NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

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, but not of the 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 Manager 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, 2003, rather than the County's fiscal year-end of December 31, 2003.

NOTES TO FINANCIAL STATEMENTS
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NOTE 1 – CONTINUED

Although the primary classification of HMC in this report is that of a component unit, the County is the issuer of HMC's general obligation bonds. Therefore, Note 13, " Debt," reports on all the general obligation bonds issued by the County as of December 31, 2003, including bonds reported by HMC as a component unit as of June 30, 2003.

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

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

The Washington State Major League Baseball Stadium Public Facilities District (PFD) is the agency created by the Metropolitan King County Council 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, sales and use tax credits, 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 as audited by the State Auditor's Office. These statements may be obtained from the Public Facilities District, 110 South Atlantic Street, Seattle, Washington 98124.

Cultural Development Authority of King County (CDA)

The Cultural Development Authority of King County (CDA), formerly the Office of Cultural Resources, a King County agency, opened for business January 1, 2003. The CDA is a public development authority that combines public stewardship with the agility of the private sector. The CDA offers operational efficiencies and access to earned and raised revenue that allow it to maintain services and implement new initiatives independent of King County general fund support. The CDA offers a variety of programs and services that enhance opportunities for the community to participate in arts, heritage, historic preservation, and public art. Programs previously administered by the Office of Cultural Resources, including those of the Arts

NOTES TO FINANCIAL STATEMENTS
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NOTE 1 – CONTINUED

Commission and Public Arts Commission, are now the responsibility of the Cultural Development Authority.

The CDA is located in Seattle, Washington. It is managed by a 15-member board of directors selected for their range of talents, viewpoints, experience, and geographic distribution. The directors are appointed by the County Executive and confirmed by the County Council. Two Councilmembers and a representative of the County Executive serve as ex *officio* board members. The CDA receives funds designated for its use by King County. These include a share of the revenue generated by the County's tax on hotel rooms, one percent of County expenditures for certain construction projects, and a small amount of County general tax revenue. These funds cover all their operating expenses. They receive additional income through grants and fee-based consulting services. CDA staff members are employees of the CDA.

The CDA is a component unit of the County for the following reasons: (1) it is a separate legal entity (public authority) created by King County ordinance; (2) the CDA's board of directors are appointed by the County Executive (from a non-restrictive pool of candidates) and confirmed by the County Council; (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; and (4) the CDA creates a financial burden on the County because the County has limited responsibility for debts, obligations and other CDA liabilities. The CDA's financial presentation is as a discrete component unit because it does not meet the criteria for blending, i.e., 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. The CDA prepares and issues its own financial statements, which are audited by the State Auditor. These statements may be obtained from the Administration Office of the Cultural Development Authority of King County, Smith Tower, Suite 200, 506 2nd Ave., Seattle, Washington 98104.

Flood Control Zone Districts (FCZD)

There are four Flood Control Zone Districts (FCZD) in King County that are administered by the Surface Water Management Division of the Department of Natural Resources and Parks. Only the Green River District is currently active. FCZD were created to manage surface water runoff within district boundaries. The King County Council members are ex *officio* members of the Board of Supervisors for each FCZD and the County Engineer serves as the FCZD engineer. An FCZD can assist in the construction and maintenance of dikes, drainage systems, dams and reservoirs as well as widening, straightening, and relocating water courses.

FCZD 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 are classified as Special Revenue funds and do not issue independently audited financial statements.

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NOTE 1 – CONTINUED

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 non-profit 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 official (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, 2003, there are no outstanding program eligibility issues that might lead to a King County liability.

The WDC contracts with King County, which provides programs related to dislocated workers, welfare to work, and workforce centers. For the year 2003 WDC reimbursed King County approximately $14.8 million in eligible program costs.

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

Related Organizations

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

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., 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 support. Likewise, the primary government is reported

NOTES TO FINANCIAL STATEMENTS
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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 as separate columns in the fund financial statements.

Basis 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

NOTES TO FINANCIAL STATEMENTS
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NOTE 1 – CONTINUED

as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the County considers revenues, such as Retail Sales and Use Taxes, to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are 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 the following 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 another fund.

The Public Health Fund is used to finance health service centers located throughout King County and all Public Health programs. The Public Health Fund supports four of the department's five lines of business including clinical health services/primary care assurance, management and business practice, population and environmental health services, and targeted community health services. The fifth line of business is emergency medical services, which is supported by a separate County Emergency Medical Services Fund.

Major Proprietary Funds

The County reports the following 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 Transit Division. Primary revenue sources include sales tax and passenger service fees. Construction is 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. 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 alcoholism 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, 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.

NOTES TO FINANCIAL STATEMENTS
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NOTE 1 – CONTINUED

Capital Projects Funds are used to account for the acquisition, construction, and remodeling of public buildings, including arts and historic preservation projects; County facilities renovation projects; open space acquisition; road construction; farmland preservation; health clinic projects; surface and storm water management projects; technology systems; and other projects.

Nonmajor Proprietary Funds

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

Internal Service Funds are used to account for the provision of motor pool, data processing, risk management, construction and facilities management, financial, employee benefits programs, and other services provided by one department or agency to other departments or agencies of the County on a cost reimbursement basis. One internal service fund, the Wastewater Equipment Rental Fund, was established to serve the Water Quality Enterprise. Accordingly, this fund is reported as Business-type Activities on the basic 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) the General Fund, (2) Special Revenue Funds; and (3) the Debt Service Funds. The revenues and expenditures for all other fund types are excluded from these amounts.

Expenditure Functions and Characters

General Government Services - A class of 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 - A class of services 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

NOTES TO FINANCIAL STATEMENTS
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NOTE 1 – CONTINUED

Office, Prosecuting Attorney, Superior Court, District Court, Public Defense, Judicial Administration, Adult and Juvenile Detention, and Emergency Medical Services.

Physical Environment - A class of services 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 - A class of services provided by the governmental entity for the safe and adequate flow of vehicles and pedestrians that includes expenditures for road and street construction, maintenance, general administration, and transportation facilities and systems. This function includes County Road, Arterial Highway Development, Renton Maintenance Facilities Construction, and County Road Construction.

Economic Environment - A class of services 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 - A class of services 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 - A class of services provided to increase the individual's understanding and enjoyment including expenditures for education, libraries, community events, participant recreation, park facilities, and cultural and recreational facilities. This function includes Parks, Cooperative Extension Service, and various Park Capital Project Funds.

Debt Service - A character of expenditure that 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 - A character of expenditure that accounts for expenditures related to capital projects and expenditures for capital assets acquired by outright purchase and by capital lease financing agreements.

Certain Accounts are Grouped on the Statement of Net Assets:

- The asset account *Receivables, net* combines Taxes receivable – delinquent; Accounts receivable, net; Other receivables, net; Interest receivable; Notes and contracts receivable; and Due from other governments, net.

NOTES TO FINANCIAL STATEMENTS
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NOTE 1 – CONTINUED

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

NOTES TO FINANCIAL STATEMENTS
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NOTE 1 – CONTINUED

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.

	General Fund	Public Health Fund	Other Governmental Funds	Total Governmental Funds
Receivables				
Accounts receivable	$ 59,468,364	$ 2,635,411	$ 23,798,672	$ 85,902,447
Estimated uncollectible accounts receivable	(52,051,327)	(25,323)	(4,841,263)	(56,917,913)
Accounts receivable, net	$ 7,417,037	$ 2,610,088	$ 18,957,409	$ 28,984,534
Other receivables				
Abatements receivable	$ -	$ -	$ 361,630	$ 361,630
Estimated uncollectible abatements receivable	-	-	(300,153)	(300,153)
Interest receivable	-	-	3,833	3,833
Assessments receivable - current	-	-	91,925	91,925
Assessments receivable - delinquent	-	-	10,890	10,890
Assessments receivable - deferred	-	-	434,996	434,996
Accrued interest/penalty receivable - delinquent assessments	-	-	10,975	10,975
Other receivables, net	$ -0-	$ -0-	$ 614,096	$ 614,096
Due from other governments	$ 27,201,631	$ 24,070,815	$ 43,899,545	$ 95,171,991
Estimated uncollectible due from other governments	(313,534)	-	(1,312,196)	(1,625,730)
Due from other governments, net	$ 26,888,097	$ 24,070,815	$ 42,587,349	$ 93,546,261

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 an external investment pool maintained by the King County Treasury Operations Section. (See Note 4, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements" — External Investment Pool.) The investment pool consists of internal and external portions. For investment 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

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NOTE 1 – CONTINUED

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. Monies are 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, regardless of length of maturity, are reported as Investments. Those attributed to both the external portion of the investment 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 with Financial Institutions, Investments, and Reverse Repurchase Agreements.")

Receivables

Amounts due from private individuals, organizations, or other governments are recorded at year-end. These amounts include charges for services rendered by the County or intergovernmental grants. All unbilled service receivables are recorded at year-end.

Receivables are reviewed at year-end to establish or update the provisions for estimated uncollectible receivables. 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 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 – In the Development and Environmental Services Fund, a Special Revenue Fund, the Abatements receivable account records the unpaid civil penalties and abatement costs due the County from liens filed by the Code Enforcement Section on property within the County. Deferred revenue is recorded for the abatements receivable and

NOTES TO FINANCIAL STATEMENTS
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NOTE 1 – CONTINUED

revenue is recognized when payment is made because liens may not be paid until the property is sold, which can be years later.

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 beyond one year. 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.

Inventories

Inventories of supplies are held by the following funds or divisions. The methods of valuing ending inventories are as stated below:

Those funds with inventories using the first-in, first-out valuation method, approximated by using latest invoice amounts, include: Solid Waste Operating, King County International Airport Operating, Radio Communications Operating, Construction and Facilities Management, and Public Health Funds.

The Motor Pool Equipment Rental, Public Works Equipment Rental, and Wastewater Equipment Rental Funds use the moving average valuation method.

The Water Quality Operating and Public Transportation Operating Funds use the weighted average cost valuation method.

The last physical count of these inventories was as of December 2003, except for the inventories of the Public Transportation and Water Quality Operating Funds, which use cycle counting.

The Public Health Fund inventory is accounted for under the consumption method. Under the consumption method, an inventory asset is recorded when the materials and supplies are purchased, and the expenditure is recognized as the inventories are used. Inventories are offset by a fund balance reserve account in the financial statements.

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NOTE 1 – CONTINUED

Prepayments

Payments made to vendors for services that will benefit periods beyond December 31, 2003, (or June 30, 2003, 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 are reported in the appropriate governmental or business-type column in the government-wide financial statements. The capitalization threshold for the King County primary government is $1,000, which generally applies to Furniture, machinery, and equipment.

General capital infrastructure, which consists of the entire roads and bridges network owned and maintained by the County, was initially reported in 2002. The total network cost included the estimated cost of infrastructure assets acquired prior to December 31, 1980. With the aid of an asset management system that keeps track of asset inventory, condition assessments, and estimated preservation costs the County is able to ensure that its eligible infrastructure is being maintained and preserved at established condition levels. Because of this facility, the County has elected to use the modified approach to infrastructure reporting in lieu of the depreciation method.

The County does not report Solid Waste Enterprise landfill closure and post-closure equipment and facilities costs 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.

Governmental capital assets other than land, farmland development rights, and infrastructure are now depreciated in accordance with GASB Statement No. 34. As with business-type capital assets, i.e., enterprise and internal service funds, provision is made for depreciation over the estimated useful lives of the depreciable assets using the straight-line method.

Buildings, structures, 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, scale offices, etc.	Straight-line	10 to 30 years

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NOTE 1 – CONTINUED

In the Enterprise and Internal Service Funds, Improvements other than buildings have been depreciated over their estimated useful lives of 10 to 50 years using the straight-line method. In the Public Transportation Enterprise, the transit downtown tunnel is being depreciated over 50 years. Sewer lines in the Water Quality Enterprise are being depreciated over 50 years.

Furniture, machinery and equipment are given various lives of 3 to 20 years, depending upon their classification:

Description	Depreciation Method	Estimated Useful Life
Data processing equipment	Straight-line	3 to 10 years
Telecommunication equipment	Straight-line	6 to 10 years
Automobiles – cars, vans, etc.	Straight-line	5 years
Automobiles – trucks	Straight-line	6 to 8 years
Buses	Straight-line	12 years
Heavy equipment	Straight-line	7 to 15 years
Medical equipment	Straight-line	3 to 20 years
Shop equipment	Straight-line	5 to 10 years
Office equipment	Straight-line	3 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. In accordance with Financial Accounting Standards Board (FASB) Statement No. 71, *Accounting for the Effects of Certain Types of Regulation*, the Water Quality Enterprise defers environmental remediation costs, which are amortized over 40 years. The Water Quality Enterprise is a regulated utility per FASB Statement No. 71 because rates, which are designed to recover the cost of providing services, are set by the County Council per RCW 35.58.200(4) and RCW 36.56.010. 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); and (2) receivables that, under the modified accrual basis of accounting, are measurable but not yet available, such as Delinquent property taxes receivable, Abatements receivable, and Special assessments receivable.

Rebatable Arbitrage

The County's tax-exempt debt is subject to arbitrage restriction as defined by the Internal Revenue Code. All of the County's bonded debts are tax-exempt except two taxable debts as identified in Note 13, "Debt" – Schedule of Long-term Debt. Arbitrage occurs when the

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 1 – CONTINUED

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 no longer recognizes 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, however, 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 10 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. The proprietary funds follow the GASB's Codification, Section C60, and recognize a long-term liability for compensated absences in the accounting period in which it is earned.

