their budget deliberations.

Designated for DDES – Sets aside revenues for permit fee supported areas of DDES in the following categories: (1) reserve for staff reductions; (2) revenue shortfall reserve (amount to cover a 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 environmental health services – Segregates environmental health fee revenue which may only be used by Environmental Health Services as mandated by the Board of Health.

Designated for operating – Funds designated from Mental Health revenue that are set aside according to the King County Regional Support Network's (KCRSN) contract with the State Mental Health Division, totaling approximately 5 percent of annual revenues if funds are available. Operating funds are set aside to maintain adequate cash flow for the provision of mental health services.

Designated for Risk and Inpatient – Funds used to cover inpatient adjustments, outpatient tier benefits, and closeout expenditures in case the King County Regional Support Network (KCRSN) becomes insolvent. The KCRSN is funded primarily by capitated payments from the State based on the number of Medicaid recipients in King County. These revenues support services for people with mental illness in King County.

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

NOTE 17 – CONTINUED

Restatements of Beginning Balances

The following schedules present detailed information regarding restatements of beginning balances (in thousands):

Children & Family Services Fund – Transfer of the children and family services program balances from the General Fund to the new Children & Family Services Fund.

	Governmental Activities	General Fund	Nonmajor Special Revenue Funds	Children & Family Services Fund
Net Assets/Fund Balance – December 31, 2008	$ 1,925,381	$ 97,225	$ 225,802	$ -
Transfer of the children and family services program to a special revenue fund		(5,133)	5,133	5,133
Net Assets/Fund Balance – January 1, 2009 (Restated)	$ 1,925,381	$ 92,092	$ 230,935	$ 5,133

Water Quality Enterprise Fund – Water Quality's comprehensive analysis resulted in adjustments of capital assets and construction work in progress of prior periods. Also, restatements were made to record the refunding loss of a retired bond, to correct duplicate bond amortization and to record amortization of regulatory assets and other utility assets of the prior period.

King County International Airport Enterprise Fund – Certain work in process was capitalized in 2009 and prior years and related depreciation reported in 2009. A restatement in the amount of $5.5 million was recorded to adjust 2009 beginning accumulated depreciation for buildings and improvements other than buildings as well as the beginning net assets.

	Business-type Activities	Water Quality	King County International Airport
Net Assets – December 31, 2008	$ 2,215,880	$ 577,251	$ 98,996
Prior year adjustments to capital assets and construction work in progress	(82,429)	(82,429)	
Recognition of other utility assets	21,338	21,338	
Correct refunding loss and duplicate bond amortization	3,268	3,268	
Prior year amortization of regulatory assets	(301)	(301)	
Adjustment to beginning accumulated depreciation for buildings and improvements other than buildings	(5,539)		(5,539)
Net Assets – January 1, 2009 (Restated)	$ 2,152,217	$ 519,127	$ 93,457

NOTE 17 – CONTINUED

Component Unit – Harborview Medical Center (HMC)

Restricted Net Assets

Restricted expendable net assets – The $20,734 thousand consists of investments restricted either for capital use or by donor. Access to investments restricted for capital use is restricted by King County for designated capital projects. Investments restricted by donor represent assets that are restricted by creditors, grantors, or contributors external to the HMC.

Restricted nonexpendable net assets – The $2,372 thousand consists of permanent endowments by donors.

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

Restricted Net Assets

Restricted expendable net assets – $18,551 thousand is restricted by RCW 67.28.180.3 and King County ordinance for use for arts and heritage cultural program awards according to a specified formula.

Restricted nonexpendable net assets – $22,891 thousand is a long-term endowment funded from a portion of the hotel/motel tax pursuant to RCW 67.28.180.3(e) to finance future arts and heritage cultural programs.

NOTE 18 – LEGAL MATTERS, CONTINGENT LIABILITIES, AND OTHER COMMITMENTS

Primary Government

Pending Litigation and Other Claims

There is no litigation or claim currently pending against King County in which to our knowledge the likelihood of an unfavorable outcome with material damages assessed against the County is considered "probable."

The following litigation, or potential litigation, may involve claims for material damages against King County for which the County is unable to provide an opinion as to the ultimate outcome or the amount of damages that may be found:

- A petition for review by the Washington State Supreme Court over the summary dismissal of a lawsuit filed by a private transportation operator against the County. The plaintiff sought damages in excess of $12 million alleging that the County's bus service to SeaTac International Airport improperly competed with the plaintiff company's shuttle business.

- A petition for direct review filed by the County with the Washington State Supreme Court over a decision that upheld a class action claim against the County where the plaintiff, representing similarly situated public defenders and their staff, alleged that the County should have enrolled them in the State retirement system.

- Claims for unspecified damages filed by two sewer districts who allege that certain expenditures of the King County Wastewater Treatment Division (WTD) constitute a breach of contract and a violation of the King County Charter and a local government accounting statute. The County is vigorously defending the claim. The court has ruled in favor of the County on two of the six motions filed for partial summary judgment. Trial on the remaining issues is set for October 4, 2010.

- A pending appeal by the County and Department of Retirement Services over a lower court judgment that upheld a class action that sought to include prior settlement payments to class members (from the separate Duncan and Roberts class action lawsuits) as "compensation earnable" for retirement benefits computation.

- An administrative order from the Environmental Protection Agency (EPA) that requires the County, the City of Seattle, the Boeing Company, and the Port of Seattle to conduct a feasibility study to determine the nature and extent of the contamination in the Lower Duwamish Waterway. Potentially, upon completion of the study, additional remediation may be required.

- A potential requirement for more cleanup in the area contaminated when the Denny Way combined sewer outflow was replaced in 2005. The WTD has already performed interim cleanup costing $3.6 million to comply with a formal agreement with the Washington State Department of Ecology, who reserves its rights to require additional remediation.

- Potential claims for past and future cleanup costs at the Harbor Island Superfund Site. Certain removal costs already incurred by the Port of Seattle are expected to be defrayed by the County and the City of Seattle. The parties have also agreed to share the cost of a supplemental investigation and feasibility study required by the EPA. The agreement states that the WTD has only a one-third pro rata share of the study costs and that portion is still potentially allocable among the several potentially responsible parties. Further remediation costs cannot be reasonably estimated until the studies are completed.

NOTE 18 – CONTINUED

- A complaint filed by the City of Seattle against the Boeing Company and King County seeking to recover remediation costs in the North Boeing Field/Georgetown Steam Plant and Slip 4 sites. The County can recover some of the costs of investigating and remediating the two mentioned sites. Recovery, however, may potentially be offset by grant repayments and litigation costs.
- A contractor's request for adjustment for termination costs, in the amount of $5.2 million, over a $34-million sewer project owned by the County and under management by an independent local wastewater agency. At issue is whether the law pertaining to payment of reasonable costs on a termination for convenience allows the owner to reassess contract payments that may have been made. The local agency is negotiating settlement within parameters set by the County.
- A lawsuit filed against the County and three other co-defendants by a homeowner for alleged flooding and contamination of their residential property. The plaintiff is seeking damages for alleged loss of property value and alleged physical injuries. The amount of the claim before the lawsuit was filed was about $1.7 million.
- A claim in the amount of $3.7 million filed by the contractor for the Juanita Bay Pump Station Replacement project alleging defective specifications. Contract requires mediation and the County is vigorously defending the claim.
- Three separate contract claims arising out of the Brightwater project: (1) a series of requests for change orders (currently in the amount of $75 million) from the prime contractor for the Central conveyance system alleging differing site conditions and defective specifications (a new contractor has since been engaged and the County has filed suit alleging contract default by the previous contractor); (2) demands for additional money and time totaling about $9 million from the contractor for the East conveyance system; and 3) a claim for additional compensation of approximately $427 thousand to cover unexpected tariff increases on imported construction materials. The claims are in various stages of the contract dispute process.

Contingent Liability

King County has entered into several contingent loan agreements totaling $199.2 million with the King County Housing Authority (KCHA) and other owners/developers of affordable housing. The County has provided credit support for certain bonds issued by the KCHA. All projects are currently self-supporting and the County has not made any loans pursuant to these agreements.

Other Commitments

The Solid Waste Enterprise paid the County General Fund $8.1 million for annual rent on the Cedar Hills landfill site in 2009. Solid Waste is committed to pay rent as long as the Cedar Hills site continues to accept waste.

