

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004**

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

\$ 171,320,518	Public Transportation Enterprise restricted for future construction projects (\$165,029,570) and debt service (\$6,290,948).
95,437,565	Water Quality Enterprise restricted for debt service (\$94,072,864) and litigation settlements (\$1,364,701).
14,609,951	King County International Airport Enterprise restricted for future construction projects.
1,533,865	Radio Communications Enterprise restricted for construction.
<u>202,503</u>	Sewer Utility Enterprise bond restrictions.
<u>\$ 283,104,402</u>	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.

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

Reserved Fund Balances

	<u>General Fund</u>	<u>Public Health Fund</u>	<u>Nonmajor</u>		
			<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>
Reserved for:					
Inventory	\$ -	\$ 1,923,561	\$ -	\$ -	\$ -
Prepayments	-	-	4,078,507	-	-
Encumbrances	5,100,011	1,278,450	22,271,088	-	61,479,139
Advances to other funds	300,000	-	-	-	-
Animal services	401,636	-	-	-	-
Crime victim compensation program	717,003	-	-	-	-
Drug enforcement program	38,921	-	-	-	-
Antiprofitereing program	393,047	-	-	-	-
Dispute resolution centers	95,820	-	-	-	-
Inmate welfare	432,734	-	-	-	-
Laptop replacement	310,300	-	-	-	-
Real property title assurance	25,152	-	-	-	-
Training and equipment for Medic One	-	401,427	-	-	-
Youth sports facilities grant endowment	-	-	661,306	-	-
PFD stadium bond debt service	-	-	-	12,783,104	-
PFD stadium bond debt service - escrow	-	-	-	3,004,384	-
Traffic mitigation	-	-	-	-	3,075,303
Total reserved fund balances	<u>\$ 7,814,624</u>	<u>\$ 3,603,438</u>	<u>\$ 27,010,901</u>	<u>\$ 15,787,488</u>	<u>\$ 64,554,442</u>

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.

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

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

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

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

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

Designated Fund Balances

	<u>General Fund</u>	<u>Public Health Fund</u>	<u>Nonmajor Special Revenue</u>
Designated for:			
Equipment replacement	\$ -	\$ -	\$ 3,431,864
Capital projects	2,536,115	-	-
Claims and judgments	-	1,890,661	-
Environmental health services	-	3,204,358	-
FEMA match	-	-	130,607
Insurance/inpatient	-	-	2,746,988
Reappropriation	1,452,433	2,230	1,783,600
Contingencies	15,057,616	-	2,758,950
Children and family services program	<u>2,376,274</u>	<u>-</u>	<u>-</u>
Total designated fund balances	<u>\$ 21,422,438</u>	<u>\$ 5,097,249</u>	<u>\$ 10,852,009</u>

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

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

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

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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 contingencies – In the General Fund, this account segregates a portion of fund balance to indicate that resources have been earmarked by county ordinance for the following: (1) maintenance of essential county services in the event that General Fund revenue collections in a given fiscal year are less than 97 percent of adopted estimated revenues; (2) payment of legal settlements relating to the collection of past General Fund revenues; (3) payment of catastrophic losses in excess of the Insurance Fund reserve and all other fund balances; and (4) requests for priority capital maintenance projects if and when the contingencies reserve exceeds \$15 million. In the Department of Development and Environmental Services (DDES) Fund, this account sets aside revenues for permit fee supported areas of DDES in the following categories: (1) Reserve for Staff Reductions; (2) Revenue Shortfall Reserve (amount to cover a 15% fee revenue shortfall for three months at the budgeted level for fee revenue); and (3) Reserve for Fee Waivers and other Unanticipated Costs.

Designated for 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, 2004:

DES Equipment Replacement Fund – \$558,240 for the replacement of personal computers.

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 – \$1,191,660 for the replacement of telecommunications equipment.

Insurance Fund – \$12,371,197 for catastrophic losses. The catastrophic loss reserve will be used to respond to large, nonrecurring losses exceeding \$1 million per incident.

King County Geographic Information Service (GIS) Fund – \$85,120 for the replacement of GIS equipment.

Motor Pool Equipment Rental Fund – \$7,482,531 for the replacement of rental equipment.

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Public Works Equipment Rental Fund – \$10,804,559 for the replacement of rental equipment.

Wastewater Equipment Rental Fund – \$4,769,092 for the replacement of rental equipment.

Restatements of Beginning Balances

Public Health Fund – Motor Vehicle Excise Tax receipts of \$4,744,637 were previously mistakenly reported as deferred revenues. The receipts should have been reported as revenues when received in 2001. This prior period adjustment eliminates the deferred revenues and increases the Public Health Fund's beginning fund balance.

County Road – In a prior year, the County Road Fund accrued Federal Emergency Management Agency (FEMA) grant revenues. When the grant proceeds were received revenue was mistakenly recognized for the second time and the receivable was not liquidated. This prior period adjustment eliminates the grant receivable and decreases the County Road Fund's beginning fund balance.

	<u>Governmental Activities</u>	<u>Public Health Fund</u>	<u>Nonmajor Special Revenue Funds</u>	<u>County Road Fund</u>
Net Assets/Fund Balance - December 31, 2003	\$ 1,220,660,797	\$ 8,947,411	\$ 99,130,641	\$ (317,032)
Prior period revenues	<u>3,258,154</u>	<u>4,744,637</u>	<u>(1,486,483)</u>	<u>(1,486,483)</u>
Net Assets/Fund Balance - January 1, 2004 (Restated)	<u>\$ 1,223,918,951</u>	<u>\$ 13,692,048</u>	<u>\$ 97,644,158</u>	<u>\$ (1,803,515)</u>

Component Unit – Harborview Medical Center (HMC)**Restricted Net Assets**

Restricted expendable net assets – The \$151,887,932 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 \$745,529 consists of permanent endowments by donors.

Component Unit – Cultural Development Authority of King County (CDA)**Restatement of Beginning Net Assets**

At December 31, 2003, King County reported total net assets for the CDA, a component unit of King County, of \$6,658,822. The CDA reported, on their statements, total net assets of \$6,595,211, a difference of \$63,611. On the CDA's books, this decrease in net assets was due to a change in the expense allocation method resulting in fewer administration expenses charged for the One Percent for Arts Program.

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	Component Unit Total	Cultural Development Authority
Net Assets – December 31, 2003	\$ 872,236,157	\$ 6,658,822
Prior period expenditures	<u>(63,611)</u>	<u>(63,611)</u>
Net Assets – January 1, 2004 (Restated)	<u>\$ 872,172,546</u>	<u>\$ 6,595,211</u>

Restricted Net Assets

Restricted expendable net assets – \$7,537,608 is restricted by RCW 67.28.180.3 and King County ordinance for use for arts and heritage cultural program awards according to a specified formula.

Restricted nonexpendable net assets – \$8,576,298 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.