Long-term Obligations

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

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

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 1 – CONTINUED

use for a specific purpose. Designation 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 maintains its own distinct set of accounting records. It is required to maintain its financial records on a fund accounting basis in conformity with restrictions or designations imposed by the State municipal corporation laws, King County ordinances, donors, and the Board of Trustees.

HMC's accounts are organized into general and restricted funds. General funds include the Operating Fund and Plant Fund; restricted funds include the Construction Fund and the Special Purpose Funds.

- Operating Fund - accounts for the operating assets and liabilities and those operating revenues and expenses that are not funded by restricted sources.
- Plant Fund - accounts for funds designated by the Board of Trustees for buildings, renovations, and equipment purchases.
- Construction Fund - consists of monies from the 1977 General Obligation Bonds, the 1988 General Obligation Bonds, the 1993 General Obligation Bonds, the 1998 Revenue Bonds, the 1999 General Obligation Bonds, and the 2000 General Obligation Bonds, which are restricted for capital construction purposes.
- Special Purpose Fund - accounts for restricted donations, gifts, and bequests received from outside sources for specific purposes.

The Component Unit – Harborview Medical Center Statement of Net Assets reflects HMC's financial position at June 30, 2003, as measured by assets, liabilities and equity of all funds (general and restricted). The Statement of Activities reports the results of operations for all funds (general and restricted).

HMC restricted assets includes the assets of HMC's Construction Fund, Special Purpose Fund, and all board-designated assets in the Operating and Plant Funds.

HMC's capital assets are stated at cost. Improvements and replacements of buildings and equipment are capitalized; maintenance and repairs are expensed. Depreciation is taken on buildings, improvements, and equipment using the straight-line method. Upon disposal, capital assets and the related accumulated depreciation are removed from the accounts and the resulting gain or loss is recorded.

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 consists of cash and pooled investments managed by the King County Treasury Operations Section. The King County Treasury Operations Section Manager

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 1 – CONTINUED

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, 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 on an accrual accounting basis 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 – is used to pay for the CDA's administrative support.
- Program Funds – are used to segregate different revenues sources and to comply with expenditure requirements.
- Cultural Endowment Fund – consists of 40 percent of the Hotel/Motel tax revenue allocated to the CDA. These funds go into a separate account.

The capitalization threshold for the CDA is $10,000, which generally applies to Furniture, machinery, and equipment.

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.

The 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.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

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 $1,033,307,295 difference are as follows:

Bonds payable	$ 850,188,951
Less: Deferred charge on refunding (to be amortized as interest expense)	(11,859,982)
Deferred charge for issuance costs (to be amortized over life of debt)	(3,041,708)
Plus: Unamortized premiums on bonds sold	19,407,827
Claims/Judgments payable	23,382,762
Accrued interest payable	6,235,529
Capital leases payable	81,677,093
Compensated absences	63,873,824
Unemployment compensation payable	2,275,000
Rebatable arbitrage	1,167,999
Net adjustment to reduce *fund balance – total governmental funds* to arrive at *net assets – governmental activities*	$ 1,033,307,295

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 $117,859,749 difference are as follows:

Capital outlay	$ 150,708,034
Depreciation expense	(32,848,285)
Net adjustment to increase *net changes in fund balances – total governmental funds* to arrive at *changes in net assets of governmental activities*	$ 117,859,749

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

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 $80,868,622 difference are as follows:

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.	$ (6,021,318)
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.	86,889,940
Net adjustment to increase *net changes in fund balances – total governmental funds* to arrive at *changes in net assets of governmental activities*	$ 80,868,622

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 $1,374,721 difference are as follows:

Property tax accrual	$ 87,230
Surface Water Management service charge accrual	(134,785)
Probation and Parole service charge accrual	843,690
Work Release service charge net accrual	23,717
Fines and Forfeits net accrual	554,869
Net adjustment to increase *net changes in fund balances – total governmental funds* to arrive at *changes in net assets of governmental activities*	$ 1,374,721

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 $33,034,603 difference are as follows:

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 2 – CONTINUED

Debt issued or incurred	
Issuance of general obligation bonds	$ (36,140,909)
Issuance of refunding general obligation bonds	(127,753,742)
Capital lease financing	(47,662)
Premium on bonds issued	(12,067,686)
Bond issuance costs	994,516
Principal repayments	65,149,517
Payment to escrow agent for refunding	142,900,569
Net adjustment to increase *net changes in fund balances – total governmental funds* to arrive at *changes in net assets of governmental activities*	$ 33,034,603

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 $28,543,600 difference are as follows:

Claims and judgments	$ (23,382,762)
Compensated absences	(8,057,127)
Accrued unemployment compensation	(743,385)
Accrued rebatable arbitrage	2,146,778
Accrued Interest	716,230
Amortization of issuance costs	(341,547)
Amortization of deferred charge on refunding	(1,785,973)
Amortization of bond premiums	2,904,186
Net adjustment to decrease *net changes in fund balances – total governmental funds* to arrive at *changes in net assets of governmental activities*	$ (28,543,600)

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

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 $1,070,899 difference are as follows:

Investment interest earnings	$ 3,121,327
Revenues related to services provided to outside parties	1,824,552
Expenses related to services provided to outside parties	(1,828,628)
Loss on disposal of capital assets	(83,457)
Interest on long-term debt	(229,540)
Capital contributions	417,402
Transfers in	1,531,605
Transfers out	(3,331,857)
Internal service fund profits allocated to governmental activities	(350,505)
Net adjustment to increase *net changes in fund balances – total governmental funds* to arrive at *changes in net assets of governmental activities*	$ 1,070,899

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

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, for example, intergovernmental revenues, where revenue estimates are matched with appropriations. 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 concepts identical to the General Fund. Twenty-three of these funds are presented in the budget and actual schedules of this report. One of these funds, the Arts and Cultural Education Fund, was inactive in 2003.

Two Special Revenue Funds (the Community Development Block Grant Fund and the Miscellaneous Grants Fund) do not have an annual basis of budgeting. 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 Road Improvement Districts Maintenance Fund is not budgeted. This fund reports the road district maintenance assessment activity in accordance with chapter 36.88 RCW.

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

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

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

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

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 3 – CONTINUED

before March 1 of the year following the year of the appropriation and each year thereafter in which the appropriation remains open.

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

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 2003 no judgment and claim settlement recognition was deferred to a future period on the budgetary basis schedules due to insufficient appropriations in the current year.

The Trust and Agency Funds are not budgeted.

Encumbrances

Encumbrances outstanding as of December 31, 2003, are shown in the following schedule by fund type:

Year-end Encumbrances Outstanding as of December 31, 2003

General Fund	$ 4,930,337
Public Health Fund	1,250,866
Special Revenue Funds	21,503,223
Capital Projects Funds	71,566,727
Enterprise Funds	5,148,207
Internal Service Funds	1,838,948
Total All Funds	$ 106,238,308

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 2003. 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

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 3 – CONTINUED

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 five Special Revenue Funds (the Community Development Block Grant, County Road, Criminal Justice, Developmental Disabilities, and Miscellaneous Grants Funds), which are appropriated at the department/division level, and Capital Projects Funds, which are appropriated at the project level.

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 schedules of revenues, expenditures, and changes in fund balances/retained earnings-budget (non-GAAP budgetary basis) and actual 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

Sixty-three capital projects in eleven Capital Projects and Enterprise Funds with multi-year budgets have a combined total of $33.3 million of expenditures in excess of budget. An expenditure of $29.0 million to pay off a one-month term bond anticipation note requires additional appropriation through a corrections ordinance. The other sixty-two projects which have incurred $4.3 million in excess of budget will also be corrected by additional appropriations in 2004.

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 $54,365,741 is the result of using a series of short-term bond anticipation notes to finance long-term capital projects. General Obligation bonds were issued in 2003 to pay off a portion of the debt and future bond issues are planned to replace the outstanding short-term notes. The proceeds of the bond issues will be recorded as other financing sources in the capital projects fund, eliminating the fund balance deficit.

Construction and Facilities Management Fund – The deficit of $1,584,131 is primarily the result of 2003 budget actions intended to reduce the fund's working capital. The fund was budgeted to incur expenses in excess of revenues by $2.8 million. As a result, full accrual basis expenses also exceeded revenues in 2003. The fund is anticipated to increase its working capital in 2004 and in 2005, reducing the deficit.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 3 – CONTINUED

County Road Fund – The deficit of $317,032 is the result of a decline in unrealized investment gains of $243,571 and property sales generating less revenue than programmed. It is anticipated that property sales in 2004 will eliminate the deficit.

Long-term Leases Fund – The deficit of $186,794 is the result of non-reimbursed expenditures for various tenant improvements and earthquake repairs. The county plans to recover the costs of tenant improvements over several years through increased monthly billings to benefiting agencies.

Safety and Workers' Compensation Fund – The deficit of $8,931,070 is the result of losses in several of the last ten years. The rates charged by the fund for workers' compensation are sufficient to meet current cash flow requirements but only fund a portion of its long-term liabilities. The deficit is being addressed in subsequent years through rate setting.

Transfer of Development Credit Program Fund – The deficit of $1,490,721 is the result of spending financed by short-term borrowing in anticipation of planned contributions from the Conservation Futures Levy Fund.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 4 – DEPOSITS WITH FINANCIAL INSTITUTIONS, INVESTMENTS, AND REVERSE REPURCHASE AGREEMENTS

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. As of December 31, 2003, the carrying amount of deposits for the Primary Government was $459,568,239 and the bank balance was $441,895,438.

	Carrying Amount	Bank Balance	Catetgory 1	Category 2	Category 3
Demand deposits	$ 41,295,478	$ 23,622,677	$ 21,378,796	$ -	$ 2,243,881
Certificates of deposit	418,272,761	418,272,761	338,162,677	-	80,110,084
Total deposits	$ 459,568,239	$ 441,895,438	$ 359,541,473	$ -0-	$ 82,353,965

Category 1 includes: (1) deposits insured by the FDIC (insured up to $100,000 per bank); and (2) a proportionate share of deposits uninsured but collateralized under the PDPC multiple financial institution collateral pool. 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 pool value, equivalent proportions of the County's deposits in those institutions are classified as Category 3. Determination of these amounts is based on the conservative assumption that none of the excess public deposits were 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. There are no uninsured deposits which are collateralized by securities held by the County's agent but not in the County's name (Category 2).

Investments

Statutes authorize King County to invest in obligations of the United States Treasury and instrumentalities, banker's acceptances issued in the secondary market, commercial paper, primary certificates of deposit issued by Washington State qualified public depositaries as defined under chapter 39.58 RCW, and the State Treasurer's Investment Pool. The County is also authorized to enter into repurchase and reverse repurchase agreements.

County investment policies require that securities underlying repurchase agreements must have a market value of at least 102 percent of the cost of the repurchase agreement for investment terms of less than 30 days, and 105 percent for terms longer than 30 days. Repurchase

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 4 – CONTINUED

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 does not enter into yield maintenance repurchase agreements. 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 mortgage-backed 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.

The County's investments are categorized to give an indication of the level of credit risk assumed at year-end. Category 1 includes investments that are insured or registered, or for which the securities are held by the County or its agent in the County's name.

The schedule below shows the types of investments made during the year and the investment values at the end of the year for the Primary Government. These exclude the equity in the component units. All investments are reported at fair value. Fair value pricing is provided by the County's safekeeping bank or an independent pricing source.

	Category 1	Category 2 & 3	Carrying Amount (Fair Value)
Repurchase agreements	$ 226,494,556	$ -	$ 226,494,556
Commercial paper	793,447,391	-	793,447,391
Municipal bonds	141,571,448	-	141,571,448
Mortgage-backed securities	402,603,994	-	402,603,994
US government securities:			
Treasury notes	26,205,394	-	26,205,394
US agency issues	1,083,412,773	-	1,083,412,773
Totals	$ 2,673,735,556	$ -	2,673,735,556
Investments under reverse repurchase agreements			
Treasury Securities			144,685,129
State Treasurer's Investment Pool			82,136,179
Total Investments (Primary Government)			$ 2,900,556,864

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.

<u>Reverse Repurchase Agreements</u>

Statutes permit King County 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 proceeds from these agreements are reinvested in other instruments with the same maturities as the collateral securities, resulting in a matched position.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 4 – CONTINUED

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, 2003. 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 and in the Investment Trust Funds "Combining Statement of Net Assets" for funds that participate in the external portion of the Investment Pool.

Reverse repurchase agreements are subject to credit risk. 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. The credit exposure at year-end was $1,107,670 on reverse repurchase agreements in the Investment Pool.

External Investment Pool

For investment purposes, the County pools the cash balances of county funds and component units and also 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) is an external investment pool. The external portion of the Pool (portion that belongs to special districts and public authorities other than component units) is reported in an Investment Trust Fund. It is county policy to invest all county funds in the Pool. All non-County participation in the Pool is voluntary.

The Pool is not registered with the 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.

Summary information for all pool investments as of December 31, 2003, is presented below:

Investment	Fair Value	Principal	Average Interest Rate	Average Years To Maturity
Certificates of deposit & saving accounts	$ 399,285,759	$ 399,285,759	1.44%	0.47
Repurchase agreements	234,842,000	234,842,000	1.00	0.02
Commercial paper	822,689,849	824,145,000	1.17	0.17
Municipal bonds	146,789,056	154,010,000	3.70	2.61
US government securities:				
Treasury securities	174,805,000	175,000,000	1.66	1.98
Agency securities	1,121,211,002	1,104,950,000	3.26	1.34
Agency mortgage-backed securities	417,268,063	409,028,611	4.78	2.07
State Treasurer's Investment Pool	85,163,303	85,163,303	1.07	0.14
Totals	$ 3,402,054,032	$ 3,386,424,673	2.45%	1.01

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 calculated on an amortized cost basis; (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

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 4 – CONTINUED

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 as undistributed and unrealized gains.

