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)

$ 309,571	Public Transportation Enterprise restricted for future construction projects ($298,722) and debt service ($10,849).
97,202	Water Quality Enterprise restricted for future construction projects ($59,515), debt service ($32,595), and litigation settlements ($5,092).
9,105	King County International Airport Enterprise restricted for future construction projects.
3,240	Radio Communications Enterprise restricted for construction.
$ 419,118	Total Business-type Restricted Net Assets

Restricted Net Assets – Internal Service Funds (in thousands)

$ 32,682	Building Development & Management Corporations Fund restricted for future construction projects ($5,865) and debt service ($26,817).

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	$ -	$ 425	$ -	$ -	$ -
Prepayments	-	-	5,808	-	-
Encumbrances	10,130	290	21,865	-	51,015
Advances to other funds	3,800	-	-	-	-
Animal services	562	-	-	-	-
Crime victim compensation program	65	-	-	-	-
Criminal justice	10,538				
Debt service	-	-	330	-	-
Drug enforcement program	780	-	-	-	-
Antiprofiteering program	95	-	-	-	-
Dispute resolution centers	105	-	-	-	-
Inmate welfare	954	-	-	-	-
Laptop replacement	292	-	-	-	-
Real property title assurance	25	-	-	-	-
Training and equipment for Medic One	-	61	-	-	-
Youth sports facilities grant endowment	-	-	646	-	-
PFD stadium bond debt service	-	-	-	12,358	-
PFD stadium bond debt service - escrow	-	-	-	4,877	-
Traffic mitigation	-	-	-	-	3,370
Total reserved fund balances	$ 27,346	$ 776	$ 28,649	$ 17,235	$ 54,385

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 purpose of enhancing enforcement of the Uniform Controlled Substances Act, chapter 69.50 RCW, or other laws regulating controlled substances, including training, equipment, and operational expenses.

Reserved for antiprofiteering program – Segregates a portion of fund balance to indicate that resources are legally restricted 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 law enforcement 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.

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.

NOTE 15 – CONTINUED

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	$ -	$ -	$ 6,695
Capital projects	4,534	-	-
DDES	-	-	2,523
Environmental health services	-	3,625	-
FEMA match	-	-	164
Operating reserve	-	-	13,349
PIHP risk reserve	-	-	2,700
Reappropriation	588	653	7,420
Contingencies	15,903	-	-
Children and family services program	2,294	-	-
Total designated fund balances	$ 23,319	$ 4,278	$ 32,851

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 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.

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

NOTE 15 – CONTINUED

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 resources that have been earmarked by County management for a specific future use as of December 31, 2007:

Department of Executive Service (DES) Equipment Replacement Fund – $772 thousand for the replacement of personal computers.

Information and Telecommunications Services Fund – Telecommunications Subfund – $677 thousand for the replacement of telecommunications equipment.

Insurance Fund – $14.4 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 – $48 thousand for the replacement of GIS equipment, $100 thousand for rate stabilization, and $59 thousand for prepaid client services.

Motor Pool Equipment Rental Fund – $4.9 million for the replacement of rental equipment.

Public Works Equipment Rental Fund – $7.0 million for the replacement of rental equipment.

Wastewater Equipment Rental Fund – $5.6 million for the replacement of rental equipment.

Restatements of Beginning Balances

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

Risk Abatement – The Clark Contract Administration Fund and the Logan/Knox Settlement Fund were administratively closed in 2007. The balances in those funds were transferred to the Risk Abatement Fund. Both funds will be closed by ordinance in 2008.

Road Improvement Districts Maintenance Fund – This adjustment was to reverse a 2006 posting error. The adjustment required the beginning 2007 balance be manually adjusted.

NOTE 15 – CONTINUED

Governmental Activities – The prior period adjustments in infrastructure and related right-of-way costs resulted from: 1) reclassification of previously capitalized costs as preservation to be in line with federal reporting guidelines that were revised for GASBS 34; 2) recognition of a prior year's transfer of a road segment to another government following annexation; and 3) to adjust for other errors in the assignment of capital costs.

The restatement in government-wide beginning net assets is also due to the retroactive implementation of a change in reporting entity. In 2007, four Washington state nonprofit corporations each of which are single-purpose entities that were created to assist the County in the development and construction of public buildings are reported as blended component units of the County. A single internal service fund, the Building Development and Management Fund, is used to blend the four nonprofit corporations' activities and balances with the primary government. Prior to the change, the County accounted for the lease agreements it had with these corporations as standard capital leases. The beginning 2007 Net Assets have been restated by adjusting the Net Assets for the difference between the capital lease assets and liabilities reported as of December 31, 2006 with the beginning January 1, 2007 Net Assets reported in the internal service fund.

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

	Governmental Activities	Business-type Activities	Internal Service Funds	Building Development & Management Corporations
Net Assets – December 31, 2006	$ 1,712,797	$ 2,017,249	$ 68,412	$ -
Infrastructure adjustment	(100,988)			
Building Development and Management Corporations Changes				
Remove old capital asset value	(121,071)			
Remove old capital lease value	131,750			
Add Building Development & Mgmt. Corporations beginning net assets	(5,909)	2,805	(3,104)	(3,104)
2006 Posting Error Correction	(25)			
Net Assets – January 1, 2007	$ 1,616,554	$ 2,020,054	$ 65,308	$ (3,104)

	Nonmajor Special Revenue Funds	Clark Contract Administration Fund	Logan/Knox Settlement Fund	Risk Abatement Fund	Road Improvement Districts Maintenance Fund
Fund Balance – December 31, 2006	$ 120,285	$ 7	$ 1,701	$ 6,020	$ 29
Fund closure		(7)	(1,701)	1,708	
2006 Posting Error Correction	(25)				(25)
Fund Balance – January 1, 2007	$ 120,260	$ -	$ -	$ 7,728	$ 4

NOTE 15 – CONTINUED

Component Unit – Harborview Medical Center (HMC)

Restricted Net Assets

Restricted expendable net assets – The $89,692 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 $1,920 thousand consists of permanent endowments by donors.

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

Restricted Net Assets

Restricted expendable net assets – $13,664 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 – $19,105 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.