Note 1
Summary of Significant Accounting Policies

The Reporting Entity

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

Component Units – Discretely Presented

Harborview Medical Center (HMC)

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

HMC is a component unit of the County for the following reasons: (1) it is a separate legal entity having its own corporate powers; (2) the County Executive appoints HMC's Board of Trustees, who may be removed only for statutorily defined causes and subject to legal appeal; and (3) although the County cannot impose its will on HMC, the unit creates a financial burden on the County because the County is responsible for the issuance and debt service of all general obligation bonds for HMC capital improvements. HMC's financial presentation is on the discrete component unit basis because the County and HMC's governing bodies are not substantively the same, and HMC does not provide services solely to King County. HMC financial data is as of its fiscal year-end, June 30, 2010, rather than the County's fiscal year-end of December 31, 2010.

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

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

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

The Washington State Major League Baseball Stadium Public Facilities District (PFD) is the agency created by the Metropolitan King County Council (Ordinance 12000) on October 24, 1995, as authorized under chapter 36.100 Revised Code of Washington (RCW). The PFD operates as a

municipal corporation of the State of Washington and was formed to site, design, build, and operate a major league baseball park. The PFD is governed by a seven-member board of directors, four of whom are appointed by the County Executive. The other three are appointed by the Governor of the State of Washington. The County, as the *ex officio* treasurer for the PFD, maintains several funds to account for construction, debt redemption, and special revenue collection. Construction was financed by 1997 general obligation bond issues and contributions from the Baseball Club of Seattle. Debt service on the bonds is supported by sales and use taxes, special lottery proceeds, special license plate sales, and an admissions tax. The stadium was completed in 1999 and is reported as an asset of the PFD.

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

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

Cultural Development Authority of King County (CDA)

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

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

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

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

Component Units – Blended

King County Ferry District

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

The KCFD is a component unit of the County for the following reasons: (1) it is a legally separate entity established as a quasi-municipal corporation and independent taxing authority; (2) King County appoints the voting majority of the KCFD board because the County Council members are the *ex officio* supervisors of the KCFD; and (3) the County can impose its will on the KCFD. The KCFD financial presentation is on a blended basis because the two governing boards are substantively the same. It issues its own financial statements, which are audited by the State Auditor. Financial statements for the KCFD are included with other Nonmajor Special Revenue Funds in the Governmental Funds section of this CAFR.

Flood Control Zone District

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

The FCZD is a component unit of the County for the following reasons: (1) it is a legally separate entity established as quasi-municipal corporation and independent taxing authority; (2) King County appoints the voting majority of the FCZD board because the County Council members are the *ex officio* supervisors of the FCZD; and (3) the County can impose its will on the FCZD. The FCZD financial presentation is on a blended basis because the two governing boards are substantively the same. It issues its own financial statements, which are audited by the State Auditor. Financial statements for the FCZD are included with other Nonmajor Special Revenue Funds in the Governmental Funds section of this CAFR.

Building Development and Management Corporations

King County has project lease agreements with four Washington state nonprofit corporations, each a single-purpose entity created to assist the County in the development and construction of public buildings. Each agreement provided for the design and construction of a specific building to be financed with bonds, the majority of which are tax-exempt, issued on behalf of the County by each of the corporations in accordance with IRS Revenue Ruling 63-20 and Revenue Procedure 82-26. Under the agreements, the buildings are leased by the County from the nonprofit corporations under guaranteed monthly rent payments throughout the term of the lease or until the debt is retired, after which ownership transfers to the County.

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

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

Joint Venture

The Seattle-King County Workforce Development Council (WDC) is a joint venture between King County and the City of Seattle. It was established as a nonprofit corporation in the State of Washington on July 1, 2000, as authorized under the Workforce Investment Act of 1998. It functions as the United States Department of Labor pass-through agency to receive the employment and training funds for the Seattle-King County area. The King County Executive and the Mayor of the City of Seattle, serving as the chief elected officials of the local area, have the joint power to appoint the members of the WDC board of directors and the joint responsibility for administrative oversight. An ongoing financial responsibility exists because of potential liability to grantors for disallowed costs. If expenditure of funds is disallowed by a grantor agency, the WDC can recover the funds from (in order): (1) the agency creating the liability; (2) the insurance carrier; (3) future program years; and (4) as a final recourse, from King County and the City of Seattle, each responsible for one-half of the disallowed amount. As of December 31, 2010, there are no outstanding program eligibility issues that might lead to a liability on the part of King County.

The WDC contracts with King County to provide programs related to dislocated workers, welfare to work, and workforce centers. For 2010 the WDC reimbursed King County approximately $1.9 million for the Work Training Program and $2.7 million for the Dislocated Worker Program in eligible program costs.

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

Related Organizations

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

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

The County serves as the treasurer for the KCLS and the LCFD, providing services such as tax collection and warrant issuance. Due to this fiduciary relationship, these districts are reported as agency funds to distinguish them from County funds.

Government-wide and Fund Financial Statements

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

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

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported in separate columns in the fund financial statements. The County also has 67 nonmajor Special Revenue and Capital Projects funds that are combined into 17 roll-up funds.

Major Governmental Funds

The County reports two major governmental funds:

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

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

Major Proprietary Funds

The County reports two major proprietary funds:

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

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

Nonmajor Governmental Funds

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

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

Nonmajor Proprietary Funds

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

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

Fiduciary Funds

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

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

Bases of Accounting, Measurement Focus, and Financial Statement Presentation

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating

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

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

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

Terminology

Expenditure Functions

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

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

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

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

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

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

Culture and Recreation – Provided to increase the individual's understanding and enjoyment that includes expenditures for education, libraries, community events, parks, and cultural facilities.

This function includes Parks, Cooperative Extension Service, and various Park Capital Project Funds.

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

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

Certain Accounts are Grouped on the Statement of Net Assets:

- The asset account *Receivables, net* combines Taxes receivable – delinquent; Accounts receivable, net; Other receivables, net; Interest receivable; Notes and contracts receivable; and Due from other governments, net.
- The asset account *Deferred charges* combines Deferred – environmental remediation costs, Deferred charges – issuance costs, and Due from employees.
- The liability account *Accounts payable and other current liabilities* combines Accounts payable, Due to other governments, Taxes payable, Contracts payable, Custodial accounts, and other liabilities.
- The liability account *Accrued liabilities* combines Wages payable and Interest payable.
- The liability account *Noncurrent liabilities* includes Claims and judgments payable, Estimated claim settlements, General obligation bonds, Special assessment bonds, Revenue bonds payable, Excess earnings liabilities, Capital leases, State revolving loan payable, Compensated absences, Environmental and property remediation, Unamortized premium or discount on bonds sold, Deferred charges – refunding losses, and other liabilities.

Cash and Cash Equivalents

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

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

Investments (See Note 4 – "Deposits, Investments and Receivables")

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

Investments purchased for individual funds are reported as investments, regardless of length of maturity. Those attributed to both the external portion of the Pool and those in individual investment accounts are classified as "Investments" in separate investment trust funds. Statements of participants in the Pool's internal portion report pooled investments as cash equivalents. Statements of participants in the external portion report pooled investments as "Assets held in trust – external investment pool." Special district funds with individual investment accounts report their portion of net assets as "Assets held in trust – individual investment accounts." Investments are reported at fair value in compliance with the GASB Codification,

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

Receivables

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

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

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

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

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

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

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

Inventories

Inventories of governmental funds are recorded using the consumption method; expenditures are recognized when inventories are actually consumed. Proprietary funds expense inventories when used or sold. The first-in, first-out (FIFO) valuation method is used by the Solid Waste, King County International Airport, Radio Communications, Construction and Facilities Management, and Public Health Funds. The Weighted Average valuation method is used by the Motor Pool Equipment Rental Fund, Public Works Equipment Rental Fund, and the Public Transportation and Water Quality Enterprises.

Prepayments

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

Capital Assets (See Note 6 – "Capital Assets")

Capital assets include: Land (fee simple land, rights-of-way and easements, and farmland development rights); Infrastructure (roads and bridges network); Buildings; Improvements other than buildings;

Furniture, machinery and equipment; and Work in progress. General capital assets, including those in internal service funds that support governmental funds, are reported in the governmental column of the government-wide Statement of Net Assets. Capital assets of enterprise funds, including those in internal service funds that exclusively support enterprise funds, are reported in the business-type column of the government-wide Statement of Net Assets. Enterprise and internal service fund capital assets are also reported in the individual proprietary fund Statement of Net Assets. The capitalization threshold in the King County Primary Government is $5 thousand for furniture, machinery and equipment, $25 thousand for software, and $50 thousand for buildings, building improvements, and other improvements.

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

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

Capital assets are valued at historical cost or estimated historical cost where actual historical cost is not available. Donated capital assets are valued at their estimated fair market value at the time of donation. Expenditures for normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item, or extend its useful life beyond the original estimate, are expensed as incurred. Expenditures for repairs and upgrades that materially add to the value or life of an asset are capitalized. Costs incurred to extend the life of governmental infrastructure assets are considered preservation costs and are therefore not capitalized.

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

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

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

Deferred Charges

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

Deferred Revenues

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

Regulatory Deferrals

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

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

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

Rebatable Arbitrage

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

Compensated Absences

Eligible King County employees earn 12 days of sick leave and 12 to 30 days of vacation per year. An unlimited amount of sick leave and a maximum of 60 days of vacation may be carried over at year-end. An employee leaving employment at King County is entitled to be paid for unused vacation leave and, if leaving employment due to death or retirement, for 35 percent of the value of unused sick leave. For reporting purposes, a variety of factors are used to estimate the portion of the accumulated sick leave that is subject to accrual.

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

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

Long-term Obligations

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

In the fund financial statements, governmental fund types recognize bond premiums, discounts, as well as bond issuance cost, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity

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

New Accounting Standard

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

Note 2

Reconciliation of Government-wide and Fund Financial Statements

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

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."

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

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

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

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

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."

In the statement of activities, only the gain on the sale of capital assets is reported. In the governmental funds, the proceeds from the sale increase financial resources. The change in net assets differs from the change in fund balance by the book value of the capital assets sold.	$	116,036
Donations of capital assets increase net assets in the statement of activities, but do not appear in the governmental funds because they are not financial resources.		(82,783)
Net adjustment to decrease *net changes in fund balances - total governmental funds* to arrive at *changes in net assets of governmental activities*	$	33,253

Another element of that reconciliation states, "Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds."

Property tax accrual	$	38
Surface Water Management service charge accrual		92
Probation and parole service charge accrual		82
Fines and forfeits net accrual		1,460
Net adjustment to increase *net changes in fund balances - total governmental funds* to arrive at *changes in net assets of governmental activities*	$	1,672

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

Debt issued or incurred		
Issuance of general government debt	$	82,465
Issuance of refunding bonds		41,250
Premium on bonds sold		6,520
Bond issuance costs		(815)
Principal repayments		(62,901)
Receipts from component units for principal repayments		1,211
Payment to escrow agent		(59,767)
Net adjustment to decrease *net changes in fund balances - total governmental funds* to arrive at *changes in net assets of governmental activities*	$	7,963

Another element of that reconciliation states, "Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds."

Compensated absences	$	2,806
Accrued unemployment compensation		(112)
Other postemployment benefits		6,092
Accrued rebatable arbitrage		(17)
Accrued interest		(310)
Amortization of issuance costs		705
Amortization of deferred charge on refunding		2,977
Amortization of bond premiums		(4,844)
Net adjustment to decrease *net changes in fund balances - total governmental funds* to arrive at *changes in net assets of governmental activities*	$	7,297

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

Investment interest earnings	$	(2,723)
Revenues related to services provided to outside parties		(4,154)
Expenses related to services provided to outside parties		4,408
Gain on disposal of capital assets		(406)
Interest on long-term debt		19,675
Capital contributions		(1,096)
Transfers in		(1,054)
Transfers out		2,635
Internal service fund gains allocated to governmental activities		(10,897)
Net adjustment to decrease *net changes in fund balances - total governmental funds* to arrive at *changes in net assets of governmental activities*	$	6,388

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

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

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

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

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

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

Note 3
Stewardship, Compliance, and Accountability

Bases of Budgeting

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

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

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

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

Four Debt Service Funds have annual budgets. Three have annual budgets with budgeting concepts identical to the General Fund. The fourth budgeted Debt Service Fund, the Road Improvement Guaranty Fund, is budgeted only in the exceptional case of transfers of surplus to the County Road Fund.