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.

Custodial Risk

The Pool's deposits and investments are classified in various categories of custodial risk based on the same criteria for all deposits and investments of the County.

Deposits consist of $399,285,759 in certificates of deposit (CDs) and savings accounts, of which $343,105,347 is category 1 and $56,180,412 is category 3.

As of December 31, 2003, investments other than CDs that are in the Pool are categorized into risk categories as follows:

	Category 1	Category 2 & 3	Carrying Amount (Fair Value)
Repurchase agreements	$ 234,842,000	$ -	$ 234,842,000
Commercial paper	822,689,849	-	822,689,849
Municipal bonds	146,789,056	-	146,789,056
US government securities:			
Treasury notes	24,867,500	-	24,867,500
Mortgage-backed securities	417,268,063	-	417,268,063
US agency issues	1,121,211,002	-	1,121,211,002
Totals	$ 2,767,667,470	$ -0-	2,767,667,470
Investments under reverse repurchase agreements			
Treasury Notes			150,017,491
State Treasurer's Investment Pool			85,163,303
Total Investments (Total Pool)			$ 3,002,848,264

The County's voluntary investment in the Washington State Treasurer's Local Government Investment Pool (LGIP) is not categorized because it is not evidenced by securities in physical or book entry form. 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.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 4 – CONTINUED

As previously indicated, the Pool owns reverse repurchase agreements at December 31, 2003. The investments under reverse repurchase agreements in the above schedule represent the collateral securities transferred to the lender in exchange for the cash received and used to purchase other securities. These securities are also not categorized because they are held by the lender as collateral.

The following is a condensed statement of net assets and changes in net assets for the entire King County Investment Pool as of December 31, 2003:

Condensed Statement of Net Assets		
Assets	$	3,411,324,455
Less: Liabilities		(154,810,683)
Net assets held in trust for pool participants	$	3,256,513,772
Equity of internal pool participants	$	1,324,983,492
Equity of external pool participants		1,931,530,280
Total equity	$	3,256,513,772

Condensed Statement of Changes in Net Assets		
Net assets at January 1, 2003	$	3,269,873,099
Net change in investments by pool participants		(13,359,327)
Net assets at December 31, 2003	$	3,256,513,772

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. At year-end, net assets in the individual investment accounts decreased by $45.6 million (91 percent) as four more special districts transferred from individual investment accounts to the Pool.

Component Units

Harborview Medical Center (HMC)

Harborview Medical Center (HMC) participates in the County's investment pool. HMC's equity in the pool (reported as cash equivalents at June 30, 2003) amounted to $106,630,635. In addition, HMC maintains demand deposit accounts in various banks. Demand deposits (insured up to $100,000 per bank) total $2,197,830 with a carrying amount of $1,886,365. Deposits and investments for the HMC component unit are categorized according to levels of custodial risk using the same criteria as the categorization for the King County Investment Pool deposits and investments.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 4 – CONTINUED

	Carrying Amount	Bank Balance	Catetgory 1	Category 2	Category 3
Equity in Investment Pool	$ 108,638,948	$ 106,630,635	$ 104,871,230	$ -	$ 1,759,405
Cash in other banks	1,886,365	2,197,830	1,939,875	-	257,955
Totals	$ 110,525,313	$ 108,828,465	$ 106,811,105	$ -0-	$ 2,017,360

<u>Washington State Major League Baseball Stadium Public Facilities District (PFD)</u>

The Washington State Major League Baseball Stadium Public Facilities District (PFD) participates in the County's investment pool. The PFD's equity in the pool (reported as cash equivalents at December 31, 2003) amounted to $18,094,594. Deposits and investments for the PFD component unit are categorized according to levels of custodial risk using the same criteria as the categorization for the King County investment pool. In addition, PFD maintains demand deposit accounts in various banks. Demand deposits (insured up to $100,000 per bank) total $785,597 with a carrying amount of $785,597.

	Carrying Amount	Bank Balance	Catetgory 1	Category 2	Category 3
Equity in Investment Pool	$ 18,093,587	$ 18,094,594	$ 17,796,033	$ -	$ 298,561
Cash in other banks	785,597	785,597	785,597	-	-
Totals	$ 18,879,184	$ 18,880,191	$ 18,581,630	$ -0-	$ 298,561

<u>Cultural Development Authority of King County (CDA)</u>

The Cultural Development Authority of King County (CDA), formerly the Office of Cultural Resources, a King County agency, does not participate in the County's investment pool.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

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 two purposes: 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 $1,000 of assessed value; the County levied $1.10554 per $1,000 in 2003. 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 $1,000; the County levied $1.74490 per $1,000 in 2003. 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 $1,000 of assessed value if the total combined levies for both general and road purposes do not exceed $4.05 per $1,000 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 $1,000 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 $1,000 (authorized by RCW 84.52.069); (2) a voted levy to finance affordable housing for very low income households, limited to $0.50 per $1,000 (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 $1,000 (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 $1,000 beginning in the 2002 tax year. The County currently is levying $0.05625 per $1,000 for conservation futures. In 2000 voters in the County approved a five-year temporary lid lift to finance an automated fingerprint identification system. This five-year levy began in 2001; the current levy rate is $0.04832 per $1,000.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

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 $1,000) 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 $1,000 of assessed value (or 0.59%) 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 $1,000 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), in order 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 increase 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

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 5 – CONTINUED

duration specified in the levy lid lift, the levy is calculated as if the taxing district had levied only up to the limit factor in the interim period.

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

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 one-half of real property taxes 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 $40,000 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

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 5 – CONTINUED

the Homestead Exemption applies to the lien for property taxes, while the State Attorney General has taken the position that it does not.

Assessed Valuation Determination

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

For tax purposes, the assessed value of property is 100 percent of its true and fair value. Since 1996, all property in the County has been subject to on-site appraisal and revaluation every six years, and is revalued each year based on annual market adjustments. Personal property is valued each year based on affidavits filed by the property owner. The property is listed by the Assessor on a roll at its current assessed value and the roll is filed in the Assessor's office. The Assessor's determinations are subject to revision by the County Board of Appeals and Equalization and, if appealed, subject to further revision by the State Board of Tax Appeals. At the end of the assessment year 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 2003 and 2002 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 2003 countywide assessed valuation was $224,994,598,210, an increase of $14 billion from 2002; the assessed valuation for the unincorporated area levy was $34,287,599,917, an increase of $2.3 billion from 2002.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 5 – CONTINUED

ALLOCATION OF 2003 AND 2002 TAX LEVIES

	2003 Original Taxes Levied (in thousands)	2003 Levy Rate (per thousand)	2002 Original Taxes Levied (in thousands)	2002 Levy Rate (per thousand)
Countywide Levy Assessed Valuation: $224,994,598,210[(a)]				
Items Within Operating Levy[(b)]				
General Fund	$ 223,968	$ 0.99968	$ 217,903	$ 1.03765
River Improvements	2,429	0.01084	2,363	0.01125
Veterans' Relief	2,054	0.00917	1,999	0.00952
Human Services	4,566	0.02038	4,442	0.02115
Intercounty River Improvement	49	0.00022	50	0.00024
Limited G.O. Bonds Debt Service	14,621	0.06525	13,494	0.06422
Automated Fingerprint Identification System[(c)]	10,826	0.04832	11,231	0.05348
Total Operating Levy	258,513	1.15386	251,482	1.19751
Conservation Futures Levy[(d)]				
Conservation Futures Levy	7,467	0.03333	7,354	0.03503
Farmland and Park Debt Service	5,135	0.02292	5,760	0.02743
Total Conservation Futures Levy	12,602	0.05625	13,114	0.06246
Unlimited Tax G.O. Bonds (Voter-approved Excess Levy)	30,985	0.13937	39,466	0.18952
Total Countywide Levy	302,100	1.34948	304,062	1.44949
EMS Levy(5) Assessed Valuation: $144,866,309,905[(a)(e)]	34,847	0.24143	33,734	0.25000
Unincorporated County Levy Assessed Valuation: $34,287,599,917[(a)(f)]				
County Road Fund	59,555	$ 1.74490	55,069	$ 1.72810
Total County Tax Levies	$ 396,502		$ 392,865	

(a) Assessed valuation for taxes payable in 2003.

(b) The operating levy tax rate is statutorily limited to $1.80 per $1,000 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 $1,000 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 Conservation Futures levy tax rate is statutorily limited to $.0625 per $1,000 of assessed valuation.

(e) 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.

(f) The tax rate is statutorily limited to a maximum of $2.25 per $1,000 of assessed valuation.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 6 – CAPITAL ASSETS

Primary Government

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

CHANGES IN CAPITAL ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2003

	Balance 01/01/03	Increases	Decreases	Balance 12/31/03
Governmental Activities:				
Capital assets not being depreciated				
Land	$ 516,669,448 (a)	$ 75,083,042	$ (1,014,930)	$ 590,737,560
Infrastructure	603,024,258	121,906,894	(10,927,448)	714,003,704
Work in progress	111,144,688	56,958,271	(50,291,060)	117,811,899
Total capital assets not being depreciated	1,230,838,394	253,948,207	(62,233,438)	1,422,553,163
Capital assets being depreciated				
Buildings	485,311,072	16,823,770	(5,965)	502,128,877
Improvements other than buildings	1,189,149	-	-	1,189,149
Equipment	188,226,129	38,725,075	(24,492,182)	202,459,022
Total capital assets being depreciated	674,726,350	55,548,845	(24,498,147)	705,777,048
Less accumulated depreciation for:				
Buildings and improvements	(137,233,777)	(21,531,339)	-	(158,765,116)
Equipment	(111,796,603)	(18,834,051)	18,113,605	(112,517,049)
Total capital assets being depreciated - net	425,695,970	15,183,455	(6,384,542)	434,494,883
Governmental activities capital assets - net	$ 1,656,534,364	$ 269,131,662	$ (68,617,980)	$ 1,857,048,046
Business-type Activities				
Capital assets not being depreciated				
Land	$ 204,543,367	$ 24,053,617	$ (3,082,262)	$ 225,514,722
Work in progress	463,131,014	357,629,300	(191,502,882)	629,257,432
Total capital assets not being depreciated	667,674,381	381,682,917	(194,585,144)	854,772,154
Capital assets being depreciated				
Buildings	712,520,692	43,197,790	(1,125)	755,717,357
Improvements other than buildings	1,392,901,950	79,474,467	(6,300,639)	1,466,075,778
Equipment	1,645,088,636	77,948,294	(62,765,062)	1,660,271,868
Total capital assets being depreciated	3,750,511,278	200,620,551	(69,066,826)	3,882,065,003
Less accumulated depreciation for:				
Buildings and improvements	(777,981,230)	(64,644,675)	2,906,664	(839,719,241)
Equipment	(879,631,310)	(110,112,220)	60,555,683	(929,187,847)
Total capital assets being depreciated - net	2,092,898,738	25,863,656	(5,604,479)	2,113,157,915
Business-type activities capital assets - net	$ 2,760,573,119	$ 407,546,573	$ (200,189,623)	$ 2,967,930,069

(a) 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. The Wastewater Equipment Rental Fund's capital assets and depreciation are reported under business-type activities.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 6 – CONTINUED

Depreciation Expense

Depreciation expense was charged to functions of the primary government as follows:

Governmental activities	
General government services	$ 11,603,924
Law, safety & justice	14,412,496
Physical environment	377,635
Transportation	2,036,322
Economic environment	262,301
Mental & physical health	2,375,633
Culture & recreation	1,779,974
Capital assets held by the County's governmental internal service funds are charged to governmental activities based on their usage of the assets	7,170,330
Total depreciation expense – governmental activities	$ 40,018,615
Business-type activities	
Water	$ 87,722,739
Transit	70,965,675
Solid Waste	10,259,636
Airport	1,071,781
Radio Communications	2,101,871
Institutional Network	1,172,865
Capital assets held by the Wastewater Equipment Rental internal service fund are charged to business-type activities based on their usage of the assets	423,923
Total depreciation expense – business-type activities	$ 173,718,490

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. The cost of preserving and maintaining the network of infrastructure over an indefinite period of time essentially substitutes for the depreciation factor. A government using the modified approach is required under GASB Statement No. 34 to demonstrate that it is maintaining its infrastructure at the acceptable, predetermined condition level by disclosing trend data on condition assessments and planned versus actual preservation costs. 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 treated as expenditures for preservation.

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

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 6 – CONTINUED

the actual year was unknown), using the Engineering News Record Construction Cost Index. Retroactive reporting of traffic control elements is based on replacement cost.

Land

Land also includes right-of-way and farmland development rights.

Right-of-Way Assets

Estimated historical costs for these assets 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.

Farmland Development Rights

The Farmland Preservation Program was established to preserve, protect, and enhance agricultural lands and open spaces. Under this program the County has acquired farmland development rights for over 12,500 acres. "Development rights" are the rights to develop land for any uses other than farming or open space. The owner who sells development rights sells only a part of an owner's property rights and retains all other ownership rights.

