NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006
(DOLLARS IN THOUSANDS)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Reporting Entity

The reporting entity "King County" consists of King County Government as the primary government; the Harborview Medical Center (HMC), the Washington State Major League Baseball Stadium Public Facilities District (PFD), and the Cultural Development Authority of King County (CDA) as "discretely presented" component units; and the Flood Control Zone Districts as a "blended" component unit. 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. 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

Harborview Medical Center (HMC)

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

HMC is a component unit of the County for the following reasons: (1) it is a separate legal entity having its own corporate powers; (2) the County Executive appoints HMC's Board of Trustees, who may be removed only for statutorily defined causes and subject to legal appeal; and (3) although the County cannot impose its will on HMC, the unit creates a financial burden on the County because the County is responsible for the issuance and debt service of all general obligation bonds for HMC capital improvements. HMC's financial presentation is on the discrete component unit basis because the County and HMC's governing bodies are not substantively the same, and HMC does not provide services solely to King County. HMC financial data is as of its fiscal year-end, June 30, 2006, rather than the County's fiscal year-end

NOTE 1 – CONTINUED

of December 31, 2006. It issues its own financial statements, which are audited by independent auditors. These statements may be obtained from Harborview Medical Center, Finance Administration, 325 9th Avenue, 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 the 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 a 1997 general obligation bond issue 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) is appointed by the County Executive; and (3) there exists an indirect financial burden relationship between the PFD and the County since the County issued the bonds for the construction of the stadium, thereby making the County ultimately responsible for the debt. The PFD's financial statements are discretely presented because the two governing boards are not substantively the same, and the PFD does not provide services solely to King County government.

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

Cultural Development Authority of King County (CDA)

The Cultural Development Authority of King County (CDA), dba 4Culture, is a public authority organized pursuant to chapters 35.21.730 through 35.21.759 RCW and King County Ordinance 14482. The CDA commenced operations on January 1, 2003, and began doing business as "4Culture" effective April 4, 2004. Per King County Ordinance 14482, the CDA was created "exclusively to support, advocate for and preserve the cultural resources of the region in a manner that fosters excellence, vitality, and diversity. The authority shall further the goals and objectives of the King County Comprehensive Plan, establish cultural resource policies, and operate in a manner that ensures King County citizens and visitors have access to high quality cultural programs and experiences."

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

NOTE 1 – CONTINUED

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

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

Flood Control Zone Districts (FCZD)

The Flood Control Zone Districts (FCZD) in King County are administered by the Water and Land Resources Division of the Department of Natural Resources and Parks. FCZDs were created under authority in 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 each FCZD. The King County Executive, under the County Charter, is the County Administrator (the County Engineer) for these districts.

Although there are eleven FCZDs in King County, most of these districts are inactive and have no annual budget. Only the Green River Flood Control District is currently active, providing for operation and maintenance of pump stations, levees and revetments, and administration of the District.

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

Joint Venture

The Seattle-King County Workforce Development Council (WDC) is a joint venture between King County and the City of Seattle. It was established as a nonprofit corporation in the State of Washington on July 1, 2000, as authorized under the Workforce Investment Act of 1998. It functions as the United States Department of Labor pass-through agency to receive the employment and training funds for the Seattle-King County area. The King County Executive and the Mayor of the City of Seattle, serving as the chief elected officials (CEO) of the local area, have the joint power to appoint the members of the WDC board of directors and the joint responsibility for administrative oversight. An ongoing financial responsibility exists because the CEO is potentially liable to grantors for disallowed costs. If expenditure of funds is disallowed by a grantor agency, the WDC can recover the funds from (in order): (1) the agency creating the liability; (2) the insurance carrier; (3) future program years; and (4) as a final recourse, from King County and the City of Seattle, each being responsible for one-half of the disallowed amount. As of December 31, 2006, there are no outstanding program eligibility issues that might lead to a King County liability.

NOTE 1 – CONTINUED

The WDC contracts with King County to provide programs related to dislocated workers, welfare to work, and workforce centers. For the year 2006 WDC reimbursed King County approximately $2.3 million for the Worker Training Program and $5.2 million for the Dislocated Worker Program in eligible program costs.

The WDC issues independent financial statements that may be obtained from the Workforce Development Council, 2003 Western Avenue, Suite 250, Seattle, Washington 98121-2162.

Related Organizations

The King County Library System (KCLS), the Library Capital Facility District (LCFD), and the King County Housing Authority (KCHA) are legally separate entities, though each organization is related to King County. The County Council appoints a majority of the board of the KCLS and the KCHA and selected Council members make up the 3-member board of the LCFD. There is no evidence that the Council can influence the programs and activities of these organizations or that they create a significant financial benefit or burden to the County. For these reasons, they are related organizations. The County serves as the treasurer for the KCLS and the LCFD, providing services such as tax collection and warrant issuance. Due to this fiduciary relationship, these districts are routinely reported as agency funds to distinguish from County agency funds.

Related Party Transaction

The Public Transportation Enterprise entered into a ground lease agreement as lessor with the King County Housing Authority (KCHA) for the development of 308 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 calls for an annual lease payment with a three percent increase each year, commencing with the year ended December 31, 2003. The lease payment is due within 90 days following the end of each calendar year. The annual lease payment and loan payments are payable out of net cash flow in the order and priority established in the lease before and after the minimum tax credit compliance period. A portion of the annual lease payment is restricted for use on future Federal Transit Administration projects. The term of the lease is 50 years with one option to extend for 25 years. In addition to the lease, the Public Transportation Enterprise loaned the KCHA a total of $1.5 million at different interest rates.

The Public Transportation Enterprise received lease payments of $32.8 thousand for 2006. As of December 31, 2006, the loans receivable from the KCHA, including principal and accrued interest, amounted to $1.77 million.

Government-wide and Fund Financial Statements

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

NOTE 1 – CONTINUED

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. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment; and (2) 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.

Bases of Accounting, Measurement Focus, and Financial Statement Presentation

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the County's enterprise funds and internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

NOTE 1 – CONTINUED

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

Major Governmental Funds

The County reports two major governmental funds:

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

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

Major Proprietary Funds

The County reports two major proprietary funds:

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

The Water Quality Enterprise accounts for the operations, maintenance, capital improvements, and expansion of the County's water pollution control facilities under the King County Wastewater Treatment Division. The enterprise has two major treatment plants, the West Point Treatment Plant in Seattle and the East Division Reclamation Plant in Renton, as well as a small facility on Vashon Island. Major construction projects are funded through operating income, grants, state loans, and issuance of revenue bonds.

Nonmajor Governmental Funds

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

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

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

NOTE 1 – CONTINUED

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 programs, and other services provided by one department or agency to other departments or agencies of the County on a cost reimbursement basis. The Wastewater Equipment Rental Fund was established to serve the Water Quality Enterprise. This fund is reported under Business-type Activities in the government-wide statements.

Fiduciary Funds

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

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

Terminology

General Revenues and General Governmental Expenditures

General revenues and general governmental expenditures used in this report are total revenues and expenditures for three governmental fund types: (1) General Fund; (2) Special Revenue Funds; and (3) Debt Service Funds. The revenues and expenditures for all other fund types are excluded from these amounts.

Expenditure Functions and Characters

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 Budget, Information and Administrative Services, Records and Elections, Human Resource Management, 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,

NOTE 1 – CONTINUED

maintenance, transportation facilities and systems, and general administration. This function includes County Road, Arterial Highway Development, Renton Maintenance Facilities Construction, and County Road Construction.

Economic Environment – Provided for the development of, and improvement in, the welfare of the community and individual that includes expenditures for employment opportunity and development, veterans' services, childcare services, and aging and handicapped services. 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 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 class also includes regional local hazardous waste management.

Culture and Recreation – Provided to increase the individual's understanding and enjoyment including expenditures for education, libraries, community events, recreation, park facilities, and cultural and recreational 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.

<u>Certain Accounts are Grouped on the Statement of Net Assets:</u>

- 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 charges – 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/discount on bonds sold, Deferred charges – refunding losses, and other liabilities.

NOTE 1 – CONTINUED

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 this investment of short-term cash surpluses are allocated to the General Fund in accordance with legal requirements and are used in financing general County operations.

Investments

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

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

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 at the beginning of the year. 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

NOTE 1 – CONTINUED

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 – The Abatements receivable 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 made. Abatement costs may be certified to the property tax parcel; as a result, these might not be paid until the property is sold, which can take years.

Civil Penalties Receivable – The Civil Penalties receivable 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 made. Liens may be filed against the property and may be released once the fees are 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 are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "Interfund short-term loans receivable/payable," (the current portion of interfund loans), or "Advances to/from other funds," (the non-current portion of interfund loans). All other outstanding balances between funds are reported as "Due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "Internal balances."

Advances to Other Funds – Noncurrent portions of long-term interfund loans receivable 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.

Due from/to primary government and component unit

The Cultural Development Authority of King County (CDA), dba 4Culture, is a component unit of King County. As of December 31, 2006, amounts receivable and payable between CDA and King County were $1.2 million. This amount represents the funds due to the CDA from King County for pass-through grants and a share of hotel/motel tax revenues.

Inventories

Inventories of governmental funds are recorded using the consumption method. This approach has characteristics of accrual accounting which initially report the inventories purchased as assets and defer the recognition of expenditure until the inventories are actually consumed. Proprietary funds expense inventories when used or sold. The valuation methods used by funds in King County are outlined below:

First-in, First-out valuation method, which assumes the first inventory purchased is the first consumed, is used by the Solid Waste, King County International Airport, Radio Communications, Construction and Facilities Management, and Public Health Funds.

NOTE 1 – CONTINUED

The Weighted (Moving) Average valuation method, which takes the total cost of the inventory and divides it by the total number of units, is used by Motor Pool Equipment Rental, Public Works Equipment Rental, and the Public Transportation and Water Quality Enterprises.

The last physical count of these inventories was as of December 2006, except for the inventories of the Public Transportation and Water Quality Enterprises, which use cycle counting. Cycle counting takes physical counts of inventory throughout the year.

Prepayments

Payments made to vendors for services that will benefit periods beyond December 31, 2006, (or June 30, 2006, for Harborview Medical Center), are recorded as prepaid items.

Capital Assets

Capital assets include: Land (fee simple land, right-of-way and easements, and farmland development rights); Infrastructure (roads and bridges network); Buildings; Improvements other than buildings; Furniture, machinery and equipment; and Work in progress. General capital assets, including those in internal service funds that support governmental funds, are reported in the governmental column of the government-wide statement of net assets. Capital assets of enterprise funds, including those in internal service funds that exclusively support enterprise funds, are reported in the business-type column of the government-wide Statement of Net Assets. Enterprise and internal service fund capital assets are also reported in the individual proprietary fund balance sheets. The capitalization threshold in the King County Primary Government is $1 thousand.

The County's general capital infrastructure, which consists of the entire network of roads and bridges, was initially reported in 2002. The base value at the beginning of 2002 included the estimated cost of all infrastructure and related right-of-way including those acquired prior to December 31, 1980. Because the County is committed to maintaining the infrastructure indefinitely, it has elected to use the modified approach to infrastructure reporting in lieu of the depreciation method. The County is eligible to use the modified approach because it has an asset management system in place that allows for constant monitoring of the infrastructure to ensure that they are maintained and preserved at the predetermined condition level set by the Road Services Division of the Department of Transportation. The asset management system tracks the number, mileage, condition, and the actual and planned maintenance and preservation costs of individual infrastructure elements (road segments and bridges).

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

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

Governmental capital assets other than land, infrastructure, and artwork are depreciated in accordance with GASB Statement No. 34. As with business-type capital assets, i.e., Enterprise

NOTE 1 – CONTINUED

and Internal Service Funds, provision is made for depreciation over the estimated useful lives of the depreciable assets using the straight-line method.

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

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

Deferred Charges

The government-wide financial statements and proprietary fund types in the fund financial statements defer expenditures for debt issuance, which are amortized over the life of the respective bond issues. The Public Transportation Enterprise includes certain amounts due from employees as deferred charges. The Water Quality Enterprise defers environmental remediation costs, which are amortized over 30 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 (unearned revenues); (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 and their treatment under generally accepted accounting principals for nonregulated entities. Changes to these balances and their inclusion in rates may occur only at the direction of the Council.

In 2005, pursuant to Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 71 (FAS 71), *Accounting for the Effects of Certain Types of*

NOTE 1 – CONTINUED

Regulation, the Council established a Rate Stabilization Reserve. This action created a regulatory liability which deferred $14.5 million from 2005 operating revenue to be set aside in a reserve and recognized in subsequent years to maintain stable sewer rates. In 2006, it was not necessary to transfer amounts from this reserve.

In 2006, the Council approved the application of FAS 71 to treat pollution remediation obligations as regulatory assets, in lieu of current expense. Based on revised cost estimates for pollution remediation obligations, $3.5 million was capitalized as regulatory asset, to be amortized over a period of 30 years.

Rebatable Arbitrage

The County's tax-exempt debt is subject to arbitrage restrictions as defined by the Internal Revenue Code. All of the County's bonded debts are tax-exempt except three taxable debts as identified in Note 13 – Debt, *Schedule of Long-term Debt*. Arbitrage occurs when the funds borrowed at tax-exempt rates of interest are invested in higher yielding taxable securities. These interest earnings in excess of interest expense must be remitted to the federal government except when spending exceptions rules are met. The County does not recognize a liability for arbitrage at the fund level unless this liability is due and payable at the end of the year. At the government-wide level, the liability is recognized during the period the excess interest is earned.

Compensated Absences

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

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

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

Long-term Obligations

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

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

NOTE 1 – CONTINUED

other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity

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

Component Units – Summary of Significant Accounting Policies

Harborview Medical Center (HMC)

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

The HMC financial statements are reported as a business-type activity, as defined by GASB Statements No. 34, *Basic Financial Statements–and Management's Discussion and Analysis–for State and Local Government*. Harborview Medical Center's Statement of Net Assets and Statement of Activities reflect its financial position as of June 30, 2006.

Land, buildings, and equipment are stated at historical cost. Improvements and replacements of buildings and equipment are capitalized. Maintenance and repairs are expensed. The provision for depreciation is the straight-line method, which allocates the historical cost of capital assets over their estimated useful lives. Upon disposal, capital assets and the related accumulated depreciation are removed from the accounts and the resulting gain or loss is recorded. Interest incurred on funds borrowed by HMC during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. No interest was capitalized during 2006.

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

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

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

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

Capital assets include the Baseball Stadium and furniture, machinery, and equipment. The Baseball Stadium includes all costs associated with the development and construction of the ballpark project. Development costs include District staffing and related operating costs,

NOTE 1 – CONTINUED

architect and engineering fees, environmental consulting fees, and all other costs related to the development of the ballpark project.

Capital assets are valued at historical cost. Only interest on interim financing during pre-construction and construction is capitalized.

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

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

Cultural Development Authority of King County (CDA)

The CDA maintains its own distinct set of accounting records. It is required to maintain its financial records using the accrual basis of accounting in conformity with restrictions or designations imposed by the State municipal corporation laws.

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

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

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

CDA employees earn 12 sick days per year and 12 to 30 days of vacation per year, depending on length of service. An unlimited amount of sick leave and 30 days of vacation may be accrued. Unused sick leave is forfeited upon termination of employment.

