

NOTE 3 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**Bases of Budgeting**

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

Twenty-four Special Revenue Funds have annual budgets with budgeting methods identical to the General Fund. 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 2005 and will be closed in 2006 (this fund had balances of less than one thousand dollars in 2005).

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

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

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

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

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

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

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

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

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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 2005 no judgment and claim settlement recognition was deferred to a future period on the budgetary basis due to insufficient appropriations in 2005.

The Trust and Agency Funds are not budgeted.

Encumbrances

Encumbrances outstanding as of December 31, 2005, are shown in the following schedule by fund type (in thousands):

General Fund	\$ 7,545
Public Health Fund	779
Special Revenue Funds	22,622
Capital Projects Funds	46,147
Enterprise Funds	3,898
Internal Service Funds	<u>1,688</u>
Total All Funds	<u>\$ 82,679</u>

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 2005. For those statements and schedules in which budget comparisons are presented, the legally adopted budget is compared with actual data on the budgetary basis rather than the GAAP basis. Budget to actual statements and schedules of the governmental funds include an explanation of the differences between the two bases. All statements that do not have budget comparisons are prepared on the GAAP basis.

Budgeted Level of Expenditures

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

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

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

Expenditures including Other Financing Uses, in Excess of Amounts Legally Authorized**Funds with Multi-year Budgets**

Sixty-six capital projects in twenty-two Capital Projects and Enterprise Funds with multi-year budgets have a combined total of \$6.4 million of expenditures in excess of budget. These deficits are expected to be corrected by additional appropriations in 2006.

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 – The deficit of \$10.7 million is the result of temporary short-term financing of critical governmental building construction through the issuance of bond anticipation notes which will eventually be retired with general obligation bonds. When the bonds are issued, the fund balance deficit will be eliminated.

Construction and Facilities Management Fund – The deficit of \$256 thousand is an improvement over the 2004 year end deficit of \$1.3 million and reflects the first of a multi-year plan to eliminate the deficit and achieve working capital financial targets for the fund. The County plans to eliminate the deficit position by year-end 2006.

King County Geographic Information Systems Fund – The deficit of \$7 thousand was the result of geographic information system (GIS) fund rates being set too low in both 2004 and 2005 to generate revenue sufficient to cover budgeted expenditures. In addition, unanticipated expenses in 2005, related primarily to class/comp and settlement agreements, further reduced the GIS fund cash balance. Rates were increased for the 2006 budget, which should generate sufficient net revenue to eliminate the deficit.

Open Space Projects Acquisition and Improvement – The deficit of \$24.6 million is the result of temporary short-term financing of critical open space acquisitions through the issuance of bond anticipation notes which will eventually be retired with general obligation bonds. When the bonds are issued, the fund balance deficit will be eliminated.

Printing/Graphic Arts Services Fund – The deficit of \$575 thousand is the result of a decline in printing and graphics internal revenue and increases in operating costs related to opening a satellite printing operation in 2005. Per the 2006 Council proviso, the fund will develop a business plan to assess the most effective way to provide printing and graphic arts services to King County agencies. The deficit will be eliminated over a period of time by implementing a multi-year strategy based on the defined business plan.

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Road Improvement Districts Construction – The deficit of \$29 thousand is the result of using short-term debt to finance the various projects of the road improvement districts. As capital projects are completed, short-term debt is replaced by long-term bonds thereby eliminating the deficit.

Safety and Workers' Compensation Fund – The deficit of \$44.3 million is the result of losses in several of the last ten years and the change of the method in 2004 for estimating workers' compensation claim liabilities from using primarily the case reserves to an actuarially developed liabilities estimate. The change resulted in a large increase in the reported liabilities and related expenses in 2004. A funding plan is being developed to build the assets to equal the liabilities over a number of years.

Transfer of Development Credit Program Fund – The deficit of \$984 thousand is the result of spending financed by short-term borrowing which will eventually be reimbursed by contributions from the Conservation Futures Levy Fund.