Real Property Under Capital Lease

King County land and buildings include the capitalized costs of the King Street Center ($78.2 million) and the Issaquah District Court ($5.9 million). These properties are legally owned by private property management companies who are leasing the buildings to the County under terms which are in-substance capital leases. The rental payments collected include the monthly debt service costs of the privately issued bonds used to construct the buildings. The lease contracts provide for a bargain purchase option at the end of the lease term. The capital lease obligations are reported as governmental activities' long-term liabilities.

Capital Assets Reverting to Private Ownership in Future Years

General capital buildings in the amount of $4,634,841, financed by grants from the State of Washington under Referendums #29 and #37, revert to private ownership in future years.

Artwork

Artwork that meets the threshold of $1,000 is capitalized under furniture, machinery and equipment.

Construction Commitments

Project commitment is defined as authorized and planned expenditures for the next fiscal year. These commitments, totaling about $2.0 billion, will be funded from existing restricted net assets in proprietary funds of $500 million and existing capital projects fund undesignated fund balances of $31.0 million. The balance is anticipated to come from future borrowing, federal and state grants, and contributions from other funds.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 6 – CONTINUED

Proprietary Funds

Public Transportation Enterprise - $787.1 million is committed to maintenance of existing infrastructure, replacement of aging fleet, and expansion of transit base capacity.

Solid Waste Enterprise - $106.6 million is committed to improving solid waste facilities and to ensuring compliance with legal requirements.

Water Quality Enterprise - $616.1 million is committed to ensuring the continued operation, reliability, and compliance with regulatory standards of wastewater treatment facilities.

Other enterprises - $17.9 million is committed to construction and acquisition projects at the King County International Airport and $0.4 million is for equipment acquisition in the Radio Communications Enterprise.

Capital Projects Funds

$451.6 million is committed to the acquisition or development of capital improvements, including new building construction, building improvements, seismic upgrades, energy conservation, purchase of open space, road construction and preservation, improvements within the surface water management program, and repair and replacement of general government facilities.

Discretely presented component units

Harborview Medical Center (HMC)

Capital assets activity for HMC for their fiscal year ended June 30, 2003, was as follows:

	Balance 07/01/02	Increases	Decreases	Balance 06/30/03
Capital assets not being depreciated:				
Land	$ 1,585,972	$ -	$ -	$ 1,585,972
Work in progress	8,488,628	18,915,971	(10,074,875)	17,329,724
Total capital assets not being depreciated	10,074,600	18,915,971	(10,074,875)	18,915,696
Capital assets being depreciated:				
Buildings	177,430,543	7,876,848	-	185,307,391
Improvements other than buildings	1,269,137	94,176	-	1,363,313
Equipment	233,805,990	11,554,732	(1,002,307)	244,358,415
Total capital assets being depreciated	412,505,670	19,525,756	(1,002,307)	431,029,119
Less accumulated depreciation for:				
Buildings	(60,450,955)	(6,140,517)	-	(66,591,472)
Improvements other than buildings	(586,290)	(65,789)	-	(652,079)
Equipment	(121,430,647)	(16,319,488)	905,221	(136,844,914)
Total capital assets being depreciated - net	230,037,778	(3,000,038)	(97,086)	226,940,654
HMC capital assets, net	$ 240,112,378	$ 15,915,933	$ (10,171,961)	$ 245,856,350

NOTES TO FINANCIAL STATEMENTS
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NOTE 6 – CONTINUED

In addition, HMC owns property that is held for future use which at June 30, 2003, consisted of the following:

	Cost	Accumulated Depreciation
Land	$ 2,717,798	$ -
Buildings	1,898,973	646,608
Improvements other than buildings	26,344	26,344
Total	$ 4,643,115	$ 672,952

A major construction program is currently ongoing at the Harborview Medical Center and it involves upgrades to existing hospital buildings, demolition of seismically unsound older buildings, and construction of new and replacement facilities. The program, which started in 2001, is to be funded by a total of $193.1 million in bonds to be issued over a span of 10 years.

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

Capital assets activity for the WSMLB for the period ended December 31, 2003, was as follows:

	Balance 01/01/03	Increases	Decreases	Balance 12/31/03
Capital assets not being depreciated:				
Land	$ 38,498,454	$ -0-	$ -0-	$ 38,498,454
Capital assets being depreciated:				
Baseball stadium	488,841,352	-	-	488,841,352
Improvements other than buildings	7,504,671	3,427,011	-	10,931,682
Equipment	46,150	-	-	46,150
Total capital assets being depreciated	496,392,173	3,427,011	-0-	499,819,184
Less accumulated depreciation for:				
Baseball stadium	(42,680,526)	(12,408,650)	-	(55,089,176)
Improvements other than buildings	(187,617)	(85,675)	-	(273,292)
Equipment	(44,008)	(1,048)	-	(45,056)
Total capital assets being depreciated - net	453,480,022	(9,068,362)	-	444,411,660
WSMLB capital assets, net	$ 491,978,476	$ (9,068,362)	$ -0-	$ 482,910,114

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 7 – RESTRICTED ASSETS

Enterprise Funds

The Public Transportation, Water Quality, and Nonmajor Enterprise funds are included in the County's basic financial statements. 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:

$	282,002,948	Public Transportation – restricted for future construction projects ($257,084,483) and debt service ($24,918,465).
	171,273,128	Water Quality Enterprise – restricted for future construction projects ($6,140,746), debt service ($135,208,041), and reserves and obligations ($29,924,341).
$	453,276,076	Total Major Enterprise restricted assets.
$	19,175,723	Airport – restricted for future construction projects and expansion of the King County Airport.
	1,300,385	Radio Communications – restricted for future construction projects.
	198,780	Sewer Utility – enterprise bond restrictions.
	56,813,017	Solid Waste – restricted for landfill closure and post-closure care costs.
$	77,487,905	Total Nonmajor Enterprise restricted assets.

NOTES TO FINANCIAL STATEMENTS
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NOTE 7 – CONTINUED

Component Unit – Harborview Medical Center

Harborview Medical Center (HMC) reports assets that are restricted for the following purposes:

$	42,153,881	HMC Construction Fund (a restricted fund) – consists of monies from the 1976, 1988, 1993, and 2000 General Obligation Bond issues that are restricted for construction, improvements, and furnishing of the trauma center and other HMC buildings.
	5,934,021	HMC Special Purpose Fund (a restricted fund) – consists of restricted donations, gifts, and bequests from various sources for specific uses.
	11,761,834	HMC Operating Fund (a general fund) – consists of resources that are board-designated for specific purposes.
	11,692,039	HMC Plant Fund (a general fund) – consists of resources that are board-designated for building improvements, furnishings, and repair and replacement, including the liability for the 1993 GO Bonds for HMC building construction and equipment acquisition.
$	71,541,775	Total HMC restricted assets.

Component Unit – Cultural Development Authority of King County

Cultural Development Authority of King County (CDA) assets include assets restricted for the following purposes:

$	4,084,689	Public Arts Projects Fund is restricted for the 1 percent for public art programs operated for the benefit of King County.
	6,469,633	Cultural Grant Awards Fund is restricted for arts and heritage cultural programs.
	6,088,666	Cultural Endowment Fund is a long-term endowment for the benefit of the arts and heritage cultural programs.
$	16,642,988	Total CDA restricted assets.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 8 – DEFINED BENEFIT 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), or the Seattle City Employees' Retirement System (SCERS). PERS and LEOFF 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-

NOTES TO FINANCIAL STATEMENTS
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NOTE 8 – CONTINUED

of-living allowance is granted based on years of service credit and is capped at 3 percent annually.

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. Plan 3 members become eligible for retirement if they have: at least ten years of service; or five years including twelve months that were earned after age 54; or five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 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 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 1,167 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of September 30, 2002:

Retirees and Beneficiaries Receiving Benefits	63,756
Terminated Plan Members Entitled to, But Not Yet Receiving, Benefits	19,152
Active Plan Members Vested	98,994
Active Plan Members Nonvested	55,191
Total	237,093

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 non-contributing 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

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 8 – CONTINUED

Retirement Benefits Board sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee's age. 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, 2003, were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	1.40%	1.40%	1.40%**
Employee	6.00%	1.18%	***

* The employer rates include the employer administrative expense fee currently set at 0.22%.
** 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:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2003	$ 1,073,600	$ 7,352,200	$ 561,600
2002	1,237,500	8,015,000	33,500
2001	2,970,000	16,934,000	

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. Membership in the system includes all full-time, fully compensated local law enforcement officers and firefighters. LEOFF is comprised primarily of non-state employees. 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. Effective January 1, 2003, firefighter emergency medical technicians (EMTs) may transfer PERS Plan 1 or Plan 2 service credit to LEOFF Plan 2 if, while employed for the city, town, county, or district, the EMT's job was relocated to a fire department from another city, town, county, or district. 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 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 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:

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

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 359 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of September 30, 2002:

Retirees and Beneficiaries Receiving Benefits	8,231
Terminated Plan Members Entitled to, But Not Yet Receiving, Benefits	398
Active Plan Members Vested	11,222
Active Plan Members Nonvested	3,936
Total	23,787

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 methods used to determine the contribution rates are established under state statute in accordance with chapters 41.26 and 41.45 RCW.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 8 – CONTINUED

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2003, were as follows:

	LEOFF Plan 1	LEOFF Plan 2
Employer*	0.22%	3.25%
Employee	0.00%	5.05%

* The employer rates include the employer administrative expense fee currently set at 0.22%.

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

	LEOFF Plan 1	LEOFF Plan 2
2003	$ 5,630	$ 1,466,300
2002	6,500	1,234,600
2001	7,900	1,513,600

Seattle City Employees' Retirement System (SCERS)

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

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

The SCERS member contribution rate is 8.03 percent of compensation except for members qualifying for lower rates prior to June 1972. The County is required to contribute at an actuarially determined rate. The current rate is 8.03 percent of annual covered payroll. The contribution requirements of plan members and the County are established and may be amended by the Board of Administration. Both the County and the employees made the required contributions. The County's required employer contributions for the years 2001, 2002, and 2003 ending December 31 were $913,700, $852,000 and $818,100, respectively.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 8 – CONTINUED

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 3 Public Employees' Retirement Systems (PERS) plans.

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

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

All employees of the District participate 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, 2003, was $35,067.

The Washington State Major League Baseball Stadium Public Facilities District (PFD) employees are eligible for membership in the State of Washington Public Employees Retirement System (PERS). The PFD Board of Directors adopted participation in the PERS Plan in 1996. Admission to PERS was effective February 1, 1997, with the ability to retroactively purchase service credit for employee service earned in 1996. Retroactive payments will be paid over a five-year period.

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 contribution by participants is required or permitted other than authorized rollover contributions. All contributions to the plan vest immediately. Actual contributions made to the plan in 2003 were $2,168.

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

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

NOTES TO FINANCIAL STATEMENTS
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NOTE 9 – POST-RETIREMENT HEALTH CARE BENEFITS

In accordance with the Washington Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Act (chapter 41.26 RCW), the County provides certain health care 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 2003, 321 retirees received benefits under this act. As of December 31, 2003, there were 33 active officers with an average age of 56 who may become eligible for those benefits when they reach normal retirement age.

The cost of retiree health care benefits is recognized as an expenditure in the General Fund as claims are paid. For 2003 those costs total $1,554,612, with an average cost per retiree of $4,843.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

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, excluding that related to Public Transportation and Water Quality Enterprises, 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 at December 31, 2003, is $41,697,981.

Beginning on July 1, 1993, the County was able to purchase excess liability coverage that provided $20 million in limits above a $5 million per occurrence self-insured retention (SIR) for its general liability, automobile liability, police liability, public officials, errors and omissions, and Health Department professional malpractice exposures.

Effective October 1, 1995, the County's excess liability policy was amended to include the exposure of the former Metro government's Transit and Wastewater Treatment functions. The policy limits were increased to $50 million above a $5 million per occurrence SIR. Effective August 1, 1997, the County increased limits to $75 million above a $5 million per occurrence SIR. Effective September 1, 1998, the County increased limits to $102.5 million and lowered the SIR to $2.5 million per occurrence. Effective August 1, 2001, to current, the County decreased the liability limits to $97.5 million above a $2.5 per occurrence SIR with an annual $1 million "corridor" deductible above the $2.5 million SIR. The County also purchased property insurance that provided a blanket limit of $3.2 billion with $240 million in earthquake and $150 million in flood limits through June 2001.

The event of September 11, 2001, caused property underwriters to pull back on the offering of total insured value blanket limits. FM Global Insurance Company provided a blanket limit of $500 million in 2002. When the property market began recovering, the County was able to increase overall protection. Effective June 1, 2003, the County renewed the property insurance policy with FM Global Insurance Company. This policy has a blanket limit of $700 million above a $100,000 per occurrence deductible. The policy provides an overall

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 10 – CONTINUED

earthquake sublimit of $220 million. The 2003 policy was endorsed to cover Certified and Non-Certified Acts of Terrorism on a blanket basis up to $250 million.

In addition to its property insurance policies and excess liability policy, 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 property and liability policy to cover the police helicopter activities with liability limits of $50 million per occurrence; and excess coverage for the Workers' Compensation program over a $5 million per occurrence SIR. The County also has a combined "crime" coverage policy that provides $5 million in limits with a $25,000 deductible. Coverage is provided for protection against loss caused by employee dishonesty; the dishonest acts of third parties in writing or altering checks or other financial instruments; the theft, disappearance and destruction of monies at County locations or when conveyed by a messenger; and for faithful performance of duty.