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

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

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains, "Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of this $1,087,533 thousand difference are as follows (in thousands):

Bonds payable	$ 866,735
Less: Deferred charge on refunding (to be amortized as interest expense)	(14,475)
Deferred charge for issuance costs (to be amortized over life of debt)	(4,082)
Plus: Unamortized premiums on bonds sold	26,882
Special assessment debt	15
Claims and judgments payable	700
Accrued interest payable	4,977
Capital leases payable	136,445
Compensated absences	68,812
Unemployment compensation payable	1,347
Rebatable arbitrage	177
Net adjustment to reduce *fund balance – total governmental funds* to arrive at *net assets – governmental activities*	$ 1,087,533

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

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds* and *changes in net assets of governmental activities* reported in the government-wide statement of activities. One element of that reconciliation explains, "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this $55,333 thousand difference are as follows (in thousands):

Capital outlay	$ 86,746
Depreciation expense	(31,413)
Net adjustment to increase *net changes in fund balances – total governmental funds* to arrive at *changes in net assets of governmental activities*	$ 55,333

NOTE 2 – CONTINUED

Another element of that reconciliation states, "The net effect of various miscellaneous transactions involving capital assets (e.g., sales, trade-ins, and donations) is to increase net assets." The details of this $41,756 thousand difference are as follows (in thousands):

In the statement of activities, only the gain on the sale of capital assets is reported. In the governmental funds, the proceeds from the sale increase financial resources. The change in net assets differs from the change in fund balance by the book value of the capital assets sold.	$ (24,979)
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.	76,918
Book value of capital assets transferred to business-type activities	(10,183)
Net adjustment to increase *net changes in fund balances – total governmental funds* to arrive at *changes in net assets of governmental activities*	$ 41,756

Another element of that reconciliation states, "Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds." The details of this $445 thousand difference are as follows (in thousands):

Property tax accrual	$ 101
Surface Water Management service charge accrual	358
Probation and parole service charge accrual	131
Work release service charge net accrual	(90)
Fines and forfeits net accrual	(55)
Net adjustment to increase *net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities*	$ 445

NOTE 2 – CONTINUED

Another element of that reconciliation states, "The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities." The details of this $101,406 thousand difference are as follows (in thousands):

Debt issued or incurred	
Issuance of general obligation bonds	$ (6,783)
Issuance of refunding bonds	(38,330)
Letter of credit drawdown	(4,716)
Letter of credit repayment (issuance of bonds)	6,783
Premium on bonds issued	(1,633)
Bond issuance costs	384
Bonds transferred to business-type activities	5,635
Principal repayments	83,432
Receipts from component units for principal repayments	(937)
Deferred charges on refunding	2,153
Payment to escrow agent for refunding	55,418
Net adjustment to increase *net changes in fund balances – total governmental funds* to arrive at *changes in net assets of governmental activities*	$ 101,406

Another element of that reconciliation states, "Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds." The details of this $901 thousand difference are as follows (in thousands):

Claims and judgments	$ 1,191
Compensated absences	(3,392)
Accrued unemployment compensation	(76)
Accrued rebatable arbitrage	(77)
Accrued interest	843
Amortization of issuance costs	(690)
Amortization of deferred charge on refunding	(3,476)
Amortization of bond premiums	4,776
Net adjustment to decrease *net changes in fund balances – total governmental funds* to arrive at *changes in net assets of governmental activities*	$ (901)

NOTE 2 – CONTINUED

Another element of that reconciliation states, "Net revenues and expenses of certain activities of internal service funds are reported with governmental activities." The details of this $8,077 thousand difference are as follows (in thousands):

Investment interest earnings	$ 7,134
Revenues related to services provided to outside parties	2,095
Expenses related to services provided to outside parties	(2,047)
Gain on disposal of capital assets	425
Interest on long-term debt	(58)
Capital contributions	1,296
Transfers in	1,984
Transfers out	(4,165)
Internal service fund losses allocated to governmental activities	1,413
Net adjustment to increase *net changes in fund balances – total governmental funds* to arrive at *changes in net assets of governmental activities*	$ 8,077

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

The proprietary fund statement of net assets includes a reconciliation between *net assets – total enterprise funds* and *net assets of business-type activities* as reported in the government-wide statement of net assets. The description of the reconciliation is "Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds." The assets and liabilities of one internal service fund, Wastewater Equipment Rental Fund, are included in the business-type activities in the statement of net assets because the fund was established to serve the Water Quality Enterprise. The details of this $8,165 thousand difference are as follows (in thousands):

Net assets of the business-type activities internal service fund	$ 8,281
Internal receivable representing charges in excess of cost to the enterprise funds by the governmental activities internal service funds – prior years	(22,494)
Internal payable representing the amount undercharged to the enterprise funds by the governmental activities internal service funds – current year	6,048
Net adjustment to decrease *net assets – total enterprise funds* to arrive at *net assets of business-type activities*	$ (8,165)

NOTE 2 – CONTINUED

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

The proprietary fund statement of revenues, expenses, and changes in fund net assets includes a reconciliation between *change in net assets – total enterprise funds* and *change in net assets of business-type activities* as reported in the government-wide statement of activities. The description of the reconciliation is "Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds." The details of this $6,363 thousand difference are as follows (in thousands):

Investment interest earnings	$ 193
Revenues related to services provided to outside parties	6
Expenses related to services provided to outside parties	(6)
Gain on disposal of capital assets	95
Transfers out	(303)
Internal service fund losses allocated to business-type activities	6,378
Net adjustment to increase *change in net assets – total enterprise funds* to arrive at *change in net assets of business-type activities*	$ 6,363

NOTE 3 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Bases of Budgeting

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

Twenty-four Special Revenue Funds have annual budgets with budgeting methods identical to the General Fund and are presented in the budget and actual schedules in this report. One of the funds, the Clark Administration Fund, was not active in 2006 and is scheduled to close in 2007.

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

The Flood Control Zone Districts Funds are not budgeted. These funds account for four flood control zone districts' activities in accordance with chapter 86.15 RCW.

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

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

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

Three Debt Service Funds have an annual budget with budgeting methods identical to the General Fund. These funds are presented in the budget and actual statements of this report. In the Limited Obligation Bond Redemption Fund, revenues and expenditures related to proprietary type debt service payments are budgeted.

Two Debt Service Funds, the Road Improvement Districts Special Assessment Debt Redemption Fund and Road Improvement Guaranty Fund, are not budgeted. These funds report Road Improvement Districts' special assessments revenues and debt service expenditures in accordance with chapter 36.88 RCW.

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

NOTE 3 – CONTINUED

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

The Enterprise and Internal Service Funds (with the exception of the Insurance Fund) are budgeted on the modified accrual basis rather than the accrual basis (the GAAP basis for proprietary funds). Appropriations are based on an estimate of expenditures expected to be incurred in the acquisition of goods and services during the fiscal year. Estimated revenues are based on the amount estimated to be earned and available during the fiscal year.

The Insurance Fund is budgeted on the modified accrual basis with one exception. Consistent with the intent of the County ordinance that delegates full claims settlement authority to the County Executive, the recognition of the portion of judgment and claim settlements that occurs and remains unpaid at the end of a fiscal year, and exceeds current year expenditure appropriations, is deferred to the following year when the claim is paid. In 2006 no judgment and claim settlement recognition was deferred to a future period on the budgetary basis due to insufficient appropriations in 2006.

The Trust and Agency Funds are not budgeted.

Encumbrances

Encumbrances outstanding as of December 31, 2006, are shown in the following schedule by fund type (in thousands):

General Fund	$ 11,193
Public Health Fund	823
Special Revenue Funds	24,661
Capital Projects Funds	57,081
Enterprise Funds	4,640
Internal Service Funds	2,333
Total All Funds	$ 100,731

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 in 2006. For those statements and schedules in which budget comparisons are presented, the legally adopted budget is compared with actual data on the budgetary basis rather than the GAAP basis. Budget to actual statements and schedules of the governmental funds include an explanation of the differences between the two bases. All statements that do not have budget comparisons are prepared on the GAAP basis.

Budgeted Level of Expenditures

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

NOTE 3 – CONTINUED

appropriated at the department/division level, and Capital Projects Funds, which are appropriated at the project level.

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

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

Funds with Multi-year Budgets

Thirty-nine capital projects in twenty-one Capital Projects and Enterprise Funds with multi-year budgets have a combined total of $24 million of expenditures in excess of budget. These deficits are expected to be corrected by additional appropriations in 2007.

Funds with Annual Budgets

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

Fund Balance and Net Asset Deficits

Building Construction and Improvement Fund – The deficit of $ 31.3 million is the result of temporary short-term financing of critical building improvement projects through the issuance of bond anticipation notes which are reported as a fund liability. When the replacement G.O. bonds are issued, the fund balance deficit will be eliminated.

County Road Fund – The deficit of $1.2 million was the result of two sales that were programmed in 2006 but will not take place until 2007. First was the sale of $843 thousand in surplus property, and second was the mining of $761 thousand in sand and gravel at the Covington Pit site. It is anticipated the 2007 sale of these assets will eliminate the deficit.

Long-term Leases Fund – The deficit of $327 thousand is the result of spending on tenant improvements which are expected to be billed to existing customer agencies in 2007 and beyond.

Open Space Projects Acquisition and Improvement Fund – The deficit of $27.7 million is the result of temporary short-term financing of critical open space and conservation oriented acquisitions through the issuance of bond anticipation notes which are reported as a fund liability. When the replacement G.O. bonds are issued, the fund balance deficit will be eliminated.

Printing/Graphic Arts Services Fund – The deficit of $1.4 million is the result of not covering costs in printing and graphics. As mandated by Proviso in the 2007 Adopted Budget Ordinance, the fund will develop a revised executive recommendation and transition plan for the printing and graphics operations that addresses labor, legal, and financial issues.

Road Improvement District Construction Fund – The deficit of $2 thousand is the result of using short-term debt to finance the various projects of the road improvement districts. As capital

NOTE 3 – CONTINUED

projects are completed, short-term debt is replaced by long-term bonds thereby eliminating the deficit.

Safety and Workers' Compensation Fund – The deficit of $34.3 million is the result of losses in several of the last ten years and the change of the method in 2004 for estimating workers' compensation claim liabilities from using primarily the case reserves to an actuarially developed liabilities estimate. The change resulted in a large increase in the reported liabilities and related expenses in 2004. A funding plan has been developed to build the assets to equal the liabilities over a number of years.

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 not covered by the Federal Depository Insurance Corporation (FDIC) are covered 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 of up to 10 percent of all their public deposits. There is no current provision for PDPC to make additional *pro rata* assessments if needed to cover a loss. Therefore, in accordance with GASB *Codification of Governmental Accounting and Financial Reporting Standards*, Section I50.110, PDPC protection is of the nature of collateral, not of insurance. Pledged securities under the PDPC collateral pool are held by the County's agent in the name of the County. Some large depositaries hold public deposits in amounts in excess of the market value of the entire PDPC collateral pool. To the extent that uninsured public deposits of a financial institution exceed the PDPC's total value, equivalent proportions of the County's deposits in those institutions are exposed to custodial credit risk because they are uninsured and uncollateralized. Determination of these amounts is based on the conservative assumption that none of the excess public deposits is covered by FDIC insurance. Although such risk is recognized, the PDPC provides additional protection by maintaining strict standards as to the amount of public deposits financial institutions can accept, and by monitoring the financial condition of all public depositaries and optimizing collateralization requirements.

Custodial credit risk – Deposits The custodial credit risk for deposits is the risk that, in the event of a bank failure, the County's deposits may not be recovered. State statutes require that certificates of deposit be placed in qualified public depositaries in the State of Washington and provides that the total deposits cannot exceed the net worth of the financial institution. The County establishes deposit limitations for all financial institutions with which deposits are placed, based on publications by IDC Financial Publishing Company. At year-end, all issuers of certificates of deposit were rated "Superior" by IDC. The County's diversification policy limits the maximum amount of investment in certificates of deposit to 15 percent of the total amount of the portfolio and 5 percent of a single issuer.

As of December 31, 2006, the carrying amount of deposits for the Primary Government was $326.97 million. The total bank balance was $308.07 million of which $106.34 million was exposed to custodial credit risk as uninsured and uncollateralized. Summary information for the Primary Government's total deposits as of December 31, 2006, is presented as follows (in thousands):

	Carrying Amount	Bank Balance	Uninsured and Uncollateralized
Demand deposits	$ 41,361	$ 22,461	$ 8,438
Certificates of Deposit	285,612	285,612	97,903
Total deposits	$ 326,973	$ 308,073	$ 106,341

Investments

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 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

NOTE 4 – CONTINUED

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.

State statutes authorize King County to invest in savings or time accounts in designated qualified public depositaries or in certificates, notes, or bonds of the United States. The County is also authorized to invest in other obligations of the United States or its agencies or of any corporation wholly owned by the government of the United States. Statutes also authorize the County to invest in bankers' acceptances purchased on the secondary market, in federal home loan bank notes and bonds, federal land bank bonds and federal national mortgage association notes, debentures and guaranteed certificates of participation or 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 can 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.

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

Derivatives The County operates under the GASB's *Codification,* Section 2300.601, definition of derivatives and similar transactions. During the year, the County did not buy, sell, or hold any derivative or similar instrument except for certain US agency collateralized mortgage obligation securities purchased by the King County Investment Pool to enhance investment yield. 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.

Reverse Repurchase Agreements Statutes permit the County Investment Pool to enter into reverse repurchase agreements, that is, a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. County policy prohibits the use of these agreements as a borrowing mechanism. The investments under reverse repurchase agreements represent the collateral securities transferred to the lender in exchange for the cash received and used to purchase other securities with the same maturities as the collateral securities, resulting in a matched position. The 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 and reverse repurchase agreements exceeding 180 days are not allowed. Currently, the County's tri-party custodial bank monitors compliance with these provisions. The County has not entered into yield maintenance repurchase agreements.

The Pool has outstanding reverse repurchase agreements as of December 31, 2006. The assets and liabilities related to the Investment Pool-owned reverse repurchase agreements were allocated to the individual Pool participants based on their equity in the Pool as of December 31, 2006. The liability is reported as obligations under reverse repurchase agreements and the assets are reflected as an increase in cash equivalents in the balance sheets of funds that participate in the internal portion of the Investment Pool. For funds that participate in the

NOTE 4 – CONTINUED

external portion of the Investment Pool, the assets and liabilities are reported in the "Combining Statement of Net Assets" of the Investment Trust Funds.

Reverse repurchase agreements are subject to credit risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Should the dealers default on their obligation to resell these securities to the County, the County would be faced with an economic loss equal to the difference between the market value plus accrued interest of the underlying securities and the agreement obligation, including accrued interest. As of December 31, 2006, there is no credit risk exposure on these agreements.

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

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. The County has not provided or obtained any legally binding guarantees to support the value of the Investment Pool's shares.

The 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 this statement because the amortized cost method is not designed to distribute to participants all unrealized gains and losses in the fair values. The total difference between fair values of the investments in the Pool and the values distributed to the Pool participants using the amortized cost method described above is reported in the equity section of the statement of net assets.

