

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 two Flood Control Zone District Funds are not budgeted. These funds account for flood control zone district 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 submitted 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. In 2008 no judgment and claim settlement recognition was deferred to a future period on the budgetary basis due to insufficient appropriations in 2008.

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, 2008, are shown in the following schedule by fund type (in thousands):

General Fund	\$ 7,087
Public Health Fund	457
Special Revenue Funds	20,776
Capital Projects Funds	45,544
Enterprise Funds	3,213
Internal Service Funds	<u>5,070</u>
Total All Funds	<u>\$ 82,147</u>

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

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

Budgeted Level of Expenditures

Appropriations are authorized by ordinance, generally at the fund level, with the exceptions of the General Fund and four Special Revenue Funds (the Community Development Block Grant, County Road, Developmental Disabilities, and Miscellaneous Grants Funds), which are appropriated at the department/division level, and Capital Projects Funds, which are appropriated at the project level.

NOTE 3 – CONTINUED

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 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 Multi-year Budgets**

Forty-three capital projects in thirteen Capital Projects and Enterprise Funds with multi-year budgets have a combined total of \$6.3 million of expenditures in excess of budget. These deficits are expected to be corrected by additional appropriations in 2009.

In addition, supplemental appropriation will be required for certain administrative projects: \$23.6 million for an administrative transfer of debt proceeds in the Building Construction and Improvement fund to reimburse authorized expenditures in the Building Repair and Replacement Fund, and \$36.3 million for prior year's repayments of bond anticipation notes in the Open Space Capital fund and the Building Construction and Improvement Fund.

Funds with Annual Budgets

All funds and departments/divisions with annual budgets completed the year within their legally authorized expenditures, including other financing uses, with the exception of the Sheriff, which was overexpended by \$1,099 thousand. The overexpenditure was caused by a retroactive payment of salaries in a labor agreement approved by the County Council in December 2008.

Fund Balance and Net Asset Deficits

Building Development and Management Corporations – The deficit of \$9.0 million was due to bond interest payments made during the first few years of bond issuance when buildings are still under construction and monthly rent payments have 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 \$26 million is the result of the purchase of a new building funded by a short-term loan. The short-term loan will be replaced with a bond to cover the cost of the building.

County Road Fund - The \$16.8 million deficit was the result of \$9 million in land sales that did not occur as projected in 2008, approximately \$3.4 million in federal storm repair grants programmed but not received in 2008, \$1.2 million in property taxes paid to cities with recent annexations, \$0.75 million fewer gas tax receipts than projected, and \$2.5 million in unanticipated December winter storm costs.

Renton Maintenance Facilities Construction – The deficit of \$172 thousand is 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.

Printing/Graphic Arts Services Fund – The deficit of \$1.1 million was the result of printing and graphics expenditures exceeding revenues. The former printing and graphics operation was discontinued after December 2007 and services were transferred to other funds. The deficit is being recovered through charges to user agencies over a two-year period. In 2008 \$0.9 million was recovered with the remainder of the deficit to be repaid by the end of December 2009.

NOTE 3 – CONTINUED

Safety and Workers' Compensation Fund – The deficit of \$19.5 million is 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 \$5.8 million in unrestricted net assets is due to an increase in the Cedar Hills Landfill closures and post-closure care liability.

Water Quality Enterprise Fund – The deficit of \$51.3 million in unrestricted net assets is the result of interfund loans which financed early debt retirement and capital construction in anticipation of bond issuance.