In the past three years, two occurrences have resulted in payments in excess of the self-insured retention. There have been no settlements in excess of the insurance coverage in the prior three years.

During 2003 there were some significant changes made in the County's insurance program. The County experienced a significant increase in premiums for excess liability insurance from $3.016 million to $4.561 million (on an annualized basis) for $97.5 million in limits. The substantial increase in premium is attributable to our recent large loss experiences (Aurora Bridge and the Solid Waste landfill cases), the substantial tightening in the insurance marketplace and several recent large outcomes within Washington State involving other governmental entities. The County was able to retain a $2.5 million per occurrence SIR but must satisfy an annual $1 million "corridor" deductible of $1 million above the $2.5 million SIR. (The County must pay an additional $1 million self-insured retention either from a single large loss or a combination of losses above the County's $2.5 million deductible.)

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 at December 31, 1985, to more than $75 million at December 31, 2003.

In addition to funding reserves for known and incurred-but-not-reported cases, the County has adopted a plan to create catastrophic loss reserves to respond to large losses above the $1 million limit. The County, by Risk Management policy, retains catastrophic loss reserve balances with interest earnings being invested to the benefit of the catastrophic loss reserve. All County agencies share in financing losses above the $1 million limit. Through December 31, 2003, $14.9 million of the $75 million cash balance in the Insurance Fund has been designated for catastrophic loss reserves (see Note 15, "Restriction, Reserves, Designations, and Changes in Equity").

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 2002 and 2003 were as follows:

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 10 – CONTINUED

	Beginning of Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	End-of-Year Liability
2002	$ 46,190,229	$ 3,733,558	$ (6,676,787)	$ 43,247,000
2003	43,247,000	9,391,258	(10,940,277)	41,697,981

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 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 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 fund at December 31, 2003, is $16,788,230.

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 15, 2003, was increased from $1,000,000 to $2,000,000. There have been two settlements in excess of the insurance coverage in the prior three years.

The Fund's claims liability is estimated based on reserves for known claims plus a liability for incurred but unreported claims based on historical experience. Changes in the Safety and Workers' Compensation Fund's claims liability in 2002 and 2003 were:

	Beginning of Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	End-of-Year Liability
2002	$ 12,500,000	$ 18,134,233	$ (14,664,233)	$ 15,970,000
2003	15,970,000	16,772,556	(15,954,326)	16,788,230

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 five insured and two self-insured medical plans. Seventy-eight percent of County employees are insured through the two self-insured medical plans. 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 at December 31, 2003, is $13,192,000.

The Fund's claims liability is based on historical experience. Changes in the Employee Benefits Program Fund's claims liability in 2002 and 2003 were:

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 10 – CONTINUED

	Beginning of Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	End-of-Year Liability
2002	$ 10,761,993	$ 72,223,017	$ (71,857,877)	$ 11,127,133
2003	11,127,133	90,965,941	(88,901,074)	13,192,000

Unemployment Liability

The County has elected to retain the risk for unemployment compensation payable to former county employees. The State of Washington Employment Security Department bills the County for the unemployment compensation benefits paid to former employees. Expenditures are then recognized in various county funds. In addition, a long-term liability of $2,275,000 is recorded in governmental long-term debt for the estimated future claims liability for employees as of December 31, 2003.

Changes in governmental long-term debt liability for unemployment compensation in 2002 and 2003 were:

	Beginning of Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	End-of-Year Liability
2002	$ 1,172,763	$ 2,204,171	$ (1,845,319)	$ 1,531,615
2003	1,531,615	3,484,358	(2,740,973)	2,275,000

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, 2003, the UW did not carry commercial general liability coverage at levels below $2 million per occurrence. The UW's philosophy with respect to its self-insurance programs is to fully fund its anticipated losses through the establishment of actuarially determined self-insurance reserves. These reserves are deposited in a statutorily created and regulated fund and can only be expended for payment of claim costs and related expenses.

The annual funding to the self-insurance revolving fund is determined by the UW administration based on recommendations from the UW's Risk Management Advisory Committee. The HMC's *pro rata* share of premiums paid to the self-insurance revolving fund were approximately $1,042,802 in the period July 1, 2001 to June 30, 2002, and $1,227,665 in the period July 1, 2002 to June 30, 2003.

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

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 10 – CONTINUED

(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, compensations 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

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. In addition, 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 $100,000 with separate overages 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.

Component Unit – Cultural Development Authority of King County

Insurance Fund

The Cultural Development Authority of King County (CDA) carries commercial general liability insurance with a general aggregate limit of $2 million and a per occurrence limit of $1 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 $103,000.

The CDA also has purchased employee benefit liability coverage with an aggregate limit of $3 million and a per employee limit of $1 million.

Employee Benefits Program

Employees of the CDA have a comprehensive benefits package through 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 CAD employees can pick from a selection of insurance policies.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

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 in the 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, 2003:

	Capital Assets		Capital Leases Payable	
	Governmental Activities	Business-type Activities	Governmental Activities	Business-type Activities
Land	$ 9,440,486	$ -	$ -	$ -
Building	74,734,514	4,880,562	81,485,000	3,820,383
Less depreciation	(9,598,693)	(379,600)	-	-
Sub-total	74,576,307	4,500,962	81,485,000	3,820,383
Machinery and equipment	1,039,319	125,763,619	192,093	25,326,301
Less depreciation	(590,546)	(54,235,436)	-	-
Sub-total	448,773	71,528,183	192,093	25,326,301
Totals	$ 75,025,080	$ 76,029,145	$ 81,677,093	$ 29,146,684

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, 2003:

	Governmental Activities	Business-type Activities
2004	$ 6,316,290	$ 16,690,082
2005	6,255,856	10,346,230
2006	6,231,043	255,000
2007	6,198,303	255,000
2008	6,200,259	255,000
2009-2013	30,992,315	1,275,000
2014-2018	30,996,256	1,275,000
2019-2023	29,072,311	1,275,000
2024-2028	15,444,820	1,275,000
2029-2033	-	658,750
Total minimum lease payments	137,707,453	33,560,062
Less: Amount representing interest	(56,030,360)	(4,413,378)
Present value of new minimum lease payments	$ 81,677,093	$ 29,146,684

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

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 11 – CONTINUED

ended December 31, 2003, for operating lease and rental agreements for office space, equipment, and other operating leases amount to $23.6 million. The patterns of the future lease payment requirements are systematic and rational. Future minimum lease payments for these leases are as follows:

Year	Office Space	Equipment	Other	Total
2004	$ 9,530,000	$ 395,000	$ 515,000	$ 10,440,000
2005	8,320,000	300,000	395,000	9,015,000
2006	6,955,000	265,000	192,000	7,412,000
2007	5,045,000	130,000	155,000	5,330,000
2008	2,450,000	5,000	45,000	2,500,000
2009-2013	9,850,000	-	226,000	10,076,000
2014-2018	440,000	-	85,000	525,000
2019-2023	440,000	-	-	440,000
2024-2028	440,000	-	-	440,000
2029-2033	395,000	-	-	395,000

The County currently leases some of its property to various tenants under long-term, renewable, and non-cancelable contracts. Under business-type activities, the King County Airport Enterprise leases out most of the buildings and grounds in the King County International Airport/Boeing Field complex to companies and government agencies in the aviation industry. Some land and building space devoted to governmental activities are also leased out under long-term operating leases.

The following schedule is an analysis of the County's investment in property under long-term, non-cancelable operating leases as of December 31, 2003:

	Airport Enterprise	Governmental activities
Land	$ 22,504,350	$ 429,726
Buildings	20,977,369	3,402,147
Less depreciation	(10,668,312)	(1,155,821)
Total cost of property under lease	$ 32,813,407	$ 2,676,052

The following is a schedule of minimum future lease receipts on non-cancelable, operating leases based on contract amounts and terms as of December 31, 2003:

Year ending	Business-type		Governmental	
December 31	Airport	Other	Various	Total
2004	$ 6,223,077	$ 409,463	$ 2,135,814	$ 8,768,354
2005	6,066,155	353,899	2,039,386	8,459,440
2006	5,877,069	315,024	1,853,517	8,045,610
2007	5,618,885	184,553	1,751,129	7,554,567
2008	5,320,752	24,310	1,630,500	6,975,562
2009-2013	25,475,972	24,310	5,644,490	31,144,772
2013-2017	23,012,676	-	3,581,144	26,593,820

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

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 site when the County stops accepting waste at this location. Performance of 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.

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 balance sheet date. The $95.3 million reported as landfill closure and post-closure care liability at December 31, 2003, represents the cumulative amount reported to date based on the amount that each of the landfills has been filled to date as follows:

Landfill	Percent Filled	Estimated Liability (in millions)	Estimated Remaining Liability (in millions)	Estimated Year of Closure
Cedar Hills	75%	$ 63.0	$ 26.8	2012
Covered	100%	24.3	-	-
Custodial	100%	8.0	-	-

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, 2003, cash and cash equivalents of $50.6 million were held in the Landfill Reserve Fund. In addition, cash and cash equivalents of $31.6 million were held in the Landfill Post-closure Maintenance Fund, which is a fund designated by management 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 landfill user fees or tax revenues.

The County also established the Environmental Reserve Fund for future investigation and possible remediation of custodial landfills. Cash and cash equivalents total $1.7 million in this fund. The related estimated liability for the custodial landfill costs is $50,464. This estimate includes only those costs that are reasonable and quantifiable and for which schedules can be forecast.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 13 – DEBT

Short-term debt instruments and liquidity

On December 31, 2003, King County has two short-term debt instruments outstanding. On October 1, 2003, King County completed the sale of $80.0 million in limited tax general obligation bond anticipation notes, 2003 Series A, with a maturity date of October 1, 2004, and 2003 Series B, in the amount of $28.8 million with a maturity date of November 1, 2003. The proceeds of the notes were used to pay and retire the 2002 Note in the amount of $85.0 million that matured on October 1, 2003. Also, a portion of the note proceeds were used to provide interim financing for the seismic retrofit of the County Courthouse, the North Rehabilitation Facility project, the integrated security and jail health project, and the Kent Pullen Regional Communications and Emergency Coordination Center.

The 2003 Series B Note was paid and retired on November 1, 2003, with proceeds from the issuance of $27.605 million in limited tax general obligation bonds, 2003 Series A. The County intends to finance the repayment of the 2003 Series A Note by issuing replacement bond anticipation notes and limited tax general obligation bonds when the note matures on October 1, 2004.

The County has $100.0 million of commercial paper outstanding in the Water Quality Enterprise Fund. The commercial paper has maturities ranging from 30 to154 days. The balance of the commercial paper was $93.3 million until July 7, 2003, when it was increased to $100.0 million by issuance of additional debt. 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.

A summary of changes in short-term debt as of December 31, 2003 is provided by the following schedule:

CHANGES IN SHORT-TERM DEBT
FOR THE YEAR ENDED DECEMBER 31, 2003

	Balance 01/01/03	Increases	Decreases	Balance 12/31/03
Governmental activities:				
Limited tax GO bond anticipation notes	$ 85,000,000	$ 108,800,000	$ (113,800,000)	$ 80,000,000
Unamortized premium bonds sold	627,937	562,800	(627,937)	562,800
Governmental activity short-term debt	$ 85,627,937	$ 109,362,800	$ (114,427,937)	$ 80,562,800
Business-type activities:				
Commercial paper	$ 93,300,000	$ 6,700,000	$ -	$ 100,000,000
Business-type activity short-term debt	$ 93,300,000	$ 6,700,000	$ -0-	$ 100,000,000

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 13 – CONTINUED

Long-term debt

King County has long-term debt included with both governmental 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. Special assessment bonds are guaranteed for payment from resources of the Road Improvement Guaranty Fund if a road improvement district fails to pay.

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

Three schedules in this note are reported on a basis that is different from the government-wide Statement of Net Assets. The Schedule of Long-term Debt, the Debt Service Requirements to Maturity, and the Computation of Legal Debt Margin are reported on a legal basis, which is different from Generally Accepted Accounting Principles (GAAP), in order to demonstrate legal compliance. These schedules consider all of King County's debt as of December 31, 2003, which includes a portion of the debt reported on the government-wide Statement of Net Assets as Component Unit debt as of June 30, 2003, for Harborview Medical Center and Cultural Development Authority of King County as of December 31, 2003, in accordance with GAAP.

