Washington State Auditor's Office

Financial Statements Audit Report

King County

Audit Period
January 1, 2012 through December 31, 2012

Report No. 1010032

Issue Date
July 1, 2013

WASHINGTON
TROY KELLEY
STATE AUDITOR

Washington State Auditor
Troy Kelley

July 1, 2013

Council and Executive
King County
Seattle, Washington

Report on Financial Statements

Please find attached our report on King County's financial statements.

We are issuing this report in order to provide information on the County's financial condition.

Sincerely,

TROY KELLEY
STATE AUDITOR

Insurance Building, P.O. Box 40021 • Olympia, Washington 98504-0021 • (360) 902-0370 • TDD Relay (800) 833-6388

Table of Contents

King County
January 1, 2012 through December 31, 2012

Schedule of Audit Findings and Responses

King County
January 1, 2012 through December 31, 2012

1. King County lacks adequate internal controls to ensure accurate financial reporting for the Public Health Fund.

Background

It is the responsibility of County management to design and follow internal controls that provide reasonable assurance regarding the reliability of financial reporting.

Our audit identified a material weakness in controls that adversely affects the County's ability to produce reliable financial statements. We reported a related concern in our recent accountability audit report.

Description of Condition

The Department of Public Health's (DPH) current accounting practices do not provide an accurate reporting of its financial position in accordance with Generally Accepted Accounting Principles (GAAP). The Public Health opinion unit reported assets totaling $42 million and revenue totaling $174.6 million. During our review we noted the following material weaknesses:

- The County relies on the departmental staff to properly account for financial activities with minimal oversight. Some employees from DPH lack an understanding of accounting principles and the relationships between the financial statements.

- The County's financial statements should be supported by underlying accounting records and relevant supporting documents. During our audit, DPH had difficulty providing documentation to demonstrate the appropriateness of the accounting treatment.

- The County does not have adequate processes to ensure it properly classifies net assets. The County failed to accurately classify net assets, as required by accounting standards. This error was also noted in our prior audit.

- During our review of accounts receivable and revenue with DPH staff, management asserted a reconciliation of receipts to the general ledger is performed monthly. Subsequently, we were notified the controls were actually not performed in 2012. The Accounts Receivable Supervisor stated the department did not have a formal reconciliation during 2012 due to the software conversion and lack of report availability during the first half of 2012.

- DPH accounting staff, responsible for accounts receivable, do not have adequate knowledge of the accounts receivable systems in the department, specifically side systems that do not automatically interface with the general ledger. These systems are not set up to ensure compliance with County policies or GAAP. We became aware of some of these systems during our accountability audit. The County was unable to readily provide a complete listing of DPH side systems. If the County is not aware of the side systems used, it cannot ensure it properly accounts for the associated receivables and revenue in the financial statements.

- As a result of our recent accountability report, the County attempted to accrue the DPH clinics' accounts receivable in a financial system called Signature. At year-end the system balance was $13 million. The County accrued approximately $469,000. The County was unable to provide support to demonstrate the appropriateness of the accrual or the criteria applied. The Signature system aged trial balance shows total charges of $62 million and total payments collected of $32 million; this would indicate a collection rate of approximately 53 percent. This should result in an accrual of approximately $6.9 million to the accounts receivable reported in the financial statements.

- Transactions reporting activity between the Public Health Fund and other funds were not accounted for in accordance with GAAP.

- DPH inappropriately accrued revenue and accounts receivable for programs for which the grantor has suspended reimbursements.

Cause of Condition

DPH has not dedicated sufficient resources, such as staff with sufficient skills, experience and time, to ensure its financial information is accurate and compliant with GAAP requirements. Further, there is not sufficient monitoring and review of the accounting transactions to ensure appropriate accounting treatment.

County management did not ensure accurate, timely reports were made available when it implemented a new general ledger and accounts receivable module during the first half of 2012.

DPH management does not consider the side systems to be significant and has not made management and monitoring staff over these systems a priority.

Effect of Condition

The County cannot ensure all accounts receivable and revenue for the Department of Public Health are reported. We identified the following errors in the Public Health opinion unit. These errors had a material impact on the opinion unit:

- Accounts receivable balance is understated approximately $7.4 million dollars. Subsequently, the County corrected the $6.4 million understatement associated with the accrual of the Signature system.

- The Due from Other Governments balance is overstated $3.5 million.

- The Due from Other Funds balance is overstated $922,000.