The Road Improvement Districts Special Assessment Debt Redemption Fund is not budgeted.

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

The Road Improvement Districts Construction Fund is not budgeted.

The Enterprise and Internal Service Funds, with the exception of the Insurance Fund and the Building Development and Management Corporations Fund, are budgeted on the modified accrual basis rather than the accrual basis (the GAAP basis for proprietary funds). Appropriations are based on an estimate of expenditures expected to be incurred during the fiscal year. Estimated revenues are based on the amount estimated to be earned and available during the fiscal year. Several divisions within the Department of Transportation are appropriated as biennial budgets for the 2010-2011 biennium.

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

The Building Development and Management Corporations Fund and the Trust and Agency Funds are not budgeted.

Encumbrances

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

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

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

In the General and budgeted Special Revenue and Debt Service Funds, the legally prescribed budgetary basis differs from the GAAP basis. For those statements and schedules in which budget comparisons are presented, the legally adopted budget is compared with actual data on the budgetary basis rather than the GAAP basis. All statements that do not have budget comparisons are prepared on the GAAP basis.

Budgeted Level of Expenditures

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

These are the legal levels of budgetary control. Unless otherwise provided by the appropriation ordinances, all unexpended and unencumbered annual appropriations lapse at year-end. The budgetary comparison schedules (budgetary basis) include variances at the function of expenditure level. These variances are presented for informational purposes only and, if negative, do not constitute a legal violation. Administrative control is guided by the establishment of more detailed line item budgets.

Expenditures including Other Financing Uses, Materially in Excess of Amounts Legally Authorized

Funds with Annual or Biennial Budgets

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

Funds with Multi-year Budgets

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

Material Fund Balance and Net Asset Deficits

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

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

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

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

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

Renton Maintenance Facilities Construction – The deficit of $3.2 million was the result of costs to begin the design of a new regional maintenance facility in Ravensdale. The deficit will be eliminated from proceeds received from the sale of property at a future date.

Safety and Workers' Compensation Fund – The deficit of $1.2 million was the result of a change in 2004 of the method for estimating workers' compensation claim liabilities. In that year the County changed from using the case reserves liabilities to an actuarially developed estimate of liabilities. The change resulted in a large increase in the reported liabilities and related expenses in 2004. The funding plan developed to build the assets to equal the liabilities over a number of years has made significant progress, reducing the deficit each year since its inception.

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

Unrestricted Net Asset Deficits

Solid Waste Enterprise Fund – The deficit of $17.4 million in unrestricted net assets is the result of recognizing a long-term liability for landfill closure and post-closure care which is being funded through annual contributions from operations.

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

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) 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 their public deposits. PDPC protection is of the nature of collateral, not of insurance, in accordance with GASB Codification of Governmental Accounting and Financial Reporting Standards, Section 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 total deposits cannot exceed the net worth of the financial institution. The County establishes deposit limitations for all financial institutions with which deposits are placed, based on publications by IDC Financial Publishing, Incorporated. The County's diversification policy limits the maximum amount of investment in certificates of deposit to 20 percent of the total amount of the portfolio and 7.5 percent of a single issuer.

As of December 31 the County's total deposits, excluding the equity in the component units, were $78.7 million in carrying amount and $60.3 million in bank balance, of which $11.6 million was exposed to custodial credit risk as uninsured and uncollateralized as shown in the following schedule (in thousands):

	Carrying Amount	Bank Balance	Uninsured and Uncollateralized
Demand deposits	$ 67,072	$ 48,768	$ -
Money Market Accounts	11,574	11,574	11,574
Total deposits	$ 78,646	$ 60,342	$ 11,574

The money market accounts are cash held with trustees for four Washington state nonprofit corporations reported in the internal service funds as Building Development and Management Corporations, a blended component unit of King County. The cash held in various financial institutions, including most notably the Bank of New York Trust Company (Trustee), is invested in United States Government Money Market accounts. All of the $11.6 million held in money market accounts is exposed to custodial credit risk as uninsured and uncollateralized.

Investments

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

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

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

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

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

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

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

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

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

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

All securities are reported at fair value. Fair value reports are prepared monthly and are distributed to all Pool participants. Fair value pricing is provided by the County's security safekeeping bank. If a security is not priced by the County's safekeeping bank, prices are obtained from Bloomberg L.P., a provider of fixed income analytics, market monitors, and security pricing. In 2010, the County also obtained quotes from primary investment dealers to help determine the fair values of impaired investments. The County has not provided or obtained any legally binding guarantees to support the value of the Investment Pool's shares.

The King County Investment Pool values participants' shares using an amortized cost basis. Monthly income is distributed to participants based on their relative participation during the period. Income is calculated based on: (1) realized investment gains and losses; (2) interest income based on stated rates (both paid and accrued); and (3) the amortization of discounts and premiums on a straight-line basis. Income is reduced by the contractually agreed upon investment fee. This method differs from the fair value method used to value investments in the financial statements because the amortized cost method is not designed to distribute to participants all unrealized gain and loss due to change in the fair values. The net change in the fair values of the investments are reported as an increase or decrease in cash and cash equivalents in the statement of net assets.

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

Concentration of credit risk – Investments Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year-end the Pool had concentrations greater than 5 percent of the total investment pool portfolio in the following issuers: Federal Home Loan Mortgage Corporation–6 percent, Federal National Mortgage Association–21 percent, Federal Home Loan Bank–6 percent, Federal Farm Credit Bank–6 percent.

Interest rate risk – Investments Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Through its investment policy, the County manages its exposure to fair value losses arising from increasing interest rates by setting maturity and effective duration limits for the Pool. The Pool is managed as two subportfolios: the liquidity portfolio and the core portfolio. The liquidity portfolio's average maturity cannot exceed 120 days and is intended to meet the County's short-term liquidity requirements. The total balance of the liquidity portfolio must be at least 15 percent of the total Investment Pool. The core portfolio is managed similar to a short-term fixed-income fund. The average duration of the core

portfolio is currently restricted to a range of two and one-quarter years plus or minus one year. Securities in the core portfolio cannot have an average life greater than five years at purchase. Based on historical and projected cash flows, the Executive Finance Committee established the maximum amount that can be invested in the core portfolio at $2.2 billion, and the County is in compliance with this policy. As of December 31, 2010, the combined effective duration of the liquidity and core portfolios was 0.711 years.

Credit risk of Debt Securities Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. As of December 31, the King County Investment Pool was not rated by a nationally recognized statistical rating organization (NRSRO). In compliance with state statutes, Pool policies authorize investments in U.S. Treasury securities, U.S. agency securities and mortgage-backed securities, municipal securities (rated at least "A" by two NRSROs), commercial paper (rated at least the equivalent of "A-1" by two NRSROs), certificates of deposit issued by qualified public depositaries, repurchase agreements, and the Local Government Investment Pool managed by the Washington State Treasurer's office.

The credit quality distribution below is categorized to display the greatest degree of credit risk as rated by Standard and Poor's, Moody's, or Fitch. For example, a security rated "AAA" by one rating agency and "AA" by another would be listed as "AA." This table shows the credit quality for all securities in the King County Investment Pool not backed by the full faith and credit of the United States (in thousands):

Credit Quality Distribution

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

The King County Investment Pool's policies limit the maximum amount that can be invested in various securities. At year-end the Pool was in compliance. The Pool's actual composition consisted of Repurchase agreements, 7.4 percent, U.S. Treasury Bills, 20.4 percent, U.S. Treasury Notes, 23.0 percent, Agency Securities, 37.7 percent, Agency Mortgage Backed Securities, 0.7 percent, the State Treasurer's Investment Pool, 10.5 percent, and Municipal Notes, 0.3 percent. The following table summarizes the Pool's diversification policy.

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

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

N/A = Not applicable

(1) Institution must be a Washington State depository. Treasurers can deposit up to 100% of bank's net worth.

(2) Washington state issuers: General Obligation and Revenue bonds. Other states: only GO bonds.

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

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

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

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

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

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

The King County Investment Pool's (the Main Pool) and the Impaired Investment Pool's Condensed Statements of Net Assets and Changes in Net Assets as of December 31, 2010 (in thousands):

Condensed Statement of Net Assets

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

Condensed Statement of Changes in Net Assets

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

Individual Investment Accounts

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

Component Units

Harborview Medical Center (HMC)

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

Custodial credit risk – Deposits The custodial credit risk for deposits is the risk that in the event of a bank failure, the HMC's deposits may not be recovered. HMC maintains demand deposit accounts in various banks (insured up to $250 thousand per bank) totaling $4.2 million and the carrying amount of $4.2 million. In addition, HMC has equity in the Investment Pool (reported as cash equivalents on June 30, 2010). HMC's equity in the pool applies the same criteria as the King County Investment Pool to classify the amounts of deposits and investments exposed to custodial credit risk as uninsured and uncollateralized. As of June 30, 2010, HMC's equity in the pool was $209.4 million and the carrying amount was $198.1 million, as shown in the following table (in thousands):

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

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

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

Cultural Development Authority of King County (CDA)

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

The CDA is also authorized to invest in the Washington State Local Government Investment Pool (LGIP), which is comparable to a Rule 2a-7 money market fund recognized by the Securities and Exchange Commission. The LGIP funds are limited to high quality obligations with limited maximum and average maturities, with the effect of minimizing both market and credit risk. Funds in the amount of $5.2 million were held in the LGIP at December 31, 2010; the interest rate for these funds was 0.26% at December 31, 2010.

Investments The CDA has an Investment Policy to guide the management of its assets and ensure that investment activity is within regulations established by State and County Code. The primary objective is the preservation of principal.

State statutes authorize the CDA to invest in certificates, notes, or bonds of the United States, other obligations of the United States or its agencies, or any corporation wholly owned by the government of the United States. Statutes also authorize the CDA to invest in bankers' acceptances purchased on the secondary market, federal home loan bank notes and bonds, federal land bank bonds, federal national mortgage association notes and debentures and guaranteed certificates of participation.

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

The schedule below shows the types of investments, the average interest rate, the effective duration limits and concentration of all CDA investments as of December 31, 2010 (in thousands):

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

Interest rate risk – Investments Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Through its investment policy, the CDA manages its exposure to interest rate risk by setting maturity and effective duration limits for its portfolio. As of December 31, 2010, the combined weighted average effective duration of the CDA's portfolio was 4.02 years.

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

Concentration of credit risk – Investments Concentration of credit risk is the risk of loss attributed to the magnitude of the CDA's investment in a single issuer. As of December 31, 2010, the CDA had concentrations greater than 5 percent of its total portfolio, excluding U.S. Treasury obligations, in the following issuers: Federal National Mortgage Association-22 percent, Federal Home Loan Mortgage Corporation-15 percent, and Federal Home Loan Bank-7 percent.

Receivables

Estimated Uncollectible Accounts Receivable

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

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

Note 5
Property Taxation

Taxing Powers

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

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

Maximum Rate Limitations. The County may levy regular property taxes for general municipal purposes and for road district purposes. Each purpose is subject to a rate limitation. The general municipal purposes levy is limited to $1.80 per thousand of assessed value; the County levied $1.16171 per thousand in 2010. The road district purposes levy, which is levied in unincorporated areas of the county for road construction and maintenance and other County services provided in the unincorporated areas, is limited to $2.25 per thousand; the County levied $1.93572 per thousand in 2010. Both the general purposes levy and the road district purposes levy are below the maximum allowable rate because of an additional limitation on the increase from one year to the next in the amount of taxes levied.

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

The $1.80 per thousand limitation on the general purposes levy is exclusive of the following regular property taxes: (1) a voted levy for emergency medical services, limited to $0.50 per thousand (authorized by RCW 84.52.069); (2) a voted levy to finance affordable housing for very low income households, limited to $0.50 per thousand (authorized by RCW 84.52.105), however, the County has not sought approval from voters for this levy; (3) a non-voted levy for conservation futures, limited to $0.0625 per thousand (authorized by RCW 84.34.230); and (4) a non-voted levy for transit-related purposes, limited to $0.075 per $1,000 (authorized by RCW 84.52.140). The County's levy rate for conservation futures in 2010 is $0.04918 per $1,000 of assessed value.