NOTE 13 – CONTINUED

SCHEDULE OF LONG-TERM DEBT
(Page 1 of 3)

I. Governmental Activities - Long-Term Debt	Issue Date	Interest Rates	Original Amount	Outstanding
IA. GOVERNMENTAL ACTIVITIES - GENERAL OBLIGATIONS				
LIMITED GENERAL OBLIGATION BONDS				
Payable from Limited G.O. Bond Redemption Fund				
1993 Various Purpose Series B (Partial)	12/01/93	5.35% to 6.70%	$ 109,435,833	$ 44,890,000
1996 Various Purpose Series A (Partial)	02/01/96	5.00% to 5.25%	105,268,054	70,240,000
1996 Refunding Series B	03/01/96	4.10% to 4.60%	10,348,276	6,290,754
1997 Baseball Stadium Parking Facilities(Taxable) Series C	04/01/97	7.06% to 7.79%	25,000,000	23,065,000
1997 Baseball Stadium Series D	04/17/97	4.60% to 5.75%	150,000,000	122,530,000
1997 Kingdome Debt Service Reimburse (Taxable) Series E	12/01/97	6.25% to 6.88%	6,595,000	6,410,000
1997 Kingdome Debt Refunding Series F	12/01/97	5.00% to 5.20%	51,525,000	51,245,000
1997 Various Purpose Series G (Partial)	12/01/97	4.50% to 5.00%	72,080,000	44,355,000
1999 Various Purpose Series A (Partial)	05/01/99	4.00% to 5.25%	85,694,670	48,450,463
2001 Various Purpose (Partial)	11/15/01	3.00% to 5.00%	26,925,000	23,900,000
2002 Refunding Series (Baseball Stadium)	05/20/02	4.00% to 5.50%	124,575,000	104,440,000
2002 Various Purpose (Road CIP)	09/30/02	2.00% to 5.00%	38,340,000	36,330,000
2003 Limited Tax G.O. (BAN 2003B payoff) Series A	10/30/03	2.00% to 5.25%	27,605,000	27,605,000
2003 Refunding Various Purpose Series B (Partial)	10/30/03	2.00% to 5.25%	27,890,000	27,890,000
Total payable from limited G.O Redemption Fund			861,281,833	637,641,217
Payable from Internal Service Funds				
1996 Various Purpose A (Partial)	02/01/96	5.00% to 5.25%	9,969,883	2,555,000
1997 Various Purpose G (Partial)	12/01/97	4.50% to 5.00%	1,270,000	585,000
1999 Limited Tax G.O. Various Purpose Series A	05/01/99	4.00% to 5.25%	525,000	330,000
2001 Limited Tax G.O. Various Purpose (Partial)	11/15/01	3.00% to 5.00%	1,050,000	875,000
Total payable from Internal Service Funds			12,814,883	4,345,000
Limited G.O. capital leases				
Payable from General Fund	Various	Various	5,900,000	5,255,000
Payable from Public Health	Various	Various	601,361	165,509
Payable from Various Funds - King Street Center's Tenants	06/01/97	4.50% to 5.13%	78,275,000	76,230,000
Payable from Surface Water Management fund	Various	Various	437,958	26,584
Total limited G.O. capital leases			85,214,319	81,677,093
TOTAL GOVERNMENTAL ACTIVITIES - LIMITED GENERAL OBLIGATION DEBT			$ 959,311,035	$ 723,663,310

NOTE 13 – CONTINUED

SCHEDULE OF LONG-TERM DEBT
(Page 2 of 3)

		Issue Date	Interest Rates	Original Amount	Outstanding
IA.	GOVERNMENTAL ACTIVITIES - GENERAL OBLIGATIONS (continued)				
	UNLIMITED GENERAL OBLIGATION BONDS				
	Payable from Unlimited G.O. Redemption Fund				
	2000 Refunding Bonds	10/01/00	5.00% to 5.50%	$ 102,740,000	$ 79,730,000
	2001 Harborview Medical Center	01/22/01	4.00% to 5.00%	29,130,000	27,130,000
	2003 Refunding Bonds	04/23/03	2.00% to 5.25%	208,795,000	106,435,000
	Total payable from Unlimited General Obligation Bond Redemption Fund			340,665,000	213,295,000
	Payable from Stadium G.O. Bond Redemption Fund				
	2000 Refunding Bonds	10/01/00	5.00% to 5.50%	18,880,000	14,990,000
	TOTAL UNLIMITED GENERAL OBLIGATION BONDS			359,545,000	228,285,000
IB.	SPECIAL ASSESSMENT GENERAL LONG-TERM DEBT				
	Special assessment bonds with governmental commitment - bonds payable from Road Improvement Districts S.A. Bond Redemption Fund				
	RID 2 Consolidated	07/01/86	7.88% to 8.25%	286,192	135,000
	TOTAL SPECIAL ASSESSMENT GENERAL LONG-TERM DEBT			286,192	135,000
	Total Governmental Activities - Long-Term Debt			$ 1,319,142,227	$ 952,083,310
II.	**Business-Type Activities - Long-Term Debt**				
IIA.	BUSINESS-TYPE ACTIVITIES - GENERAL OBLIGATIONS				
	LIMITED GENERAL OBLIGATION BONDS				
	Payable from Enterprise Funds				
	1994 Limited Tax (Water Quality) Series A	04/01/94	5.80% to 6.40%	170,000,000	2,145,000
	1995 Limited Tax (Water Quality) Series A	05/01/95	5.50% to 5.88%	90,000,000	620,000
	1996 Limited Tax Refunding Series B (Partial)	03/01/96	4.10% to 4.75%	12,631,724	9,119,246
	1996 Limited Tax G.O. Refunding(Revenue Bonds) Series C	12/15/96	5.00% to 6.25%	130,965,000	101,725,000

NOTE 13 – CONTINUED

SCHEDULE OF LONG-TERM DEBT
(Page 3 of 3)

	Issue Date	Interest Rates	Original Amount	Outstanding
IIA. BUSINESS-TYPE ACTIVITIES - GENERAL OBLIGATIONS (continued)				
LIMITED GENERAL OBLIGATION BONDS				
Payable from Enterprise Funds				
1998 LTGO (Public Transport. Sales Tax) Refunding Series A	05/15/98	4.50% to 5.00%	$ 85,715,000	$ 65,550,000
1998 Limited Tax G.O. Refunding(WQ-LTGO & REV.) Series B	09/15/98	4.75% to 5.25%	261,625,000	258,520,000
1999 Limited Tax G.O. (Refunding part) Series A	05/01/99	4.00% to 5.25%	8,720,330	8,499,537
2001 Limited Tax G.O. Various Purpose (Partial)	11/15/01	3.00% to 5.00%	8,580,000	8,075,000
2002 LTGO (Public Transportation Sales Tax) Refunding Bonds	10/21/02	3.00% to 5.50%	64,285,000	61,975,000
2003 LTGO Refunding 93A Bonds Series B (Partial)	10/30/03	2.00% to 5.25%	12,545,000	12,545,000
Total payable from Enterprise Funds			845,067,054	528,773,783
BUSINESS-TYPE ACTIVITIES - REVENUE BONDS, CAPITAL LEASES AND LOANS				
Payable from Enterprise Funds				
Sewer and Drainage Bond Issue 472 Special	05/01/75	-0- -0-	500	500
1999 Sewer Revenue Bonds Series 1	06/01/99	5.25% to 5.50%	80,000,000	80,000,000
1999 Sewer Revenue Bonds Series 2	11/01/99	5.00% to 6.25%	60,000,000	60,000,000
2001 Sewer Revenue Bonds Junior Lien Series A	08/06/01	Variable Rate (a)	50,000,000	50,000,000
2001 Sewer Revenue Bonds Junior Lien Series B	08/06/01	Variable Rate (a)	50,000,000	50,000,000
2001 Sewer Revenue and Refunding Bonds	11/13/01	3.00% to 5.25%	270,060,000	258,080,000
2002 Sewer Revenue Bonds Series A	08/14/02	5.00% to 5.50%	100,000,000	100,000,000
2002 Sewer Revenue Refunding Bonds Series B	10/03/02	3.00% to 5.50%	346,130,000	343,505,000
2003 Sewer Revenue Refunding Bonds Series A	04/24/03	2.00% to 5.25%	96,470,000	96,470,000
2000-2003 State of Washington Loans	Various	0.50% to 1.50%	39,795,279	86,391,087
1996 Public Transportation Revenue Capital Leases	Various	5.32%	89,301,567	25,326,301
2000 Public Transportation Revenue Park & Ride Capital Leases	03/30/00	5.00%	4,721,840	3,820,383
Total business-type activities revenue bonds, capital leases, and loans			1,186,479,186	1,153,593,271
Total Business-Type Activities - Long-Term Debt			2,031,546,240	1,682,367,054
Total Long-Term Debt (Excluding G.O. Long-term Liabilities)			$ 3,350,688,467	$ 2,634,450,364

(a) The variable rate bonds initially bear interest at Weekly Rates. The Weekly Rate for each Interest Period in the Weekly Mode is to be determined by the Remarketing Agents. The bonds in the Weekly Mode may be changed to or from the Weekly Mode to or from a Daily Mode, a Commercial Paper Mode, or a Long-term Mode, or to a Fixed Mode, upon satisfaction of the "Change in Modes" conditions.

NOTE 13 – CONTINUED

DEBT SERVICE REQUIREMENTS TO MATURITY AS OF DECEMBER 31, 2003
(PAGE 1 OF 2)
GOVERNMENTAL ACTIVITIES

Year	General Obligation Bonds		General Obligation Capital Leases		Special Assessment Bonds (With Governmental Commitment)		Total Governmental Activities	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2004	$ 64,078,796	$ 44,033,146	$ 2,183,210	$ 4,133,080	$ -	$ 11,062	$ 66,262,006	$ 48,177,288
2005	67,393,990	40,882,760	2,227,627	4,028,228	-	11,062	69,621,617	44,922,050
2006	71,073,474	37,593,238	2,311,256	3,919,787	-	11,062	73,384,730	41,524,087
2007	74,673,041	34,100,252	2,390,000	3,808,303	-	11,062	77,063,041	37,919,617
2008	66,869,034	30,529,879	2,510,000	3,690,259	135,000	11,062	69,514,034	34,231,200
2009-2013	326,357,882	103,052,740	14,590,000	16,402,315	-	-	340,947,882	119,455,055
2014-2018	154,105,000	27,992,631	18,800,000	12,196,256	-	-	172,905,000	40,188,887
2019-2023	41,845,000	5,464,836	22,290,000	6,782,311	-	-	64,135,000	12,247,147
2024-2028	3,875,000	87,188	14,375,000	1,069,821	-	-	18,250,000	1,157,009
	$ 870,271,217	$ 323,736,670	$ 81,677,093	$ 56,030,360	$ 135,000	$ 55,310	$ 952,083,310	$ 379,822,340

NOTE 13 – CONTINUED

DEBT SERVICE REQUIREMENTS TO MATURITY AS OF DECEMBER 31, 2003
(PAGE 2 OF 2)
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
2004	$ 17,531,204	$ 26,511,141	$ 38,080,501	$ 49,926,338	$ 55,611,705	$ 76,437,479	$ 121,873,711	$ 124,614,767
2005	19,036,010	25,636,791	31,818,697	47,726,523	50,854,707	73,363,314	120,476,324	118,285,364
2006	17,796,528	24,764,693	27,105,235	47,377,671	44,901,763	72,142,364	118,286,493	113,666,451
2007	18,156,959	23,904,906	28,917,115	46,178,398	47,074,074	70,083,304	124,137,115	108,002,921
2008	15,455,966	23,106,320	29,982,484	44,874,960	45,438,450	67,981,280	114,952,484	102,212,480
2009-2013	83,302,116	103,787,226	171,901,684	201,792,084	255,203,800	305,579,310	596,151,682	425,034,365
2014-2018	91,075,000	82,826,956	177,255,053	156,195,224	268,330,053	239,022,180	441,235,053	279,211,067
2019-2023	73,710,000	59,334,938	131,363,067	122,564,436	205,073,067	181,899,374	269,208,067	194,146,521
2024-2028	76,360,000	41,392,838	146,171,998	88,819,386	222,531,998	130,212,224	240,781,998	131,369,233
2029-2033	107,060,000	17,545,569	283,806,937	46,814,739	390,866,937	64,360,308	390,866,937	64,360,308
2034-2038	9,290,000	243,863	87,190,500	4,520,178	96,480,500	4,764,041	96,480,500	4,764,041
TOTAL	$ 528,773,783	$ 429,055,241	$ 1,153,593,271	$ 856,789,937	$ 1,682,367,054	$ 1,285,845,178	$ 2,634,450,364	$ 1,665,667,518

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 13 – CONTINUED

Long-term liability activity for the year ended December 31, 2003, was as follows:

CHANGES IN LONG-TERM LIABILITIES
FOR THE YEAR ENDED DECEMBER 31, 2003

	Balance 01/01/03	Increases	Decreases	Balance 12/31/03	Due Within One Year
Governmental activities:					
Bonds payable:					
General obligation bonds	$ 900,122,245	$ 164,290,000	$ (210,013,294)	$ 854,398,951	$ 62,938,417
Special assessment bonds with governmental commitment	137,000	-	(2,000)	135,000	-
Unamortized premium bonds sold	10,244,328	12,067,686	(2,904,187)	19,407,827	3,547,412
Less deferred amounts:					
For issuance cost/underwriters' discounts	-	(3,386,836)	345,128	(3,041,708)	(471,211)
For refunding losses	(10,686,375)	(2,956,907)	1,783,300	(11,859,982)	(1,823,357)
Total bonds payable	899,817,198	170,013,943	(210,791,053)	859,040,088	64,191,261
Claims and judgments payable	-	24,614,304	-	24,614,304	24,614,304
Limited G.O. capital leases	83,770,342	47,662	(2,140,911)	81,677,093	2,183,210
Compensated absences liability	63,718,859	12,286,072	(2,986,752)	73,018,179	3,356,928
Unemployment compensated liabilities	1,531,615	3,484,358	(2,740,973)	2,275,000	2,275,000
Rebatable arbitrage	3,314,776	-	(2,146,777)	1,167,999	1,167,999
Estimated claims settlements and other liabilities	70,478,192	117,129,756	(115,810,572)	71,797,376	64,977,814
Governmental activities Long-term liabilities	$ 1,122,630,982	$ 327,576,095	$ (336,617,038)	$ 1,113,590,039	$ 162,766,516
Business-type activities:					
Bonds payable:					
General obligation bonds	$ 633,267,770	$ 12,545,000	$ (117,038,987)	$ 528,773,783	$ 17,531,204
Revenue bonds	952,420,500	96,470,000	(10,835,000)	1,038,055,500	20,700,500
Less deferred amounts:					
Deferred bond discounts/ refunding losses	(60,378,228)	(12,829,358)	9,930,411	(63,277,175)	(3,022,951)
Total bonds payable	1,525,310,042	96,185,642	(117,943,576)	1,503,552,108	35,208,753
Claims and judgments payable	9,527,935	3,179,597	(865,893)	11,841,639	11,841,639
Public transportation - capital leases	34,883,480	4,994,941	(10,731,737)	29,146,684	15,301,314
State revolving loans	38,195,831	49,555,626	(1,360,370)	86,391,087	2,079,187
Compensated absences liability	45,329,376	6,634,408	(2,895,046)	49,068,738	3,655,423
Landfill closure and post-closure care liability	95,295,642	5,556,769	(5,584,446)	95,267,965	5,555,155
Other liabilities	369,985	804,433	-	1,174,418	-
Business-type activities Long-term liabilities	$ 1,748,912,291	$ 166,911,416	$ (139,381,068)	$ 1,776,442,639	$ 73,641,471

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 $71,678,211 are included in the above amount. For the 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.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

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.