- The Inter-Governmental Revenue balance is overstated $3.5 million.
- The Due to Other Funds balance is overstated $3.1 million.
- The Inter-Fund Short-Term Loans Payable balance is understated $3.1 million.
- The Miscellaneous Revenue balance is overstated approximately $3.5 million.
- The Mental and Physical Health Expenditures balance is overstated approximately $3.5 million.
- The Charges for Services Revenue balance is understated approximately $6.4 million. Subsequently, the County corrected this error.
- The Restricted Fund balance is overstated $4,050,000 on the Balance Sheet. It should be reported as Assigned Fund balance in accordance with Governmental Accounting Standards Board Statement No. 54.

Some of the errors noted impact the amounts reported for other opinion units. However, these errors did not have a material impact on those units.

Recommendation

We recommend County management:

- Dedicate the time and resources necessary, such as providing staff training, to ensure its employees responsible for preparing and reviewing the financial statements are knowledgeable of GAAP reporting requirements.
- Perform a sufficient level review of DPH activities to ensure compliance with GAAP.
- Identify all side systems and implement internal controls to ensure system activities are captured in the general ledger as appropriate.
- Ensure accurate, timely reports are available to staff to ensure accounts receivables and revenues are recorded correctly.
- Ensure DPH reconciles its receivables to the accounts receivable module and general ledger monthly to ensure complete and accurate reporting.
- Ensure DPH recognizes revenue when earned and receivables when collectible in accordance with accounting principles.

County's Response

We appreciate the work of the auditor and agree that internal controls for financial reporting should continue to be strengthened. In January 2012, the County replaced its two older financial systems with a single integrated financial system. The new system enabled the County to improve the timeliness and accuracy of the financial reporting *process and provide the auditor with complete trial balances timely for the 2012 CAFR audit. The County continues to review and revise policies and procedures and improve business processes in the new system.*

The Finance and Business Operations Division (FBOD) will work with the Department of Public Health (DPH) to develop a more formal review process of accounting journal entries and account balances to ensure compliance with GAAP. FBOD and DPH will work to document roles/responsibilities between the two agencies and address the areas of concern in the new financial system and in DPH side systems as well as in reporting.

In response to the specific procedural issues and errors that were identified, we have the following comments:

- *Accurate, timely EBS reports became available to staff to review in December 2012. The County continues to provide the new financial system and reporting training to employees.*
- *FBOD staff reconciles receivables from the EBS Accounts Receivable Module to EBS General Ledger monthly. The receivables variance between these two modules for DPH was $350 at December 31, 2012.*
- *FBOD and DPH staff will assess the risk of side systems and their impact on the CAFR and adopt reconciliation processes.*

The following table summarizes the impact of the specific items noted by the auditor which the County believes, when taken in totality, have no material effect on the Public Health fund's representation in the financial statements.

Financial Statement Element	Effect of Condition	Net Effect on Financial Statements	Actions & Comments
Current Assets Accounts Receivable	Accounts receivable is understated $1 million, after adjustment	Minimal effect 0.2% on financial statements	DPH will work with FBOD to arrive at a mutually agreed upon accrual methodology for patient generated revenue on the 2013 CAFR.
	Due from other funds balance is overstated $922,000		
	Due from other governments is overstated $3.5 million (related to intergovernmental revenue, below)	DPH believes payment for this receivable is forthcoming in 2013 from the Center for Medicare and Medicaid Services (CMS)	DPH continues to work collaboratively with the Washington State Health Care Authority (HCA) and Local Health Jurisdictions across the state to effect payment of the receivable from CMS. CMS reaffirmed their intent to pay this receivable in a letter to HCA dated 6/14/2013, following HCA's completion of additional administrative requirements.

Financial Statement Element	Effect of Condition	Net Effect on Financial Statements	Actions & Comments
Current Liabilities Accounts Payable	Due to Other Funds is overstated $3.1 million	No net impact	DPH and FBOD will work more closely together in 2013 to ensure mutual understanding of roles and responsibilities surrounding year-end processes in the County's new general ledger system. FBOD has hired an additional resource to better document year-end processes requiring agency input in preparation for 2013 year-end.
	Short term loans payable is understated by $3.1 million		
Revenues & Expenditures	Intergovernmental revenues balance is overstated $3.5 million (Due from other governments, above, is related to the same transaction)	DPH believes payment for this receivable is forthcoming in 2013 from the Center for Medicare and Medicaid Services (CMS)	DPH continues to work collaboratively with the Washington State Health Care Authority (HCA) and Local Health Jurisdictions across the state to effect payment of the receivable from CMS. CMS reaffirmed their intent to pay this receivable in a letter to HCA dated 6/14/2013, following HCA's completion of additional administrative requirements.
	Miscellaneous revenue balance is overstated by $3.5 million	These two items offset each other resulting in no net impact	DPH and FBOD will work more closely together in 2013 to ensure mutual understanding of roles and responsibilities surrounding year-end processes in the County's new general ledger system. FBOD has hired an additional resource to better document year-end processes requiring agency input in preparation for 2013 year-end.
	Mental and Physical Health expenditures balance is overstated by $3.5 million		
Fund Balance	Restricted Fund Balance is overstated $4,050,000 on the Balance Sheet. It should be reported as Assigned Fund Balance.	No fund balance impact	The County concurs with the reclassification. FBOD will provide further staff training on this subject and implement a process to better review fund balance classification.