There were no losses incurred during the period as a result of default by counterparties to deposit or investment transactions. During the period, there were no known violations of legal or contractual provisions for deposits and investments. The Primary Government, excluding the equity in the component units, has a balance of $3.21 billion in the Investment Pool. The change in the fair value of the total investments for the reporting entity during 2006, after considering purchases, sales and maturities, resulted in a markdown from cost of $7.5 million. The schedule following shows the types of investments including savings accounts and certificates of deposit, the average interest rate, and the effective duration limits of the King County Investment Pool as of December 31, 2006 (in thousands):

NOTE 4 – CONTINUED

KING COUNTY INVESTMENT POOL

Investment Type	Fair Value	Principal	Average Interest Rate	Effective Duration (Yrs)
Savings Accounts	$ 155,380	$ 155,380	5.35%	0.005
Certificates of Deposit	135,000	135,000	5.61%	0.541
Repurchase Agreements	1,465,000	1,465,000	5.34%	0.042
Commercial Paper	950,935	958,146	5.42%	0.148
US Agency Discount Notes	100,619	101,237	5.32%	0.124
Taxable Municipal Notes	45,406	46,015	3.44%	0.691
Taxable Municipal Zero Coupon Notes	39,182	41,540	3.44%	1.074
US Treasury Notes	198,458	200,000	3.01%	0.390
US Agency Notes	548,675	550,000	5.02%	1.435
US Agency Collateralized Mortgage Obligations	108,115	110,600	4.54%	3.117
State Treasurer's Investment Pool	30	30	5.21%	0.005
Totals	$ 3,746,800	$ 3,762,948	5.13%	0.417

Interest rate risk – Investments Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Standard & Poor's has assigned the King County Investment Pool an "S1" volatility rating for its conservative investment strategy and low sensitivity to fluctuating market conditions. Volatility ratings by Standard & Poor's range from "S1" for low sensitivity to changing market conditions, to "S6" for highest volatility.

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 one and one-quarter to three and one-quarter years. Securities in the core portfolio cannot have an average life greater than five years at purchase. Based on historical and forecasted cash flows, the Executive Finance Committee established the maximum amount that can be invested in the core portfolio. At year-end, this limit was $2.2 billion and the County was in compliance with this policy. As of December 31, 2006, the combined effective duration of the liquidity and core portfolios was 0.417 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. Standard & Poor's has assigned the King County Investment Pool its "AAAf" rating for credit quality. This is their highest rating for credit quality, and reflects the Pool's extremely strong protection against losses from credit defaults.

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

NOTE 4 – CONTINUED

Credit Quality Distribution

Investment Type	AAA or A-1	AA	A	Not Rated	Total
Repurchase Agreements	$ 1,465,000	$ -	$ -	$ -	$ 1,465,000
Commercial Paper	950,936	-	-	-	950,936
US Agency Discount Notes	100,619	-	-	-	100,619
Taxable Municipal Notes	14,826	20,698	9,882	-	45,406
Taxable Municipal Zero Coupon Notes	39,182	-	-	-	39,182
US Agency Notes	548,675	-	-	-	548,675
US Agency Collateralized Mortgage Obligations	108,115	-	-	-	108,115
State Treasurer's Investment Pool	-	-	-	30	30
TOTAL	$ 3,227,353	$ 20,698	$ 9,882	$ 30	$ 3,257,963

The King County Investment Pool's policy limits the maximum amount that can be invested in various securities. At year-end, the Pool was in compliance with this policy. The Pool's actual composition consisted of Savings Accounts and Certificates of Deposit– 8 percent, Repurchase Agreements–39 percent, Commercial Paper–25 percent, Municipal bonds–2 percent, Treasury Securities–5 percent, Agency Securities–18 percent, and Agency Mortgage Backed Securities–3 percent. The table below summarizes the Pool's diversification policy.

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

Investment Type	Maximum Maturity	Security Type Limit	Single Issuer Limit	Minimum Credit Rating
US Treasury	5 Years	100%	None	N/A
US Federal Agency	5 Years	50%	50%	N/A
US Federal Agency MBS	5 Year WAL	25%	25%	N/A
Certificates of Deposit	5 Years	15%	5%	PDPC(1)
Municipal Securities(2)	5 Years	20%	5%	A(3)
Bank Securities	5 Years	20%	5%	A(3)
Repurchase Agreements	60 Days(4)	40%	10%	Collateral
Commercial Paper	180 Days	25%	5%	A1/P1(5)
Bankers' Acceptances	180 Days	25%	5%	Top 50(6)
State LGIP(7)	N/A	None	None	N/A

N/A = Not applicable
(1) Institution must be a Washington State depository. Treasurers can deposit up to 100% of bank's net worth.
(2) Washington state issuers: general obligations and revenue bonds. Other states: only general obligation bonds.
(3) Must be rated "A" or better by two rating agencies.
(4) 102% collateralized, over 30 days 105%.
(5) Must be rated in top credit category by at least two rating agencies. Maturities > 100 days must have "AA" long-term rating.
(6) Bankers' acceptances can only be purchased from the 50 largest banks in the world by asset size.
(7) The state investment pool (LGIP) is a money market-like fund managed by the State Treasurer's Office.

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: Lehman Brothers, Inc.–9 percent, Federal National Mortgage Association–11 percent, Credit Suisse Securities (USA) LLC–10 percent, UBS Financial Services–8 percent, Federal Home Loan Mortgage Corporation–7 percent, and Goldman, Sachs & Co.–10 percent.

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. By County policy, all security transactions, including repurchase agreements, are settled "delivery versus payment." This

NOTE 4 – CONTINUED

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.

Investment Pool's Condensed Statements

The King County Investment Pool's Condensed Statement of Net Assets and Changes in Net Assets as of December 31, 2006, are as follows (in thousands):

Condensed Statement of Net Assets

Assets	$	3,760,537
Less: Liabilities		(154,010)
Net assets held in trust for pool participants	$	3,606,527
Equity of internal pool participants	$	1,632,906
Equity of external pool participants		1,973,621
Total equity	$	3,606,527

Condensed Statement of Changes in Net Assets

Net assets - January 1, 2006	$	3,282,775
Net change in investments by pool participants		323,752
Net assets - December 31, 2006	$	3,606,527

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 $100 thousand per bank) totaling $3.33 million with a carrying amount of $3.15 million. In addition, HMC has equity in the Investment Pool – Certificates of Deposit and Investments (reported as cash equivalents on June 30, 2006). 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, 2006, HMC's equity in the pool was $275.89 million and the carrying amount was $277.58 million, as shown in the following table (in thousands):

NOTE 4 – CONTINUED

Harborview Medical Center

	Carrying Amount	Bank Balance	Uninsured and Uncollateralized
Cash in other banks	$ 3,151	$ 3,328	$ 313
Equity in Investment Pool			
Certificates of Deposit	21,510	21,379	7,110
Investments	256,070	254,511	-
Total Equity in Investment Pool	277,580	275,890	7,110
Total	$ 280,731	$ 279,218	$ 7,423

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 $100 thousand per bank) totaling $803 thousand. In addition, the PFD has equity in the Investment Pool – Certificates of Deposit and Investments (reported as cash equivalents on December 31, 2006). The PFD's equity in the pool applies the same criteria as the King County Investment Pool to classify the amounts of deposits and investments exposed to custodial credit risk as uninsured and uncollateralized. As of December 31, 2006, the PFD's equity in the pool was $13.83 million and the carrying amount was $14.53 million as shown in the following table (in thousands):

	Carrying Amount	Bank Balance	Uninsured and Uncollateralized
Cash in other banks	$ 803	$ 803	$ 363
Equity in Investment Pool			
Certificates of Deposit	1,126	1,072	356
Investments	13,401	12,757	-
Total Equity in Investment Pool	14,527	13,829	356
Total	$ 15,330	$ 14,632	$ 719

Cultural Development Authority of King County (CDA)

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

Investments The CDA does not participate in the County's investment pool. The CDA has an Investment Policy to guide the management of its assets and ensure that all investment activity is within the regulations established by State and County Code. The CDA's Board of Directors monitors the investments to ensure compliance with Policy guidelines and reviews the investment performance at least annually.

NOTE 4 – CONTINUED

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

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, 2006 (in thousands):

Investment Type	Fair Value	Principal	Average Interest Rate	Effective Duration (Yrs)	Concentration
State Treasurer's Investment Pool	$ 12,449	$ 12,449	5.21%	0.003	44%
US Treasury Notes	7,783	7,887	4.26%	3.976	28%
Federal Home Loan Mortgage Corp Debentures	1,798	1,824	5.19%	4.538	6%
Federal National Mortgage Association Notes	4,407	4,464	5.06%	4.251	16%
Federal Home Loan Bank Bonds	1,742	1,768	4.21%	2.510	6%
Totals	$ 28,179	$ 28,392	4.86%	2.209	100%

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, 2006, the combined weighted average effective duration of the CDA's portfolio was 2.209 years.

Credit risk of Debt Securities Credit risk is the risk that an issuer will not fulfill its obligations. As of December 31, 2006, all issuers of investments in the CDA portfolio had a Standard & Poor's rating of "AAA." The Washington State Local Government Investment Pool is not rated.

Concentration of credit risk – Investments Concentration of credit risk is the risk of loss attributed to the magnitude of the CDA's investment in a single issuer. As of December 31, 2006, the CDA had concentrations greater than 5 percent of its total portfolio in the following issuers: State Treasurer's Local Government Investment Pool–44 percent, US Treasury Securities–28 percent, Federal National Mortgage Association–16 percent, Federal Home Loan Mortgage Corporation–6 percent, and Federal Home Loan Bank–6 percent.

NOTE 4 – CONTINUED

Receivables

Analysis of Estimated Uncollectible Accounts Receivable

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

	General Fund	Public Health Fund	Other Governmental Funds	Total Governmental Funds
Receivables				
Accounts receivable	$ 71,717	$ 2,203	$ 29,035	$ 102,955
Estimated uncollectible accounts receivable	(63,944)	(18)	(7,261)	(71,223)
Accounts receivable, net	$ 7,773	$ 2,185	$ 21,774	$ 31,732
Other receivables				
Abatements receivable	$ -	$ -	$ 300	$ 300
Estimated uncollectible abatements receivable	-	-	(62)	(62)
Assessments receivable - current	-	-	122	122
Assessments receivable - deferred	-	-	95	95
Accrued interest/penalty receivable - delinquent assessments	-	-	16	16
Other receivables, net	$ -	$ -	$ 471	$ 471
Due from other governments	$ 35,549	$ 17,194	$ 43,266	$ 96,009
Estimated uncollectible due from other governments	(738)	-	-	(738)
Due from other governments, net	$ 34,811	$ 17,194	$ 43,266	$ 95,271

NOTE 5 – PROPERTY TAXATION

Taxing Powers

The County is authorized to levy both "regular" property taxes and "excess" property taxes. Regular property taxes are subject to limitations as to rates and amounts and are imposed for general municipal purposes, including the payment of debt service on limited tax general obligation bonds. The County also may impose "excess" property taxes that are not subject to limitation when authorized by a 60 percent majority popular vote, as provided in Article VII, Section 2, of the State Constitution and RCW 84.52.052. To be valid, such popular vote must have a minimum voter turnout of 40 percent of the number who voted at the last County general election, except that one-year excess tax levies also are valid if the turnout is not less than 24 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 $1.09915 per thousand in 2006. 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 $1.84203 per thousand in 2006. Both the general purposes levy and the road district purposes levy are below the maximum allowable rate because of an additional limitation on the increase from one year to the next in the amount of taxes levied.

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

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

In November 2001 voters approved a six-year emergency medical services property tax at a maximum rate of $0.25 per thousand beginning in the 2002 tax year. The County currently is levying $0.05488 per thousand for conservation futures. On November 8, 2005, voters approved a $0.05 Veterans and Human Services temporary lid lift for six years.

The County-wide four-year temporary lid lift for Regional and Rural Parks, approved by voters in 2003, has a current rate of $0.04542 per thousand.

NOTE 5 – CONTINUED

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), as amended by Ch. 1, Laws of 2002 (the "Property Tax Act"), 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 municipality, 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 municipality upon a finding of substantial need and is also approved by the voters at a general or special election within the municipality. 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

NOTE 5 – CONTINUED

(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.

Property Tax Calendar

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

Tax Collection Procedures

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

The methods for giving notice of payment of taxes due, collecting such taxes, accounting for the taxes collected, dividing the collected taxes among the various taxing districts, and giving notice of delinquency are covered by detailed State statutes. The County's lien on personal property taxes levied by the County Council before the filing of federal tax liens is senior to such federal tax liens. In all other respects, and subject to the possible "Homestead Exemption" described below, the lien for 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 $40 thousand of 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

NOTE 5 – CONTINUED

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 the County Council receives the Assessor's final certificate of assessed value of property within the County. The taxes payable in the following year are based on this assessed valuation.

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 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. 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 2006 and 2005 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 2006 countywide assessed valuation was $270,571,111 thousand, an increase of $21.7 billion from 2005; the assessed valuation for the unincorporated area levy was $41,535,371 thousand, an increase of $3 billion from 2005.

NOTE 5 – CONTINUED

ALLOCATION OF 2006 AND 2005 TAX LEVIES

	2006 Original Taxes Levied (in thousands)	2006 Levy Rate (per thousand)	2005 Original Taxes Levied (in thousands)	2005 Levy Rate (per thousand)
Countywide Levy Assessed Valuation: $270,571,111 thousand[a]				
Items Within Operating Levy[b]				
General Fund	$ 241,142	$ 0.89604	$ 235,165	$ 0.94845
River Improvements	2,654	0.00986	2,576	0.01039
Veterans' Relief	2,244	0.00834	2,179	0.00879
Human Services	4,990	0.01854	4,845	0.01954
Intercounty River Improvement	51	0.00019	49	0.00020
Limited G.O. Bonds Debt Service	19,041	0.07076	17,874	0.07210
Automated Fingerprint Identification System[c]	6	-	12,231	0.04933
Park Levy[d]	12,222	0.04542	11,861	0.04785
Veterans and Human Services[e]	13,450	0.05000	-	-
Total Operating Levy	295,800	1.09915	286,780	1.15665
Conservation Futures Levy[f]				
Conservation Futures Levy	4,430	0.01646	8,762	0.03534
Farmland and Park Debt Service	10,338	0.03842	5,596	0.02257
Total Conservation Futures Levy	14,768	0.05488	14,358	0.05791
Unlimited Tax G.O. Bonds (Voter-approved Excess Levy)	46,671	0.17466	41,258	0.16773
Total Countywide Levy	357,239	1.32869	342,396	1.38229
EMS Levy Assessed Valuation: $174,864,478 thousand [a] [g]	38,251	0.21982	37,109	0.23182
Unincorporated County Levy Assessed Valuation: $41,535,371 thousand [a] [h]				
County Road Fund	76,062	$ 1.84203	70,330	$ 1.83168
Total County Tax Levies [i]	$ 471,552		$ 449,835	

(a) Assessed valuation for taxes payable in 2006.

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

(c) The Automated Fingerprint Identification System (AFIS) levy is a regular property tax to be assessed for five years beginning in 2001 at a levy rate of not more than $0.05784 per thousand of assessed valuation as authorized by RCW 84.55.050 and a proposition approved by a majority of the voters of King County.

(d) The Park Levy is a regular property tax to be assessed for four years beginning in 2004 at a levy rate of not more than $0.049 per thousand of assessed valuation as authorized by RCW 84.55.050 and a proposition approved by a majority of the voters of King County.

(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 $0.05 per $1,000 of assessed valutation as authorized by RCW 84.55.050

(f) The Conservation Futures levy tax rate is statutorily limited to $.0625 per thousand of assessed valuation.