In November 2007 voters approved a six-year Emergency Medical Services property tax at a maximum rate of $0.30 per thousand beginning in the 2008 tax year (the 2010 rate was $0.30 per $1,000 of assessed value). On November 8, 2005, voters approved a $0.05 Veterans and Human Services temporary lid lift for six years. The County levied $0.04468 per thousand for Veterans and Human Services in 2010. In 2006, voters in the County approved a six-year temporary lid lift to finance an automated fingerprint identification system. This six-year levy began in 2008; the 2010 levy rate is $0.04571 per thousand. A Regional and Rural Parks lid lift plus a companion lid lift for the Woodland Park Zoo/Open Space and Trails were approved by voters in 2007 for a six-year period beginning in 2008. The 2010 levy rate is $0.05451 per $1,000 of assessed value.

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

$5.90/$1,000 Aggregate Regular Property Tax Levy Limitation. Within the one percent limitation

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

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

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

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

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

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

Component Units with Taxing Authority. In 2007, the County Council created a countywide flood control zone district and a countywide ferry district with rates of $0.10514 and $0.00348, respectively for the 2010 tax year. The boundaries of each district are coterminous with the boundaries of the County and the members of the County Council serve (at least initially) as the legislative body for each district, but under State law each district is a separate taxing district with independent taxing authority.

Pursuant to Ordinance 16742, adopted in January 2010, the County Council created a Transportation Benefit District (TBD) with boundaries comprised of the unincorporated portions of the County. Pursuant to State law, the members of the County Council serve as the governing body of the TBD, which is a separate taxing district with independent taxing authority. The TBD is not authorized to levy regular property taxes but may levy excess property taxes for a one-year period for any purpose or over multiple years to provide for the retirement of voter-approved general obligation bonds, issued for capital purposes, in either case

only when authorized by the voters. The TBD has not sought voter approval for any such excess levies.

Property Tax Calendar

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

Tax Collection Procedures

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

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

Assessed Valuation Determination

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

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

Accounting for Property Taxes Receivable

In the governmental funds, property taxes levied for the current year are recorded on the balance sheet as taxes receivable and deferred revenue at the beginning of the year. Property taxes are recognized as revenue when collected in cash at which time the accounts Taxes receivable and Deferred revenues on the balance sheet are reduced by the amount of the collection. The amount of taxes receivable at year-end that would be collected soon enough to be used to pay liabilities of the current period is not material. At year-end, all uncollected property taxes are reported on the balance sheet as Taxes receivable-delinquent and Deferred revenues. For the government-wide financial statements, the deferred revenue related to the current period, net of the allowance for uncollectible property taxes, is reclassified to revenue.

Allocation of Tax Levies

The following table compares the allocation of the 2009 and 2010 countywide, Emergency Medical Services (EMS), and unincorporated County tax levies by fund, showing for each year the original tax levy and levy rate. The original tax levy reflects the levy before any supplemental levies, tax cancellations, or other adjustments. The 2010 countywide assessed valuation was $342.0 billion, a decrease of $44.9 billion from 2009; the assessed valuation for the unincorporated area levy was $44.0 billion, a decrease of $8.8 billion from 2009.

ALLOCATION OF 2010 AND 2009 TAX LEVIES

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

(a) Assessed valuation for taxes payable in 2010.
(b) The operating levy tax rate is statutorily limited to $1.80 per thousand of assessed valuation.
(c) The Automated Fingerprint Identification System (AFIS) levy is a regular property tax assessed for six years beginning in 2007 at a levy rate of not more than $0.05680 per thousand of assessed valuation (RCW 84.55.050).
(d) The Parks Levy was renewed as a two-part regular property tax (parks and open space/trails/zoo) to be assessed for six years beginning in 2008 at a levy rate of not more than $0.05 per $1,000 of assessed value for each part, as authorized by RCW 84.55.050 and approved by a majority of the voters in the County.
(e) The Veterans and Human Services levy is a regular property tax to be assessed for six years beginning in 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 non-voted levy for transit-related purposes is limited to $0.075 per $1,000 of assessed value.
(g) The Conservation Futures levy tax rate is statutorily limited to $.0625 per thousand of assessed value.
(h) The Emergency Medical Services (EMS) levy shown excludes that portion of the levy within the City of Seattle, which is paid to the city. The levy was approved by the voters in the County in 2007 for a six-year period with collection beginning in 2008.
(i) The tax rate is statutorily limited to a maximum of $2.25 per thousand of assessed valuation.
(j) Excludes tax levy of the blended component units a) the Flood Control Zone District (in 2010 and 2009, the original taxes levied were $35,783 and $35,152 thousand, respectively) and b) the Ferry District (in 2010 and 2009 the original taxes levied were $1,186 thousand and $19,335 thousand).

Note 6
Capital Assets

Primary Government

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

	Balance 1/1/2010	Increases	Decreases	Balance 12/31/2010
Governmental Activities:				
Capital assets not being depreciated				
Land	$ 383,914	$ 55,419	$ (2,556)	$ 436,777
Right of way and easements	414,919	38,353	(30,236)	423,036
Infrastructure	943,117	61,923	(79,583)	925,457
Art collections	8,497	311	-	8,808
Work in progress	106,809	35,484	(63,452)	78,841
Total capital assets not being depreciated	1,857,256	191,490	(175,827)	1,872,919
Capital assets being depreciated				
Buildings	990,902	30,065	-	1,020,967
Improvements other than buildings	33,915	25,263	-	59,178
Infrastructure	-	5,294	-	5,294
Furniture, machinery & equipment	161,273	20,044	(15,919)	165,398
Software	32,995	6,577	-	39,572
Total capital assets being depreciated	1,219,085	87,243	(15,919)	1,290,409
Less accumulated depreciation for:				
Buildings	(259,328)	(30,689)	-	(290,017)
Improvements other than buildings	(6,769)	(1,548)	-	(8,317)
Furniture, machinery & equipment	(99,644)	(16,754)	6,885	(109,513)
Software	(25,198)	(472)	-	(25,670)
Total capital assets being depreciated - net	828,146	37,780	(9,034)	856,892
Governmental activities capital assets - net	$ 2,685,402	$ 229,270	$ (184,861)	$ 2,729,811
Business-type Activities:				
Capital assets not being depreciated				
Land	$ 320,954	$ 3,996	$ (1,650)	$ 323,300
Right of way and easements	37,399	60	-	37,459
Work in progress	1,766,480	571,526	(229,064)	2,108,942
Total capital assets not being depreciated	2,124,833	575,582	(230,714)	2,469,701
Capital assets being depreciated				
Buildings	1,620,229	42,977	(3,368)	1,659,838
Improvements other than buildings	978,345	46,028	(5,557)	1,018,816
Infrastructure	1,023,221	41,676	-	1,064,897
Furniture, machinery & equipment	1,518,375	91,287	(51,517)	1,558,145
Software	68,798	9,241	(502)	77,537
Total capital assets being depreciated	5,208,968	231,209	(60,944)	5,379,233
Less accumulated depreciation for:				
Buildings	(608,052)	(46,774)	3,491	(651,335)
Improvements other than buildings	(480,581)	(41,866)	65	(522,382)
Infrastructure	(314,227)	(22,397)	-	(336,624)
Furniture, machinery & equipment	(1,021,583)	(98,399)	46,944	(1,073,038)
Software	(39,772)	(7,866)	488	(47,150)
Total capital assets being depreciated - net	2,744,753	13,907	(9,956)	2,748,704
Business-type activities capital assets - net	$ 4,869,586	$ 589,489	$ (240,670)	$ 5,218,405

Beginning balances have been restated; see Note 17 - "Restrictions, Reserves, Designations and Changes in Equity." Governmental activities include capital assets of governmental internal service funds except for the Wastewater Equipment Rental Fund, which is reported under business-type activities because it provides services exclusively to the Water Quality Enterprise.

Depreciation Expense

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

Governmental Activities	
General government services	$ 12,023
Law, safety and justice	14,964
Physical environment	84
Transportation	358
Economic environment	141
Mental and physical health	1,638
Culture and recreation	3,004
Capital assets held by the County's governmental internal service funds are charged to governmental activities based on their usage of the assets	17,252
Total depreciation amortization expense - governmental activities	$ 49,464

Business-type Activities	
Water Quality	$ 92,627
Public Transportation	101,760
Solid Waste	15,260
King County International Airport	4,178
Radio Communications	1,093
Institutional Network	1,417
Capital assets held by the Wastewater Equipment Rental internal service fund are charged to business-type activities based on their usage of the assets	683
Total depreciation and amortization expense - business-type activities	$ 217,018

Infrastructure

Infrastructure capital assets are long-lived capital assets that are normally stationary in nature and can be preserved for a significantly greater number of years than most capital assets. Included in King County's non-depreciable infrastructure are the roads and bridges network maintained by the Roads Division of the Department of Transportation. The roads and bridges network infrastructure is reported using the modified approach. Under the modified approach depreciation is not recorded; instead, costs incurred to extend an asset's useful life are expensed as preservation costs.

Roads and Bridges Infrastructure Valuation

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

Rights-of-Way and Easements

Rights-of-Way

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

Conservation Easements

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

Farmland Development Rights

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

Governmental Buildings in Internal Service Funds

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

Construction Commitments

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

Proprietary Funds

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

Water Quality Enterprise – $1 billion is committed to constructing a new major wastewater treatment plant and ensuring the continued operation, reliability, and compliance with regulatory standards of existing wastewater treatment facilities.

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

Capital Projects Funds

$457 million is committed to various capital projects, including: (1) strategic property acquisitions oriented towards conservation of natural resources, protection of habitat, and control of urban sprawl; (2) development and improvement of trails, playgrounds and ballfields, and other cultural facilities; (3) affordable housing; (4) technology initiatives to improve business efficiency, emergency preparedness, and network security; (5) flood control to protect the ecosystem and public property; (6) preservation and widening of roads and bridges; and (7) improvement of building facilities.

Discretely Presented Component Units

Harborview Medical Center (HMC)

Capital assets activity for HMC during the fiscal year ended June 30, 2010 (in thousands):

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

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

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

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

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

Note 7
Restricted Assets

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

The restricted assets for these funds (in thousands):

Proprietary Funds

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

Component Unit - Harborview Medical Center (HMC)

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

Component Unit - Cultural Development Authority of Kng County

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

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.

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

Plan Descriptions

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

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

PERS Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The annual benefit is 2 percent of the average final compensation (AFC) per year of service, capped at 60 percent. (The AFC is based on the greatest compensation during any 24 eligible consecutive compensation months.) This annual benefit is subject to a minimum for PERS Plan 1 retirees who have 25 years of service and have been retired 20 years, or who have 20 years of service and have been retired 25 years. Plan 1 members who retire from inactive status prior to the age of 65 may receive actuarially reduced benefits. If a survivor option is chosen, the benefit is further reduced. A cost-of-living allowance (COLA) is granted at age 66 based upon years of service times the COLA amount, which is increased 3 percent annually. Plan 1 members may also elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. The benefit is reduced to offset the cost of this annual adjustment.

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

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

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

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

The benefit is also actuarially reduced to reflect the choice of a survivor option. There is no cap on years of service credit and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at one percent of the AFC per year of service. (The AFC is based on the greatest compensation during any eligible consecutive 60-month period.) Effective June 7, 2006, PERS Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service, if twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

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

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age for each year before age 65.

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

PERS Plan 3 defined benefit retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. There is no cap on years of service credit and Plan 3 provides the same cost-of-living allowance as Plan 2.

PERS Plan 3 defined contribution retirement benefits are solely dependent upon the results of investment activities. The defined contribution portion can be distributed in accordance with an option selected by the member, either as a lump sum or pursuant to other options authorized by the Director of the Department of Retirement Systems.

Judicial Benefit Multiplier

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

Members who chose to participate in JBM would: accrue service credit at the higher multiplier beginning with the date of their election, be subject to the benefit cap of 75 percent of AFC, pay higher contributions, stop contributing to the Judicial Retirement Account (JRA), and be given the option to increase the multiplier on past judicial service.

Members who did not choose to participate in JBM would: continue to accrue service credit at the regular multiplier; continue to participate in JRA, if applicable; never be a participant in the JBM Program; and continue to pay contributions at the regular PERS rate.

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

There are 1,189 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2009:

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

Funding Policy

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6.0 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan, and member contributions finance the defined contribution portion. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates. Six rate options are available ranging from 5.0 percent to 15.0 percent; two of the options are graduated rates dependent on the employee's age. As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program. The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2010, for members not participating in the JBM were as follows:

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

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

Members participating in the JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer - Local government	5.31%	5.31%	5.31%
Employee - Local government	12.26%	9.75%	7.50%

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

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

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

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

Plan Descriptions

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

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

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

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

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

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

allowance is granted (based on the Consumer Price Index).