Component Unit – Harborview Medical Center

Harborview Medical Center (HMC) is involved in litigation arising in the course of business. It is HMC management's opinion that these matters will be resolved without material adverse effect to HMC's future financial position or results of operations. The current regulatory environment in the healthcare industry is one of increasing governmental activity with respect to investigations

NOTE 18 – LEGAL MATTERS, CONTINGENT LIABILITIES, AND OTHER COMMITMENTS

and allegations concerning possible violations of regulations by healthcare providers that could result in the imposition of significant fines and penalties, including substantial repayments of patient services previously billed. HMC believes that it complies with fraud and abuse regulations, as well as with other laws and regulations. Compliance with such laws and regulations can be subject to future governmental review and interpretation and regulatory actions unknown or unasserted at this time.

HMC is operated by the University of Washington under a management and operations contract with King County. In this contract the University of Washington agrees to defend, indemnify, and "save harmless" King County, its elected and appointed officials, employees, and agents, from and against any damage, cost, claim, or liability arising out of the negligent acts or omissions of the University, its employees or agents, or arising out of the activities or operations of the medical center.

REQUIRED SUPPLEMENTARY INFORMATION

Condition Assessments and Preservation of Infrastructure Eligible for Modified Approach

Roads

The County performs condition assessments on its network of roads through the King County Pavement Management System. This system generates a Pavement Condition Index (PCI) for each segment of arterial and local access road in the network. The PCI is a numerical index from zero to one hundred (0 – 100) that represents the pavement's functional condition based on the quantity, severity, and type of visual distress, such as pavement cracking. Based on the PCI score, condition ratings are assigned as follows: a PCI of less than 30 is defined as "poor to substandard" (heavy pavement cracking and potholes); a PCI of 30 or more but less than 50 is defined to be in "fair" condition (noticeable cracks and/or utility cuts); and a PCI of between 50 and higher is defined to be in "excellent to good" condition (relatively smooth roadway). Condition assessments are undertaken every three years.

The three most recent condition assessments of the County's roads are shown below. Certain roads were assessed in 2008 and 2009 but the partial results are not reflected in the table.

	2007-2005		2004-2002		2001-1999	
Condition ratings	(miles)	%	(miles)	%	(miles)	%
Arterial roads						
Excellent to good	485.4	89.6	442.9	81.7	451.1	83.0
Fair	14.5	2.7	61.1	11.3	44.5	8.2
Poor to substandard	41.6	7.7	38.0	7.0	47.6	8.8
Total	541.5	100.0	542.0	100.0	543.2	100.0
Local access roads						
Excellent to good	1,094.5	83.4	1,075.4	81.6	1,031.1	80.0
Fair	127.3	9.7	139.0	10.6	132.3	10.3
Poor to substandard	91.2	6.9	102.9	7.8	125.5	9.7
Total	1,313.0	100.0	1,317.3	100.0	1,288.9	100.0

It is the policy of the King County Road Services Division to maintain at least 80 percent of the road system at a PCI of 40 or better. The following table (derived from the table of condition ratings) shows the number and percentage of miles of roads that meet the 40 PCI level.

	2007-2005		2004-2002		2001-1999	
PCI score interval	(miles)	%	(miles)	%	(miles)	%
Arterial roads						
PCI 40 - 100	493.4	91.1	475.6	87.7	477.8	88.0
PCI 0 - 39	48.1	8.9	66.4	12.3	65.4	12.0
Total	541.5	100.0	542.0	100.0	543.2	100.0
Local access roads						
PCI 40 - 100	1,170.3	89.1	1,165.6	88.5	1,108.3	86.0
PCI 0 - 39	142.7	10.9	151.7	11.5	180.6	14.0
Total	1,313.0	100.0	1,317.3	100.0	1,288.9	100.0

REQUIRED SUPPLEMENTARY INFORMATION – continued

The majority of roads that fall below the established rating (PCI = 40) are local access roads that are situated in rural areas.

Below is information on planned (budgeted) and actual expenditures incurred to maintain and preserve the road network at or above the minimum acceptable condition level from 2005 to 2009. The budgeted amount is equivalent to the anticipated amount needed to maintain roads up to the required condition level (in thousands).

	2009	2008	2007	2006	2005
Budgeted	$64,668	$69,345	$61,864	$58,709	$49,321
Expended	59,994	57,658	51,859	49,029	39,986

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 182 bridges. Physical inspections to determine the condition of bridges and the degree of wear and deterioration are carried out at least every two years. Inspections reveal deficiencies in bridges such as steel corrosion, damaged guardrails, rotten timbers, deteriorated bridge decks, bank erosion, and cracked concrete. These are documented in an inspection report along with recommended repairs and needed services. Four pedestrian bridges are included in the list of bridges being maintained by the County. These are also subject to condition assessments but under different standards as the more heavily used vehicular bridges.

Each year the County undergoes a bridge prioritization process to determine potential candidates for replacement or rehabilitation. A weighted 10-point priority scale (sufficiency rating, seismic rating, geometrics, hydraulics, load limits, traffic safety, serviceability, importance, useful life, and structural concern) ranks the bridges in order; the results are considered in the planning and programming of major bridge studies and construction projects in the Roads Capital Improvement Program.

A key element in the priority score is the sufficiency rating, the measure considered by state and federal governments as the basis for establishing eligibility and priority for bridge replacement or rehabilitation funding. The sufficiency rating is a numerical rating of a bridge based on its structural adequacy and safety, 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 and is built into the State's inspection software. The sufficiency rating may vary from 100 (a bridge in new condition) to 0 (a bridge incapable of carrying traffic). A sufficiency rating of 50 or over indicates a bridge with a good deal of service life remaining. A bridge that scores between 0 and 49 could be considered for replacement or rehabilitation funding, though typically only bridges that score less than 30 are selected for funding.

REQUIRED SUPPLEMENTARY INFORMATION – continued

Below are the three most recent bridge sufficiency ratings.

Bridge sufficiency rating	Number of Bridges 2009	2008	2007
0 - 20	8	8	6
21 - 30	2	2	2
31 - 49	12	14	18
50 - 100	160	159	158
Totals	182	183	184

It is the policy of the King County Road Services Division to maintain bridges in such a manner that no more than 12 will have a sufficiency rating of 20 or less. A rating of 20 or less is usually indicative of a bridge with a structural deficiency. The most common remedy is full replacement or rehabilitation of the bridge.

Amounts budgeted and spent to maintain and preserve bridges from 2005-2009 are shown in the table below (in thousands).

	2009	2008	2007	2006	2005
Budgeted	$13,413	$18,855	$24,834	$17,024	$26,855
Expended	10,572	11,761	16,189	11,526	16,810

The budgeted amount is equivalent to the anticipated amount needed to maintain and preserve the bridges up to the required condition level. Generally, backlogs in maintenance work orders greatly affect the trend in maintenance costs. Such backlogs could result from increased bridge traffic, higher weight loads, labor shortages, stringent environmental restrictions, and an aging inventory.

Postemployment Healthcare Plan

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress for the Plan
(in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial 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)
12/31/2007	$ -	$ 141,893	$ 141,893	0.0%	$ 854,800	16.6%
12/31/2008	$ -	$ 145,393	$ 145,393	0.0%	$ 890,310	16.3%
12/31/2009	$ -	$ 149,390	$ 149,390	0.0%	$ 947,530	15.8%

Federal Awards Received Directly From a Federal Agency or Indirectly Through a State Agency or Other Local Government

Grantor / *Pass-Through Grantor* Program Title	Federal CFDA Number	Award Identification Number	Total Current Year Expenditures	Notes
DEPARTMENT OF AGRICULTURE				
School Breakfast Program				
Indirect Assistance through Washington State Office of Superintendent of Public Instruction				
School Breakfast Program	10.553	17-001-6860	46,011	
		Program Total	46,011	
National School Lunch Program				
Indirect Assistance through Washington State Office of Superintendent of Public Instruction				
School Lunch Program	10.555	17-001-6860	82,153	
		Program Total	82,153	
Special Supplemental Nutrition Program For Women, Infants and Children				
Indirect Assistance through Washington State Department of Health				
CC-FED WIC LOCAL REIMBURSEMENT	10.557	C14961	4,787,644	
FED-WIC BREAST FEEDING	10.557	C14961	77,085	
FED-WIC/FARMERS MARKET	10.557	C14961	5,954	
		Program Total	4,870,683	
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program				
Direct Assistance				
Basic Food Nutrition Education	10.561	C14961	521,948	(4)
		Direct Assistance	521,948	
Indirect Assistance through Washington State Department of Health				
CC-FED FSNE HEHA	10.561	C14961	13,566	
CC-FED FSNE FRONTLINE	10.561	C14961	132,491	(4)
Hopelink - Basic Food Nutrition	10.561	04122-58186	123,872	
		Indirect Assistance	269,929	
		Program Total	791,877	