(g) The Emergency Medical Services (EMS) levy shown excludes that portion of the levy within the City of Seattle. The levy was approved by the voters of King County for a six-year period with collection beginning in 2002.

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

(i) Excludes tax levy of the blended component unit Flood Control Zone Districts. In 2006 and 2005, the original taxes levied were $923 and $901 thousand, respectively.

NOTE 6 – CAPITAL ASSETS

Primary Government

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

	Balance 01/01/06	Prior Year Adjustments	Increases	Decreases	Balance 12/31/06
Governmental Activities:					
Capital assets not being depreciated					
Land	$ 686,235	$ -	$ 67,468	$ (22,385)	$ 731,318
Infrastructure	910,523	-	49,732	(7,070)	953,185
Work in progress	52,063	-	38,010	(12,828)	77,245
Total capital assets not being depreciated	1,648,821	-	155,210	(42,283)	1,761,748
Capital assets being depreciated					
Buildings	645,251	-	15,848	(7,566)	653,533
Improvements other than buildings	30,692	-	4,244	(13,354)	21,582
Equipment	203,678	-	30,677	(21,276)	213,079
Total capital assets being depreciated	879,621	-	50,769	(42,196)	888,194
Less accumulated depreciation for:					
Buildings	(183,404)	-	(19,672)	1,866	(201,210)
Improvements other than buildings	(5,760)	-	(2,334)	4,185	(3,909)
Equipment	(130,733)	-	(22,999)	16,473	(137,259)
Total capital assets being depreciated - net	559,724	-	5,764	(19,672)	545,816
Governmental activities capital assets - net	$ 2,208,545	$ -	$ 160,974	$ (61,955)	$ 2,307,564
Business-type Activities:					
Capital assets not being depreciated					
Land	$ 282,808	$ -	$ 41,948	$ -	$ 324,756
Work in progress	695,541	-	382,249	(121,669)	956,121
Total capital assets not being depreciated	978,349	-	424,197	(121,669)	1,280,877
Capital assets being depreciated					
Buildings	903,939	131,804	30,464	(3,219)	1,062,988
Improvements other than buildings	1,743,766	237,245	76,760	(5,297)	2,052,474
Equipment	1,796,940	(369,049)	26,929	(37,904)	1,416,916
Total capital assets being depreciated	4,444,645	-	134,153	(46,420)	4,532,378
Less accumulated depreciation for:					
Buildings	(321,415)	(26,361)	(23,763)	313	(371,226)
Improvements other than buildings	(659,938)	(47,448)	(49,163)	753	(755,796)
Equipment	(1,043,294)	245,197	(90,663)	8,372	(880,388)
Total capital assets being depreciated - net	2,419,998	171,388	(29,436)	(36,982)	2,524,968
Business-type activities capital assets - net	$ 3,398,347	$ 171,388	$ 394,761	$ (158,651)	$ 3,805,845

Prior year adjustments under Business-type activities are attributed to the Water Quality Enterprise which reported a reclassification of capital assets between classes and an adjustment in accumulated depreciation due to changes in estimated useful lives of certain Westpoint Treatment Plant assets. (See Note 15 – Restrictions, Reserves, Designations, and Changes in Equity – Restatements of Beginning Balances.)

All but one of the County's internal service funds are classified under governmental activities for government-wide reporting. Capital assets of the Wastewater Equipment Rental Fund, an internal service fund that provides services exclusively to an enterprise fund, are reported under business-type activities.

NOTE 6 – CONTINUED

Depreciation Expense

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

Governmental Activities	
General government services	$ 14,306
Law, safety and justice	12,019
Physical environment	242
Transportation	628
Economic environment	251
Mental and physical health	1,993
Culture and recreation	1,974
Capital assets held by the County's governmental internal service funds are charged to governmental activities based on their usage of the assets	7,931
Total depreciation expense – governmental activities	$ 39,344

Business-type Activities	
Water Quality	$ 75,796
Public Transportation	67,975
Solid Waste	13,636
King County International Airport	1,709
Radio Communications	1,557
Institutional Network	366
Capital assets held by the Wastewater Equipment Rental internal service fund are charged to business-type activities based on their usage of the assets	751
Total depreciation expense – business-type activities	$ 161,790

Infrastructure

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

Roads and Bridges Infrastructure Valuation

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

NOTE 6 – CONTINUED

Land

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

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

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

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

Real Property Under Capital Lease

King County is currently leasing certain land and buildings pursuant to special financing agreements which are in substance capital leases. Contract terms stipulate that the titles to these properties revert to the County upon lease expiration. The King Street Center ($78.2 million) and the Patricia Bracelin Steel Memorial ($62.5 million) buildings were developed for the County by "63-20" corporations under design-build-lease agreements financed with lease revenue bonds issued on behalf of the County.

Business-type capital assets under capital lease include a 150-stall parking facility ($3.7 million) leased by the Public Transportation Enterprise.

Construction Commitments

Project commitment is defined as authorized and planned expenditures for the next fiscal year.

Proprietary Funds
Public Transportation Enterprise – $385.0 million is committed to maintenance of existing infrastructure, replacement of aging fleet, and expansion of transit base capacity.

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

Other Enterprises – $74.3 million is committed to improving the County's solid waste regional landfill and transfer stations; $27.7 million is committed to runway rehabilitation and facilities improvements at the King County International Airport.

NOTE 6 – CONTINUED

Capital Projects Funds

$528.7 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, 2006, was as follows (in thousands):

	Balance 07/01/05	Increases	Decreases	Balance 06/30/06
Capital assets not being depreciated:				
Land	$ 1,586	$ -	$ -	$ 1,586
Work in progress	42,892	54,730	(5,999)	91,623
Total capital assets not being depreciated	44,478	54,730	(5,999)	93,209
Capital assets being depreciated:				
Buildings	185,346	1,158	-	186,504
Improvements other than buildings	1,363	168	-	1,531
Equipment	273,751	15,094	(9,555)	279,290
Total capital assets being depreciated	460,460	16,420	(9,555)	467,325
Less accumulated depreciation for:				
Buildings	(77,250)	(5,891)	-	(83,141)
Improvements other than buildings	(775)	(78)	-	(853)
Equipment	(168,668)	(19,052)	8,796	(178,924)
Total capital assets being depreciated - net	213,767	(8,601)	(759)	204,407
HMC capital assets, net	$ 258,245	$ 46,129	$ (6,758)	$ 297,616

HMC also owns other property (net cost of $2.2 million) which are held for future use. These are reported under "Other Assets" in the component unit statements.

A major construction program is ongoing at HMC involving major upgrades to existing hospital buildings, demolition of seismically unsound older buildings, and construction of new and replacement facilities. This program, which began in 2001, is funded primarily by $193 million in bonds from the County, with $124 million already issued; and $85 million in contributions from HMC, with $80 million already contributed.

NOTE 6 – CONTINUED

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

Capital assets activity for the PFD for the period ended December 31, 2006, was as follows (in thousands):

	Balance 01/01/06	Increases	Decreases	Balance 12/31/06
Capital assets not being depreciated:				
Land	$ 38,498	$ -	$ -	$ 38,498
Capital assets being depreciated:				
Baseball stadium	489,091	373	-	489,464
Improvements other than buildings	16,292	4,374	-	20,666
Equipment	65	-	-	65
Total capital assets being depreciated	505,448	4,747	-	510,195
Less accumulated depreciation for:				
Baseball stadium	(80,154)	(12,643)	-	(92,797)
Improvements other than buildings	(407)	(109)	-	(516)
Equipment	(53)	(7)	-	(60)
Total capital assets being depreciated - net	424,834	(8,012)	-	416,822
PFD capital assets, net	$ 463,332	$ (8,012)	$ -	$ 455,320

NOTE 7 – RESTRICTED ASSETS

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

Enterprise Funds	
Public Transportation – restricted for future construction projects and debt service.	$ 246,925
Water Quality – restricted for future construction projects, debt service, and reserves and obligations.	190,752
King County International Airport – restricted for future construction projects and expansion, and obligations.	13,601
Radio Communications – restricted for future construction projects.	2,658
Solid Waste – restricted for landfill closure and post-closure care costs.	72,417
Total Enterprise restricted assets	$ 526,353
Component Unit – Harborview Medical Center (HMC)	
HMC Construction Fund – restricted for construction, seismic, public safety and other improvements, and furnishings of HMC buildings.	$ 153,441
HMC Special Purpose Fund – consists of restricted donations, gifts, and bequests from various sources for specific uses.	7,850
HMC Operating Fund – consists of resources that are board-designated for specific purposes, including planned capital and service components, the self-insurance fund, commuter services, net fixed assets held for future use, and others.	15,426
HMC Plant Fund – consists of resources that are board-designated for building improvements, furnishings, and repair and replacement.	24,583
Total HMC restricted assets	$ 201,300
Component Unit – Cultural Development Authority of King County (CDA)	
Public Arts Projects Fund – restricted for the one percent for public art programs operated for the benefit of King County.	$ 4,705
Cultural Grant Awards Fund – restricted for arts and heritage cultural programs.	11,131
Cultural Endowment Fund – a long-term endowment for the benefit of the arts and heritage cultural programs.	14,905
Total CDA restricted assets	$ 30,741

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), 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.

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, 801 Third Avenue, Suite 300, 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 option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. The PERS defined benefit retirement payments 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.

Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement at any age 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 pension is 2 percent of the average final compensation per year of service, capped at 60 percent. The average final compensation is based on the greatest compensation during any 24 eligible consecutive compensation months. If qualified, after reaching the age of 66 a cost-of-living allowance is granted based on years of service credit and is capped at 3 percent annually.

NOTE 8 – CONTINUED

Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 members may retire at the age of 65 with five years of service, or at the age of 55 with 20 years of service, with an allowance of 2 percent of the average final compensation per year of service. The average final compensation is based on the greatest compensation during any eligible consecutive 60-month period. Plan 2 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

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 1 percent of the average final compensation per year of service. The average final compensation is based on the greatest compensation during any eligible consecutive 60-month period. Effective June 7, 2006, Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years if twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan. Vested Plan 3 members are eligible to retire with full benefits at age 65, or at age 55 with 10 years of service. Retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. The benefit is also actuarially reduced to reflect the choice of a survivor option. There is no cap on years of service credit; and Plan 3 provides the same cost-of-living allowance as Plan 2. The defined contribution portion can be distributed in accordance with an option selected by the member, either as a lump sum or pursuant to other options authorized by the Employee Retirement Benefits Board.

Statewide there are 1,181 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of September 30, 2005:

Retirees and Beneficiaries Receiving Benefits	68,609
Terminated Plan Members Entitled to, But Not Yet Receiving Benefits	22,567
Active Plan Members Vested	104,574
Active Plan Members Nonvested	51,004
Total	246,754

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 percent and do not vary from year to year. 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. The PERS Plan 3 defined contribution is a noncontributing plan for employers. Employees who participate in the defined contribution portion of PERS Plan 3 do not contribute to the defined benefit portion of PERS Plan 3. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee's

NOTE 8 – CONTINUED

age. 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, 2006, were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	3.69%	3.69%	3.69%**
Employee	6.00%	3.50%	***

* The employer rates include the employer administrative expense fee currently set at 0.18%.
** Plan 3 defined benefit portion only.
*** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

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

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2004	$ 1,027	$ 7,786	$ 896
2005	1,182	10,310	1,348
2006	1,918	18,562	2,460

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 and firefighters. LEOFF membership is comprised primarily of non-state employees, with the Department of Fish and Wildlife enforcement officers, who were first included prospectively effective July 27, 2003 being an exception. In addition, effective July 24, 2005, current members of PERS who are emergency medical technicians can elect to become members of LEOFF Plan 2. Effective July 1, 2003, the LEOFF Plan 2 Retirement Board was established 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 benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays the remainder through state legislative appropriations. LEOFF retirement benefit provisions are established in state statute and may be amended by the State Legislature.

Plan 1 retirement benefits are vested after an employee completes 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 is as follows:

NOTE 8 – CONTINUED

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

The final average salary 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 10 years of service. If membership was established in LEOFF after February 18, 1974, the service retirement benefit is capped at 60 percent of final average salary. A cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index).

Plan 2 retirement benefits are vested after an employee completes 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 final average salary per year of service. The final average salary is based on the 60 consecutive highest-paid service credit months. Plan 2 retirements prior to the age of 53 are reduced 3 percent for each year that the benefit commences prior to age 53. There is no cap on years of service credit and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

Statewide there are 376 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of September 30, 2005:

Retirees and Beneficiaries Receiving Benefits	8,723
Terminated Plan Members Entitled to, But Not Yet Receiving, Benefits	577
Active Plan Members Vested	12,348
Active Plan Members Nonvested	3,543
Total	25,191

Funding Policy

Starting on July 1, 2000, Plan 1 employers and employees will 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. Plan 2 employers and employees are required to pay at the level adopted by the Department of Retirement Systems in accordance with chapter 41.45 RCW. 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 Plan 1 in accordance with the requirements of the Pension Funding Council. However, this special funding situation is not mandated by the state constitution and this funding requirement could be returned to the employers by a change of statute.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2006, were as follows:

	LEOFF Plan 1	LEOFF Plan 2
Employer*	0.18%	4.90%
Employee	0.00%	7.85%

* The employer rates include the employer administrative expense fee currently set at 0.18%.

NOTE 8 – CONTINUED

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

	LEOFF Plan 1	LEOFF Plan 2
2004	$ 4	$ 1,622
2005	3	1,815
2006	3	2,758

Public Safety Employees' Retirement System (PSERS) Plan 2

Plan Description

PSERS was created by the 2004 legislature and became effective July 1, 2006. PSERS is a cost-sharing multiple-employer retirement system comprised of a single defined benefit plan, PSERS Plan 2. 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.
- 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.

Plan 2 retirement benefits are vested after an employee completes five years of eligible service and attains the age of 65. 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 10 years of PSERS service credit, with an allowance of 2 percent of the average final compensation per year of service. The average final compensation 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 retirees 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

NOTE 8 – CONTINUED

no cap on years of service credit; and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

The first actuarial valuation of the PSERS system will be effective as of September, 2006 and reported in the year 2007.

Funding Policy

Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates, which 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, 2006, were as follows:

	PSERS Plan 2
Employer*	6.76%
Employee	6.57%

* The employer rate includes an employer administrative expense fee of 0.18%.

Both the County and the employees made the required contributions. The County's required contributions for the year ended December 31, 2006 were $334 thousand.

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

NOTE 8 – CONTINUED

amended by the Board of Administration. Both the County and the employees made the required contributions. The County's required employer contributions for the years 2004, 2005, and 2006 ending December 31 were $776, $704, and $700 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 semimonthly 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. Employer contributions are paid by the District in accordance with rates specified by the individual plans. Total payroll covered by all systems for the year ended December 31, 2006, was $33 thousand.

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 2006 were $2 thousand.

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

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

NOTE 9 – POST-EMPLOYMENT BENEFITS

In accordance with the Washington Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Act (chapter 41.26 RCW), the County provides certain healthcare benefits for retired full-time, fully compensated law enforcement officers who established membership in the LEOFF I retirement system on or before September 30, 1977. Substantially all of the County's law enforcement officers who established membership in the LEOFF I retirement system may become eligible for those benefits when they reach normal retirement age. The King County Sheriff's Office, in conjunction with the King County Disability Board, reimburses retired LEOFF I police officers for reasonable medical charges as described in the LEOFF Act. In 2006, 320 retirees received benefits under this act. As of December 31, 2006, there were 17 active officers with an average age of 59 who may become eligible for those benefits when they reach normal retirement age.