Auditor's Remarks

We thank the County for its cooperation and assistance during the audit and look forward to reviewing the County's corrective action during our next audit.

Applicable Laws and Regulations

RCW 43.09.200 states in part:

> The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform

> for every public institution, and every public office, and every public account of the same class.

Budget Accounting and Reporting System (BARS) Manual - Part 3, Accounting, Chapter 1, Accounting Principles and General Procedures, Section B, Internal Control, states:

> Internal control is a management process for keeping an entity on course in achieving its business objectives, as adopted by the governing body. This management control system should ensure that resources are guarded against waste, loss and misuse; that reliable data is obtained, maintained, and fairly disclosed in financial statement and other reports; and resource use is consistent with laws, regulations and policies.
>
> Each entity is responsible for establishing and maintaining an effective system of internal control throughout their government.

Government Auditing Standards, July 2007 Revision – Section 5.11 provides that auditors should report material weaknesses and significant deficiencies in internal control.

> The American Institute of Certified Public Accountants, Statement on Auditing Standards No. 115 defines significant deficiencies and material weaknesses as follows:
>
> > a. Significant deficiency: A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.
> >
> > b. Material weakness: A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Schedule of Audit Findings and Responses

King County
January 1, 2012 through December 31, 2012

2. King County does not have adequate internal controls to ensure accurate accounting and financial reporting in the Public Transportation Enterprise fund.

Background

It is the responsibility of County management to design and follow effective internal controls to provide reasonable assurance regarding the reliability of financial reporting.

The County's financial statements include the Public Transportation Enterprise Fund, which was audited by a certified public accounting (CPA) firm. Our audit of the County's financial statements relies on the CPA firm's audit of the fund.

Description of Condition

The CPA firm's audit identified the following significant deficiency in internal controls:

Their testing of various accounts noted errors that would be expected to be identified and resolved as part of management's review of the month-end reconciliations or through their analysis of the year-end account balance. The existing processes and controls need improvement in the following areas:

- Recording revenue in the correct period.
- Review of reconciliations for revenue.
- Unbilled receivables.
- Grant revenue.
- Capital assets.
- Construction Work In Progress.

Internal controls for recording, reviewing and monitoring account balances should be established to make sure transactions throughout the year and at year-end close are accurate.

Cause of Condition

The CPA firm identified a lack of sufficient level of review and monitoring of key transactions throughout the year and at the year-end close.

Effect of Condition

The following were noted during the CPA Firm's audit of the fund financial statements and were attributed to the deficiency in internal controls:

- *New Revenue Sources* – Several errors were noted related to new or expanded revenue sources where a thorough analysis of the revenue source, timing of receipts and nature of services provided was not sufficiently completed and amounts were initially recorded to the incorrect period. This resulted in several audit adjustments to revenue accounts.

- *ORCA revenue and Due to Fiscal Agent accounts* – Several recorded adjustments and proposed adjustments were noted related to the recognition of pass sales and reconciliation of amounts collected and earned with settlement amounts reported by the third party processor of ORCA activity.

- *Unbilled receivables and grant revenue* – There is not a reconciliation or formal analysis of unbilled receivables and, as of April 2013, numerous grant projects had not been billed for grant work that had been completed in 2012.

- *Capital asset rollforward and reconciliations* – Numerous versions of the capital asset rollforward and reconciliations were received subsequent to year-end and throughout the audit fieldwork. Ongoing adjustments and reclassifications were made to these accounts subsequent to the start of audit fieldwork as these accounts had not been thoroughly reconciled on a periodic basis during the year.

- *Construction Work In Progress* – Several projects were all or in significant parts placed in service during the year, but not all related costs were closed from CWIP to capital assets, which resulted in proposed asset reclassifications of $6.6 million.

Recommendation

The CPA firm recommended Metro Transit designate appropriate individuals to be responsible for performing a more robust review of key accounts and transactions and monthly reconciliations and review year-end accruals to ensure account balances are appropriately reflected in the financial statements.