The accompanying Notes to the Schedule of Expenditures are an integral part of this schedule

Grantor / *Pass-Through Grantor* Program Title	Federal CFDA Number	Award Identification Number	Total Current Year Expenditures	Notes
Schools and Roads - Grants to States				
Title III				
Federal Forest Schools and Roads	10.665	PL 106-393	159,226	
Federal Forest Schools and Roads	10.665	2009	805,066	
		Program Total	964,292	
Urban & Community Forestry Program				
Direct Assistance				
Urban and Community Forestry Climate Preparedness and Response	10.675	2009-DG-11062765-032	1,140	
		Program Total	1,140	
		Agency Total	6,756,156	
DEPARTMENT OF COMMERCE				
Pacific Coast Salmon Recovery - Pacific Salmon Treaty Treaty Program		1,279,930		
Indirect Assistance through WA State RCO				
Chinook Bend Levee Removal	11.438	06-2250 R	331,132	
Camp Gilead Reconnection - Construction	11.438	07-1643 R	20,297	
Salmon Federal Projects	11.438	07-1910 C	3,862	
Salmon Federal Projects	11.438	06-2258 A	152,266	
Salmon Federal Projects	11.438	08-2009 N	12,801	
Lower Newaukum Restoration	11.438	04-1338 R	170,185	
Piner Point	11.438	04-1335 A	21,517	
Green River Restoration - Pautzke	11.438	07-1627 N	83,078	
Green River Restoration - Pautzke	11.438	08-2093	61,213	
Lower Boise Creek - Construction	11.438	05-1466 R	276,204	
North Winds Intertidal Restoration #1	11.438	07-1664 R	316,304	
Lower Cedar	11.438	08-1981 A	7,483	
		Program Total	1,456,342	
Public Safety Interoperable Communications Grant Program				
Indirect Assistance thru WA State Military Dept				
South Loop Microwave Project	11.555	2007-GS-H7-0003	1,687,568	
		Program Total	1,687,568	
		Agency Total	3,143,910	

The accompanying Notes to the Schedule of Expenditures are an integral part of this schedule

Grantor / *Pass-Through Grantor* Program Title	Federal CFDA Number	Award Identification Number	Total Current Year Expenditures	Notes
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
Community Development Block Grants /Entitlement Grants				
Direct Assistance				
US Dept of HUD - CDBG	14.218	B-05-UC-53-0001	277,398	(3)
US Dept of HUD - CDBG	14.218	B-06-UC-53-0001	12,104	(3)
US Dept of HUD - CDBG	14.218	B-07-UC-53-0001	37,044	(3)
US Dept of HUD - CDBG	14.218	B-08-UC-53-0001	2,328,563	(3)
US Dept of HUD - CDBG	14.218	B-09-UC-53-0001	4,994,534	(3)
		Program Total	7,649,643	
Emergency Shelter Grants Program				
Direct Assistance				
US Dept of HUD - ESG	14.231	S-08-UC-53-0002	205,734	(3)
		Program Total	205,734	
Supportive Housing Program				
Direct Assistance				
Supportive Housing Program	14.235	WA01B700058	468,425	(4)
Supportive Housing Program	14.235	WA0055BOT000801	156,141	(4)
McKinney - Safe Harbor C4	14.235	WA01B700063	99,396	(3)
McKinney - Vietnam Veterans Leadership Program 9	14.235	WA01B700020	58,089	(3)
Mckinney - Vietnam Veterans Leadership Program 10	14.235	WA0064B0T000801	3,323	(3)
McKinney - Hopelink 7	14.235	WA01B700015	15,342	(3)
McKinney - Hopelink 8	14.235	WA0030B0T000801	68,971	(3)
McKinney - Consejo 8	14.235	WA01B700047	55,865	(3)
McKinney - Consejo 9	14.235	WA0041B0T000801	96	(3)
McKinney - Safe Harbors C5	14.235	WA0050B0T000801	529	(3)
McKinney - Safe Harbors A7	14.235	WA01B700062	299,047	(3)
McKinney - Eastside Domestic Violence Program 8	14.235	WA01B700022	77,490	(3)
McKinney - Eastside Domestic Violence Program 9	14.235	WA0042B0T000801	172,143	(3)
		Direct Assistance	1,474,857	
Indirect Assistance through City of Seattle				
HUD Supplemental Housing Grant	14.235	DA07-5431	1,187,264	(4)
		Indirect Assistance	1,187,264	
		Program Total	2,662,121	

The accompanying Notes to the Schedule of Expenditures are an integral part of this schedule

Grantor / *Pass-Through Grantor* Program Title	Federal CFDA Number	Award Identification Number	Total Current Year Expenditures	Notes
Shelter Plus Care				
Direct Assistance				
Shelter Plus Care	14.238	WA0033C0T000801	427,888	(3)
Shelter Plus Care	14.238	WA0034C0T000801	3,161,317	(3)
Shelter Plus Care	14.238	WA19C931183	371,190	(3)
Shelter Plus Care	14.238	WA01C700064	267,791	(3)
Shelter Plus Care	14.238	WA01C700065	801,636	(3)
Shelter Plus Care	14.238	WA01C700066	219,381	(3)
Shelter Plus Care	14.238	WA01C50001	252,163	(3)
		Program Total	5,501,366	
Home Investment Partnership Program				
Direct Assistance				
HOME	14.239	M-06-DC-53-0200	33,892	(4)
HOME	14.239	M-07-DC-53-0200	228,679	(4)
HOME	14.239	M-08-DC-53-0200	2,531,052	(4)
HOME	14.239	M-09-DC-53-0201	3,547,669	(4)
HOME	14.239	M-09-DC-53-0202	106,025	(4)
HOME	14.239	M-09-DC-53-0200	8	(4)
		Program Total	6,447,325	
ARRA - Community Development Block Grant ARRA Entitlement Grants (CDBG-R)				
Direct Assistance				
ARRA-CDBG	14.253	B-09-UY-53-0001	6,882	(3), (5)
		Program Total	6,882	
ARRA - Homelessness Prevention and Rapid Re-Housing Program - (Recovery Act Funded)				
Direct Assistance				
ARRA-HPRP-Federal	14.257	S09-UY-53-0002	27,136	(3), (5)
		Direct Assistance	27,136	
Indirect Assistance through Washington State Department of Commerce				
ARRA-HPRP-State	14.257	10-46111-612	23,533	(3), (5)
		Indirect Assistance	23,533	
		Program Total	50,669	

The accompanying Notes to the Schedule of Expenditures are an integral part of this schedule

Grantor / *Pass-Through Grantor* Program Title	Federal CFDA Number	Award Identification Number	Total Current Year Expenditures	Notes
Fair Housing Assistance Program State and Local				
Direct Assistance				
HUD Fair Housing Assistance Program	14.401	FF-210-K-04-1005	12,208	
HUD Fair Housing Assistance Program	14.401	FF-210-K-05-1005	5,299	
		Program Total	17,507	
Healthy Homes Demonstration Grants				
Indirect Assistance through Housing Authority of King County				
Asthma Demo - Highline School District	14.901	WALHH0186-08	63,824	
		Program Total	63,824	
		Agency Total	22,605,071	
DEPARTMENT OF THE INTERIOR				
Fish, Wildlife and Plant Conservation Resource Management				
Indirect Assistance through National Fish & Wildlife Foundation				
Big Spring Creek CE	15.231	2001-0402-024	50,000	
		Program Total	50,000	
Fish and Wildlife Management Assistance				
Direct Assistance from US Fish & Wildlife Service				
Conservation of Lk. Sammamish Kokanee	15.608	13410-8-J031	41,669	
		Direct Assistance	41,669	
Indirect Assistance through National Fish and Wildlife Foundation				
Green River Invasive Knotweed Control	15.608	2008-0053-025	33,797	
Cedar River Invasive Knotweed Control	15.608	2008-0053-022	61,286	
Innovative Restoration Design	15.608	2004-0228-027	26,508	
		Indirect Assistance	121,591	
		Program Total	163,260	
Partners for Fish and Wildlife				
Direct Assistance from US Fish & Wildlife Service				
Partners for Fish and Wildlife Program	15.631	13410-8-J019	36,390	
Partners for Fish and Wildlife Program	15.631	13410-9-J028	688	
		Program Total	37,078	

The accompanying Notes to the Schedule of Expenditures are an integral part of this schedule