The cost of retiree healthcare benefits is recognized as an expenditure in the General Fund as claims are paid. For 2006 those costs total $2,303 thousand, with an average cost per retiree of $7 thousand.

In addition to the pension benefits described in Note 8, the County also offers medical, dental, and life insurance benefits to eligible retirees. Retirees who are not yet eligible for Medicare benefits may continue participation in the County's self-funded health insurance risk pool. These retirees pay a specified amount to the County each month in order to maintain County health insurance. The amount that is charged to retirees is comprised of the blended costs of retirees and active employees.

The Government Accounting Standards Board (GASB) has issued Statement 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*, effective beginning in 2007. Statement 45 will require that the long-term cost of retirement health care and other post-employment benefits be determined on an actuarial basis and reported similar to pension plans. The GASB standards will not require the pre-funding of these post-employment benefits.

NOTE 10 – RISK MANAGEMENT

As a municipal organization, the County has a wide range of loss exposures.

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

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

Insurance Fund

The Insurance Fund, an internal service fund, accounts for the County's property/casualty program. The Fund, established in 1977, accounts for the County's exposures to loss due to the tortious conduct of the County, including those commonly covered by general liability, automobile liability, police professional, public officials, errors and omissions, and professional malpractice insurance policies. The estimated liability for probable self-insurance losses (reported and unreported) recorded in the fund as of December 31, 2006, is $45.7 million.

The County purchases excess liability coverage that currently provides $97.5 million in limits above a $2.5 million per occurrence self-insured retention (SIR) for its general liability, automobile liability, police liability, public officials, errors and omissions, and Health Department professional malpractice exposures. The reinsurance policy has a "corridor" deductible that requires that the County pay an additional $1 million above the $2.5 million SIR before the reinsurance company becomes responsible for losses. This $1 million may either be satisfied by one large loss exceeding $3.5 million or through a combination of losses above the $2.5 million SIR. Effective September 1, 2006, the County renewed the property insurance policy. This policy has a blanket limit of $1 billion above a $100 thousand per occurrence deductible and provides an overall earthquake sublimit of $150 million. The 2006 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; a liability policy to cover the police helicopter activities with liability limits of $50 million per occurrence; and excess statutory coverage for the Workers' Compensation program over a $2.5 million per occurrence SIR.

In the past three years, three occurrences have resulted in payments in excess of the self-insured retention of $2.5 million. During 2006 there were no significant changes made in the County's insurance program.

NOTE 10 – CONTINUED

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 $30 million with additional coverage for sudden and accidental pollution, maritime employers' liability, towers liability, and contingent charterers liability. The County has increased funding for the self-insurance program commensurate with increases in estimated case reserve requirements and incurred-but-not-reported losses. The cash balance in the Insurance Fund has increased from $2.1 million as of December 31, 1985, to more than $83.6 million as of December 31, 2006. $10.2 million of the $83.6 million cash balance in the Insurance Fund has been designated for catastrophic loss reserves (see Note 15). The catastrophic loss reserves are used to respond to large losses above the $1 million limit.

With the assistance of an actuary, the Insurance Fund's claims liability is estimated based upon historical claims experience and other actuarial techniques. Nonincremental claim adjustment expenses are not included as part of the liability. The changes in the Insurance Fund's claims liability in 2005 and 2006 were as follows (in thousands):

	Beginning of Year Liability	Claims and Changes in Estimates	Claim Payments	End of Year Liability
2005	$ 46,766	$ 9,471	$ (9,629)	$ 46,608
2006	46,608	12,490	(13,391)	45,707

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 5.23 percent, the County's average forecasted rate of return on investments. As of December 31, 2006, the total discounted claim liability is $57.1 million and the undiscounted carrying amount of the claim liability is $70.5 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. There has been no settlement in excess of the insurance coverage in the prior three years.

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 2005 and 2006 were (in thousands):

NOTE 10 – CONTINUED

	Beginning of Year Liability	Claims and Changes in Estimates	Claim Payments	End of Year Liability
2005	$ 49,247	$ 22,034	$ (17,033)	$ 54,248
2006	54,248	19,547	(16,646)	57,149

Employee Benefits Program Fund

The Employee Benefits Program Fund, an internal service fund, accounts for employee medical, dental, vision, life, accidental death and dismemberment, and long-term disability benefit programs, except for Public Safety LEOFF retiree medical benefits. There are three insured and one self-insured medical plans. Eighty-one percent of County employees are insured through the self-insured medical plan. The dental and vision plans are also self-insured. Interfund premiums are determined on a per employee, per month basis and charged to departments through a composite rate of expected claims, expenses and premiums. 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, 2006, is $13.9 million.

The Fund's claims liability is based on historical experience. Changes in the Employee Benefits Program Fund's claims liability in 2005 and 2006 were (in thousands):

	Beginning of Year Liability	Claims and Changes in Estimates	Claim Payments	End of Year Liability
2005	$ 13,055	$ 107,703	$ (107,247)	$ 13,511
2006	13,511	117,453	(117,071)	13,893

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 $1.35 million is recorded in governmental long-term debt for the estimated future claims liability for employees as of December 31, 2006.

Changes in governmental long-term debt liability for unemployment compensation in 2005 and 2006 were (in thousands):

	Beginning of Year Liability	Claims and Changes in Estimates	Claim Payments	End of Year Liability
2005	$ 1,758	$ 1,045	$ (1,532)	$ 1,271
2006	1,271	1,699	(1,623)	1,347

NOTE 10 – CONTINUED

Component Unit – Harborview Medical Center

Insurance Fund

Harborview Medical Center (HMC) participates in a self-insurance revolving fund for professional liability coverage through the University of Washington (UW). As of June 30, 2006, 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 $1.31 million in the period July 1, 2004 to June 30, 2005, and $1.60 million in the period July 1, 2005 to June 30, 2006.

Employee Benefits Program

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

All employees of HMC are covered by Workers' Compensation and Medical Aid Acts for injuries and occupational diseases that occur during the course of their employment. Coverage includes doctors' services, hospital care, ambulance, appliances, compensation for permanent, partial, and total disability, and allowances and pensions to surviving spouses and children in the case of fatal injuries. A majority of the premium cost is paid by the UW and a small deduction is made from the employee's pay to conform with the state law.

Component Unit – WSMLBS Public Facilities District

Insurance Fund

The Washington State Major League Baseball Stadium Public Facilities District (PFD) carries commercial general liability insurance with a general aggregate limit of $2 million and a per occurrence limit of $1 million. Excess liability coverage is in force at aggregate and per event limits of $5 million. Business automobile liability coverage limit is at $1 million per any one accident or loss. Commercial personal property losses are covered up to the replacement value not exceeding $100 thousand with separate coverage for earthquake and flood losses. The PFD also has purchased employee benefit liability coverage with an aggregate limit of $3 million and a per employee limit of $1 million.

NOTE 10 – CONTINUED

Component Unit – Cultural Development Authority of King County

Insurance Fund

The Cultural Development Authority of King County (CDA), dba 4Culture, carries comprehensive general liability and auto liability insurance with no aggregate limit per member. The total limit is $10 million and a per occurrence limit of $9.5 million. Commercial property losses are covered up to the replacement cost on file with Washington Governmental Entity Pool.

The CDA also has purchased employee benefit liability coverage with an aggregate limit of $20 million and an aggregate per member limit of $10 million.

Employee Benefits Program

Employees of the CDA have a comprehensive benefits package through the Public Employees' Benefits Board (PEBB). The comprehensive package includes medical, dental, 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 the insurance with American Family Life Assurance Company (AFLAC). With the AFLAC coverage, the CDA employees can pick from a selection of insurance policies.

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. Such assets and liabilities related to proprietary type funds are accounted for within the proprietary funds (Business-type Activities).

The following is a schedule of capital assets and outstanding liabilities relating to capital lease agreements and installment purchase contracts as of December 31, 2006 (in thousands):

	Capital Assets		Capital Leases Payable	
	Governmental Activities	Business-type Activities	Governmental Activities	Business-type Activities
Land	$ 21,788	$ -	$ -	$ -
Building	124,927	-	136,285	-
Leasehold improvements	-	4,881	-	3,611
Less depreciation	(20,315)	(762)	-	-
Subtotal	104,612	4,119	136,285	3,611
Machinery and equipment	449	-	160	-
Less depreciation	(156)	-	-	-
Subtotal	293	-	160	-
Totals	$ 126,693	$ 4,119	$ 136,445	$ 3,611

The following is a schedule, by year, of future minimum lease payments under capital lease and installment purchase agreements together with the present value of the net minimum lease payments as of December 31, 2006 (in thousands):

	Governmental Activities	Business-type Activities
2007	$ 10,700	$ 255
2008	10,637	255
2009	10,585	255
2010	10,587	255
2011	10,587	255
2012-2016	52,928	1,275
2017-2021	51,973	1,275
2022-2026	48,819	1,275
2027-2031	21,937	1,169
Total minimum lease payments	228,753	6,269
Less: Amount representing interest	(92,308)	(2,658)
Present value of net minimum lease payments	$ 136,445	$ 3,611

NOTE 11 – CONTINUED

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, 2006, for operating lease and rental agreements for office space, equipment, and other operating leases amount to $31.8 million. The patterns of future lease payment requirements are systematic and rational. Future minimum lease payments for these leases are as follows (in thousands):

Year	Office Space	Equipment	Other	Total
2007	$ 10,045	$ 131	$ 702	$ 10,878
2008	5,903	99	560	6,562
2009	5,099	97	491	5,687
2010	4,177	34	412	4,623
2011	2,892	-	398	3,290
2012-2016	7,354	-	1,529	8,883
2017-2021	1,748	-	1,666	3,414
2022-2026	1,224	-	1,819	3,043
2027-2031	1,220	-	1,798	3,018
2032-2036	413	-	1,967	2,380
2037-2041	-	-	2,172	2,172
2042-2046	-	-	2,397	2,397
2047-2051	-	-	2,647	2,647
2052-2053	-	-	989	989

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 individuals, companies, and government agencies in the aviation industry.

The following schedule is an analysis of the County's investment in property under long-term, noncancelable operating leases as of December 31, 2006 (in thousands):

	Governmental	Business-type Activities	
	Activities	Airport	Other
Land	$ 141	$ 14,231	$ -
Buildings	1,681	50,084	702
Less depreciation	(596)	(27,131)	(71)
Total cost of property under lease	$ 1,226	$ 37,184	$ 631

NOTE 11 – CONTINUED

The following is a schedule of minimum future lease receipts on noncancelable operating leases based on contract amounts and terms as of December 31, 2006 (in thousands):

Year	Governmental Activities	Business-type Activities		Total
		Airport	Other	
2007	$ 2,445	$ 5,451	$ 495	$ 8,391
2008	2,142	5,113	307	7,562
2009	2,079	4,913	139	7,131
2010	1,579	4,904	26	6,509
2011	1,411	4,904	6	6,321
2012-2016	3,968	22,322	-	26,290
2017-2021	3,841	22,091	-	25,932
2022-2026	3,602	10,422	-	14,024
2027-2031	3,334	4,677	-	8,011
2032-2036	120	2,902	-	3,022

NOTE 12 – LANDFILL CLOSURE AND POST-CLOSURE CARE COSTS

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

State and federal laws and regulations require King County to place a final cover on its Cedar Hills Landfill site when the County stops accepting waste at this location. Certain maintenance and monitoring functions are also required at the sites for 30 years following closure. Enumclaw, Hobart, Duvall, Vashon, and Cedar Falls landfills have been covered. Puyallup, Houghton, Bow Lake, First Northeast, and South Park are custodial landfills which were covered 30 or more years ago and are no longer subject to these laws and regulations. South Park custodial landfill was sold in 2006.

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 $92.9 million reported as landfill closure and post-closure care liability as of December 31, 2006, 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	80%	$ 62,715	$ 26,280	2015
Covered	100%	21,611		
Custodial	100%	8,553		

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, 2006, cash and cash equivalents of $39.4 million were held in the Landfill Reserve Fund. Cash and cash equivalents of $21.6 million were held in the Landfill Post-closure Maintenance Fund, a fund designated for these purposes.

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

The County also established the Environmental Reserve Fund for future investigation and possible remediation of custodial landfills. As of December 31, 2006, landfill investigations and foreseeable remediation efforts are complete; therefore there is no liability recorded for custodial landfills.

NOTE 13 – DEBT

Short-term Debt Instruments and Liquidity

King County has two short-term limited tax general obligation (GO) bond anticipation notes outstanding as of December 31, 2006. The County completed the sale of $84.0 million of bond anticipation notes, 2006 Series A and Series B on November 1, 2006. The proceeds of the notes are accounted for in the Building Construction and Improvement fund. The 2006 Series A notes in the amount of $52.7 million were issued to provide interim financing for various projects related to the County Courthouse, the integrated security and jail health project, the Kent Pullen Regional Communications and Emergency Coordination Center, the Pedestrian Tunnel between the New County Office Building (NCOB) and the Goat Hill parking structure, the acquisition of workstations and furniture for the NCOB (the NCOB Equipping Projects) and other projects. The 2006 Series B notes in the amount of $31.3 million were issued to provide interim financing for the Juanita Woodland Open Space Acquisition Project and the Forestry and Nearshore Initiative Project. Also, a portion of the proceeds from both notes were used to pay and retire the County's $60.0 million of general obligation bond anticipation notes, 2005 Series A and Series B, which matured on November 1, 2006. The County intends to refinance the repayment of 2006 Series A and Series B notes by issuing limited tax general obligation bonds when the notes matured on November 1, 2007.

The County has $50.0 million of commercial paper outstanding in the Water Quality Enterprise Fund. The commercial paper outstanding as of December 31, 2006, has maturities ranging from 19 to 59 days. At the time of initial issuance, the proceeds of the commercial paper were transferred to the construction fund for use in the capital activities of the Enterprise. Repayment of the debt will be made from operating revenues. The following schedule provides a summary of changes in short-term debt as of December 31, 2006 (in thousands):

	Balance 01/01/06	Additions	Reductions	Balance 12/31/06
Governmental activities:				
Limited tax GO bond anticipation notes	$ 60,000	$ 83,990	$ (60,000)	$ 83,990
Unamortized premium bonds sold	714	273	(714)	273
Governmental activities short-term debt	$ 60,714	$ 84,263	$ (60,714)	$ 84,263
Business-type activities:				
Commercial paper	$ 100,000	$ -	$ (50,000)	$ 50,000
Business-type activities short-term debt	$ 100,000	$ -	$ (50,000)	$ 50,000

NOTE 13 – CONTINUED

Long-term Debt

King County's long-term debt is reported under governmental activities and business-type activities. Governmental activities long-term debt consists of general obligation bonds, general obligation capital leases, and special assessment bonds with governmental commitment. Payment of special assessment bonds are guaranteed by the Road Improvement Guaranty Fund if a road improvement district fails to pay.

Business-type activities long-term debt consists of limited tax general obligation bonds accounted for in the King County International Airport, Institutional Network (I-NET), Solid Waste, Public Transportation, and Water Quality Enterprise Funds; revenue capital leases accounted for in the Public Transportation Fund; and State of Washington revolving fund loans and revenue bonds accounted for in the Water Quality Enterprise Fund.