COMPUTATION OF LEGAL DEBT MARGIN
FOR THE YEAR ENDED DECEMBER 31, 2003

2003 ASSESSED VALUE	$ 235,834,254,423
Debt limit of limited tax (LT) general obligations for metropolitan functions	
3/4 % of assessed value	$ 1,768,756,908
Less: Net LT general obligation indebtedness for metropolitan functions	(518,046,521)
LT GENERAL OBLIGATION DEBT MARGIN FOR METROPOLITAN FUNCTIONS	$ 1,250,710,387
Debt limit of LT general obligations for general county purposes and metropolitan functions - 1½ % of assessed value	$ 3,537,513,816
Less: Net LT general obligation indebtedness for general county purposes	(888,269,816)
Net LT general obligation indebtedness for metropolitan functions	(518,046,521)
Net total LT general obligation indebtedness for general county purposes and metropolitan functions	(1,406,316,337)
LT GENERAL OBLIGATION DEBT MARGIN FOR GENERAL COUNTY PURPOSES AND METROPOLITAN FUNCTIONS	$ 2,131,197,479
Debt limit of total general obligations for metropolitan functions	
2½ % of assessed value	$ 5,895,856,361
Less: Net total general obligation indebtedness for metropolitan functions	(518,046,521)
TOTAL GENERAL OBLIGATION DEBT MARGIN FOR METROPOLITAN FUNCTIONS	$ 5,377,809,840
Debt limit of total general obligations for general county purposes	
2½ % of assessed value	$ 5,895,856,361
Less: Net unlimited tax general obligation indebtedness for general county purposes	(219,867,226)
Net LT general obligation indebtedness for general county purposes	(888,269,816)
Net total general obligation indebtedness for general county purposes	(1,108,137,042)
TOTAL GENERAL OBLIGATION DEBT MARGIN FOR GENERAL COUNTY PURPOSES	$ 4,787,719,319

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 13 – CONTINUED

Refunding and Defeasing General Obligation Bond Issues – 2003

Limited Tax General Obligation and Refunding Bonds, 2003 Series B – On October 30, 2003, the County issued $31,900,000 in Limited Tax General Obligation Bonds with an average interest rate of 2.74 percent to advance refund $33,460,000 of outstanding various purpose Limited Tax General Obligation Bonds – 1993A and 1993B (2005-2011 maturities) Serial Bonds with an average interest rate of 4.97 percent. The net proceeds were used to purchase US government securities which were deposited with an escrow agent to provide for all future debt service payments on the 1993A bonds &1993B (2005-2011 maturities) bonds. As a result, the 1993A and 1993B (2005 – 2011 maturities) Series bonds are considered to be defeased and the liability for those bonds has been removed from the governmental activities column of the statement of net assets.

The reacquisition price exceeded the net carrying amount of the old debt by $432,326. This amount is being netted against the new debt and amortized over the remaining life of the new debt, which is shorter than that of the old debt. This advance refunding was undertaken to reduce total debt service payments over the life of the bonds by $2,377,354 and resulted in an economic gain of $2,216,253.

Unlimited Tax General Obligation Refunding Bonds, 2003 – On April 23, 2003, the County issued $108,795,000 in Unlimited Tax General Obligation Bonds with an average interest rate of 3.01 percent to advance refund $114,580,000 of outstanding Unlimited Tax General Obligation Refunding Bonds – 1993C Serial Bonds with an average interest rate of 4.71 percent. The net proceeds were used to purchase US government securities which were deposited with an escrow agent to provide for all future debt service payments on the 1993C bonds. As a result, the 1993C bonds are considered to be defeased and the liability for those bonds has been removed from the governmental activities column of the statement of net assets.

The reacquisition price exceeded the net carrying amount of the old debt by $2,588,830. This amount is being netted against the new debt and amortized over the remaining life of the new debt, which is shorter than that of the old debt. This advance refunding was undertaken to reduce total debt service payments over the life of the bonds by $10,063,526 and resulted in an economic gain of $7,974,689.

Partial Defeasance of Limited Tax General Obligation (Baseball Stadium) Refunding Bonds, 2003 – On December 04, 2003, the County completed a partial defeasance of $5 million of Limited Tax General Obligation (Baseball Stadium) Refunding bonds, 2002 using the excess proceeds from special taxes and revenues. The advance defeasance resulted in the recognition of an economic gain (the difference between the present values of the debt service payments on the old and new debt) of $324,679 for the year ended December 31, 2003.

Sewer Revenue Refunding Bonds, 2003A – On April 23, 2003, the County issued $96,470,000 in Sewer Revenue Bonds Series 2003A with an average interest rate of 4.88 percent to advance refund $87,460,000 of outstanding Water Quality Limited Tax General Obligation Serial Bonds (payable from sewer revenue) – 1995 (2006 – 2035 maturities) with an average interest rate of 6.10 percent. The net proceeds were used to purchase US government securities which were deposited with an escrow agent to provide for all future debt service payments on the 1995 (2006 – 2035 maturities) series bonds. As a result, the 1995 bonds are considered to be defeased and the liability for those bonds has been removed from the business-type column of the statement of net assets.

The reacquisition price exceeded the net carrying amount of the old debt by $10,217,787. This amount is being netted against the new debt and amortized over the new debt's life, which is

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 13 – CONTINUED

shorter than the refunded debt. This advance refunding was undertaken to reduce total debt service payments over the next 30 years by $10,241,386 and to obtain an economic gain (difference between the present values of the old and new debt service payment) of $5,309,450.

Refunded Bonds

King County has a total of 12 outstanding refunded and defeased bond issues of limited and unlimited tax general obligation bonds that were originally reported in the governmental and business-type activities of the statement of net assets. The payment of principal and interest on these bond issues is the responsibility of the escrow agent, the US Bank of Washington.

The following is a schedule of refunded bonds outstanding as of December 31, 2003.

	Governmental Activities	Business-type Activities
Limited Tax G.O. Refunded Bonds	$ 198,820,000	$ 239,450,000
Unlimited Tax G.O. Refunded Bonds	40,335,000	-
Totals	$ 239,155,000	$ 239,450,000

Future Borrowing Plans

During the first half of 2004 the County completed the sale of $185,000,000 of Sewer Revenue bonds to provide funding for the Wastewater capital program and $61,760,000 of Sewer Revenue Refunding bonds to refund 1999-2 bond issues. Also, it sold $110,000,000 of unlimited tax general obligation bonds to provide funding for seismic improvements to the Harborview Medical Center, and $49,695,000 of limited tax general obligation (public transportation sales tax) bonds to finance Transit Division's capital improvement program.

The County has identified the need to issue approximately $250 million of new limited tax general obligation bonds over the period of 2004 through 2008. The proceeds of these bonds are expected to provide funds to finance the Transit Division's capital improvement program ($50 million), the seismic retrofit of the King County Courthouse ($80 million), open space acquisitions ($25 million), the integrated security and jail health projects ($20 million), roads improvements ($20 million), improvements at the Harborview Medical Center ($50 million), and various other purposes. The $50 million of bonds expected to be issued on behalf of the Transit Division's improvement program will be additionally secured by the sales tax revenues dedicated to the Transit Division.

Later in 2004 the County plans to issue the remaining $54 million of the $193 million of unlimited tax general obligation bonds that were approved by voters to provide funding for the seismic improvements to the Harborview Medical Center.

For much of the balance of the decade the County will need to issue approximately $250 million of new debt annually to provide continuing funding for its Wastewater Treatment Division's capital improvement program. While most of this 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 of the Wastewater Treatment Division.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 14 – INTERFUND BALANCES AND TRANSFERS

Interfund Balances

Due from/to other funds and interfund short-term loans receivable and payable

Receivable Fund	Payable Fund	Amount
General Fund	Nonmajor Governmental Funds	$ 13,250,010
	Nonmajor Enterprise Funds	2,426,068
	Internal Service Funds	3,349,551
	Investment Trust Funds	5,531,183
	All Others [a]	65,916
Public Health Fund	Nonmajor Governmental Funds	1,125,650
	Nonmajor Enterprise Funds	118,537
	All Others [a]	16,025
Nonmajor Governmental Funds	General Fund	4,722,661
	Nonmajor Governmental Funds	27,283,991
	Public Transportation Fund	234,182
	Water Quality Fund	2,457,281
	Nonmajor Enterprise Funds	2,031,016
	Internal Service Funds	214,907
Public Transportation Fund	General Fund	314,228
	Nonmajor Governmental Funds	1,139,071
	All Others [a]	65,124
Water Quality Fund	Nonmajor Governmental Funds	566,430
	All Others [a]	67,312
Nonmajor Enterprise Funds	General Fund	149,485
	Nonmajor Governmental Funds	552,425
	Nonmajor Enterprise Funds	98,215
	All Others [a]	91,414
Internal Service Funds	General Fund	361,478
	Nonmajor Governmental Funds	1,213,982
	Public Transportation Fund	100,899
	Nonmajor Enterprise Funds	193,332
	Internal Service Funds	314,370
	All Others [a]	47,239
Total		$ 68,101,982

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.

Advances from/to other funds

Receivable Fund	Payable Fund	Amount
General Fund	Nonmajor Governmental Funds	$ 300,000
Public Transportation Fund	Nonmajor Governmental Funds	639,055
Total		$ 939,055

(a) Multiple fund types with account balances of less than $100,000 are aggregated into "All Others."

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 14 – CONTINUED

The advance of $300,000 from the General Fund to Nonmajor Governmental Funds was a loan made for the purpose of cash flow and is not scheduled to be repaid next year. The advance of $639,055 from the Public Transportation Fund to Nonmajor Governmental Funds was for the purpose of acquiring capital assets. $479,621 of the balance is not scheduled to be collected next year.

Due from/to primary government and component units

Receivable Entity	Payable Entity	Amount
Cultural Development Authority of King County	King County - Nonmajor Governmental Funds	$ 1,668,391

The Cultural Development Authority of King County (CDA) was established on January 1, 2003 (see Note 1, "Summary of Significant Accounting Policies"). As of December 31, 2003, amounts receivable and payable between the CDA and King County were $1,668,391. This amount was the total of funds due to the CDA from King County for capital projects and a share of hotel/motel tax revenues.

Interfund Transfers

Transfers Out	Transfers In	Amount
General Fund	Public Health Fund	$ 15,679,202
	Nonmajor Governmental Funds	19,255,090
	Internal Service Funds	1,384,997
Public Health Fund	All Others (a)	13,358
Nonmajor Governmental Funds	General Fund	662,800
	Nonmajor Governmental Funds	115,752,953
	Public Transportation Fund	796,430
	Water Quality Fund	517,919
	Nonmajor Enterprise Funds	394,073
	All Others (a)	90,372
Public Transportation Fund	General Fund	129,728
Water Quality Fund	Nonmajor Governmental Funds	3,000,000
	All Others (a)	11,429
Nonmajor Enterprise Funds	Nonmajor Governmental Funds	1,076,804
	All Others (a)	22,858
Internal Service Funds	General Fund	2,406,434
	Nonmajor Governmental Funds	832,053
	All Others (a)	93,370
Total transfers		$ 162,119,870

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 year ended December 31, 2003, the County made a one-time transfer of $2,654,000 from Internal Service Funds to reduce their working capital. Of the $2,654,000, $2,406,434 was transferred to the General Fund, $154,196 to Nonmajor Governmental Funds, and $93,370 to all other funds. The transfer amounts were based on participating funds' share of internal service usage in 2002.

(a) Multiple fund types with account balances of less than $100,000 are aggregated into "All Others."