Grantor / *Pass-Through Grantor* Program Title	Federal CFDA Number	Award Identification Number	Total Current Year Expenditures	Notes
Historic Preservation Fund Grants-In-Aid				
Indirect Assistance through Washington State Dept of Archaeology and Historic Preservation				
Historic Preservation Fund Grants in Aid	15.904	FY10-61020-001	3,790	
		Program Total	3,790	
		Agency Total	254,128	
DEPARTMENT OF JUSTICE				
Juvenile Accountability Block Grants				
Indirect Assistance through Washington State Department of Social and Health Services				
JRA - Juvenile Accountability Incentive Block Grant (JAIBG)	16.523	0663-98299	216,939	
		Program Total	216,939	
Juvenile Justice and Delinquency Prevention - Allocation to States				
Indirect Assistance				
Targeting Svcs to Reduce Status Offenders in Detn	16.540	I-300-00308	31,617	
Targeting Svcs to Reduce Status Offenders in Detn	16.540	I-300-00109	30,624	
Juvenile Detention Alternatives Initiative (JDAI)	16.540	I-100-00108	6,644	
Juvenile Detention Alternatives Initiative (JDAI)	16.540	I-100-00509	5,000	
		Program Total	73,885	
Victims of Child Abuse				
Indirect Assistance through Washington State Administrative Office of the Courts				
Diversity Implementation - CASA	16.547	WA10609	1,498	
Diversity Implementation - CASA	16.547	WA10609-09-709-D2	10,000	
Urban High Needs - CASA	16.547	WA10609-08-1208-U1	50,000	
Urban High Needs - CASA	16.547	WA10609-09-1209-U2	141	
		Program Total	61,639	
National Institute of Justice Research, Evaluation, & Development Project Grants				
Direct Assistance				
Solving Cold Cases with DNA	16.560	2008-DNBX-K170	274,598	
		Program Total	274,598	

The accompanying Notes to the Schedule of Expenditures are an integral part of this schedule

Grantor / *Pass-Through Grantor* Program Title	Federal CFDA Number	Award Identification Number	Total Current Year Expenditures	Notes
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants				
Direct Assistance				
2007 Gang Abatement	16.580	2007-DD-BX-0599	161,793	
2008 Gang Abatement	16.580	2008-DD-BX-0657	161,589	
		Direct Assistance	323,382	
		Program Total	323,382	
Violence Against Women Formula Grants				
Indirect Assistance through Washington State Dept of Community, Trade, and Economic Development				
SVAW/Improving CPS involving Domestic Violence	16.588	IAA09652	10,131	
Stop Violence Against Women	16.588	2006-WF-AX-0076	5,594	
Stop Violence Against Women	16.588	F09-31103-037	18,866	
Stop Violence Against Women	16.588	2006-WF-AX-0076	26,607	
Stop Violence Against Women	16.588	F09-31103-036	16,134	
		Program Total	77,332	
Community Capacity Development Office				
Indirect Assistance through Seattle Police Dept				
Weed & Seed	16.595	2006WSQ60031	22,221	
		Program Total	22,221	
State Criminal Alien Assistance Program				
Direct Assistance				
State Criminal Alien Assistance Program (SCAAP)	16.606	2009-AP-BX-0739	1,310,025	
		Program Total	1,310,025	
Community Prosecution and Project Safe Neighborhoods				
Indirect Assistance thru WASPIC				
Project Safe Neighborhoods	16.609	GANG-2007-02	67,157	
		Program Total	67,157	

The accompanying Notes to the Schedule of Expenditures are an integral part of this schedule

Grantor / *Pass-Through Grantor* Program Title	Federal CFDA Number	Award Identification Number	Total Current Year Expenditures	Notes
Public Safety Partnership and Community Policing Grants				
Direct Assistance				
COPS FY2007 Methamphetamine Initiative	16.710	2007-CKWX-0272	357,506	
Safe Schools Initiative 2006 (PAL)	16.710	2006-CKWX-0756	21,973	(4)
Safe Schools Initiative 2008 (PAL 4)	16.710	2008-CKWX-0852	212,501	(4)
		Direct Assistance	591,980	
		Program Total	591,980	
Edward Byrne Memorial Justice Assistance Grant Program				
Direct Assistance				
Byrne Memorial Justice Assistance Grant	16.738	2006-DJ-BX-1183	23,449	
Byrne Memorial Justice Assistance Grant	16.738	2007-DJ-BX-0935	93,574	
		Program Total	117,023	
ARRA - Edward Byrne Memorial Justice Assistance - Grants to States & Territories				
Indirect Assistance through Washington State Department of Social and Health Services				
ARRA JAG Drug Court	16.803	0963-68039	289,872	(5)
Indirect Assistance through Washington State Department of Commerce				
ARRA Special Emphasis Gang Initiative	16.803	F09-34721-421	16,406	(5)
ARRA Anti Gang Prosecution	16.803	F09-34721-410	97,137	(5)
		Program Total	403,415	
		Agency Total	3,539,596	
DEPARTMENT OF LABOR				
WIA Adult Program				
Indirect Assistance through Seattle-King County Workforce Development Council				
WIA Operator Consortium	17.258	O8KNG-302-OPR	101,888	
WIA Operator Consortium	17.258	O9KNG-321-OPR	94,632	
		Program Total	196,520	

The accompanying Notes to the Schedule of Expenditures are an integral part of this schedule

Grantor / *Pass-Through Grantor* Program Title	Federal CFDA Number	Award Identification Number	Total Current Year Expenditures	Notes
WIA Youth Activities				
Indirect Assistance through Seattle-King County Workforce Development Council		475,662		
WIA Out of School Youth-PY08/09	17.259	Y8KNG-502-WYO	610,153	
WIA Out of School Youth-PY09/10	17.259	Y9KNG-103-WYO	559,852	
WIA Out of School Youth Shoreline LCN PY09/10	17.259	Y9KNG-103-WYO	186,985	
WIA In School Youth PY08/09	17.259	Y8KNG-503-WYI	246,619	
WIA In School Youth PY09/10	17.259	Y9KNG-104-WYI	428,911	
		Program Total	2,032,520	
ARRA - WIA Youth Activities				
ARRA WIA Out of School Youth	17.259	Y8KNG-821-WYO	1,002,942	(5)
ARRA WIA In School Youth	17.259	Y8KNG-820-WYI	553,916	(5)
		Program Total	1,556,858	
WIA Dislocated Workers				
Indirect Assistance through Seattle-King County Workforce Development Council				
WIA Dislocated Worker Formula Program	17.260	D8KNG-201-WDW	857,560	
WIA Dislocated Worker Formula Program	17.260	D9KNG-221-WDW	388,391	
WIA Rapid Response Assistance	17.260	D8KNG-251-DWR	215,569	
One Stop Enhancement Funds	17.260	X7KNG-750-ONE	2,588	
WIA Incentive Framework	17.260	T9KNG-428-FRA	12,349	
WIA Operator Consortium	17.260	O8KNG-302-OPR	203,776	
WIA Operator Consortium	17.260	O9KNG-321-OPR	189,262	
		Program Total	1,869,495	
ARRA - WIA Dislocated Workers				
ARRA-WIA Dislocated Worker	17.260	D9KNG-251-DWR	458,765	(5)
		Program Total	458,765	
WIA Pilots, Demonstrations and Research Projects				
Indirect Assistance through Seattle-King County Workforce Development Council				
WIA New Future PY08/09	17.261	Y7KNG-595-OFF	108,898	
Youthful Offender Grant	17.261	Y7SUP-597-OFF	30,212	
Youthful Offender Grant	17.261	Y9SUP-651-OFF	11,011	
		Program Total	150,121	
Incentive Grants - WIA Section 503				
Indirect Assistance through Seattle-King County Workforce Development Council				
WIA Pathway PY08-09	17.267	T7KNG-471-SEC	142,267	
		Program Total	142,267	

The accompanying Notes to the Schedule of Expenditures are an integral part of this schedule