KING COUNTY, WASHINGTON
SCHEDULE OF LONG-TERM DEBT
(IN THOUSANDS)
(PAGE 1 of 3)

	Issue Date	Final Maturity	Interest Rates	Original Issue Amount	Outstanding at 12/31/06
I. GOVERNMENTAL ACTIVITIES - LONG-TERM DEBT					
IA. Limited Tax General Obligation Bonds (LTGO)					
Payable from Limited Tax GO Bond Redemption Fund					
1993 Various Purpose Series B (Partial)	12/01/93	01/01/24	5.35-6.70%	$ 109,436	$ 17,750
1996 Various Purpose Series A (Partial)	02/01/96	01/01/16	5.00-5.25%	105,268	3,330
1996 Refunding Bonds Series B	03/01/96	01/01/10	4.10-4.60%	10,348	890
1997 Baseball Stadium Parking Facilities (Taxable) Series C	04/01/97	12/01/16	7.06-7.79%	25,000	2,390
1997 Baseball Stadium Series D	05/07/97	12/01/11	4.60-5.75%	150,000	52,245
1997 Kingdome Debt Service Reimburse (Taxable) Series E	12/01/97	12/01/15	6.25-6.88%	6,595	5,945
1997 Kingdome Debt Refunding Series F	12/01/97	12/01/15	5.00-5.20%	51,525	50,755
1997 Various Purpose Series G (Partial)	12/01/97	12/01/17	4.50-5.00%	72,080	6,135
1999 Various Purpose Series A (Partial)	05/01/99	12/01/19	4.00-5.25%	85,695	16,042
2001 Various Purpose (Partial)	11/01/01	12/01/21	3.00-5.00%	26,925	18,890
2002 Refunding 1997B Series (Baseball Stadium)	06/04/02	12/01/14	4.00-5.50%	124,575	76,420
2002 Various Purpose (Road CIP) Bonds	10/01/02	12/01/16	2.00-5.00%	38,340	29,310
2003 Limited Tax GO (Payoff BAN 2003B) Series A	10/30/03	06/01/23	2.00-5.25%	27,605	24,895
2003 Various Purpose Refunding Bonds Series B (Partial)	10/30/03	06/01/23	2.00-5.25%	27,890	21,315
2004 Refunding 1996A Series A	09/21/04	01/01/16	2.00-5.00%	57,045	56,295
2004 Limited Tax GO (Payoff BAN2003A) Series B	10/01/04	01/01/25	2.50-5.00%	82,435	80,615
2004 Baseball Stadium (Refg 1997C Partial) (Taxable) Series C	12/21/04	12/01/11	2.92-4.49%	13,195	9,905
2004 Baseball Stadium (Refg 1997D Partial) Series D	12/21/04	12/01/11	3.00-5.00%	32,075	28,680
2005 Refunding 1993B 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	38,330
2006 Greenbridge Project Section 108 Bonds	08/01/06	08/01/24	4.96-5.70%	6,783	6,783
Total payable from Limited Tax GO Redemption Fund				1,113,655	569,430
Payable from Internal Service Funds					
1997 Various Purpose Series G (Partial)	12/01/97	12/01/17	4.50-5.00%	1,270	155
1999 Various Purpose Series A	05/01/99	12/01/19	4.00-5.25%	525	175
2001 Various Purpose (Partial)	11/01/01	12/01/21	3.00-5.00%	1,050	575
Total payable from Internal Service Funds				2,845	905
IB. Limited Tax GO capital leases					
Payable from Public Health	Various	Various	Various	642	160
Payable from Various Funds - 1997 King Street Center's Tenants	06/01/97	6/1/2026	4.50-5.13%	78,275	70,420
Payable from General Fund - 1998 Issaquah District Court	09/29/98	12/1/2019	3.80-5.05%	5,900	4,535
Payable from HMC - 2002 Broadway Office Property	11/13/02	12/1/1931	4.00-5.38%	62,540	61,330
Total Limited Tax GO Capital Leases				147,357	136,445
Total Limited Tax General Obligation Debt				1,263,857	706,780

NOTE 13 – CONTINUED

KING COUNTY, WASHINGTON
SCHEDULE OF LONG-TERM DEBT
(IN THOUSANDS)
(PAGE 2 of 3)

	Issue Date	Final Maturity	Interest Rates	Original Issue Amount	Outstanding at 12/31/06
I. GOVERNMENTAL ACTIVITIES - LONG-TERM DEBT					
IC. Unlimited Tax General Obligation Bonds (ULTGO)					
Payable from Unlimited Tax GO Redemption Fund					
2000 Refunding Bonds (Partial)	10/01/00	06/01/16	5.00-5.50%	$ 102,740	$ 53,065
2001 Harborview Medical Center	02/01/01	12/01/20	4.00-5.00%	29,130	24,720
2003 Refunding 1993C Bonds	04/23/03	06/01/19	2.00-5.25%	108,795	55,790
2004 ULTGO Bonds Series A (HMC)	05/04/04	12/01/23	2.00-5.00%	110,000	104,155
2004 ULTGO Bonds Series B (HMC)	09/14/04	06/01/23	3.00-5.00%	54,000	51,900
Total payable from Unlimited Tax GO Bond Redemption Fund				404,665	289,630
Payable from Stadium GO Bond Redemption Fund					
2000 Refunding Bonds (Partial)	10/01/00	06/01/16	5.00-5.50%	18,880	10,480
Total Unlimited Tax General Obligation Bonds				423,545	300,110
ID. Special Assessment General Long-Term Debt					
Special assessment bonds with governmental commitment - bonds payable from Road Improvement Districts S.A. Bond Redemption Fund - 1986 RID 2 Consolidated	07/01/86	07/01/08	7.88-8.25%	286	15
TOTAL GOVERNMENTAL ACTIVITIES - LONG-TERM DEBT				1,687,688	1,006,905
II. BUSINESS-TYPE ACTIVITIES - LONG-TERM DEBT					
IIA. Limited Tax General Obligation Bonds (LTGO)					
Payable from Enterprise Funds					
1996 LTGO Refunding Series B (Partial)	03/01/96	01/01/10	4.10-4.75%	12,632	1,295
1996 LTGO Refunding (Revenue Bonds) Series C	12/15/96	01/01/32	5.00-6.25%	130,965	5,325
1998 LTGO (Public Transportation Sales Tax) Refunding Series A	05/15/98	12/01/19	4.50-5.00%	85,715	56,645
1998 LTGO Refunding (WQ-LTGO & Revenues) Series B	09/15/98	01/01/34	4.75-5.25%	261,625	251,220
1999 LTGO Refunding Series A (Partial)	05/01/99	12/01/19	4.00-5.25%	8,720	7,538
2001 LTGO Various Purpose (Partial)	11/01/01	12/01/21	3.00-5.00%	8,580	7,145
2002 LTGO (Public Transportation Sales Tax) Refunding Bonds	11/05/02	12/01/19	3.00-5.50%	64,285	53,750
2003 LTGO Refunding 1993A Bonds Series B (Partial)	10/30/03	06/01/23	2.00-5.25%	12,545	3,370
2004 LTGO (Public Transportation Sales Tax) Bonds	06/08/04	06/01/34	2.50-5.50%	49,695	48,100
2005 LTGO (WQ-LTGO) Bonds	04/21/05	01/01/35	5.00%	200,000	200,000
2006 Refunding Bonds (Partial)	12/14/06	01/01/19	4.00-5.00%	7,995	7,995
Total Limited Tax GO Bonds Payable From Enterprise Funds				842,757	642,383

NOTE 13 – CONTINUED

KING COUNTY, WASHINGTON
SCHEDULE OF LONG-TERM DEBT
(IN THOUSANDS)
(PAGE 3 of 3)

	Issue Date	Final Maturity	Interest Rates	Original Issue Amount	Outstanding at 12/31/06
IIB. Revenue Bonds, Capital Leases and Loans					
Payable from Enterprise Funds					
1999 Sewer Revenue Bonds Series 2	11/01/99	01/01/35	5.00-6.25%	$ 60,000	$ 3,365
2001 Sewer Revenue Bonds Junior Lien Series A	08/06/01	01/01/32	Variable Rate [a]	50,000	50,000
2001 Sewer Revenue Bonds Junior Lien Series B	08/06/01	01/01/32	Variable Rate [a]	50,000	50,000
2001 Sewer Revenue and Refunding Bonds	11/28/01	01/01/35	3.00-5.25%	270,060	233,010
2002 Sewer Revenue Bonds Series A	08/14/02	01/01/35	5.00-5.50%	100,000	94,960
2002 Sewer Revenue Refunding Bonds Series B	10/03/02	01/01/33	3.00-5.50%	346,130	311,310
2003 Sewer Revenue Refunding Bonds	04/24/03	01/01/35	2.00-5.25%	96,470	93,665
2004 Sewer Revenue Bonds Series A	03/18/04	01/01/35	4.50-5.00%	185,000	185,000
2004 Sewer Revenue Refunding 1999-2 Bonds Series B	03/18/04	01/01/35	2.00-5.00%	61,760	60,290
2006 Sewer Revenue and Refunding 1999-1 Bonds Series A	05/16/06	01/01/36	5.00%	124,070	124,070
2006 Sewer Revenue Bonds Junior Lien Multi-Modal Series A	10/04/06	01/01/36	Variable Rate [b]	50,000	50,000
2006 Sewer Revenue Bonds Junior Lien Multi-Modal Series B	10/04/06	01/01/36	Variable Rate [b]	50,000	50,000
2006 Sewer Revenue and Refunding Bonds Series B-2	11/30/06	01/01/36	3.50-5.00%	193,435	193,435
2000-2006 State of Washington Revolving Loans	Various	Various	0.50-1.50%	134,401	118,622
2000 Public Transportation Rev Park and Ride capital leases	03/30/00	12/31/31	5.00%	4,722	3,611
Total Revenue Bonds, Capital Leases and Loans payable from Enterprise Funds				1,776,048	1,621,338
TOTAL BUSINESS-TYPE ACTIVITIES - LONG-TERM DEBT				2,618,805	2,263,721
TOTAL LONG-TERM DEBT (EXCLUDING GO LONG-TERM LIABILITIES)				$ 4,306,493	$ 3,270,626

(a) 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.

(b) 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 County may elect to convert one or both series of the Bonds to Daily Mode, Flexible Mode, Term Rate Mode, Fixed Rate Mode or Auction Rate Securities ("ARS") Mode.

NOTE 13 – CONTINUED

KING COUNTY, WASHINGTON
DEBT SERVICE REQUIREMENTS TO MATURITY
(IN THOUSANDS)

GOVERNMENTAL ACTIVITIES

Year	General Obligation Bonds		General Obligation Capital Leases and Loans		Special Assessment Bonds (With Governmental Commitment)		Total Governmental Activities	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2007	$ 85,104	$ 41,004	$ 3,756	$ 6,944	$ -	$ 1	$ 88,860	$ 47,949
2008	76,908	37,883	3,879	6,758	15	1	80,802	44,642
2009	79,651	34,107	4,020	6,564	-	-	83,671	40,671
2010	68,989	30,408	4,225	6,362	-	-	73,214	36,770
2011	57,456	27,065	4,440	6,147	-	-	61,896	33,212
2012-2016	294,830	87,266	25,900	27,028	-	-	320,730	114,294
2017-2021	136,963	35,041	32,545	19,428	-	-	169,508	54,469
2022-2026	70,544	5,518	38,685	10,134	-	-	109,229	15,652
2027-2031	-	-	18,995	2,942	-	-	18,995	2,942
TOTAL	$ 870,445	$ 298,292	$ 136,445	$ 92,307	$ 15	$ 2	$ 1,006,905	$ 390,601

BUSINESS-TYPE ACTIVITIES

Year	General Obligation Bonds		Revenue Bonds, Capital Leases and Loans		Total Business-Type Activities		Total Long-Term Debt (Excluding General Obligation Long-Term Liabilities)	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2007	$ 19,597	$ 31,625	$ 30,812	$ 62,357	$ 50,409	$ 93,982	$ 139,269	$ 141,931
2008	16,785	30,942	32,742	64,123	49,527	95,065	130,329	139,707
2009	14,692	30,254	37,042	62,602	51,734	92,856	135,405	133,527
2010	15,392	29,531	38,667	60,953	54,059	90,484	127,273	127,254
2011	14,570	28,815	40,364	59,234	54,934	88,049	116,830	121,261
2012-2016	77,977	132,855	229,421	267,888	307,398	400,743	628,128	515,037
2017-2021	122,665	106,023	202,875	218,740	325,540	324,763	495,048	379,232
2022-2026	110,760	77,498	234,278	169,858	345,038	247,356	454,267	263,008
2027-2031	140,270	46,133	277,342	109,421	417,612	155,554	436,607	158,496
2032-2036	109,675	9,739	497,795	32,850	607,470	42,589	607,470	42,589
TOTAL	$ 642,383	$ 523,415	$ 1,621,338	$ 1,108,026	$ 2,263,721	$ 1,631,441	$ 3,270,626	$ 2,022,042

NOTE 13 – CONTINUED

The following table summarizes changes in long-term liabilities for the year ended December 31, 2006 (in thousands).

	Balance 01/01/06	Additions	Reductions	Balance 12/31/06	Due Within One Year
Governmental activities:					
Bonds payable:					
General obligation bonds	$ 960,663	$ 45,180	$ (135,398)	$ 870,445	$ 85,104
Special assessment bonds with governmental commitment	15	-	-	15	-
Less deferred amounts:					
Unamortized premium bonds sold	30,025	1,633	(4,776)	26,882	4,479
Refunding	(15,798)	(2,153)	3,476	(14,475)	(3,424)
Total bonds payable	974,905 [(a)]	44,660	(136,698)	882,867	86,159
Limited GO capital leases and loans	142,246	-	(5,801)	136,445	3,756
Claims and judgments payable	1,891	-	(1,191)	700	700
Compensated absences liability	74,313	8,170	(3,709)	78,774	2,968
Unemployment compensated liabilities	1,271	1,699	(1,623)	1,347	1,347
Estimated claims settlements and other liabilities	114,456	149,490	(147,123)	116,823	76,800
Rebatable arbitrage	100	77	-	177	74
Total Governmental activities long-term liabilities	$ 1,309,182	$ 204,096	$ (296,145)	$ 1,217,133	$ 171,804
Business-type activities:					
Bonds payable:					
General obligation bonds	$ 746,752	$ 7,995	$ (112,364)	$ 642,383	$ 19,597
Revenue bonds	1,189,756	417,505	(108,156)	1,499,105	24,885
Less deferred amounts:					
Deferred bond discounts/ refunding losses	(51,074)	11,279	(3,393)	(43,188)	(3,471)
Total bonds payable	1,885,434	436,779	(223,913)	2,098,300	41,011
Capital leases	3,685	-	(74)	3,611	77
State revolving loans	111,483	10,618	(3,479)	118,622	5,850
Claims and judgments payable	2,331	1,535	(1,984)	1,882	1,882
Compensated absences liability	48,908	24,432	(19,065)	54,275	7,339
Landfill closure and post-closure care liability	92,495	384	-	92,879	6,500
Environmental remediation and other liabilities	6,071	7,465	(935)	12,601	-
Total Business-type activities long-term liabilities	$ 2,150,407	$ 481,213	$ (249,450)	$ 2,382,170	$ 62,659

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 $116.7 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) Governmental activities total bonds payable has been adjusted to exclude debt payable from Institutional Network (I-NET). This debt of $5.6 million is included with business-type activities bonds payable. Also, total bonds payable excludes the amount of issuance cost/underwriter's discount which is reported as deferred charges in the government-wide statement of net assets.