LEOFF Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members may retire at the age of 50 with 20 years of service, or at the age of 53 with five years of service, with an allowance of 2 percent of the FAS per year of service. The FAS is based on the highest consecutive 60 months. Plan 2 members who retire prior to the age of 53 receive reduced benefits. Benefits are actuarially reduced for each year that the benefit commences prior to age 53 and to reflect the choice of a survivor option. If the member has at least 20 years of service and is age 50, the reduction is 3 percent for each year prior to age 53. There is no cap on years of service credit and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

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

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

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

Funding Policy

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

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2010, were as follows:

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

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

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

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

Public Safety Employees' Retirement System (PSERS) Plan 2

Plan Description

PSERS is a cost-sharing multiple-employer retirement system comprised of a single defined benefit plan, PSERS Plan 2. PSERS became effective July 1, 2006. PSERS Plan 2 membership includes full-time employees of a covered employer on or before July 1, 2006, who met at least one of the PSERS eligibility criteria, and elected membership during the election period of July 1, 2006 to September 30, 2006; and those full-time employees, hired on or after July 1, 2006, by a covered employer, that meet at least one of the PSERS eligibility criteria.

A covered employer is one that participates in PSERS. Covered employers include:

- State of Washington agencies: Department of Corrections; Parks and Recreation Commission; Gambling Commission; Washington State Patrol; and Liquor Control Board.
- Washington state counties and Washington state cities, except for Seattle, Tacoma and Spokane.

To be eligible for PSERS, an employee must work on a full-time basis and:

- have completed a certified criminal justice training course with authority to arrest, conduct criminal investigations, enforce the criminal laws of Washington, and carry a firearm as part of the job; or
- have primary responsibility to ensure the custody and security of incarcerated or probationary individuals; or
- function as a limited authority Washington peace officer, as defined in RCW 10.93.020; or
- have primary responsibility to supervise eligible members who meet the above criteria.

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

PSERS Plan 2 members are vested after the completion of five years of eligible service. PSERS Plan 2 members may retire at the age of 65 with five years of service, or at the age of 60 with at least ten years of PSERS service credit, with an allowance of 2 percent of the average final compensation (AFC) per year of service. The AFC is the monthly average of the member's 60 consecutive highest-paid service credit months, excluding any severance pay such as lump-sum payments for deferred sick leave, vacation or annual leave. Plan 2 members who retire prior to the age of 60 receive reduced benefits. If retirement is at age 53 or older with at least 20 years of service, a 3 percent per year reduction for each year between the age at retirement and age 60 applies. There is no cap on years of service credit, and a cost-of-living allowance is granted based on the Consumer Price Index and capped at 3 percent annually.

There are 73 participating employers in PSERS. Membership in PSERS consisted of the following as of the latest actuarial valuation date for the plan of June 30, 2009:

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

Funding Policy

Each biennium, the state Pension Funding Council adopts PSERS Plan 2 employer and employee contribution rates. The employer and employee contribution rates for Plan 2 are developed by the Office of the State Actuary to fully fund Plan 2. All employers are required to contribute at the level established by the Legislature. The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.37 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2010, were as follows:

	PSERS Plan 2
Employer	7.85%
Employee	6.55%

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

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

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

Seattle City Employees' Retirement System (SCERS)

SCERS is a cost-sharing, multiple-employer retirement plan administered in accordance with chapter 4.36 of the Seattle Municipal Code. County employees of the Department of Public Health who have established membership in SCERS remain covered by the City Retirement System. Employees of Public Transportation who are former employees of Seattle Transit are also covered by the system. SCERS provides retirement, death, and disability benefits.

Employees covered by this plan may retire after 30 years of service regardless of age; after age 52 with 20 years or more of service; after age 57 with ten or more years of service; and after age 62 with five or more years of service. Disability retirement is available after ten years of service. The unmodified monthly retirement allowance is based on a percentage of average salary for every year of service to a maximum of 60 percent. The average salary for this plan is defined as the highest consecutive twenty-four months' average rate of pay. The percentage for each year of service used to compute the retirement benefit depends on the age at retirement and the years of service. It ranges from 1.2 percent at age 52 with 20 years of service to a maximum of 2 percent for each year of service. The maximum allowance a member can receive is the unmodified plan, which has no provision for a beneficiary and, at the member's death, stops all payments. Several optional retirement benefit formulas exist which provide for beneficiaries with reduced monthly allowances.

The SCERS member contribution rate is 8.03 percent of compensation except for members

qualifying for lower rates prior to June 1972. The County is required to contribute at an actuarially determined rate. The current rate is 8.03 percent of annual covered payroll. The contribution requirements of plan members and the County are established and may be amended by the Board of Administration. Both the County and the employees made the required contributions. The County's required contributions for the years 2008, 2009, and 2010 ending December 31 were $644, $615, and $596 thousand, respectively.

Component Unit – Harborview Medical Center (HMC)

HMC personnel are University of Washington (UW) employees. HMC faculty and professional staff participate in the University of Washington Retirement Plan (UWRP), an IRC Section 403 (b) defined contribution retirement plan, authorized by the Board of Regents. HMC staff participate in a plan authorized by the State of Washington Department of Retirement Systems (DRS). Plan participation is defined by position, with the majority of HMC employees enrolled in one of the three Public Employees' Retirement Systems (PERS) plans.

All plans include contributions by both employee and employer. Employee contributions are tax-deferred. Employer contributions are paid semi-monthly by the UW in accordance with rates specified by the retirement systems.

Component Unit – Washington State Major League Baseball (WSMLB) Stadium Public Facilities District (PFD)

Employees of the District have the option of participating in either the Public Employees' Retirement System (PERS) or the Stadium PFD Retirement Plan (in 2010 no employees elected to participate in PERS). Employer contributions are paid by the District in accordance with rates specified by the individual plans.

Employees are also able to select the Stadium PFD Retirement Plan as an alternative benefit plan to PERS. The Plan is designated as a profit-sharing plan in accordance with Section 401 (a) (27) (B) of the Internal Revenue Code. No contributions by participants are required or permitted other than authorized rollover contributions. All contributions to the plan vest immediately. Actual contributions made to the plan in 2010 were $400.

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

All CDA personnel participate in the Public Employees' Retirement System (PERS). PERS is a statewide local government retirement system administered by the State of Washington Department of Retirement Systems under cost-sharing, multiple-employer defined benefit public employee retirement systems.

Note 9

Postemployment Health Care Plan

During the year ended December 31, 2007, the County elected to adopt the provisions of GASB Statement No. 45, "*Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*" (GASB No. 45), which requires the County to accrue other postemployment benefits (OPEB) expense related to its postretirement health care plan based on a computed annual required contribution (ARC) that includes the current period's service cost and an amount to amortize unfunded actuarial accrued liabilities. Instead of recording expense on a "pay-as-you-go" basis, the County, under GASB No. 45, has recorded a liability of $30.7 million for the difference between the actuarially calculated ARC and the estimated contributions made since the adoption of GASB No. 45. Such liability is included in other noncurrent liabilities in the accompanying December 31, 2010, balance sheet.

The effect of GASB No. 45 for the current fiscal year was to decrease the County's excess of revenue over expenses before capital contributions and the County's increase in net assets for the year ended December 31, 2010, by approximately $7.8 million.

Plan Description The King County Health Plan (the Health Plan) is a single-employer defined-benefit health care plan administered by the County. The Health Plan provides medical, prescription drug, vision, and other unreimbursed medical benefits to eligible retirees. The Health Plan's actuary is Healthcare Actuaries. The Health Plan does not issue a separate stand-alone financial report.

Funding Policy LEOFF 1 retirees are not required to contribute to the Health Plan. All other retirees are required to pay the COBRA rate associated with the elected plan.

For the fiscal year ended December 31, 2010, the County contributed an estimated $5.0 million to the Health Plan. The County's contribution was entirely to fund "pay-as-you-go" costs under the Health Plan and not to prefund benefits.

Annual OPEB Cost and Net OPEB Obligation The basis for the County's annual OPEB cost (expense) is the ARC. The ARC represents a level of funding that, if paid on an ongoing basis, the actuary projects will cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The components of the County's annual OPEB cost, the estimated amount contributed to the Health Plan, and changes in the County's net OPEB obligation to the Health Plan for the year ended December 31, 2010 (in thousands):

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

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the Health Plan, and the net OPEB obligation (in thousands):

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

Funded Status and Funding Progress

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

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

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and health care cost trends. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. GASB 45 requires that the schedule of funding progress, presented as required additional information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of Health Plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions The basis of projections of benefits for financial reporting purposes is the substantive plan (the Health Plan as understood by the County and members of the Health Plan) and includes the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the County and Members of the Health Plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The December 31, 2009, valuation used the projected unit credit actuarial cost method. The actuarial assumptions included a 4.0 percent investment rate of return (net of administrative expenses) and an initial annual health care cost trend rate of 11.0 percent for KingCare medical, 8.5 percent for KingCare pharmacy, and 11.0 percent for HMO medical/pharmacy, each reduced by decrements to an ultimate rate of 5.2 percent after 71 years and 12 years for medical and pharmacy, respectively. The vision trend rate is 1.0 percent, the miscellaneous trend rate is 7.0 percent, and the Medicare Premium trend rate is 8.5 percent, for all years. All trend rates include a 3.0 percent inflation assumption, with the exception of vision trends. The amortization of the UAAL at transition uses a level dollar amount on a closed basis. The remaining amortization period at December 31, 2009, was 27.0 years. The UAAL is recalculated each year and amortized as a level dollar amount on an open basis over 30 years.

Component Unit – Harborview Medical Center (HMC)

Health care and life insurance programs for employees of the State of Washington are administered by the Washington State Health Care Authority (HCA). All University of Washington employees, including Medical Center employees, are employees of the State of Washington. State of Washington retirees may elect coverage through state health and life insurance plans, for which they pay less than the full cost of the benefits, based on their age and other demographic factors.

An actuarial study performed by the Washington Office of the State Actuary calculated the total OPEB obligation of the State of Washington. Since sufficient specific employee data and other actuarial data are not available at levels below the statewide level, such amounts have not been determined nor recorded in the University's nor the Medical Center's financial statements. This liability is recorded at the statewide level. The Medical Center was billed and paid $54,773 and $38,828, for health care expenses for the years ended June 30, 2010, and 2009, respectively, which included funding of the OPEB liability.

Note 10
Risk Management

The County uses three internal service funds to account for and finance property/casualty, workers' compensation, and employee medical and dental benefits self-insurance programs. Unemployment liability is accounted for in the funds with loss experience and as governmental long-term liability. The County contracts with a plan administrator to process medical and dental claims. County fund/claims managers, together with the Civil Division of the Prosecuting Attorney's Office, are responsible for processing all tort and workers' compensation claims.

Claims settlements and loss expenses are accrued in the three internal service funds for the estimated settlement value of both reported and unreported claims. These funds are responsible for collecting interfund premiums from insured funds and departments for paying claim settlements and for purchasing certain policies. Interfund premiums are assessed on the basis of claims experience and are reported as revenues and expenses or expenditures.

Insurance Fund

The Insurance Fund, an internal service fund, accounts for the County's property/casualty program. The fund, established in 1977, accounts for the County's exposures to loss due to the tortious conduct of the County, including those commonly covered by general liability, automobile liability, police professional, public officials, errors and omissions, and professional malpractice insurance policies. The estimated liability for probable self-insurance losses (reported and unreported) recorded in the fund as of December 31, 2010, is $65.0 million.

The County purchases excess liability coverage that currently provides $97.5 million in limits above a $3.5 million per occurrence self-insured retention (SIR) for its general liability, automobile liability, police liability, public officials, errors and omissions, and Health Department professional malpractice exposures. Effective September 1, 2010, the County renewed the property insurance policy. This policy has a blanket limit of $500 million above a $250 thousand per occurrence deductible and provides an overall earthquake sublimit of $100 million. The 2010 policy was endorsed to cover Certified and Non-Certified Acts of Terrorism on a blanket basis up to $250 million.