Grantor / *Pass-Through Grantor* Program Title	Federal CFDA Number	Award Identification Number	Total Current Year Expenditures	Notes
Youthbuild				
Direct Assistance				
Youthbuild Program	17.274	YB-16886-08-60-A-53	572,926	
		Program Total	572,926	
		Agency Total	6,979,472	
DEPARTMENT OF TRANSPORTATION				
Airport Improvement Program				
Direct Assistance				
Airport IP (Runway 13R/ 31L Rehabilitation)	20.106	3-53-0058-31	509,644	
Airport IP (Noise Sound Insulation Program)	20.106	3-53-0058-32	195,545	
Airport IP (Runway 13R/ 31L Rehabilitation)	20.106	3-53-0058-33	(432,600)	
Airport IP (Noise Sound Insulation Program)	20.106	3-53-0058-34	3,555,379	
Airport IP (Taxiway Bravo Construction)	20.106	3-53-0058-35	20,959	
Airport IP (Noise Sound Insulation Program)	20.106	3-53-0058-36	562,044	
Airport IP (Taxiway Bravo Construction)	20.106	3-53-0058-37	708,775	
Airport IP (Safety Management System)	20.106	3-53-0058-38	53,366	
Airport IP (Taxiway Alpha Rehabilitation)	20.106	3-53-0058-39	482,305	
Airport IP (Noise Mitigation for 87 Residences)	20.106	3-53-0058-40	760,304	
		Program Total	6,415,721	
Highway Planning and Construction				
Indirect Assistance through Washington State Department of Transportation				
Transportation Enhancement Program (Cultural Resources Protection Plan)	20.205	STPE-2017(093)	147,068	
Green River Trail Phase II	20.205	CM-2017(108)	7,988	
Hybrid Medium and Heavy Truck Acquisition	20.205	LA-6555	50,000	
RSIP - NE Novelty Hill Road	20.205	RSIP-9917(013)	86,776	
RSIP - SE Lake Holm Road	20.205	RSIP-9917(013)	100,821	
Western Federal Lands Highway Planning	20.205	DTFH70-09-E-00007	1,150,011	
2006 Emergency Relief - S 272nd St & Lake Fenwick	20.205	ER-0601(045)	9,791	
2006 Emergency Relief - Simonds Rd NE	20.205	ER-0601(044)	294,437	
Emergency Relief - Slide Repair Union Hill Rd	20.205	ER-0801(132)	390,707	
2009 Emergency Relief - Woodinville Duvall Rd	20.205	ER-0902(408)	33,159	
2009 Emergency Relief - Carnation Rd	20.205	ER-0902(409)	87,500	
Federal Bridge Grant - Sunday Creek Bridge	20.205	BROS-2017(107)	639,752	
Federal Bridge Grant - Bandaret Bridge	20.205	BRS-172N(001)	2,737,563	
Federal Bridge Grant - Mt Si Bridge	20.205	BRS-B172(001)	625,540	
STP/FAUS Road Grant - South Park Bridge	20.205	DBP-STPUL-1491(001)	2,177,431	
STP/FAUS Road Grant - ITS @ Roxbury	20.205	CM-1147(012)	40,177	
STP/FAUS Road Grant - 100 & 132 Ave ITS	20.205	CM-2085(004)	77,321	
STP/FAUS Road Grant - Military Road S	20.205	STPE-1291(003)	190,067	
STP/FAUS Road Grant - Woodinville-Duvall Rd	20.205	STPUL-2456(002)	1,064,975	
Regional ITS Implementation Plan	20.205	ITS-2004(046)	130,055	
STP/FAUS Road Grant - Avondale Novelty Hill Rd	20.205	ITS-2004(046)	162	
STP/FAUS Road Grant - S 277 ST ITS & SR 167	20.205	ITS-2004(046)	110,400	
STP/FAUS Road Grant - Avondale Novelty Hill Rd	20.205	ITS-2005(074)	240,374	
STP/FAUS Road Grant - Juanita Woodinville	20.205	ITS-2005(074)	304,045	

The accompanying Notes to the Schedule of Expenditures are an integral part of this schedule

Grantor / *Pass-Through Grantor* Program Title	Federal CFDA Number	Award Identification Number	Total Current Year Expenditures	Notes
STP/FAUS Road Grant - Safe Wildlife / Community	20.205	STPE-2094(001)	67,330	
NWRM Collection Stabilization Center	20.205	STPE-2017(103)	948,000	
2008 Historic & Scenic Corridor Inventory & Eval	20.205	STPE-2017(089)	58,845	
		Program Total	11,770,295	
ARRA - Highway Planning and Construction				
Indirect Assistance through Washington State Department of Transportation				
ARRA - HP&C SW 98th St Phase I Pedestrian	20.205	ARRA-STPE-2017(090)	1,181,093	(5)
		Program Total	1,181,093	
Federal Transit Capital Investment Grants				
Direct Assistance				
FTA Capital Investment Grants	20.500	WA-03-0135	5,850	
FTA Capital Investment Grants	20.500	WA-03-0235	1,099,875	
FTA Capital Investment Grants	20.500	WA-03-0236	9,225,407	
FTA Capital Investment Grants	20.500	WA-04-0021	305,266	
FTA Capital Investment Grants	20.500	WA-04-0032	33,065	
FTA Capital Investment Grants	20.500	WA-05-0047	75,777	(4)
FTA Capital Investment Grants	20.500	WA-04-0021	10,491,460	(6)
FTA Capital Investment Grants	20.500	WA-05-0051	5,000,000	(4)
		Program Total	26,236,700	
Federal Transit Formula Grants				
Direct Assistance				
Federal Transit Formula Grants	20.507	WA-90-X194	90,619	
Federal Transit Formula Grants	20.507	WA-90-X209	51,184	(4)
Federal Transit Formula Grants	20.507	WA-90-X219	138,171	
Federal Transit Formula Grants	20.507	WA-90-X254	272,811	
Federal Transit Formula Grants	20.507	WA-90-X262	500,000	
Federal Transit Formula Grants	20.507	WA-90-X321	104,732	
Federal Transit Formula Grants	20.507	WA-90-X323	21,448	
Federal Transit Formula Grants	20.507	WA-90-X363	170,956	
Federal Transit Formula Grants	20.507	WA-90-X376	796,588	
Federal Transit Formula Grants	20.507	WA-90-X380	185,920	
Federal Transit Formula Grants	20.507	WA-90-X381	3,576,786	
Federal Transit Formula Grants	20.507	WA-90-X405	359,720	
Federal Transit Formula Grants	20.507	WA-90-X409	310,843	
Federal Transit Formula Grants	20.507	WA-90-X443	44,357,144	
Federal Transit Formula Grants	20.507	WA-90-X455	1,976,944	
Federal Transit Formula Grants	20.507	WA-95-X005	426,399	
Federal Transit Formula Grants	20.507	WA-95-X018	21,018	
Federal Transit Formula Grants	20.507	WA-95-X028	357,907	
		Program Total	53,719,190	
ARRA - Federal Transit Formula Grants				
Direct Assistance				
ARRA - Federal Transit Formula Grants	20.507	WA-96-X005	35,156,172	(4), (5)
		Program Total	35,156,172	

The accompanying Notes to the Schedule of Expenditures are an integral part of this schedule

Grantor / *Pass-Through Grantor* Program Title	Federal CFDA Number	Award Identification Number	Total Current Year Expenditures	Notes
Public Transportation Research				
Direct Assistance				
5208 - TEA 21 ITS Integration	20.514	WA-26-0008	944,627	
5313 Transportation Coop. Research	20.514	WA-26-0020	35,380	
		Program Total	980,007	
Job Access Reverse Commute				
Direct Assistance				
FTA- Jobs Access/Reverse Commute	20.516	WA-37-X001	115,662	(4)
FTA- Jobs Access/Reverse Commute	20.516	WA-37-X021	23,886	(4)
FTA- Jobs Access/Reverse Commute	20.516	WA-37-X034	38,561	(4)
		Program Total	178,109	
		Agency Total	135,637,287	
ENVIRONMENTAL PROTECTION AGENCY				
Surveys, Studies, Research, Investigations, Demonstrations & Special Purpose Activities Relating to the Clean Air Act				
Direct Assistance				
Northwest Hybrid Truck Consortium	66.034	XA-96041301-0	22,500	(4)
		Program Total	22,500	
Targeted Watersheds Grants				
Targeted Watershed Grant				
	66.439	WS-96074801-0	773,056	
		Program Total	773,056	
National Estuary Program				
Indirect Assistance through WA Dept of Ecology				
Toxic Steering Committee	66.456	C0900080	24,600	
		Program Total	24,600	
Capitalization Grants for Clean Water State Revolving Funds				
Indirect Assistance through Washington State Department of Ecology				
Barton CSO Control Project/Facilities Plan	66.458	SRF LOAN L0600013	186,319	
Murray CSO Control Project Facilities Plan	66.458	SRF LOAN L0600014	166,525	
North Beach CSO Control Project Facilities Plan	66.458	SRF LOAN L0600015	55,366	
		Program Total	408,210	

The accompanying Notes to the Schedule of Expenditures are an integral part of this schedule