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

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

$ 263,644,732	Public Transportation Enterprise restricted for future construction projects ($238,318,431) and debt service ($25,326,301).
78,383,158	Water Quality Enterprise restricted for debt service ($73,233,101) and litigation settlements ($5,150,057).
17,133,585	King County International Airport Enterprise restricted for future construction projects.
1,300,385	Radio Communications Enterprise restricted for construction.
198,280	Sewer Utility Enterprise bond restrictions.
$ 360,660,140	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 represent tentative plans (including those plans prescribed by local ordinance) for future use of financial resources.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 15 – CONTINUED

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

Reserved Fund Balances

	General Fund	Public Health Fund	Nonmajor Special Revenue	Nonmajor Debt Service	Nonmajor Capital Projects
Reserved for:					
Inventory	$ -	$ 1,904,264	$ -	$ -	$ -
Prepayments	21,116	-	4,084,689	-	-
Encumbrances	4,930,337	1,250,866	21,503,223	-	71,566,727
Advances to other funds	300,000	-	-	-	-
Animal services	392,096	-	-	-	-
Crime victim compensation program	1,099,902	-	-	-	-
Drug enforcement program	144,028	-	-	-	-
Antiprofiteering program	393,199	-	-	-	-
Dispute resolution centers	113,896	-	-	-	-
Inmate welfare	540,610	-	-	-	-
Laptop replacement	542,059	-	-	-	-
Real property title assurance	25,152	-	-	-	-
Managed care risk pool	-	500,000	-	-	-
Training and equipment for Medic One	-	280,382	-	-	-
Youth sports facilities grant endowment	-	-	646,257	-	-
PFD stadium bond debt service	-	-	-	10,667,979	-
PFD stadium bond debt service - escrow	-	-	-	9,274,063	-
Total reserved fund balances	$ 8,502,395	$ 3,935,512	$ 26,234,169	$ 19,942,042	$ 71,566,727

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.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 15 – CONTINUED

Reserved for animal services – segregates a portion of fund balance to indicate that resources are legally 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.

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.

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.

Reserved for inmate welfare – segregates a portion of fund balance to indicate that resources are legally 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 legally 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 managed care risk pool – Seattle-King County Department of Public Health is affiliated with Blue Cross/Carenet and the Community Health Plan of Washington (CHPW) in order to provide care to approximately 8,000 Healthy Options Managed Medicaid enrollees. For CHPW enrollees, the Health Department shares a portion of the risk for the continuum of care to those individuals and families. In addition to the risk of providing primary care within a fixed capitation (a fixed payment per enrollee per month, independent of the primary care utilization), the Health Department is also at risk for provision of specialty services and hospital care. Specifically, the Health Department is responsible for a portion of losses not covered by the specialty and hospital pools held by the plans or by reinsurance for extraordinary costs. In order to plan for those potential losses, maintenance of a risk reserve pool is required.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 15 – CONTINUED

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, and 2002 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 and 1997C taxable Baseball Stadium bond issues.

Designated Fund Balances

	General Fund	Public Health Fund	Nonmajor Special Revenue	Nonmajor Capital Projects
Designated for:				
Equipment replacement	$ -	$ -	$ 3,192,380	$ -
Capital projects	3,176,234	-	225,418	-
FEMA match	-	-	119,607	-
Insurance/inpatient	-	-	2,725,581	-
Reappropriation	399,000	939,894	155,000	-
Net unrealized gains	1,119,116	-	225,909	175,936
Contingencies	15,000,000	-	-	-
Children and family services program	131,700	-	-	-
Total designated fund balances	$ 19,826,050	$ 939,894	$ 6,643,895	$ 175,936

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 balances in the General and Special Revenue Funds 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 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.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 15 – CONTINUED

Designated for insurance/inpatient – sets aside funds used to cover inpatient adjustments, outpatient tier benefits and closeout expenditures if the King County Regional Services Network (KCRSN) becomes insolvent. The KCRSN is funded primarily by capitated payment and consolidated revenues. The capitated revenue for Prepaid Health Plan (PHP) services is based on the number of Medicaid recipients in King County. The consolidated revenues are expended for the PHP services for adults and children, as well as other services required to support 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 net unrealized gains – segregates the portion of fund balance representing unrealized gains on investment holdings. GASB Statement No. 31 now requires governments to report investments at fair values and to charge investment income for the change in fair value of investments at the end of the year.

Designated for contingencies – 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, 2003:

Information and Telecommunication Services Fund – Data Processing Subfund – $525,000 for the replacement of electronic data processing equipment.

Information and Telecommunications Services Fund – Telecommunications Subfund – $1,640,302 for the replacement of telecommunications equipment.

Insurance Fund – $14,886,454 for catastrophic losses. The catastrophic loss reserve will be used to respond to large, non-recurring losses exceeding $1 million per incident.

Motor Pool Equipment Rental Fund – $8,271,622 for the replacement of rental equipment.

Printing/Graphic Arts Services Fund – $150,000 for the replacement of printing equipment.

Public Works Equipment Rental Fund – $9,492,214 for the replacement of rental equipment.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 15 – CONTINUED

Wastewater Equipment Rental Fund – $4,507,644 for the replacement of rental equipment.

Restatements of Beginning Balances

Arts and Cultural Development Fund – Programs previously administered by the Office of Cultural Resources within County operations are now the responsibility of the Cultural Development Authority of King County (CDA), a discretely presented component unit of the County. As part of the agreement, King County transferred the 2002 fund balance and related assets and liabilities of the Arts and Cultural Development Fund in the amount of $9,201,744 to the CDA effective January 1, 2003. Beginning in 2003, the Arts and Cultural Development Fund began serving as the clearing fund through which the county will transfer revenues to the CDA.

Clark Contract Administration Fund – The Clark Contract Administration Fund had two adjustments to its January 1, 2003, fund balance: 1) an adjustment for unreported prior period expenditures in the amount of $739,000; and 2) an adjustment for unreported prior period unrealized gains on investments in the amount of $243,214.

Logan/Knox Settlement Fund – In 2002 the Logan/Knox Settlement Fund paid the employee contribution portion of the PERS liability through an expenditure account. The fund was established to receive and pay the employee PERS contribution portion through a receivable account. A prior period expenditure adjustment in the amount of $588,069 was recorded to correct the accounts receivable and fund balance of the Logan/Knox Settlement Fund.

Government-wide Governmental Activities – Certain land acquired in prior years was not reported in 2002 resulting in the understatement of the ending 2002 Governmental Activity land and Government-wide Governmental Activities net assets. A restatement of 2003 beginning land and net assets in the amount of $8.8 million corrects this error.

	Governmental Activities	Nonmajor Special Revenue Funds	Arts and Cultural Development Fund	Clark Contract Administration Fund	Logan/Knox Settlement Fund
Net Assets/Fund Balance - December 31, 2002	$ 1,033,913,979	$ 88,411,793	$ 9,201,744	$ 961,650	$ 1,459,782
Transfer to the newly created CDA					
Transfer of cash	(9,201,744)	(9,201,744)	(9,201,744)	-	-
Transfer of outstanding debt	6,025,432	-	-	-	-
Prior period expenditures	(150,931)	(150,931)	-	(739,000)	588,069
Prior period unrealized gain on investments	243,214	243,214	-	243,214	-
Prior period capital asset acquisitions	8,796,978	-	-	-	-
Net Assets/Fund Balance - January 1, 2003 (Restated)	$ 1,039,626,928	$ 79,302,332	$ -0-	$ 465,864	$ 2,047,851

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 15 – CONTINUED

Component Unit – Harborview Medical Center (HMC)

Restricted Net Assets

Restricted expendable net assets – The $47,566,939 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 $520,963 consists of permanent endowments by donors.

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

Beginning Net Assets

Programs previously administered by the Office of Cultural Resources within County operations are now the responsibility of the Cultural Development Authority of King County (CDA). As part of the agreement, King County transferred the 2002 fund balance and related assets and liabilities of the Arts and Cultural Development Fund to the CDA effective January 1, 2003. Beginning in 2003, the Arts and Cultural Development Fund began serving as the clearing fund through which the county will transfer revenues to the CDA.

	Component Unit Total	Cultural Development Authority
Net Assets – December 31, 2002	$ 866,410,752	$ -
Cash transferred from King County Arts & Cultural Development Fund	9,201,744	9,201,744
Bonds payable transferred to CDA	(6,025,432)	(6,025,432)
Net Assets – January 1, 2003	$ 869,587,064	$ 3,176,312

Restricted Net Assets

Restricted expendable net assets – $5,985,115 is restricted by RCW and King County ordinance for use for arts and heritage cultural program awards according to a specified formula.

Restricted nonexpendable net assets – $6,088,666 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.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 16 – LEGAL MATTERS/CONTINGENT LIABILITIES

Primary Government

Any liability from litigation currently pending or probable of assertion against King County and in which, to our knowledge, the likelihood of an unfavorable outcome with material damages (in excess of $500,000) assessed against King County is probable, has been accrued in the financial statements.

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

- A lawsuit for injuries allegedly suffered by the plaintiffs due to toxic mold exposure in a rental house that the plaintiffs occupied. The lawsuit alleges negligence on the part of the County for failure to condemn the property and seeks damages of $20.1 million.
- A contract claim for $2.3 million by a contractor who remodeled the terminal building at the King County International Airport. The claimant alleges additional costs for extra work, overhead, productivity loss, and lost profit were due to County-caused delays and defective plans and specifications.
- A request for equitable contract adjustments submitted by two contractors who worked on remediation of contaminated soils on a Duwamish River site. The contractors claim additional work and delays in excess of $700,000. The County is still reviewing this claim and there is a reasonable chance, after the review, that this matter will be deemed remote.
- A lawsuit filed by the prime contractor (by substitution) on the Alki Transfer/CSO project contract alleging $1 million in claims for adjustments to the contract sums. This similar claim was originally filed by a subcontractor on the same project but was unsuccessful.
- A lawsuit filed with the King County Superior Court by a group of part-time transit operators seeking backpay, prejudgment interest, double damages, and attorneys' fees. Plaintiffs allege they were denied certain employment benefits. This is the plaintiffs' second lawsuit filed after their claim for damages under the Logan vs. King County settlement agreement was denied.
- A pending settlement, subject to approval by the principals of each party, arising from a court-ordered mediation of a lawsuit against King County and the City of Bellevue. In the lawsuit plaintiffs sought declaratory and injunctive relief for alleged violations of the Federal Clean Water Act, the Solid Waste Disposal Act, and the Endangered Species Act arising from sediment erosion in Coal Creek Park
- A class action lawsuit alleging violation of the Washington Industrial Welfare Act regarding the provision of paid lunch breaks for certain employees of the Department of Adult and Juvenile Detention. Plaintiffs seek backpay, double damages, prejudgment interest, attorneys' fees, and declaratory relief.
- A contract claim by a contractor who worked in the Denny Way/Lake Union CSO Control project and who claimed additional costs after encountering differing site conditions underground, settlement of a water main, and a large sinkhole. The County has issued a change order to the contractor in the amount of $641,408 for the differing site conditions

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 16 – CONTINUED

and seeks reimbursement from the city for 40 percent of this cost and those costs associated with the other items encountered.

- A lawsuit by a property owner contesting the current land use designation of the property under the King County Comprehensive Plan. Plaintiffs claim that the property should not be designated as agricultural resource land since the surrounding property is predominantly light industrial and this would inversely condemn the property. A settlement has been reached contingent on obtaining King County Council approval.
- A lawsuit filed by a major solid waste hauler alleging: (1) improper increase in the regional direct rate charged for disposal of garbage at the Cedar Hills landfill; (2) violation of the State Accountancy Act related to rent being paid by the Solid Waste Division to the General Fund for the use of the Cedar Hills landfill site; and (3) the lack of interlocal agreements between counties permits the hauler to transport solid waste directly to landfills outside the County.
- A class action lawsuit challenging the legality of the permit review fees assessed by the County's Department of Development and Environmental Services (DDES). Plaintiffs seek declaratory and injunctive relief and a refund of fees that plaintiffs were allegedly overcharged.

Contingent Liabilities

King County has entered into several contingent loan agreements totaling $51.2 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 KCHA. All projects are currently self-supporting and the County has made no loans pursuant to these agreements.

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, however, 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 significant repayments of patient services previously billed. HMC believes that it complies with the fraud and abuse regulations, as well as 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 complete condition assessment of the County's roads was done during the period 1999 through 2001 and the results are summarized below.

Condition ratings	Length (miles)	%
Arterial roads		
Excellent to good	451.08	83.05
Fair	44.46	8.19
Poor to substandard	47.55	8.76
Total	543.09	100.00
Local access roads		
Excellent to good	1,031.14	80.01
Fair	132.27	10.26
Poor to substandard	125.47	9.73
Total	1,288.88	100.00

It is the policy of the King County Roads 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	Length (miles)	%
Arterial roads		
PCI 40 - 100	477.65	87.95
PCI 0 - 39	65.44	12.05
Total	543.09	100.00
Local access roads		
PCI 40 – 100	1,108.24	85.99
PCI 0 - 39	180.64	14.01
Total	1,288.88	100.00

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 1999 to 2003. The budgeted amount is equivalent to the anticipated amount needed to maintain roads up to the required condition level.

	(amounts in millions)				
	2003	2002	2001	2000	1999
Budgeted	$ 38.83	$ 37.04	$ 34.47	$ 31.48	$ 28.19
Expended	34.59	34.95	34.39	32.02	27.35

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

Bridges

King County currently maintains 181 bridges. Physical inspections to determine the condition of the bridge 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 inspections report along with recommended repairs and needed services.

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 is a summary of bridge sufficiency ratings measured during 2002.

Bridge sufficiency rating	Number of bridges
0 - 20	10
21 - 30	7
31 - 49	16
50 - 100	148
Total	181

It is the policy of the King County Roads 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. As of December 31, 2003, there were 10 bridges with a sufficiency rating of 20 or below.

Amounts budgeted and spent to maintain and preserve bridges from 1999-2003 are shown in the following table.

	(amounts in millions)				
	2003	2002	2001	2000	1999
Budgeted	$ 3.81	$ 4.21	$ 4.28	$ 3.87	$ 3.04
Expended	3.35	3.83	3.78	2.09	2.39

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