In addition to its excess liability policy and property insurance policies, the County has specific liability insurance policies to cover some of its other exposures. The County has a liability policy for the King County International Airport with policy limits of $300 million per occurrence and an annual aggregate deductible of $50 thousand; a liability policy to cover police helicopter activities with a limit of $50 million per occurrence; a policy to cover the King County International Airport properties with a limit of $160 million above a $100 thousand per occurrence deductible; several flood insurance policies to cover County property in the Green River Valley with limits of $250 to $500 thousand and a deductible of $1 thousand; and excess statutory coverage for the Workers' Compensation program over a $2.5 million per occurrence SIR.

In the past three years there were three occurrences that resulted in payment in excess of the self-insured retention of $2.5 million.

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

The County has extensively reviewed and revised its marine policies to better address some new and expanding County exposures due mainly to the Homeland Security Act. The marine program now has limits of $50 million with additional coverage for sudden and accidental pollution, maritime employers' liability, towers liability, and contingent charterers liability. The County also purchased a vessel pollution liability policy to cover passenger-only vessels with a limit of $5 million per incident.

With the assistance of an actuary, the Insurance Fund's claims liability is estimated based upon historical claims experience and other actuarial techniques. Nonincremental claim adjustment expenses are not included as part of the liability.

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

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

Safety and Workers' Compensation Fund

The Safety and Workers' Compensation Fund, an internal service fund, accounts for the County's self-insurance for workers' compensation as certified under Title 51 Revised Code of Washington (RCW), Industrial Insurance Act. Interfund premiums are based on the hours worked by the fund/department-covered employees times an hourly rate that varies for different classes of employees and are recorded as quasi-external interfund transactions. Public Transportation and Water Quality internal fund charges are derived from actuarial projections of their future claims and administrative costs. The estimated liability for probable self-insurance losses (reported and unreported) recorded in the financial statements is discounted at 3 percent, the County's average forecasted rate of return on investments. As of December 31, 2010, the total discounted claim liability is $79.4 million and the undiscounted carrying amount of the claim liability is $88.2 million.

The County purchases an excess workers' compensation policy that provides statutory limits coverage. The amount of loss retained by King County (the self-insured retention) under this policy, effective September 1, 2004, was $2.5 million. In the prior three years, there has been no settlement in excess of the insurance coverage.

The Fund's claims liability is estimated by an independent actuary and discounted. The claim liability represents the estimated ultimate amount to be paid for reported and incurred but not reported claims based on past experience and other actuarial techniques. Nonincremental claim adjustment expenses are not included as part of the liability.

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

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

Employee Benefits Program Fund

The Employee Benefits Program Fund, an internal service fund, accounts for employee medical, dental, vision, life, accidental death and dismemberment (AD&D), and long-term disability (LTD) benefit programs. There are two self-insured medical plans. The pharmacy, dental and vision plans are also self-insured. The life, AD&D and LTD are fully insured. Interfund premiums are determined on a per employee, per month basis and charged to departments through a composite rate of expected claims and expenses. In some cases, there are employee contributions towards premiums. The estimated liability for probable self-insurance losses (reported and unreported) recorded in the fund as of December 31, 2010, is $18.9 million.

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

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

Unemployment Liability

The County has elected to retain the risk for unemployment compensation payable to former County employees. The State of Washington Employment Security Department bills the County for the unemployment compensation benefits paid to former employees. Expenditures are then recognized in various county funds. In addition, a long-term liability of $2.5 million is recorded in governmental long-term liability for the estimated future claims liability for employees as of December 31, 2010.

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

Component Unit – Harborview Medical Center

Insurance Fund

Harborview Medical Center (HMC) participates in a self-insurance revolving fund for professional liability coverage through the University of Washington (UW). As of June 30, 2010, the UW did not carry commercial general liability coverage at levels below $2 million per occurrence. The UW's philosophy with respect to its self-insurance programs is to fully fund its anticipated losses through the establishment of actuarially determined self-insurance reserves. These reserves are deposited in a statutorily created and regulated fund and can only be expended for payment of claim costs and related expenses.

The annual funding to the self-insurance revolving fund is determined by the UW administration based on recommendations from the UW's Risk Management Advisory Committee. The HMC's *pro rata* share of premiums paid to the self-insurance revolving fund was approximately $1.7 million in the period July 1, 2008 to June 30, 2009, and $2.0 million in the period July 1, 2009 to June 30, 2010.

Employee Benefits Program

Eligible permanent employees of HMC receive the basic insurance benefits package purchased by the University of Washington through the Public Employees Benefits Board (PEBB). HMC faculty and staff meeting PEBB eligibility rules receive this package of medical, dental, life, and long-term disability (LTD) insurance. In addition, there are optional employee-paid components to the life and LTD insurance available to employees.

All employees of HMC are covered by Workers' Compensation and Medical Aid Acts for injuries and occupational diseases that occur during the course

of their employment. Coverage includes doctors' services, hospital care, ambulance, appliances, compensation for permanent, partial, and total disability, and allowances and pensions to surviving spouses and children in the case of fatal injuries. A majority of the premium cost is paid by the UW and a small deduction is made from the employee's pay to conform with state law.

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

Component Unit – Cultural Development Authority of King County

Insurance Fund

The Cultural Development Authority of King County (CDA) carries comprehensive general liability, auto liability and employee benefit liability coverage with a limit of $10 million per occurrence and no aggregate limit. Commercial property losses are covered up to the replacement cost on file with Washington Governmental Entity Pool. The CDA also carries Public Official Errors and Omissions Liability coverage with a limit of $10 million per occurrence and an aggregate limit of $10 million.

Employee Benefits Program

Employees of the CDA have a comprehensive health benefits package through the Public Employees Benefits Board (PEBB), which includes medical, dental, basic life, and long-term disability coverage. In addition, the PEBB offers the following optional products: long-term care, auto, and home insurance. The State of Washington Health Care Authority (HCA) is the 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 2010. Such assets and liabilities related to proprietary funds are accounted for within the proprietary funds (Business-type Activities).

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

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

Future minimum lease payments under capital lease and installment purchase agreements together with the present value of the net minimum lease payments as of December 31, 2010 (in thousands):

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

Operating Leases

The County has numerous operating lease commitments for office space, equipment, radio towers, and railroad tracks. The Information and Telecommunications Services Fund leases computer hardware; these leases include maintenance agreements. Expenditures for the year ended December 31, 2010, for operating lease and rental agreements for office space, equipment, and other operating leases amount to $40.4 million. The patterns of future lease payment requirements are systematic and rational.

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

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

The County currently leases some of its property to various tenants under long-term, renewable, and noncancelable contracts. Under business-type activities, the King County Airport Enterprise leases out most of the buildings and grounds in the King County International Airport/Boeing Field complex to companies and government agencies in the aviation industry.

The County's investment in property under long-term, noncancelable operating leases as of December 31, 2010 (in thousands):

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

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

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

Note 12
Landfill Closure and Post-Closure Costs

King County is legally responsible for closure and post-closure care costs associated with the County's solid waste landfills. Estimated costs of closure and post-closure care are recognized as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and post-closure care in current dollars. Actual cost may be different due to inflation, deflation, changes in technology, or changes in laws or regulations.

State and federal laws and regulations require King County to place a final cover on its Cedar Hills Landfill site when the County stops accepting waste at this location. Certain maintenance and monitoring functions are also required at the sites for 30 years following closure. Enumclaw, Hobart, Duvall, Vashon, and Cedar Falls landfills have been covered. Puyallup, Houghton, Bow Lake, and First Northeast are custodial landfills which were covered 30 or more years ago and are no longer subject to these laws and regulations.

Although closure and post-closure care costs will be paid only near or after the date that the landfills stop accepting waste, the County reports a portion of these costs as an operating expense in each period. The expense is based on landfill capacity used as of each year-end.

The County is required by state and federal laws and regulations to make annual contributions to a reserve fund to finance closure and post-closure care. The County is in compliance with these requirements. As of December 31, 2010, cash and cash equivalents of $32.9 million were held in the Landfill Reserve Fund. Cash and cash equivalents and other restricted assets of $5.0 million were held in the Landfill Post-closure Maintenance Fund.

The County expects that future cost increases resulting from inflation will be covered by the interest income earned on these annual contributions. If interest earnings are inadequate, or additional post-closure care requirements are determined (due to changes in technology or regulations), the County may need to increase future user fees or tax revenues.

The County also established the Environmental Reserve Fund for future investigation and possible remediation of custodial landfills. Because landfill investigations and foreseeable remediation efforts are complete there is no liability recorded for custodial landfills.

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

The $85.5 million reported as landfill closure and post-closure care liability as of December 31, 2010, represents the cumulative percentage reported based on the amount that each of the landfills has been filled to date as follows (dollars in thousands):

Landfill	Percent Filled	Estimated Liability	Estimated Remaining Liability	Estimated Year of Closure
Cedar Hills	74%	$ 56,376	$ 58,524	2024
Covered	100%	21,906	-	Closed
Custodial	100%	7,215	-	Closed

Note 13
Environmental Remediation

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

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

Elliott Bay and the Lower Duwamish Waterway – These ongoing projects include the sediment management of aquatic habitats along Elliott Bay and the cleanup of certain sites along the Lower Duwamish Waterway. The Sediment Management Project has been approved by the King County Council as a self-obligated pollution remediation program. The Lower Duwamish Waterway project became an obligation when King County entered into an Administrative Order on Consent (AOC) with the Washington State Department of Ecology (DOE) and the U.S. Environmental Protection Agency (EPA). This AOC also includes the Boeing Company, the City of Seattle, and the Port of Seattle as parties to the cleanup. Each party has agreed to pay one-fourth of the cleanup costs.

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

There are no estimated recoveries at this time that will reduce the amount of these obligations. However, the State of Washington has indicated that it intends to fund grants in support of the Lower Duwamish Waterway cleanup. These amounts are forecast at $1.2 million over the period from 2011 to 2016. The total environmental remediation liability at December 31, 2010, stands at $37.8 million. This liability is an estimate and is subject to changes resulting from price increases or reductions, changes in technology, or changes in applicable laws or regulations.

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

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

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

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

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

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

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

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

Note 14
Debt

Short-term Debt Instruments and Liquidity

For governmental activities, the County has three short-term debt instruments outstanding at year-end. On June 9, 2010, the County completed the sale of $6.3 million Series B tax-exempt and $17.8 million Series C taxable limited tax general obligation (GO) Bond Anticipation Notes with a maturity date of December 1, 2011. The proceeds of the notes are accounted for in the Green River Flood Mitigation fund. Proceeds from the sale of the notes are used to refinance two Bond Anticipation Notes issued on December 29, 2009. Also, a portion of the proceeds from the sale of the notes will be used to pay for the costs of issuing the notes. The County intends to finance the repayment of the notes by issuing bonds in 2011. In addition, the County completed the sale of $60.2 million tax-exempt limited tax general obligation (GO) Bond Anticipation Notes with a maturity date of June 15, 2011. The proceeds of the Notes have been accounted for in the Office of Information Resource Management capital project fund. The proceeds were used to provide interim financing to upgrade the County's technology infrastructure. The County has financed the repayment of the Notes by issuing new Bond Anticipation Notes in June 2011.

For business-type activities, the County has $100 million of commercial paper outstanding in the Water Quality Enterprise Fund at year-end. The commercial paper has maturity dates ranging from 62 to 94 days. At the time of initial issuance, the proceeds of the commercial paper were transferred to the construction fund for use in the capital activities of the Enterprise. The debt will be repaid from operating revenues.

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

	Balance 01/01/10	Additions	Reductions	Balance 12/31/10
Governmental activities:				
Limited tax GO bond anticipation notes	$ 27,095	$ 84,290	$ (27,095)	$ 84,290
Unamortized premium bonds sold	-	630	-	630
Governmental activities short-term debt	$ 27,095	$ 84,920	$ (27,095)	$ 84,920
Business-type activities:				
Commercial paper	$ 100,000	$ 953,409	$ (953,409)	$ 100,000
Business-type activities short-term debt	$ 100,000	$ 953,409	$ (953,409)	$ 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 consisted of limited tax general obligation bonds accounted for in the King County International Airport, Institutional Network (I-NET), Solid Waste, Public Transportation, and Water Quality Enterprise Funds; capital leases accounted for in the Public Transportation Fund; and Sewer Revenue Bonds and State of Washington revolving loans accounted for in the Water Quality Enterprise Fund.