Grantor / *Pass-Through Grantor* Program Title	Federal CFDA Number	Award Identification Number	Total Current Year Expenditures	Notes
Capitalization Grants for Drinking Water State Revolving Funds				
Indirect Assistance through Washington State Department of Health				
CC-Fed-Grp Drink H2O San Surv	66.468	C14961	4,000	
		Program Total	4,000	
Beach Monitoring and Notification Program Implementation Grants				
Indirect Assistance through WA St Dept of Health				
CC-FED-Beach Water Project	66.472	C14961	51,652	
		Program Total	51,652	
Research, Development, Monitoring, Public Education, Training, Demonstrations, and Studies				
Direct Assistance				
Elevated Blood Lead Trends and Incidence Study	66.716	X8-960066101	36,819	
		Program Total	36,819	
Brownfield Job Training Cooperative Agreements				
Indirect Assistance through WA State Dept of Commerce				
King County Job Training	66.815	JT-96069401-0	103,402	
		Program Total	103,402	
Brownfield Assessment and Cleanup Cooperative Agreements				
Direct Assistance				
Brownfields Assessment Grant	66.818	BF 960153-02-0	227,500	
Meth Drug Lab Envtl Assessment	66.818	BF 97093401-0 (Cooperative)	52,970	
		Program Total	280,470	
		Agency Total	1,704,709	
DEPARTMENT OF ENERGY				
ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG)				
Direct Assistance				
ARRA-EECBG Senior City Affordable Housing	81.128	DE-EE0000-854	228,053	(5)
ARRA-EECBG Black River Bldg LEED upgrades	81.128	DE-EE0000-854	2,179	(5)
ARRA-EECBG	81.128	DE-EE0000-854	24,591	(5)
		Program Total	254,823	
		Agency Total	254,823	

The accompanying Notes to the Schedule of Expenditures are an integral part of this schedule

Grantor / *Pass-Through Grantor* Program Title	Federal CFDA Number	Award Identification Number	Total Current Year Expenditures	Notes
DEPARTMENT OF EDUCATION				
Safe and Drug-Free Schools and Communities				
Indirect Assistance through WA State Dept of Commerce				
Community Mobilization Program	84.186	M08-66100-117	100,387	(4)
		Program Total	100,387	
		Agency Total	100,387	
U.S. ELECTION ASSISTANCE COMMISSION				
Help America Vote Act Requirements Payments				
Indirect Assistance through the Office of the Secretary of State				
HAVA Amendment 1 - DAVE	90.401	G - 2842	144,232	
HAVA Amendment 2 - EMVR	90.401	G - 2842	234,785	
HAVA Amendment 5 - Elections Ombudsman	90.401	G - 2842	22,859	
HAVA Amendment 8 - Mail Ballot Tracking	90.401	G - 2842	429,240	
HAVA Amendment 9 - Tabulation Upgrade	90.401	G - 2842	760,781	
HAVA Amendment 12 - Voter Education & Outreach	90.401	G - 2842	410,192	
HAVA Amendment 13 - County Education Fund	90.401	G - 2842	19,164	
HAVA Amendment 15 - Mobile RVC's	90.401	G - 2842	3,243	
		Agency Total	2,024,496	
DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Indirect Assistance through the National Association of County & City Health Officials				
Medical Reserve Corps Small Grant Program				
Capacity Bldg - Local MRC	93.008	MRC090503	5,000	
		Program Total	5,000	
Innovations in Applied Public Health Research				
Indirect Assistance through Univ of Washington				
SMS Text Messaging	93.061	581718	208,114	
UW-NWPERRC-CDC COTPER	93.061	583747	39,359	
CDC Hier-Sub	93.061	5PO1CD000249-02	33,656	
		Program Total	281,129	
Public Health Emergency Preparedness				
Indirect Assistance through WA St Dept of Health				
CC-FED-PHEPR H1N1	93.069	C14961	2,518,937	
CC-FED-PHEPR LHJ Funds	93.069	C14961	1,312,470	
		Program Total	3,831,407	

The accompanying Notes to the Schedule of Expenditures are an integral part of this schedule

Grantor / *Pass-Through Grantor* Program Title	Federal CFDA Number	Award Identification Number	Total Current Year Expenditures	Notes
Healthy Marriage Promotion & Responsible Fatherhood Grants				
Direct Assistance				
Circle of Parents	93.086	90FR0098	58,841	
		Program Total	58,841	
Environmental Health				
Direct Assistance from National Institute of Environmental Health Sciences				
Home Base (Asthma Support & Educ for Adults)	93.113	1R01ES014583-01A1	484,813	
		Program Total	484,813	
Project Grants and Cooperative Agreements for Tuberculosis Control Programs				
Indirect Assistance through Washington State Department of Health				
CC-FED Tuberculosis Control/Elimination	93.116	C14961	478,536	
Indirect Assistance through US Dept of Commerce Office of General Counsel				
DEATH REVIEW DHHA	93.116	E2465A-1	11,525	
		Program Total	490,061	
Acquired Immunodeficiency Syndrome (AIDS) Activity				
Direct Assistance				
NIH Natl Lib of Med - AIDS Information Outreach Project	93.118	HHSN276200700275P	19,310	
		Program Total	19,310	
Centers for Research and Demonstration for Health Promotion and Disease Prevention				
Indirect Assistance through CDC & UW				
Physical Policy Research Network (PAPRN)	93.135	960466	2,250	
UW - Older Adults - ARCNW	93.135	UW # 295315	7,121	
Indirect Assistance through WA St Dept of Health				
CC-FED-CDC COLON SCREEN	93.135	C14961	123,227	
		Program Total	132,598	

The accompanying Notes to the Schedule of Expenditures are an integral part of this schedule

Grantor / *Pass-Through Grantor* Program Title	Federal CFDA Number	Award Identification Number	Total Current Year Expenditures	Notes
Projects for Assistance in Transition from Homelessness (PATH)				
Indirect Assistance through Washington State Department of Social and Health Services				
MH-McKinney-PATH	93.150	0969-73210	28,213	(4)
MH-McKinney-PATH	93.150	0969-73214	31,580	(4)
MH-McKinney-PATH	93.150	0869-47477	88,199	(4)
MH-McKinney-PATH	93.150	0869-47478	94,284	(4)
		Program Total	242,276	
Coordinated Services and Access to Research for Women, Infants, Children, and Youth				
Direct Assistance				
Title IV Services HRSA - AIDS - PEDS	93.153	5 H12 HA 00045-18-01	822,735	(4)
		Program Total	822,735	
Family Planning Services				
Indirect Assistance through Washington State Department of Health				
CC-FED-TX RX Contraception	93.217	C14961	5,592	
CC-FED FP TX Supp Seattle	93.217	C14961	78,480	
CC-FED-FP Title X	93.217	C14961	446,231	
CC-FED-FP TX EXPANSION	93.217	C14961	142,452	
		Program Total	672,755	
Consolidated Health Centers - Health Care for the Homeless				
Direct Assistance				
FED 330H-Healthcare for the Homeless	93.224	H80CS00056-07-01	2,015,686	(4)
		Program Total	2,015,686	
Substance Abuse and Mental Health Services - Projects of Regional and National Significance				
Direct Assistance				
Adolescent Treatment	93.243	1H79TI020847-01	29,790	
		Direct Assistance	29,790	
Indirect Assistance				
CC-FED-TA- SBH DSHS MLKTH	93.243	C14961	15,001	
		Indirect Assistance	15,001	
		Program Total	44,791	

The accompanying Notes to the Schedule of Expenditures are an integral part of this schedule

Grantor / *Pass-Through Grantor* Program Title	Federal CFDA Number	Award Identification Number	Total Current Year Expenditures	Notes
Immunization Grants				
Indirect Assistance through Washington State Department of Health				
CC-FED-Immunization 317	93.268	C14961	126,669	
CC-FED-Immunization VFC	93.268	C14961	18,062	
Child Profile - Fed Imms - $$	93.268	N13255	1,128,393	
CC-FED-Immunization AFIX	93.268	C14961	356,727	(4)
		Program Total	1,629,851	
Substance Abuse and Mental Health Services - Access to Recovery				
Indirect Assistance through WA State Department of Social and Health Services				
CSAT - Access to Recovery	93.275	0763-20314-9503	749,194	(4)
CSAT - Access to Recovery	93.275	0963-68039	377,446	(4)
CSAT - Access to Recovery	93.275	0963-73587	409,295	(4)
		Program Total	1,535,935	
Centers for Disease Control and Prevention Investigations and Technical Assistance				
Direct Assistance				
CDC - Colorectal Cancer Screening	93.283	U55/CCU025048	448,131	
CDC - Chronic Disease	93.283	U58/DPO23330-06	80,711	
CDC - REACH US	93.283	1U58DP001058-02	383,512	(4)
		Direct Assistance	912,354	
Indirect Assistance through Washington State Department of Health				
CC-FED-PH Emergency Prep.	93.283	C14961	1,767,470	(4)
DOH-PRIV BRST CA PREV FND	93.283	C14961	130,307	
CC-FED-PAN FLU Prepr	93.283	C14961	239,571	
CC-FED-VARHS HIV RESIST	93.283	C14961	152,811	
CC-FED Tobacco CDC	93.283	C14961	128,543	
CHILD PROFILE - FED ITEIP	93.283	N13255	8,982	
CC FED-AMISA HIV INTEGR SURV	93.283	C14961	69,930	
CC-FED-NW STROKE NETWROK	93.283	C14961	28,167	
CC-FED-CDC ONLINE DISPATCH	93.283	C14961	6,500	
CC-FED-DOH-WBCHP	93.283	C14961	1,400,452	
		Indirect Assistance	3,932,733	
Indirect Assistance through National Association of County & City Health Officials				
NACCHO ADVANCED ASSESSMENT	93.283	2008-100105; 2009-100105	452,466	
		Indirect Assistance	452,466	
		Program Total	5,297,553	

