

**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.

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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

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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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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

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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

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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 health 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.

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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

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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.

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- 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.

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NOTE 1 – CONTINUEDAnalysis 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	<u>\$ 7,417,037</u>	<u>\$ 2,610,088</u>	<u>\$ 18,957,409</u>	<u>\$ 28,984,534</u>
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	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 614,096</u>	<u>\$ 614,096</u>
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	<u>\$ 26,888,097</u>	<u>\$ 24,070,815</u>	<u>\$ 42,587,349</u>	<u>\$ 93,546,261</u>

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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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 150.105, 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

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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:

<u>Description</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
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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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:

<u>Description</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
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
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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.