SCHEDULE OF LONG-TERM DEBT
(IN THOUSANDS)

	Issue Date	Final Maturity	Interest Rates	Original Issue Amount	Outstanding at 12/31/10
I. GOVERNMENTAL ACTIVITIES – LONG-TERM DEBT					
IA. Limited Tax General Obligation Bonds (LTGO)					
2001 Various Purpose (Partial)	11/01/01	12/01/21	3.00-5.00%	$ 26,865	$ 1,200
2002 Refunding 1997B Bonds (Baseball Stadium)	06/04/02	12/01/14	4.00-5.50%	124,575	37,365
2002 Various Purpose (Road CIP) Bonds	10/01/02	12/01/16	2.00-5.00%	38,340	8,910
2003 Limited Tax GO (Payoff BAN 2003B) Series A	10/30/03	06/01/23	2.00-5.25%	27,605	20,755
2003 Various Purpose Refunding Bonds Series B (Partial)	10/30/03	06/01/23	2.00-5.25%	27,890	9,400
2004 Refunding Bonds Series A	09/21/04	01/01/16	2.00-5.00%	57,045	40,445
2004 Limited Tax GO (Payoff BAN2003A) Series B	10/01/04	01/01/25	2.50-5.00%	82,435	68,690
2005 Refunding Bonds Series A	06/29/05	01/01/19	5.00%	22,510	22,510
2006 Refunding Bonds (Partial)	12/14/06	01/01/19	4.00-5.00%	38,330	28,455
2006 HUD Section 108 Bonds – Greenbridge Project	08/01/06	08/01/24	4.96-5.70%	6,783	4,905
2007 Kingdome Debt Series A Refunding 1997F	09/05/07	12/01/15	4.00-5.00%	48,665	48,100
2007 Various Purpose Series C	11/01/07	01/01/28	4.00-4.50%	10,695	9,915
2007 Various Purpose Series D	11/01/07	01/01/28	4.00-5.00%	34,630	32,185
2007 Various Purpose Series E (Partial)	11/27/07	12/01/17	4.00-5.00%	3,070	2,290
2009 Multi-Modal Limited Tax GO Bond Series A	02/26/09	06/01/29	Variable [(a)]	50,000	48,100
2009 Various Purpose Capital Facilities Project Series B2	05/12/09	06/01/29	2.00-5.13%	34,810	33,895
2009 Limited Tax GO (Refg 1993B) Series C	12/10/09	01/01/24	4.50%	17,150	16,975
2009 Refunding Bonds Series D (Partial)	12/10/09	12/01/12	4.50-5.25%	6,149	4,154
2010 Partial Refunding 2001VP Series A	10/18/10	12/31/21	2.00-5.00%	11,695	11,475
2010 Partial Refunding 2002 VP Series A	10/18/10	12/31/21	2.00-5.00%	9,600	9,600
2010 Tax Exempt Series A	11/15/10	12/01/14	2.00-5.00%	21,970	21,970
2010 Taxable BABs Series B	11/15/10	12/01/30	2.85-6.05%	24,480	24,480
2010 Taxable RZEDBs Series C	11/15/10	12/01/30	4.58-6.05%	23,165	23,165
2010 Taxable QECBs Series D	11/15/10	12/01/25	4.33-5.43%	2,825	2,825
2010 Tax Exempt Series E	11/15/10	12/01/30	2.00-4.50%	10,025	10,025
Total Payable From Limited Tax GO Redemption Fund				761,307	541,789
Payable From Internal Service Funds					
2001 Various Purpose (Partial)	11/01/01	12/01/11	3.00-5.00%	1,050	125
Total Payable From Internal Service Funds				1,050	125
Total Limited Tax General Obligation Debt				762,357	541,914
IB. Unlimited Tax General Obligation Bonds (ULTGO)					
Payable From Unlimited Tax GO Redemption Fund					
2003 Refunding 1993 Series C Bonds	04/23/03	06/01/19	2.00-5.25%	108,795	12,985
2004 Harborview Medical Center Series A	05/04/04	12/01/23	2.00-5.00%	110,000	89,750
2004 Harborview Medical Center Series B	09/14/04	06/01/23	3.00-5.00%	54,000	45,085
2009 Refunding 2001(HMC) Series A	12/10/09	12/01/20	4.30-5.00%	19,570	19,325
2010 Partial Refunding 2000 UTGO Series A	10/18/10	12/31/15	3.00-5.00%	16,305	15,915
Total Payable From Unlimited Tax GO Bond Redemption Fund				308,670	183,060
Payable From Stadium GO Bond Redemption Fund					
2010 Refunding 2000 UTGO Series A	10/18/10	12/31/12	3.00-5.00%	3,500	3,435
Total Unlimited Tax General Obligation Bonds				312,170	186,495
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	55,915
2005 Goathill Property – Chinook Building	02/03/05	12/01/33	4.00-5.25%	101,035	94,360
2006A NJB Properties – HMC	12/05/06	12/01/36	5.00%	179,285	179,285
2006B NJB Properties – HMC (Taxable)	12/05/06	12/01/36	5.51%	10,435	10,435
2007 King Street Center Project Refunding 1997	03/08/07	06/01/25	4.00-5.00%	62,400	55,995
Total Lease Revenue Bonds Payable from Internal Service Funds				415,695	395,990
TOTAL GOVERNMENTAL ACTIVITIES – LONG-TERM DEBT				1,490,222	1,124,399

SCHEDULE OF LONG-TERM DEBT
(IN THOUSANDS)

	Issue Date	Final Maturity	Interest Rates	Original Issue Amount	Outstanding at 12/31/10
II. BUSINESS-TYPE ACTIVITIES – LONG-TERM DEBT					
IIA. Limited Tax General Obligation Bonds (LTGO)					
Payable From Enterprise Funds					
2001 LTGO Various Purpose (Partial)	11/01/01	12/01/21	3.00-5.00%	$ 8,635	$ 415
2002 LTGO (Public Transp. Sales Tax) Refunding Bonds	11/05/02	12/01/19	3.00-5.50%	64,285	40,840
2004 LTGO (Public Transp. Sales Tax) Bonds	06/08/04	06/01/34	2.50-5.50%	49,695	44,590
2005 LTGO (WQ-LTGO) Bonds	04/21/05	01/01/35	5.00%	200,000	200,000
2006 Refunding Bonds (Partial)	12/14/06	01/01/15	4.00-5.00%	7,995	3,100
2007 Various Purpose Series E (Partial)	11/27/07	12/01/27	4.00-5.00%	40,635	36,685
2008 LTGO (WQ-LTGO) Refunding Bonds	02/12/08	01/01/34	3.25-5.25%	236,950	230,515
2009 LTGO (Public Transp. Sales Tax) Refunding Bonds	02/18/09	12/01/19	2.00-4.00%	48,535	40,535
2009 LTGO (WQ-LTGO) Bonds Series B	04/08/09	01/01/39	5.00-5.25%	300,000	300,000
2009 Refunding Bonds Series D (Partial)	12/10/09	12/01/12	2.00-4.00%	3,126	2,111
2010 Partial Refunding 2001VP Series A	10/18/10	12/31/21	2.00-5.00%	5,110	5,010
2010 Tax Exempt Series A	11/15/10	12/01/14	2.00-5.00%	3,855	3,855
2010 Taxable BABs Series B	11/15/10	12/01/30	2.85-6.05%	20,555	20,555
2010 Taxable QECBs Series D	11/15/10	12/01/25	4.33-5.43%	3,000	3,000
2010 LTGO (WQ) Series A	01/12/10	01/01/40	Variable [a]	50,000	50,000
2010 LTGO (WQ) Series B	01/12/10	01/01/40	Variable [a]	50,000	50,000
Total Limited Tax GO Bonds Payable From Enterprise Funds				1,092,376	1,031,211
IIB. Revenue Bonds, Capital Leases and Loans					
Payable From Enterprise Funds					
2001 WQ Revenue Bonds Junior Lien Series A	08/06/01	01/01/32	Variable [c]	50,000	50,000
2001 WQ Revenue Bonds Junior Lien Series B	08/06/01	01/01/32	Variable [c]	50,000	50,000
2001 WQ Revenue and Refunding Bonds	11/28/01	01/01/35	3.00-5.25%	270,060	183,555
2002 WQ Revenue Bonds Series A	08/14/02	01/01/35	5.00-5.50%	100,000	94,960
2002 WQ Revenue Refunding Bonds Series B	10/03/02	01/01/33	3.00-5.50%	346,130	226,670
2003 WQ Revenue Refunding Bonds	04/24/03	01/01/35	2.00-5.25%	96,470	90,905
2004 WQ Revenue Bonds Series A	03/18/04	01/01/35	4.50-5.00%	185,000	185,000
2004 WQ Revenue Refunding 1999-2 Bonds Series B	03/18/04	01/01/35	2.00-5.00%	61,760	57,015
2006 WQ Revenue and Refunding 1999-1 Bonds Series A	05/16/06	01/01/36	5.00%	124,070	124,070
2006 WQ Revenue and Refunding Bonds Series B-2	11/30/06	01/01/36	3.50-5.00%	193,435	186,810
2007 WQ Revenue Bonds	06/26/07	01/01/47	5.00%	250,000	250,000
2008 WQ Revenue Bonds	08/14/08	01/01/48	5.00-5.75%	350,000	350,000
2009 WQ Revenue Bonds	08/12/09	01/01/42	4.00-5.25%	250,000	250,000
2010 WQ Revenue Bonds	07/19/10	01/01/50	2.00-5.00%	334,365	334,365
2000-2010 State of Washington Revolving Loans	Various	Various	0.50-3.10%	177,834	135,995
2000 Public Transp. Park and Ride Capital Leases	03/30/00	12/31/31	5.00%	4,722	3,279
Total Revenue Bonds, Capital Leases and Loans Payable From Enterprise Funds				2,843,846	2,572,624
TOTAL BUSINESS-TYPE ACTIVITIES – LONG-TERM DEBT				3,936,222	3,603,835
TOTAL LONG-TERM DEBT (EXCLUDING GO LONG-TERM LIABILITIES)				$ 5,426,444	$ 4,728,234

(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.

DEBT SERVICE REQUIREMENTS TO MATURITY
(IN THOUSANDS)

	GOVERNMENTAL ACTIVITIES					
	General Obligation Bonds		Lease Revenue Bonds		Total	
Year	Principal	Interest	Principal	Interest	Principal	Interest
2011	$ 51,588	$ 33,207	$ 10,465	$ 19,390	$ 62,053	$ 52,597
2012	68,235	31,006	10,965	18,892	79,200	49,898
2013	81,415	27,831	11,490	18,365	92,905	46,196
2014	67,497	23,977	12,060	17,795	79,557	41,772
2015	64,172	21,016	12,675	17,180	76,847	38,196
2016-2020	192,650	71,744	73,225	76,050	265,875	147,794
2021-2025	151,284	29,958	90,940	56,581	242,224	86,539
2026-2030	51,568	6,900	88,205	35,217	139,773	42,117
2031-2035	-	-	73,365	13,106	73,365	13,106
2036-2040	-	-	12,600	634	12,600	634
TOTAL	$ 728,409	$ 245,639	$ 395,990	$ 273,210	$ 1,124,399	$ 518,849

	BUSINESS-TYPE ACTIVITIES						Debt Service Requirements to Maturity	
	General Obligation Bonds		Revenue Bonds, Capital Leases and Loans		Total		Total	
Year	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2011	$ 15,648	$ 49,720	$ 42,096	$ 114,861	$ 57,744	$ 164,581	$ 119,797	$ 217,178
2012	16,260	49,320	46,621	114,761	62,881	164,081	142,081	213,979
2013	15,776	48,666	46,936	112,992	62,712	161,658	155,617	207,854
2014	21,951	47,848	52,139	110,668	74,090	158,516	153,647	200,288
2015	24,505	46,770	54,474	108,135	78,979	154,905	155,826	193,101
2016-2020	175,126	211,737	260,750	506,262	435,876	717,999	701,751	865,793
2021-2025	168,466	168,130	297,266	462,755	465,732	630,885	707,956	717,424
2026-2030	202,562	121,137	343,312	408,245	545,874	529,382	685,647	571,499
2031-2035	215,670	67,348	528,370	297,300	744,040	364,648	817,405	377,754
2036-2040	175,247	30,288	349,300	190,537	524,547	220,825	537,147	221,459
2041-2045	-	-	340,110	96,944	340,110	96,944	340,110	96,944
2046-2050	-	-	211,250	20,185	211,250	20,185	211,250	20,185
TOTAL	$ 1,031,211	$ 840,964	$ 2,572,624	$ 2,543,645	$ 3,603,835	$ 3,384,609	$ 4,728,234	$ 3,903,458

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

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

Governmental activities long-term liabilities, other than debt, are primarily estimated claims settlements liquidated by internal service funds. At year-end, internal service funds estimated claims settlements of $163.4 million are included in the above amount. Governmental activities compensated absences are liquidated by the governmental fund in which an employee receiving the payment is budgeted, including most notably the General Fund, the Public Health Fund, and the County Road Fund.