The accompanying Notes to the Schedule of Expenditures are an integral part of this schedule

Grantor / *Pass-Through Grantor* Program Title	Federal CFDA Number	Award Identification Number	Total Current Year Expenditures	Notes
Minority Health and Health Disparities Research				
Direct Assistance from Neighborhood House				
Partnership for Healthy Living - Margin	93.307	1R24MD002768-01	70,168	
		Program Total	70,168	
Child Support Enforcement				
Indirect Assistance through WA State Department of Social and Health Services				
DSHS - Child Support Enforcement - Incentive Pay	93.563	75-1501-0-1-609	2,534,271	
DSHS - Child Support Enforcement	93.563	75-1501-0-1-609	501,318	
DSHS - Child Support Enforcement	93.563	75-1501-0-1-609	3,870,428	
DSHS - Child Support Enforcement	93.563	75-1501-0-1-609	754,738	
DSHS - Child Support Enforcement	93.563	75-1501-0-1-609	347,726	
		Program Total	8,008,481	
Child Care and Development Block Grant				
Indirect Assistance through Washington State Department of Health				
CC-FED HCCW Infant/Toddler	93.575	C14961	135,000	
		Program Total	135,000	
Head Start				
Indirect Assistance through Children's Home Society				
CHSW/Early Headstart	93.600	CHS-EHS	22,245	
CHSW/Early Headstart	93.600	CHS-EHS	7,415	
Birth to Five Headstart	93.600	2009	1,560	
		Program Total	31,220	
Voting Access for Individuals with Disabilities				
Indirect Assistance through Office of Secy of State				
Collaborative Disab. Educational Outreach	93.617	G-3981	20,018	
Accessibility Grants Coordinator	93.617	G-4157	14,000	
Underserved Accessibility Project	93.617	G-4158	45,000	
		Program Total	79,018	
ARRA - Health Center Integrated Services Development Initiative				
Direct Assistance				
HHS-HRSA-ARRA-STIMULUS	93.703	H8BCS11886 & C81CS13768	93,057	(5)
HHS-HRSA-ARRA-STIMULUS	93.703	H8BCS11886 & C81CS13768	52,073	(5)
		Program Total	145,130	

The accompanying Notes to the Schedule of Expenditures are an integral part of this schedule

Grantor / *Pass-Through Grantor* Program Title	Federal CFDA Number	Award Identification Number	Total Current Year Expenditures	Notes
Medical Assistance Program				
Indirect Assistance through Washington State Department of Social and Health Services				
JHS CJ INITIATIVE	93.778	0563-75745	92,431	
DSHS-Local Reimb Mam Exp	93.778	0563-75745	13,880,007	(4)
Title XIX - Medicaid Administrative Match	93.778	0563-75892-02	1,145,501	
		Program Total	15,117,939	
Cardiovascular Diseases Research				
Indirect Assistance through NIH & UW				
AED Home Training Study for High Risk Patients	93.837	871430	64,419	
ROC Website Training Modules	93.837	UW PO # 118717	7,750	
CV Health Research	93.837	530420; RO1HL088456	25,373	
		Program Total	97,542	
Allergy, Immunology and Transplantation Research				
Indirect Assistance through NIH Infectious Diseases Research Institute				
STD Expedited Partner Treatment	93.855	2009	60,327	
IDRI Study	93.855	2009	3,137	
		Program Total	63,464	
Microbiology and Infectious Diseases Research				
Indirect Assistance through NIH				
Regional RCE: Emergency Response Plan	93.856	374727; 374719	164,365	
		Program Total	164,365	
National Bioterrorism Hospital Preparedness Program				
Direct Assistance				
ASPR Partnership Program fed	93.889	HFPEP7011-01-00	107,283	
		Direct Assistance	107,283	
Indirect Assistance thru WA State Dept of Health				
CC-FED-PHEPR HOSP PAN FLU	93.889	C14961	91,454	
CHILD PROFILE - OTHER FED FUNDS	93.889	C14961	46,000	
CC-FED-PHEPR HC SYSTEM	93.889	C14961	761,720	
		Indirect Assistance	899,174	
		Program Total	1,006,457	

The accompanying Notes to the Schedule of Expenditures are an integral part of this schedule

Grantor / *Pass-Through Grantor* Program Title	Federal CFDA Number	Award Identification Number	Total Current Year Expenditures	Notes
HIV Emergency Relief Project Grants				
Direct Assistance				
HRSA Ryan White-Title I AIDS-I-S	93.914	5 H89 HA00022	242,585	
HRSA Ryan White-Title I AIDS-I-S	93.914	H3MHA08438A0	6,950,684	(4)
		Program Total	7,193,269	
HIV Prevention Activities - Health Department Based				
Indirect Assistance through Washington State Department of Health				
JHS HIV PREVENTION	93.940	C14961	7,043	
CC-FED HIV/AIDS Contracts	93.940	C14961	1,087,231	(4)
		Program Total	1,094,274	
Human Immunodeficiency Virus (HIV) / Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance				
Indirect Assistance through Washington State Department of Health				
CC FED-HIV Never In Care	93.944	C14961	105,635	(4)
CC-FED HIV Morbid Monitor	93.944	C14961	341,744	
CC Fed Behavioral Surveillance	93.944	C14961	472,833	
CC-FED-Estimated HIV	93.944	C14961	280,074	
		Program Total	1,200,286	
Block Grants for Community Mental Health Services				
Indirect Assistance through Washington State Department of Social and Health Services				
MIO-CTP	93.958	0769-22814	173,333	(4)
MH-Federal Block Grant	93.958	0869-48540	1,264,690	(4)
MH-Federal Block Grant	93.958	0969-73246	437,463	(4)
		Program Total	1,875,486	
Block Grants for Prevention and Treatment of Substance Abuse				
Indirect Assistance through Washington State Department of Social and Health Services				
SAPT Grant in Aid	93.959	0763-20314-9503	4,651,796	(4)
SAPT Grant in Aid	93.959	0963-68039	1,359,292	(4)
		Program Total	6,011,088	

The accompanying Notes to the Schedule of Expenditures are an integral part of this schedule

Grantor / *Pass-Through Grantor* Program Title	Federal CFDA Number	Award Identification Number	Total Current Year Expenditures	Notes
Preventive Health Services - Sexually Transmitted Diseases Control Grants				
Indirect Assistance through Washington State Department of Health				
CC-FED STD SSUN	93.977	C14961	121,327	(4)
Fed-STD-Chlamydia	93.977	C14961	221,860	(4)
FED-STD-CSPS	93.977	C14961	277,297	(4)
CC-FED-Syphilis Elimination	93.977	C14961	318,782	(4)
CC-FED-STD CHLAM EVAL	93.977	C14961	37,433	(4)
		Program Total	976,699	
Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems				
Indirect Assistance through Washington State Department of Health				
CC-FED-CDC Diabetes Prevention	93.988	C14961	20,375	(4)
		Program Total	20,375	
Preventive Health and Health Services Block Grant				
Indirect Assistance through Washington State Department of Health				
CC-FED PHBG LHD Preventive Health	93.991	C14961	62,500	
		Program Total	62,500	
Maternal and Child Health Services Block Grant to the States				
Indirect Assistance through Washington State Department of Health				
CC-FED AIDS SURVEILLANCE	93.994	C14961	421,431	
CC-FED MCHBG MCH	93.994	C14961	1,020,745	
CC-FED CSHCN MCHBG	93.994	C14961	2,925	
Child Profile - Fed MCHBG	93.994	N13255	41,496	
CC-FED-School Based Health	93.994	C14961	73,981	
CC-FED-MIH Prenatal ORMSS	93.994	C14961	7,000	
		Program Total	1,567,578	
Adolescent Family Life Demonstration Projects				
Indirect Assistance through CHILDREN'S HOME SOCIETY				
CHSW/Next Generation	93.995	CHSW-Next Gen	22,586	
CHSW/Next Generation	93.995	CHSW-Next Gen	9,886	
		Program Total	32,472	
		Agency Total	62,517,552	