NOTE 13 – CONTINUED

Computation of Legal Debt Margin

Under Washington state law (RCW 39.36.020), a county may incur general obligation debt for general county purposes in an amount not to exceed 2½ percent of the assessed value of all taxable property within the county. State law requires all property to be assessed at 100 percent of its true and fair value. Unlimited tax general obligation debt requires an approving vote of the people; any election to validate such general obligation debt must have a voter turnout of at least 40 percent of those who voted in the last state general election and, of those voting, 60 percent must be in the affirmative. The County Council may by resolution authorize the issuance of limited tax general obligation debt in an amount up to 1½ percent of assessed value of property within the County for general county purposes and 3/4 percent for metropolitan functions, but the total of limited tax general obligation debt for general county purposes and metropolitan functions should not exceed 1½ percent of assessed value. No combination of limited and unlimited tax debt, for general county purposes, and no combination of limited and unlimited tax debt, for metropolitan functions, may exceed 2½ percent of the valuation. The debt service on unlimited tax debt is secured by excess property tax levies, whereas the debt service on limited tax debt is secured by property taxes collected within the $1.80 per $1,000 of assessed value operating levy. The legal debt margin computation for the year ended December 31, 2006 is as follows (in thousands):

2006 ASSESSED VALUE (2007 TAX YEAR)	$	298,755,199
Debt limit of limited tax (LT) general obligations for metropolitan functions		
3/4 % of assessed value	$	2,240,664
Less: Net LT general obligation indebtedness for metropolitan functions		(676,531)
LT GENERAL OBLIGATION DEBT MARGIN FOR METROPOLITAN FUNCTIONS	$	1,564,133
Debt limit of LT general obligations for general county purposes and metropolitan functions – 1½ % of assessed value	$	4,481,328
Less: Net LT general obligation indebtedness for general county purposes		(843,352)
Net LT general obligation indebtedness for metropolitan functions		(676,531)
Net total LT general obligation indebtedness for general county purposes and metropolitan functions		(1,519,883)
LT GENERAL OBLIGATION DEBT MARGIN FOR GENERAL COUNTY PURPOSES AND METROPOLITAN FUNCTIONS	$	2,961,445
Debt limit of total general obligations for metropolitan functions		
2½ % of assessed value	$	7,468,880
Less: Net total general obligation indebtedness for metropolitan functions		(676,531)
TOTAL GENERAL OBLIGATION DEBT MARGIN FOR METROPOLITAN FUNCTIONS	$	6,792,349
Debt limit of total general obligations for general county purposes		
2½ % of assessed value	$	7,468,880
Less: Net unlimited tax general obligation indebtedness for general county purposes		(286,133)
Net LT general obligation indebtedness for general county purposes		(843,352)
Net total general obligation indebtedness for general county purposes		(1,129,485)
TOTAL GENERAL OBLIGATION DEBT MARGIN FOR GENERAL COUNTY PURPOSES	$	6,339,395

NOTE 13 – CONTINUED

Refunding and Defeasing General Obligation Bond Issues – 2006

Limited Tax General Obligation Refunding Bonds, 2006A – On December 14, 2006, the County issued $46.3 million in limited tax general obligation bonds, 2006A with an average interest rate of 3.74 percent to advance refund $46.6 million of outstanding various purpose limited tax general obligation bonds – 1996B ($7.2 million), 1997G ($21.6 million) and 1999A ($17.8 million) with an average interest rate of 5.09 percent. The net proceeds were used to purchase US government securities that were deposited with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered defeased and the liability for those bonds has been removed from both the governmental and business-type activities columns of the statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by $1.4 million. This amount, reported in the statement of net assets as a reduction from bonds payable, is being charged to operations through fiscal year 2019, using the outstanding principal balance method. This advance refunding was undertaken to reduce total debt service payments by $4.4 million over the life of the bonds and resulted in an economic gain (difference between the present values of the old and new debt service payments) of $2.4 million.

Partial Defeasances of Limited Tax General Obligation (Baseball Stadium) Refunding Bonds, 2006 – During 2006, the County completed two partial defeasances of limited tax general obligation (Baseball Stadium) refunding bonds, 2002 on February 15, 2006 for $7.4 million and December 15, 2006, for $9.4 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 from bonds payable, is being charged to operations through fiscal year 2014, using the outstanding principal balance method. The transaction resulted in an economic gain of $429 thousand for the year ended December 31, 2006.

Refunding Water Quality Revenue Bond Issues – 2006

Sewer Revenue Refunding Bonds, 2006A – On May 16, 2006, the County issued $24.1 million in sewer revenue bonds, 2006 Series A with an average interest rate of 4.66 percent to advance refund $24.2 million of outstanding sewer revenue bonds, 1999-1 with an average interest rate of 5.47 percent. The net proceeds were used to purchase US government securities that were deposited with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered defeased and the liability has been removed from the business-type activities column of the statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by $1.5 million. This amount, reported in the statement of net assets as a reduction from bonds payable, is being charged to operations through fiscal year 2023, using the outstanding principal balance method. The transaction also resulted in a reduction of $1.8 million in future debt service payments and an economic gain of $1.2 million.

Sewer Revenue Refunding Bonds, 2006B – On November 30, 2006, the County issued $143.4 million in sewer revenue bonds, 2006 Series B with an average interest rate of 4.54 percent to advance refund $146.2 million of outstanding sewer revenue bonds, 1999-1 ($55.8 million), 2002A ($5.1 million) and Water Quality limited tax general obligation bonds, 1996C ($85.3 million), with an average interest rate of 5.47 percent. The net proceeds were used to purchase US government securities that were deposited with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered defeased and the liability 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 $7.2 million. This amount, reported in the statement of net assets as a reduction from

NOTE 13 – CONTINUED

bonds payable, is being charged to operations through fiscal year 2035, using the outstanding principal balance method. The transaction also resulted in a reduction of $20.8 million in future debt service payments and an economic gain of $12.6 million.

Refunded Bonds

King County has 17 outstanding refunded and defeased bond issues consisting of limited tax general obligation bonds ($366.1 million), unlimited tax general obligation bonds ($25.6 million) and sewer revenue bonds ($138.8 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, the US Bank of Washington, and the liability for the defeased bonds has been removed from the statement of net assets.

Future Borrowing Plans

The County expects to issue approximately $150.0 million of new long-term limited tax general obligation bonds during 2007. These bonds will primarily be used to pay off certain bond anticipation notes maturing in 2007 and to provide funding for the Solid Waste Division's capital improvement program.

For the remainder of this decade the County will need to issue approximately $1.4 billion of new debt to provide continuing funding for its Wastewater Treatment Division's capital improvement program, of which $250.0 million will be issued in June 2007. While most of this new debt will be in the form of sewer revenue bonds, a portion may be comprised of limited tax general obligation bonds that are additionally secured by a pledge of the revenues from the Wastewater Treatment Division.

The County intends to take advantage of favorable interest rates by refinancing any outstanding higher rate bonds when and if market conditions permit.

NOTE 14 – INTERFUND BALANCES AND TRANSFERS

Interfund Balances

Due from/to other funds and interfund short-term loans receivable and payable (in thousands)

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

Receivable Fund	Payable Fund	Amount
General Fund	Nonmajor Governmental Funds	6,847
	Internal Service Funds	1,106
	Investment Trust Funds	5,011
	Water Quality Enterprise	1,670
	Nonmajor Enterprise Funds	2,380
	All Others	505
Public Health Fund	Nonmajor Governmental Funds	1,265
	All Others	125
Nonmajor Governmental Funds	General Fund	6,327
	Nonmajor Governmental Funds	19,721
	Internal Service Funds	625
	Water Quality Enterprise	2,636
	Nonmajor Enterprise Funds	973
	All Others	379
Public Transportation Enterprise	Nonmajor Governmental Funds	1,137
	All Others	166
Water Quality Enterprise	Nonmajor Governmental Funds	1,613
	All Others	155
Nonmajor Enterprise Funds	Nonmajor Governmental Funds	691
	All Others	395
Internal Service Funds	Nonmajor Governmental Funds	1,272
	Internal Service Funds	2,741
	Public Transportation Enterprise	1,956
	Water Quality Enterprise	947
	All Others	483
Total		$ 61,126

The interfund balances resulted from the time lag between the dates: (1) when interfund goods and services were provided or reimbursable expenditures incurred, and when interfund payments were made; and (2) when interfund short-term loans were made and when the loans were repaid.

NOTE 14 – CONTINUED

Advances from/to other funds (in thousands)

Receivable Fund	Payable Fund	Amount
General Fund	Public Transportation Enterprise	$ 3,500
	Nonmajor Governmental Funds	300
Public Transportation Enterprise	General Fund	1,200
	Nonmajor Governmental Funds	198
Total		$ 5,198

The advances from the General Fund to the Public Transportation Enterprise and the Nonmajor Governmental Funds consisted of loans made for the purposes of cash flow. Neither advance is scheduled to be repaid in 2007.

The $1.2 million advance from the Public Transportation Enterprise to the General Fund, which arose from the sale of the Tashiro-Kaplan Building, is reported as "Advances to other funds" in the Public Transportation Enterprise and as "Advances from other funds" in the General Fund. $300 thousand of the balance is scheduled to be collected in 2007. The $198 thousand advance from the Public Transportation Fund to the Nonmajor Governmental Funds was used to acquire capital assets. $159 thousand of the total advance to the Nonmajor Governmental Funds is scheduled to be collected in 2007.

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	$ 23,740
	Nonmajor Governmental Funds	43,275
	Internal Service Funds	1,220
Public Health Fund	All Others	189
Nonmajor Governmental Funds	Nonmajor Governmental Funds	97,479
	All Others	379
Public Transportation Enterprise	Nonmajor Governmental Funds	507
Water Quality Enterprise	All Others	11
Nonmajor Enterprise Funds	Nonmajor Enterprise Funds	2,800
	All Others	506
Internal Service Funds	Nonmajor Governmental Funds	3,450
	Internal Service Funds	695
Total transfers in		$ 174,251
Transfer out of capital assets:		339
Total transfers out		$ 174,590

NOTE 14 – CONTINUED

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.

In the fund financial statements, total transfers out exceed total transfers in because there were $339 thousand of capital assets transferred during the year. In 2006, $16 thousand for capital assets was transferred from Nonmajor Enterprise Funds to Internal Service Funds, $266 thousand for capital assets was transferred within Internal Service Funds, $29 thousand for capital assets was transferred from Internal Service Funds to the Water Quality Enterprise, and $28 thousand for capital assets was transferred from Internal Service Funds to Nonmajor Governmental Funds.

NOTE 15 – RESTRICTIONS, RESERVES, DESIGNATIONS, AND CHANGES IN EQUITY

Net Assets

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

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

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

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

Restricted Net Assets – Business-type Activities (in thousands)

$ 231,977	Public Transportation Enterprise restricted for future construction projects ($221,032) and debt service ($10,945).
85,054	Water Quality Enterprise restricted for future construction projects ($51,965), debt service ($28,419), and litigation settlements ($4,670).
9,573	King County International Airport Enterprise restricted for future construction projects.
2,658	Radio Communications Enterprise restricted for construction.
$ 329,262	Total Business-type Restricted Net Assets

Reserves and Designations

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

NOTE 15 – CONTINUED

Following is a list of all reserves and designations used by King County and a description of each:

Reserved Fund Balances (in thousands)

	General Fund	Public Health Fund	Nonmajor Special Revenue	Nonmajor Debt Service	Nonmajor Capital Projects
Reserved for:					
Inventory	$ -	$ 1,964	$ -	$ -	$ -
Prepayments	-	-	4,705	-	200
Encumbrances	11,193	823	24,661	-	57,081
Advances to other funds	3,800	-	-	-	-
Animal services	503	-	-	-	-
Crime victim compensation program	66	-	-	-	-
Criminal justice	7,439				
Debt service	-	-	788	-	-
Drug enforcement program	147	-	-	-	-
Antiprofiteering program	195	-	-	-	-
Dispute resolution centers	93	-	-	-	-
Inmate welfare	466	-	-	-	-
Laptop replacement	292	-	-	-	-
Real property title assurance	25	-	-	-	-
Training and equipment for Medic One	-	193	-	-	-
Youth sports facilities grant endowment	-	-	646	-	-
PFD stadium bond debt service	-	-	-	11,804	-
PFD stadium bond debt service - escrow	-	-	-	4,116	-
Traffic mitigation	-	-	-	-	1,336
Total reserved fund balances	$ 24,219	$ 2,980	$ 30,800	$ 15,920	$ 58,617

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

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

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

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

Reserved for animal services – Segregates a portion of fund balance to indicate that resources are restricted solely for the purpose of funding the animal services program, which promotes and enforces the humane treatment of the animal population of King County.

NOTE 15 – CONTINUED

Reserved for crime victim compensation program – Segregates a portion of fund balance to indicate that resources are legally restricted to the crime victim compensation program and are not spendable resources for other expenditures (chapter 7.68 RCW).

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

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

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

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

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

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

Reserved for laptop replacement – Segregates a portion of fund balance to indicate that resources are restricted solely for the purpose of replacing laptop computers used by police officers.

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

Reserved for training and equipment for Medic One – Segregates a portion of fund balance to indicate that the use of donations from individuals to Medic One are restricted to equipment purchases and training for paramedics and medical services officers.

Reserved for youth sports facilities grant endowment – Segregates a portion of fund balance pending a decision to establish a separate Permanent Fund for an endowment. The investment income from the endowment will be used exclusively to supplement the Youth Sports Facilities Grant Fund for the acquisition and operation of outdoor sports fields for youth.

Reserved for PFD stadium bond debt service – Segregates the revenues collected by the County that are earmarked for future debt service payments on the 1997A-1, 1997B, 1997D, 2002 Refunding, and 2004D Refunding tax exempt Baseball Stadium bond issues.

NOTE 15 – CONTINUED

Reserved for PFD stadium bond debt service – escrow – Segregates the revenues collected by the County that are earmarked for future debt service payments on the 1997A-2, 1997C, and 2004C Refunding taxable Baseball Stadium bond issues.

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

Designated Fund Balances (in thousands)

	General Fund	Public Health Fund	Nonmajor Special Revenue
Designated for:			
Equipment replacement	$ -	$ -	$ 5,961
Capital projects	3,636	-	-
Claims and judgments	-	700	-
DDES	-	-	2,523
Environmental health services	-	3,661	-
FEMA match	-	-	164
Operating reserve	-	-	10,912
PIHP risk reserve	-	-	2,627
Reappropriation	-	-	346
Contingencies	15,704	-	-
Children and family services program	3,890	57	-
Total designated fund balances	$ 23,230	$ 4,418	$ 22,533

Designated for equipment replacement – Indicates that a portion of fund balance has been earmarked for the replacement of equipment.

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

Designated for claims and judgments – Segregates a portion of fund balance to indicate that resources have been earmarked for payment of legal settlements relating to the collection of past Public Health revenues.