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

(b) Customer deposits in business-type activities were reclassified from current liabilities to non-current liabilities in 2010.

Computation of Legal Debt Margin

Under Washington State law (RCW 39.36.020), a county may incur general obligation debt for general county purposes in an amount not to exceed 2.5 percent of the assessed value of all taxable property within the county. State law requires all property to be assessed at 100 percent of its true and fair value. Unlimited tax general obligation debt requires an approving vote of the people; any election to validate such general obligation debt must have a voter turnout of at least 40 percent of those who voted in the last state general election and, of those voting, 60 percent must be in the affirmative. The County Council may by resolution authorize the issuance of limited tax general obligation debt in an amount up to 1.5 percent of assessed value of property within the County for general county purposes and 0.75 percent for metropolitan functions, but the total of limited tax general obligation debt for general county purposes and metropolitan functions should not exceed 1.5 percent of assessed value. No combination of limited and unlimited tax debt, for general county purposes, and no combination of limited and unlimited tax debt, for metropolitan functions, may exceed 2.5 percent of the valuation. The debt service on unlimited tax debt is secured by excess property tax levies, whereas the debt service on limited tax debt is secured by property taxes collected within the $1.80 per $1,000 of assessed value operating levy.

The legal debt margin computation for the year ended December 31, 2010 (in thousands):

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

Refunding and Defeasing General Obligation Bond Issues – 2010

Limited Tax General Obligation Refunding Bonds, 2010A – On October 18, 2010, the County issued $16.8 million in limited tax general obligation bonds, 2010 Series A with an effective interest cost of 2.02 percent to advance refund $17.4 million of outstanding limited tax general obligation refunding bonds, 2001 various purpose with an effective interest cost of 4.9 percent. The net proceeds were used to purchase U.S. government securities that were deposited with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered defeased and the liability for those bonds has been removed from the governmental activities column of the statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by $1.2 million. This amount, reported in the statement of net assets as a reduction in bonds payable, is being charged to operations through fiscal year 2021, using the outstanding principal balance method. This advance refunding was undertaken to reduce total debt service payments by $2.6 million over the life of the bonds, resulting in an economic gain (difference between the present values of the old and new debt service payments) of $2.1 million.

Limited Tax General Obligation Refunding Bonds, 2010A – Also on October 18, 2010, the County issued $9.8 million in limited tax general obligation bonds, 2010 Series A with an effective interest cost of 1.37 percent to advance refund $10.2 million of outstanding limited tax general obligation refunding bonds, 2002 various purpose with an effective interest cost of 1.37 percent. The net proceeds were used to purchase U.S. government securities that were deposited with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered defeased and the liability for those bonds has been removed from the governmental activities column of the statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by $1.1 million. This amount, reported in the statement of net assets as a reduction in bonds payable, is being charged to operations through fiscal year 2021, using the outstanding principal balance method. This advance refunding was undertaken to reduce total debt service payments by $770 thousand over the life of the bonds, resulting in an economic gain (difference between the present values of the old and new debt service payments) of $668 thousand.

Unlimited Tax General Obligation Refunding Bonds, 2010A – Also on October 18, 2010, the County issued $16.3 million in unlimited tax general obligation bonds, 2010 Series A with an effective interest cost of 0.8 percent to advance refund $17 million of outstanding unlimited tax general obligation refunding bonds, 2001 Kingdome Bonds with an effective interest cost of 5.42 percent. The net proceeds were used to purchase U.S. government securities that were deposited with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered defeased and the liability for those bonds has been removed from the governmental activities column of the statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by $454 thousand. This amount, reported in the statement of net assets as a reduction in bonds payable, is being charged to operations through fiscal year 2016, using the outstanding principal balance method. This advance refunding was undertaken to reduce total debt service payments by $2.0 million over the life of the bonds, resulting in an economic gain (difference between the present values of the old and new debt service payments) of $1.9 million.

Unlimited Tax General Obligation Refunding Bonds, 2010A – Also on October 18, 2010, the County issued $3.5 million in unlimited tax general obligation bonds, 2010 Series A with an effective interest cost of 0.55 percent to advance refund $3.6 million of outstanding unlimited tax general obligation refunding bonds, 2000 with an effective interest cost of 5.25 percent. The net proceeds were used to purchase U.S. government securities that were deposited with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered defeased and the liability for those bonds has been removed from the governmental activities column of the statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by $93 thousand. This amount, reported in the statement of net assets as a reduction in bonds payable, is being charged to operations through fiscal year 2016, using the outstanding principal balance method. This advance refunding was undertaken to reduce total debt service payments by $194 thousand over the life of the bonds, resulting in an economic gain

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

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

Limited Tax General Obligation (Sewer Revenue) Refunding Bonds, 2010 – On July 19, 2010, the County issued $34.4 million in limited tax general obligation (Sewer Revenue) bonds, 2010 with an effective interest cost of 2.56 percent to advance partial refund $36.3 million of outstanding limited tax general obligation (Sewer Revenue) bonds, 2001 with an effective interest cost of 5.13 percent. The net proceeds were used to purchase U.S. government securities that were deposited with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered defeased and the liability for those bonds has been removed from the business-type activities column of the statement of net assets.

The reacquisition price exceeded the net carrying amount of the old debt by $2.6 million. This amount, reported in the statement of net assets as a reduction in bonds payable, is being charged to operations through fiscal year 2023, using the outstanding principal balance method. This advance refunding was undertaken to reduce total debt service payments by $4.0 million over the life of the bonds, resulting in an economic gain (difference between the present values of the old and new debt service payments) of $3.1 million.

Refunded Bonds

King County has twelve outstanding refunded and defeased bond issues consisting of limited tax general obligation bonds ($67.2 million), unlimited tax general obligation bonds ($21.3 million) and sewer revenue bonds ($41.3 million) that were originally reported in the Primary Government's statement of net assets. The payments of principal and interest on these bond issues are the responsibility of the escrow agent, U.S. Bank of Washington, and the liability for the defeased bonds has been removed from the statement of net assets.

Note 15
Interfund Balances and Transfers

Interfund Balances

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

The interfund balances resulted from the time lag between the dates: (1) when interfund goods and services were provided or reimbursable expenditures incurred, and when interfund payments were made; and (2) when interfund short-term loans were made and when the loans were repaid. $4,731 thousand due from Nonmajor Governmental Funds to the General Fund, $2,289 thousand due from the Public Health Fund to the Public Transportation Enterprise, $17,516 thousand due from Nonmajor Governmental Funds to the Public Transportation Enterprise, and $96,313 thousand due from the Water Quality Enterprise to the Public Transportation Enterprise were short-term loans made for the purpose of cash flow.

Advances from/to other funds (in thousands)

Receivable Fund	Payable Fund	Amount
General Fund	Public Transportation Enterprise	$ 3,500
	Nonmajor Governmental Funds	300
Nonmajor Governmental Funds	Nonmajor Governmental Funds	407
Total		$ 4,207

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

Interfund Transfers (in thousands)

Fund types with account balances of less than $500 thousand are aggregated into "All Others."

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

Transfers are used to move resources from a fund collecting them to the fund using them, as required by statute or budget, and to account for ongoing operating subsidies between funds in accordance with budget authorizations.

Note 16
Related Party Transactions

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

The Cultural Development Authority (CDA), a discretely presented component unit of King County, annually receives funding from various County funds under the One Percent for Art program. Revenues are used to support activities related to the development and maintenance of County public art. In 2010, the King County primary government transferred $418 thousand to the CDA. The CDA spent $1.9 million of prior year funds on art projects for which the County recorded a corresponding receivable and work-in-progress.

The Public Transportation Enterprise (Transit) has a ground lease agreement as lessor with the King County Housing Authority (KCHA), a related organization to the County, for the development of affordable housing units and a parking garage in the City of Redmond. The lease provides for a set-aside of a minimum of 150 parking stalls for use by park-and-ride commuters. The lease term is 50 years with an option to extend by an additional 25 years. Transit recorded revenues related to the lease of $36.9 thousand in 2010. Transit also provided loans to KCHA for which $815.3 thousand was outstanding at year-end.

Note 17

Restrictions, Reserves, Designations, and Changes in Equity

Net Assets

The government-wide and proprietary fund financial statements utilize a net assets presentation. Net assets are classified into three categories:

Invested in capital assets, net of related debt – Consists of capital assets net of accumulated depreciation and reduced by outstanding balances of bonds, notes and other debt attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets – Results when constraints are placed on net asset use either by external parties or by law through constitutional provision or enabling legislation.

Unrestricted net assets – Consists of net assets that do not meet the definition of the two preceding categories.

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

Restricted Net Assets - Internal Service Funds (in thousands)	
Building Development & Management Corporations Fund restricted for future construction projects ($218) and debt service ($11,770).	$ 11,988

Reserves and Designations

King County records two general types of reserves. One type indicates that a portion of the fund balance is legally segregated for a specific future use; the other type indicates that a portion of the fund balance is not available for appropriation. Designated fund balances, on the other hand, represent tentative plans (including those plans prescribed by local ordinance) for future use of financial resources.

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

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

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

Reserved for prepayments – Segregates a portion of fund balance equal to the asset prepayments; does not represent available, spendable resources for the fund's current operations.

Reserved for encumbrances – Segregates a portion of fund balance for commitments made for goods or services not delivered or completed as of year-end. The budget for these commitments will be reestablished in the new year without reappropriation.

Reserved for advances to other funds – Segregates a portion of fund balance for advances to other funds (the noncurrent portion of interfund loans receivable) to indicate that they do not constitute available financial resources and are not available for appropriation.

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

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

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

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

Reserved for drug enforcement program – Segregates a portion of fund balance to indicate resources legally restricted solely for the purpose of enhancing enforcement of the Uniform Controlled Substances Act, chapter 69.50 RCW, or other laws regulating controlled substances, including training, equipment, and operational expenses.

Reserved for antiprofiteering program – Segregates a portion of fund balance to indicate resources legally restricted for the purposes of the investigation and prosecution of any offense included in the definition of criminal profiteering set forth in chapter 9A.82 RCW.

Reserved for dispute resolution centers – Segregates a portion of fund balance to indicate resources legally restricted for the purpose of funding dispute resolution centers (RCW 7.75.035).

Reserved for inmate welfare – Segregates a portion of fund balance to indicate resources reserved for the purpose of the welfare of inmates held by the Department of Adult and Juvenile Detention.

Reserved for real property title assurance – Segregates a portion of fund balance to indicate resources legally restricted for the payment of damages to any person sustaining loss or damage, through any omission, mistake, or misfeasance of the registrar of titles, or of any examiner of titles, or of any deputy, or by the mistake or misfeasance of the clerk of the court, or any deputy, in the performance of their respective duties under the provisions of chapter 65.12 RCW Registration of Land Titles (Torrens Act).

Reserved for training and equipment for Medic One – Segregates a portion of fund balance to indicate donations from individuals to Medic One reserved for equipment purchases and training for para-medics and medical services officers.

Reserved for youth sports facilities grant endowment – Segregates a portion of fund balance pending a decision to establish a separate Permanent Fund for an endowment.

Reserved for PFD stadium bond debt service – Segregates revenues collected by the County that are earmarked for future debt service payments on the tax exempt Baseball Stadium bond issues.

Reserved for traffic mitigation – Segregates a portion of fund balance related to the mitigation payment system revenues to indicate resources reserved for funding growth-related traffic mitigation projects (King County Code 14.75.030).

Designated Fund Balances (in thousands):

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

Designated for capital projects – Identifies a portion of fund balance equal to the budget for capital projects not expended and expected to be reappropriated for the coming year. The projects may be changed in scope by the County Council in their budget deliberations.