County's Response

Metro Transit is an organization that is constantly looking for ways to improve business processes. The new financial system has brought with it many new and revised business processes as well as revised procedures. In response, Metro Transit has been evaluating existing procedures and identifying changes that need to be implemented to more effectively utilize the new financial system as well as meet the workload changes that have occurred. Such changes will include more direct responsibility for monitoring account balances that were previously performed by other groups within King County. Many of the instances identified by the auditors were due to resource constraints throughout 2012 and early 2014 as staff were required to spend time not only learning the new system and processes but also developing new methods of reporting information from the system. In 2014, Metro Transit will be working closely with the King County Department of Finance and Business Operations (FBOD) to ensure that correct roles and responsibilities are in place to most efficiently address the changes brought by the new financial system. To that end, the regular monthly meetings between Metro Transit and FBOD will be used to identify and develop action plans for addressing areas of concern. Metro Transit will also be working in consultation with FBOD and the Business Resource Center to identify business processes that can be streamlined.

Auditor's Remarks

We appreciate the County's commitment to updating its policies and procedures. We will review the County's corrective action during our next audit.

Applicable Laws and Regulations

Although the CPA firm did not specify the laws and regulations used in their audit report, the following laws and regulations were applicable to the financial statement audit of the King County Public Transportation Enterprise Fund:

RCW 43.09.200 states:

> The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class.
>
> The system shall exhibit true accounts and detailed statements of funds collected, received, and expended for account of the public for any purpose whatever, and by all public officers, employees, or other persons.
>
> The accounts shall show the receipt, use and disposition of all public property, and the income, if any, derived there from; all sources of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction; all statements and reports made or required to be made, for the internal administration of the office to which they pertain; and all reports published or required to be published, for the information of the people regarding any and all details of the financial administration of public affairs.

Budgeting, Accounting and Reporting System (BARS) Manual - Part 3, Accounting, Chapter 1, Accounting Principles and General Procedures, Section B, Internal Control, states:

> Internal control is a management process for keeping an entity on course in achieving its business objectives, as adopted by the governing body. This management control system should ensure that resources are guarded against waste, loss and misuse; that reliable data is obtained, maintained, and fairly disclosed in financial statement and other reports; and resource use is consistent with laws, regulations and policies.
>
> Each entity is responsible for establishing and maintaining an effective system of internal control throughout their government.

Government Auditing Standards, July 2007 Revision – Section 5.11 provides that auditors should report material weaknesses and significant deficiencies in internal control.

The American Institute of Certified Public Accountants, Statement on Auditing Standards No. 115 defines significant deficiencies and material weaknesses as follows:

> a. Significant deficiency: A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.
>
> b. Material weakness: A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Status of Prior Audit Findings

King County
January 1, 2012 through December 31, 2012

The status of the finding contained in the prior years' audit report of King County is provided below:

1. King County should continue to strengthen internal controls to ensure accurate accounting and financial reporting.

Report No. 1008074, dated July 30, 2012

Background

We reported similar findings for the County during audits of its 2011, 2009 and 2008 financial statements. The County has improved documentation of the financial statement preparation process and is providing more timely financial information. However, the following significant deficiencies in controls over financial reporting persist:

- The County relies on the principal accountants to properly prepare the financial statements, supplementary schedules and notes with minimal oversight. The County's financial statement process is complex. Employees from various departments need to have a high level of understanding of accounting principles and the relationships between the financial statements. The current process increases the risk that the County's financial statements could contain material misstatements or errors because of the additional coordination and review necessary to ensure financial statements are accurate and complete.

- The County's financial statements should be supported by underlying accounting records, including the general ledger. During our audit, the County had difficulty providing documentation detailing the funds, accounts and functions that rolled up into each financial statement balance. It took approximately three weeks for the County to provide this information.

- The County's review and reconciliation of financial statements and notes was not sufficiently detailed to ensure they were accurate and complete. We identified errors the review process did not detect. Further, while responding to inquiries during our audit, County staff discovered additional errors.

- The County does not have adequate processes to ensure it properly classifies and values net assets. In 2011 a new accounting standard took effect, requiring net assets reported in the financial statements to be classified as nonspendable, restricted, committed, assigned or unassigned. The County failed to accurately classify net assets, as required by the new accounting standard.

- The County does not have adequate processes to ensure it properly accounts for and reports all bank accounts. Its Treasury Division is responsible for monitoring all bank accounts include performing monthly bank reconciliations; however, no one within the Division reviews to ensure all bank accounts are accounted for and reconciliations are complete and accurate.