Designated for DDES – In the Department of Development and Environmental Services (DDES) Fund, this account sets aside revenues for permit fee supported areas of DDES in the following categories: (1) reserve for staff reductions; (2) revenue shortfall reserve (amount to cover a 15 percent fee revenue shortfall for three months at the budgeted level for fee revenue); and (3) reserve for fee waivers and other unanticipated costs.

Designated for environmental health services – Segregates environmental health fee revenue which may only be used by Environmental Health Services as mandated by the Board of Health.

Designated for FEMA match – Identifies a portion of fund balance in the Flood Control Zone Districts Fund that has been designated for future use as a local match for federal and state grants in the event of a federally-declared flood disaster.

NOTE 15 – CONTINUED

Designated for operating reserve – Funds designated from Mental Health revenue that are set aside according to the King County Regional Services Network (KCRSN)'s contract with the State Mental Health Division, totaling approximately 5 percent of annual revenues if funds are available. Operating reserve funds are set aside to maintain adequate cash flow for the provision of mental health services.

Designated for Prepaid Inpatient Health Plan (PIHP) risk reserve – Funds used to cover inpatient adjustments, outpatient tier benefits, and closeout expenditures in case the King County Regional Support Network (KCRSN) becomes insolvent. The KCRSN is funded primarily by capitated payments from the State based on the number of Medicaid recipients in King County. These revenues support services for people with mental illness in King County.

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

Designated for contingencies – In the General Fund, this account segregates a portion of fund balance to indicate that resources have been earmarked by county ordinance for the following: (1) maintenance of essential county services in the event that General Fund revenue collections in a given fiscal year are less than 97 percent of adopted estimated revenues; (2) payment of legal settlements relating to the collection of past General Fund revenues; (3) payment of catastrophic losses in excess of the Insurance Fund reserve and all other fund balances; and (4) requests for priority capital maintenance projects if and when the contingencies reserve exceeds $15 million.

Designated for children and family services programs – Segregates a portion of fund balance to indicate that resources have been earmarked by county ordinance to provide children and family services to the residents of King County.

Management Plans for Internal Service Fund Unrestricted Net Assets

The following Internal Service Funds have unrestricted net assets that have been earmarked by County management for a specific future use as of December 31, 2006:

Department of Executive Service (DES) Equipment Replacement Fund – $1.6 million for the replacement of personal computers.

Information and Telecommunications Services Fund – Data Processing Subfund – $3 million for rate stabilization reserve and $148 thousand for planning data center move.

Information and Telecommunications Services Fund – Telecommunications Subfund – $60 thousand for the replacement of telecommunications equipment.

Insurance Fund – $10.2 million for catastrophic losses. The catastrophic loss reserve will be used to respond to large, nonrecurring losses exceeding $1 million per incident.

King County Geographic Information Service (GIS) Fund – $131 thousand for the replacement of GIS equipment.

Motor Pool Equipment Rental Fund – $4.5 million for the replacement of rental equipment.

Public Works Equipment Rental Fund – $7.2 million for the replacement of rental equipment.

Wastewater Equipment Rental Fund – $4.8 million for the replacement of rental equipment.

NOTE 15 – CONTINUED

Restatements of Beginning Balances

Motor Pool Equipment Rental, Public Works Equipment Rental, and Wastewater Equipment Rental Funds – In the years 2004 and 2005, the overhead rate related to the vehicle maintenance shop rate was used in the distribution of maintenance staff labor charges between Fleet Administration funds and was also applied to the distribution of administrative staff labor costs in error. As a result, the labor costs in the Motor Pool Equipment Rental Fund and the Wastewater Equipment Rental Fund were overstated and labor costs in the Public Works Equipment Rental Fund were understated.

Water Quality Enterprise – In 2006 Water Quality determined that the West Point Treatment Plant expansion, capitalized primarily in 1995, was assigned a depreciable life that was not representative of the estimated useful life of the underlying assets. To correct this, the estimated useful life was increased from 15 years to 50 years, resulting in a restatement of net assets as of December 31, 2005 from $327.7 million to $499.1 million.

The following schedules present detailed information regarding restatements of beginning balances (in thousands):

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	WATER QUALITY	INTERNAL SERVICE FUNDS	MOTOR POOL EQUIPMENT RENTAL	PUBLIC WORKS EQUIPMENT RENTAL	WASTEWATER EQUIPMENT RENTAL
Net Assets - December 31, 2005	$ 1,503,651	$ 1,758,861	$ 327,743	$ 53,972	$ 16,899	$ 21,073	$ 7,547
Cumulative depreciation adjustment		171,388	171,388				
Correction to overhead distribution	(419)	419		-	1,177	(1,596)	419
Net Assets - January 1, 2006	$ 1,503,232	$ 1,930,668	$ 499,131	$ 53,972	$ 18,076	$ 19,477	$ 7,966

Component Unit – Harborview Medical Center (HMC)

Restricted Net Assets

Restricted expendable net assets – The $155,942 thousand consists of investments restricted for capital use and 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 $1,576 thousand consists of permanent endowments by donors.

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

Restricted Net Assets

Restricted expendable net assets – $10,817 thousand is restricted by RCW 67.28.180.3 and King County ordinance for use for arts and heritage cultural program awards according to a specified formula.

Restricted nonexpendable net assets – $14,905 thousand is a long-term endowment funded from a portion of the hotel/motel tax pursuant to RCW 67.28.180.3(e) to finance future arts and heritage cultural programs.

NOTE 16 – LEGAL MATTERS, CONTINGENT LIABILITIES, AND OTHER COMMITMENTS

Primary Government

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:

- Several claims for additional compensation totaling an estimated $1 million filed by a general contractor against the County and a generator supplier under a project to provide backup generators and repair roofs at several pump stations operated by the Wastewater Treatment Division. Post-mediation settlement efforts are currently on-going on this case and on a cross-claim by the County against the supplier.
- A potential administrative order from the Environmental Protection Agency (EPA) that may require the County, the City of Seattle, the Boeing Company, and the Port of Seattle to remediate the contamination in the Lower Duwamish Waterway. This will depend on the results of an investigation being conducted by these agencies to determine the nature and extent of the contamination. Related to this, the Washington State Department of Ecology (DOE) has given notice that the County, the City of Seattle, and Boeing may be required to fund or help fund the investigation of a specific County property, currently leased to Boeing, to determine the nature, extent and potential clean-up of any hazardous waste in an effort to prevent recontamination of the waterway.
- Potential claims for past and future cleanup costs at the Harbor Island Superfund Site. Certain removal costs incurred by the Port of Seattle are expected to be defrayed by the County and the City of Seattle. The same three parties also have an agreement to share the cost of a supplemental investigation and feasibility study required by the EPA and any potential remediation cost for other contamination that may be uncovered.
- A claim in the amount of $4.6 million filed by a contractor for impacts and costs caused by differing site conditions due to soil contamination at the Vashon Island treatment plant project site. Plaintiff asserts that in addition to known impacts at the time of discovery other impacts have occurred that could not have been anticipated at the time. The matter is currently under the contract's administrative review process.
- A proposed class action lawsuit against the County where the plaintiff, representing similarly situated public defenders and their staff, allege that the County should have enrolled them into the State retirement system.
- An "agreed order" from the Washington State Department of Ecology calling for interim cleanup action on an area that was contaminated as a result of the replacement of the combined sewer overflow in Seattle. The County is negotiating the order which could potentially cost an estimated $3.5 - $4.0 million.
- A lawsuit seeking declaratory relief and a monetary judgment while alleging that County transit service violates the plaintiff's rights to be sole provider of direct airporter service between downtown Seattle and Sea-Tac International Airport. Prior to the lawsuit, the company filed an unsuccessful claim with the County for $13.4 million in damages.

In 2007, final judgment was rendered on a class action lawsuit that challenged the legality of the permit fees charged by the King County Department of Development and Environmental

NOTE 16 – CONTINUED

Services. The ruling was largely favorable to the County as most indirect costs were determined to be proper components of its permit fees. Some costs however were disallowed and the court has ordered the refund of about $2.4 million to the class members.

Contingent Liabilities

King County has entered into several contingent loan agreements totaling $76.3 million with the King County Housing Authority (KCHA) and other owners/developers of affordable housing. The County has provided credit support in the form of reserve guarantees for certain bonds issued by the KCHA. All projects are currently self-supporting and the County has made no loans pursuant to these agreements.

Future Lease Commitments

King County has outstanding project lease agreements which involve the financing and construction of specific buildings by "63-20" non-profit corporations and the subsequent lease of the properties to the County upon "substantial completion." The buildings include the Goat Hill Office Building and Parking Facility, managed by Goat Hill Properties, which is expected to be completed by September 2007; and the Ninth and Jefferson Building, managed by NJB Properties, which is expected to be completed by June 2010. The Goat Hill Properties lease will cost approximately $7.1 million annually from 2008-2032 while the NJB Properties lease is estimated to cost approximately $12.5 million annually from 2011-2036. Each lease will be accounted for as a capital lease in the year the lease commences.

Other Commitments

The Solid Waste Enterprise paid the County General Fund $7.43 million for annual rent on the Cedar Hills landfill site in 2006. Solid Waste is committed to pay rent as long as the Cedar Hills site continues to accept waste.

Component Unit – Harborview Medical Center

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

The current regulatory environment in the healthcare industry is one of increasing governmental activity with respect to investigations and allegations concerning possible violations of regulations by healthcare providers that could result in the imposition of significant fines and penalties, including substantial repayments of patient services previously billed. HMC believes that it complies with the fraud and abuse regulations, as well as with other laws and regulations. Compliance with such laws and regulations can be subject to future governmental review and interpretation and regulatory actions unknown or unasserted at this time.

HMC is operated by the University of Washington under a management and operations contract with King County. In this contract the University of Washington agrees to defend, indemnify, and "save harmless" King County, its elected and appointed officials, employees, and agents, from and against any damage, cost, claim, or liability arising out of the negligent acts or omissions of the University, its employees or agents, or arising out of the activities or operations of the medical center.

REQUIRED SUPPLEMENTARY INFORMATION

Condition Assessments and Preservation of Infrastructure Eligible for Modified Approach

Roads

The County performs condition assessments on its network of roads through the King County Pavement Management System. This system generates a Pavement Condition Index (PCI) for each segment of arterial and local access road in the network. The PCI is a numerical index from zero to one hundred (0 – 100) that represents the pavement's functional condition based on the quantity, severity, and type of visual distress, such as pavement cracking. Based on the PCI score, condition ratings are assigned as follows: a PCI of less than 30 is defined as "poor to substandard" (heavy pavement cracking and potholes); a PCI of 30 or more but less than 50 is defined to be in "fair" condition (noticeable cracks and/or utility cuts); and a PCI of between 50 and higher is defined to be in "excellent to good" condition (relatively smooth roadway). Condition assessments are undertaken every three years.

The most recent condition assessments of the County's roads are shown below. The 2006-2005 data shows mid-cycle numbers for roads assessed during 2006-2005 and normalized by including the previous cycle scores for roads not scheduled to be assessed until 2007.

Condition ratings	2006-2005 (miles)	2006-2005 %	2004-2002 (miles)	2004-2002 %	2001-1999 (miles)	2001-1999 %
Arterial roads						
Excellent to good	440.1	80.9	442.9	81.7	451.1	83.0
Fair	52.1	9.6	61.1	11.3	44.5	8.2
Poor to substandard	52.0	9.5	38.0	7.0	47.6	8.8
Total	544.2	100.0	542.0	100.0	543.2	100.0
Local access roads						
Excellent to good	1,059.0	81.2	1,075.4	81.6	1,031.1	80.0
Fair	137.0	10.5	139.0	10.6	132.3	10.3
Poor to substandard	108.5	8.3	102.9	7.8	125.5	9.7
Total	1,304.5	100.0	1,317.3	100.0	1,288.9	100.0

It is the policy of the King County Road Services Division to maintain at least 80 percent of the road system at a PCI of 40 or better. The following table (derived from the table of condition ratings) shows the number and percentage of miles of roads that meet the 40 PCI level.

PCI score interval	2006-2005 (miles)	2006-2005 %	2004-2002 (miles)	2004-2002 %	2001-1999 (miles)	2001-1999 %
Arterial roads						
PCI 40 - 100	469.4	86.2	475.6	87.7	477.8	88.0
PCI 0 - 39	74.8	13.8	66.4	12.3	65.4	12.0
Total	544.2	100.0	542.0	100.0	543.2	100.0
Local access roads						
PCI 40 - 100	1,134.8	87.0	1,165.6	88.5	1,108.3	86.0
PCI 0 - 39	169.7	13.0	151.7	11.5	180.6	14.0
Total	1,304.5	100.0	1,317.3	100.0	1,288.9	100.0

REQUIRED SUPPLEMENTARY INFORMATION – continued

The majority of roads that fall below the established rating (PCI = 40) are local access roads that are situated in rural areas.

Below is information on planned (budgeted) and actual expenditures incurred to maintain and preserve the road network at or above the minimum acceptable condition level from 2002 to 2006. The budgeted amount is equivalent to the anticipated amount needed to maintain roads up to the required condition level (in thousands):

	2006	2005	2004	2003	2002
Budgeted	$26,575	$24,367	$31,190	$38,830	$37,040
Expended	16,689	15,828	29,126	34,590	34,950

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. The shift in the level of budgeted and expended amounts during 2005 and 2006 is due to a reclassification of activities among capital, preservation, and maintenance as prescribed by the Federal Highway Administration (FHWA).

Bridges

King County currently maintains 187 bridges. Physical inspections to determine the condition of bridges and the degree of wear and deterioration are carried out at least every two years. Inspections reveal deficiencies in bridges such as steel corrosion, damaged guardrails, rotten timbers, deteriorated bridge decks, bank erosion, and cracked concrete. These are documented in an inspection report along with recommended repairs and needed services. Five pedestrian bridges are included in the list of bridges being maintained by the County. These are also subject to condition assessments but under different standards as the more heavily used vehicular bridges.

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

A key element in the priority scale 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. 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. This index 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 would be considered for replacement funding evaluation, though typically only bridges that score less than 30 are selected for Federal replacement funding.

REQUIRED SUPPLEMENTARY INFORMATION – continued

Below are the three most recent bridge sufficiency ratings. The number of bridges reported in 2002 and 2004 were revised to include bridges that were co-owned with cities but for which King County is primarily responsible for the management and maintenance. These bridges fall under the 50–100 sufficiency rating interval.

	Number of Bridges		
Bridge sufficiency rating	2006	2004	2002
0 - 20	6	9	10
21 - 30	2	2	7
31 - 49	20	20	16
50 - 100	159	156	154
Totals	187	187 *	187 *

* revised to include co-owned bridges

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

Amounts budgeted and spent to maintain and preserve bridges from 2002-2006 are shown in the following table (in thousands):

	2006	**2005**	**2004**	**2003**	**2002**
Budgeted	$16,590	$20,000	$4,040	$3,810	$4,210
Expended	11,173	12,940	3,080	3,350	3,830

The budgeted amount is equivalent to the anticipated amount needed to maintain and preserve the bridges up to the required condition level. The shift in the level of budgeted and expended amounts during 2005 and 2006 is due to a reclassification of activities among construction, preservation, and maintenance as prescribed by the FHWA. Generally, backlogs in maintenance work orders greatly affect the trend in maintenance costs. Such backlogs could result from increased bridge traffic, higher weight loads, labor shortages, stringent environmental restrictions, and an aging inventory.

King County