Designated for DDES – Revenues designated for permit fee supported areas of DDES in the following categories: 1) reserve for staff reductions; 2) revenue shortfall reserve (amount to cover a 15 percent fee revenue shortfall for three months at the budgeted level for fee revenue); and 3) reserve for fee waivers and other unanticipated costs.

Designated for EMS – Sets aside funds to cover replacement of equipment for King County Medic One; outstanding retirement liabilities for moving paramedics from the PERS to LEOFF system, unanticipated costs including costs related to vehicles, risk/liability, diesel, pharmaceuticals, medical equipment, and call volumes; potential reduction to millage requirements for the next levy; and program and provider balances to cover unanticipated or extra anticipated future costs.

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

Designated for mental health – Identifies revenues that are designated according to the King County Regional Support Network's (KCRSN) contract with the State Mental Health Division. These funds are used to cover inpatient adjustments, outpatient tier benefits, and closeout expenditures in case the KCRSN becomes insolvent. The KCRSN is funded primarily by capitated payments from the State based on the number of Medicaid recipients in King County. These revenues support services for people with mental illness in King County.

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

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

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

Management Plans for Internal Service Fund Unrestricted Net Assets

Insurance Fund – $12.4 million for catastrophic losses. The catastrophic loss reserve will be used to respond to large, nonrecurring losses exceeding $1 million per incident.

Restatements of Beginning Balances

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

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

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

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

Component Unit – Harborview Medical Center (HMC)

Restricted Net Assets

Restricted expendable net assets – The $20.9 million consists of investments restricted either for capital use or by donor. Access to investments restricted for capital use is restricted by King County for designated capital projects. Investments restricted by donor represent assets that are restricted by creditors, grantors, or contributors external to the HMC.

Restricted nonexpendable net assets – The $2.5 million consists of permanent endowments by donors.

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

Restricted Net Assets

Restricted expendable net assets – $17.7 million is restricted by RCW 67.28.180.3 and King County ordinance for use for arts and heritage cultural program awards according to a specified formula.

Restricted nonexpendable net assets – $26.4 million is a long-term endowment funded from a portion of the hotel/motel tax pursuant to RCW 67.28.180.3(e) to finance future arts and heritage cultural programs.

Note 18

Legal Matters, Contingent Liabilities, and Other Commitments

Pending Litigation and Other Claims

There is no litigation or claim currently pending against King County in which to our knowledge the likelihood of an unfavorable outcome with material damages assessed against the County is considered "probable."

The following litigation, or potential litigation, may involve claims for material damages against King County for which the County is unable to provide an opinion as to the ultimate outcome or the amount of damages that may be found:

- A pending lawsuit filed by two sewer districts who allege that certain expenditures of the King County Wastewater Treatment Division (WTD) constitute a breach of contract and a violation of the King County Charter and a local government accounting statute. During litigation, various claims were dismissed by the court by summary judgment. In March 2011 a ruling came down in favor of the County with one issue left unresolved. Although still in dispute, the remaining claim is expected to be approximately $2 million. Plaintiffs have indicated their intention to appeal the court's rulings.

- An administrative order from the Environmental Protection Agency (EPA) that requires the County, the City of Seattle, the Boeing Company, and the Port of Seattle to conduct a feasibility study to determine the nature and extent of the contamination in the Lower Duwamish Waterway. The final draft of the report and public comments are being reviewed by the EPA. Due to the high level of regulatory review, the County is unable to determine the particular remediation alternative, the schedule and cost of any required remediation, or the extent of County responsibility.

- A potential requirement for more cleanup in the area contaminated when the Denny Way combined sewer outflow was replaced in 2005. The WTD has already performed interim cleanup costing $3.6 million to comply with a formal agreement with the Washington State Department of Ecology, which reserves its rights to require additional remediation.

- Potential claims for past and future cleanup costs at the Harbor Island Superfund Site. Certain removal costs already incurred by the Port of Seattle are expected to be defrayed by the County and the City of Seattle. The parties have also agreed to share the cost of a supplemental investigation and feasibility study required by the EPA. The agreement states that the WTD has a one-third share of the costs of the study, and that this portion may potentially be allocated among the several potentially responsible parties. Further remediation costs cannot be reasonably estimated until the study is completed.

- King County and two co-defendants in a property damage lawsuit won summary judgments of dismissal in August 2010 for all claims against them. In December 2010 a verdict was handed down against another co-defendant, the State of Washington, amounting to $447 thousand for the plaintiff, with a hearing for the remaining specific performance claim scheduled for June 2011. Once this remaining claim is settled, the County will be entitled to entry of judgment based on the earlier summary dismissal action.

- In March, 2011, a contractor initiated a suit against the County related to its outstanding claim at the end of 2010 in the amount of $3.7 million for the Juanita Bay Pump Station Replacement project alleging defective specifications. The County has issued counterclaims for defective work and breach of contract and is defending against all claims, pursuing damages, and negotiating insurance recoveries.

- A series of requests for change orders and claims for damages from the prime contractor for the Brightwater Treatment Plant central conveyance system alleging differing site conditions and defective specifications. The County is vigorously defending against the claims and has filed suit alleging contract default by the contractor for failure to complete the contract work within time limits. The contractor is asserting damages of approx-imately $75 million. The County has updated its estimated damages amount to $132 million.

- A claim by a vendor for additional compensation of approximately $427 thousand to cover unexpected tariff increases on imported construction materials. The dispute is being handled through contract administration.

- A class action lawsuit filed in King County Superior Court against two counties and two conservation districts alleging that special assessments imposed by the counties on behalf of the conservation districts are illegal charges, their collection should be prohibited, and the funds previously collected should be returned to the class members, which are made up of owners of property within the two conservation districts. Pending before the Court are a motion on class certification and a motion to amend the complaint. The parties are awaiting a ruling. The potential exposure for the King County defendants, including the King Conservation District, range from $0 to $24 million, depending in part upon the applicable statute of limitations.

- A Public Defender sued the County alleging that he should have been enrolled in the State retirement system. The Pierce County Superior Court (Court) has certified a class of approximately 400 attorneys and staff who worked for four nonprofit public defender organizations under contract with the County within three years prior to filing the complaint (since January 24, 2003). The County has vigorously defended the action, denying liability and damages. On February 9, 2009, the Court issued a written opinion stating that "the Plaintiff and the class he represents should be enrolled in the PERS Retirement System." On April 19, 2009, the Court certified that its February 9, 2009, written decision involved "a controlling issue of law as to which there is substantial ground for a difference of opinion" and indicated that "immediate review by an appellate court" would assist the Court in resolving the litigation. The Court also stayed further action in the matter in the Superior Court. The County filed a motion for discretionary review with the State Supreme Court on May 8, 2009. The State Supreme Court granted the County's motion for discretionary review and the parties have submitted their briefing to the Court. Oral argument was heard on October 28, 2010.

- An individual, on behalf of a class of individuals, sued the County seeking increased PERS contributions based on the settlement proceeds from the *Duncan/Roberts v. King County* litigation. The plaintiff successfully argued in Superior Court that settlement proceeds were compensation earnable and should have been reported to the State Department of Retirement Systems (DRS). The Court also ruled that DRS could not collect additional PERS contributions from the County or from class members if the class members' retirement benefit was not increased or decreased because of the error. The matter has been briefed and argued at the Court of Appeals.

- A proposed class of Department of Transportation crew chiefs sued the County alleging that the County failed to pay them for all hours they worked. Plaintiff asserts double damages for unpaid wages and attorney fees.

Contingent Liability

King County has entered into several contingent loan agreements with the King County Housing Authority (KCHA) and other owners/developers of affordable housing; these agreements total $172.6 million at the end of 2010. The County has provided credit support for certain bonds issued by the KCHA. All projects are currently self-supporting and the County has not made any loans pursuant to these agreements.

Other Commitments

The Solid Waste Enterprise paid the County General Fund $8.4 million for rent on the Cedar Hills landfill site in 2010. The Enterprise is committed to paying rent to the General Fund as long as the Cedar Hills site continues to accept waste.

Component Unit – Harborview Medical Center

Harborview Medical Center (HMC) is involved in litigation arising in the course of business. It is HMC management's opinion that these matters will be resolved without material adverse effect to HMC's future financial position or results of operations.

Note 19
Subsequent Events

Debt Issuances in 2011

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

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

In June 2011 the County issued Limited Tax General Obligation Bond Anticipation Notes in the amount of $82.3 million. The proceeds of these Notes will provide a portion of the interim financing for an upgrade of the County's budget, finance, human resources, payroll, and employee benefits computer systems.

Required Supplementary Information

Condition Assessments and Preservation of Infrastructure Eligible for Modified Approach

Roads

The County performs condition assessments on its network of roads through the King County Pavement Management System. This system generates a Pavement Condition Index (PCI) for each segment of arterial and local access road in the network. The PCI is a numerical index from zero to one hundred (0–100) that represents the 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 most recent condition assessments of the County's roads are shown below.

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

The following table (derived from the table of condition ratings) shows the number and percentage of miles of roads that meet the 40 PCI level.

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

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

The County Roads Division's current budget conditions do not allow for additional funds to increase the number of miles overlaid, thereby increasing PCI scores. Bringing road system scores into compliance with GASB Modified Method Roads will reduce the number of Hot Mix Asphalt (HMA) miles resurfaced and increase the number of miles resurfaced with Bituminous Surface Treatment (Chip Seal) at a lower unit cost and reduced life cycle. Roads will also investigate a short section paving program that will only resurface road segments with PCI less than 40. While this methodology is not cost effective, it will most immediately correct the PCI deficiencies.

Below is information on planned (budgeted) and actual expenditures incurred to maintain and preserve the road network at or above the minimum acceptable condition level from 2006 to 2010. The budgeted amount is equivalent to the anticipated amount needed to maintain roads up to the required condition level (in thousands).

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

amounts for 2007-2009 restated

Underspending of budgeted amounts usually results when roads are removed from the project list because of conflicts with anticipated utility work; lowering of priority due to cost efficiency considerations, such as when only a few roads are to be resurfaced in remote locations; and weather-related work reduction or stoppages.

Bridges

King County currently maintains 180 bridges. Physical inspections to determine the condition of bridges and the degree of wear and deterioration are carried out at least every two years. Inspections reveal deficiencies in bridges such as steel corrosion, damaged guardrails, rotted timbers, deteriorated bridge decks, bank erosion, and cracked concrete. These are documented in an inspection report along with recommended repairs. Four pedestrian bridges are included in the list of bridges being maintained by the County. These are also subject to condition assessments, but are subject to different standards than the more heavily used vehicular bridges.

Each year the County undergoes a bridge prioritization process to determine potential candidates for replacement or rehabilitation. A weighted 10-point priority scale (sufficiency rating, seismic rating, geometrics, hydraulics, load limits, traffic safety, serviceability, importance, useful life, and structural concern) ranks the bridges in order; the results are considered in the planning and programming of major bridge studies and construction projects in the Roads Capital Improvement Program.

A key element in the priority score is the sufficiency rating, the measure considered by state and federal governments as the basis for establishing eligibility and priority for bridge replacement or rehabilitation funding. The sufficiency rating is a numerical rating of a bridge based on its structural adequacy and safety, essentiality for public use, and its serviceability and functional obsolescence. The formula used to calculate the sufficiency rating for a particular bridge is dictated by the Federal Highway Administration. The sufficiency rating may vary from 100 (a bridge in new condition) to 0 (a bridge incapable of carrying traffic). A sufficiency rating of 50 or over indicates a bridge with a good deal of service life remaining. A bridge that scores between 0 and 49 could be considered for replacement or rehabilitation funding, though typically only bridges that score less than 30 are selected for funding.

The three most recent bridge sufficiency ratings:

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

It is the policy of the King County Road Services Division to maintain bridges in such a manner that no more than 12 will have a sufficiency rating of 20 or less. A rating of 20 or less is usually indicative of a bridge with a structural deficiency. The most common remedy is full replacement or rehabilitation of the bridge.

Amounts budgeted and spent to maintain and preserve bridges (in thousands):

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

amounts for 2007-2009 restated

The budgeted amount is equivalent to the anticipated amount needed to maintain and preserve the bridges up to the required condition level. Backlogs in maintenance work orders greatly affect the trend in maintenance costs. Factors contributing to these backlogs include increased bridge traffic, higher weight loads, labor shortages, stringent environmental restrictions, and an aging inventory.

Postemployment Health Care Plan

Schedule of Funding Progress for the Plan
(in thousands)

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