The accompanying Notes to the Schedule of Expenditures are an integral part of this schedule

Grantor / *Pass-Through Grantor* Program Title	Federal CFDA Number	Award Identification Number	Total Current Year Expenditures	Notes
DEPARTMENT OF HOMELAND SECURITY				
Boating Safety Financial Assistance				
Indirect Assistance through WA State Military Department of Emergency Management				
FY 2010 Special Emphasis Boating Grant	97.012	2009-39	40,555	
Lake Sammamish Boat and Equipment	97.012	IAA 2008-29	49,166	
		Program Total	89,721	
Flood Mitigation Assistance				
Indirect Assistance through WA State Military Department				
2007 FMA Structural Elevation Projects	97.029	E08-076	285,784	
		Program Total	285,784	
Disaster Grants - Public Assistance (Presidentially Declared Disasters)				
Indirect Assistance through WA State Military Department				
County Wide Debris Drop-off - Flood	97.036	033-99033-00/D09-049	60,413	
County Wide Debris Drop-off - Flood	97.036	033-99033-00/D09-049	218,590	
Presidentially Declared Disasters	97.036	033-99033-00	44,073	
FEMA Event 1671	97.036	PW 376	18,427	
FEMA Event 1671	97.036	PW 485	11,894	
FEMA Event 1671	97.036	PW 517	13,966	
FEMA Event 1734	97.036	PW 521	19,425	
FEMA Event 1817	97.036	PW 1380	2,089	
FEMA Event 1817	97.036	PW 1660	3,040	
FEMA Event 1817	97.036	PW 1696	2,640	
FEMA Event 1817	97.036	PW 1703	20,006	
FEMA Event 1817	97.036	PW 1714	11,864	
FEMA Event 1817	97.036	PA-10-WA-1817-PW	89,106	
FEMA Event 1817	97.036	PW 1714	11,864	
FEMA Event 1817	97.036	PW 1874	3,735	
FEMA Event 1817	97.036	PW 1875	5,268	
FEMA Event 1817	97.036	PW 1634	328,230	
FEMA Event 1817	97.036	PW 1661	79,798	
Presidentially Declared Disasters	97.036	FEMA Event 1671	594	
Presidentially Declared Disasters	97.036	FEMA Event 1671	79,857	
Presidentially Declared Disasters	97.036	FEMA Event 1817	1,844,546	
Presidentially Declared Disasters	97.036	FEMA Event 1825	973,022	
Presidentially Declared Disasters	97.036	FEMA Event 1825	64,632	
FEMA Event 1817	97.036	033-99033-00	144,316	
Presidentially Declared Disasters	97.036	FEMA-1817-DR-WA	5,167	
		Indirect Assistance	4,056,562	
		Program Total	4,056,562	

The accompanying Notes to the Schedule of Expenditures are an integral part of this schedule

Grantor / *Pass-Through Grantor* Program Title	Federal CFDA Number	Award Identification Number	Total Current Year Expenditures	Notes
Hazard Mitigation Grant				
Indirect Assistance through WA State Military Department				
FEMA Event 1671	97.039	E09-092	406,945	
FEMA Event 1734	97.039	E09-219	155,164	
Johnson Pond Embankment Stabilization & Improv	97.039	E09-130	131,086	
		Program Total	693,195	
Emergency Management Performance Grants				
Indirect Assistance through Washington State Military Department Emergency Management				
FFY07 Emergency Preparedness Program	97.042	E08-314	275,321	
FFY09 Emergency Preparedness Grant Program (EMPG)	97.042	E09-253	123,967	
		Program Total	399,288	
Port Security Grant Program				
Indirect Assistance via Washington State Patrol				
Marine SWAT Equipment	97.056	C080631FED	36,563	
		Program Total	36,563	
Homeland Security Grant Program				
Indirect Assistance through WA State Patrol and Seattle Police Dept				
SPD - UASI	97.067	E09-314	4,439	
Indirect Assistance through WA State Military Department Emergency Management				
FFY 07 UASI	97.067	E08-102	520,236	(4)
FFY 07 SHSP	97.067	E08-196	1,537,166	(4)
FFY 07 Citizen Corps Program (CCP)	97.067	K298	24,781	
FFY08 State Homeland Security Grant Program (SHSP)	97.067	E09-178	644,507	
FFY08 Urban Areas Security Initiative (UASI)	97.067	E09-165	271,679	
FFY 06 Citizen Corps Program (CCP)	97.067	OFM 880-07	36,674	(4)
FFY 06 UASI	97.067	E07-144	3,892	(4)
FFY 06 SHSP	97.067	E07-174	293,403	(4)
FFY06 State Homeland Security Grant Program - Supplemental Grant (SHSP-Supplemental)	97.067	E10-103	82,211	(4)
		Program Total	3,418,988	

The accompanying Notes to the Schedule of Expenditures are an integral part of this schedule

Grantor / *Pass-Through Grantor* Program Title	Federal CFDA Number	Award Identification Number	Total Current Year Expenditures	Notes
Law Enforcement Terrorism Prevention Program				
Indirect Assistance through WA Military Department				
LETPP - Donning & Doffing Drill	97.074	FY07-LETPP-005	717	
Indirect Assistance through WA State Patrol				
FFY 07 LETPP	97.074	C080641FED	910,721	
		Program Total	911,438	
Rail and Transit Security Grant Program				
Indirect Assistance through Washington State Military Department Emergency Management				
FFY06 Transit Security Grant Program	97.075	E07-299	0	
FFY06 Transit Security Grant Program	97.075	E08-059	0	
		Program Total	0	
Buffer Zone Protection Program				
Indirect Assistance through Washington State Military Department Emergency Management				
FFY 05 UASI	97.078	E06-373	0	
FFY 05 UASI	97.078	E06-374	0	
		Program Total	0	
		Agency Total	9,891,539	
		Federal Total	**255,409,127**	

The accompanying Notes to the Schedule of Expenditures are an integral part of this schedule

Notes to the Schedule of Expenditures of Federal Financial Assistance
For the Year ended December 31, 2009

(1) Basis of Accounting. The Schedule of Expenditures of Federal Awards is prepared on the same basis of accounting as the county's financial statements. The county's financial statements are prepared on a modified accrual or full accrual basis, depending on the type of fund.

(2) Program Costs. The amounts shown as current year expenditures represent only the federal portion of program costs. The full cost may include state or local funds in addition to the amounts shown.

(3) These programs generate income used to cover expenses. Current year expenditures may include transfers between programs or repayments of float loans.

(4) Amounts awarded to subrecipients - Included in the total amount expended for this program are funds passed through to a subrecipient that administered its own project.

(5) American Recovery and Reinvestment Act (ARRA) of 2009 - Expenditures for this program were funded by ARRA.

(6) Net sales proceeds from Redmond Park and Ride originally funded, in part, with FTA funds. Sale & proceed followed requirements as outlined in FTA Circular 5010.1D 2(j) C(3). FTA approval of capital project that proceeds reduced total project cost was formally approved in application WA040021.

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

The results of our work are widely distributed through a variety of reports, which are available on our Web site and through our free, electronic subscription service. We continue to refine our reporting efforts to ensure the results of our audits are useful and understandable.

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

State Auditor	**Brian Sonntag, CGFM**
Chief of Staff	**Ted Rutt**
Deputy Chief of Staff	**Doug Cochran**
Chief Policy Advisor	**Jerry Pugnetti**
Director of Audit	**Chuck Pfeil, CPA**
Director of Special Investigations	**Jim Brittain, CPA**
Director for Legal Affairs	**Jan Jutte, CPA, CGFM**
Director of Quality Assurance	**Ivan Dansereau**
Local Government Liaison	**Mike Murphy**
Communications Director	**Mindy Chambers**
Public Records Officer	**Mary Leider**
Main number	**(360) 902-0370**
Toll-free Citizen Hotline	**(866) 902-3900**

Website	**www.sao.wa.gov**
Subscription Service	**https://www.sao.wa.gov/EN/News/Subscriptions/**