- The County does not have adequate procedures to ensure it records capital assets in the fixed asset system accurately and in a timely manner. Department staff is responsible for notifying the fixed asset accountant of acquisitions, retirements and deletions. The accountant enters the information into the system, but no one reviews the accountant's activities to ensure they are accurate.

<u>Status</u>

The issues identified in the finding were resolved in the following manner:

- A peer review process within Financial Accounting was initiated during the 2012 Comprehensive Annual Financial Report (CAFR) preparation process in addition to the higher level review by the Accounting Supervisor. Drafts of CAFR statements, notes and required information from Accountants and Senior Accountants were reviewed by an assigned Principal Accountant. Drafts from Principal Accountants were reviewed by other Principals and/or the Accounting Supervisor. The first and second mockup was reviewed by Principals with supplemental help from other accountants. The final draft was reviewed by Principals and the former Financial Accounting Supervisor and the Interim Deputy Director of Finance.

- The County's financial reporting system was modernized with the implementation of a new financial system (EBS) at the start of 2012. This replaced a decades-old mainframe-based legacy general ledger (GL) with an online, real-time SQL-based GL complemented by a suite of subledger modules. Using the BI-Publisher report-writing tool in conjunction with EBS's capability for hierarchical fund grouping, we were able to create trial balance rollups for the various combined and combining fund groups, which comprise the audit opinion units. CAFR balances became easily traceable to the GL. The County also provided assistance to develop tools that facilitated the drilldown of GL balances to the details in the various subledgers. The new system also eliminated the need for manual post-closing entries, which, under the legacy system environment, became permanent reconciling items between the CAFR and the GL.

- The County initiated a peer review system in addition to the higher level review by the Financial Accounting Supervisor. This is to ensure that the statements and notes are looked at by someone who has had experience in preparing them and is aware of the articulation of balances between financial statements.

- The County reviews the classification of fund balances each yearend by a) working closely with agency staff who are the ones best informed about legal and management restrictions of fund balance, b) review of new ordinances, which pertain to restrictions of fund balances and c) review of recent bond issue documents to determine restrictions for capital acquisition or construction. The County also availed of GASB implementation guides and the GARS online GAAP source to help clarify some of the gray areas of GASB54, such as, what constitutes enabling legislation, rainy day reserves and how to handle encumbrances.

- The first step taken to strengthen the County's monitoring of the County's bank accounts was to expand the County's existing cash handling procedure to include requirements for preparing bank account reconciliations. The new policy, "Cash Handling, Receipting and Reconciliation" was adopted in January 2012. It requires County agencies to reconcile monthly bank accounts not centrally reconciled by the Treasury Section and to provide a copy of the reconciliation on a quarterly basis to Treasury Operations. As part of the business process transformation that occurred with the adoption of the new financial system, reconciliation of nine agency bank accounts was moved to the Cash Management group. Other agency accounts are required to be reconciled monthly with reconciliation reports sent to Cash Management on a quarterly basis. A process is in progress to hire a Senior Accountant in Cash Management who will monitor and review the agency bank reconciliations. The policy also requires the Accounts Receivable Section to conduct an annual assessment of all agencies to ensure they remain compliant with the cash handling policy. This review process includes having the agency identify the persons responsible for preparing and reviewing the agency's bank account.

- The County implemented a new fixed asset system in 2012. In line with this, a new comprehensive policy on capital assets was also developed and implemented. Departmental staff is still responsible for notifying the Capital Assets Group (CAG) of acquisitions for system input. Fleet Management is responsible for retirements and transfers of personal property. A senior accountant and two accountants comprise the CAG. As part of the response to the recent internal audit in 2013, the CAG has been directed to perform monthly FA system to GL reconciliations for all County funds, which are to be reviewed by the Financial Accounting Supervisor.

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

King County
January 1, 2012 through December 31, 2012

Council and Executive
King County
Seattle, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of King County, Washington, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated June 18, 2013. Other auditors audited the financial statements of the Building Development and Management Corporations, Water Quality Enterprise and Public Transportation funds, as described in our report on the County's financial statements. Those financial statements were not audited in accordance with *Government Auditing Standards*. This report includes our consideration of the results of the other auditors' testing of internal control over financial reporting that has been reported on separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the reports of the other auditors.

During the year ended December 31, 2012, the County implemented Governmental Accounting Standards Board Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements,* Statement No. 62, *Codification of Accounting and Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements* and Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the County's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Audit Findings and Responses, we and the other auditors identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Audit Findings and Responses as Finding 1 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Audit Findings and Responses as Finding 2 to be significant deficiencies.

We also noted certain additional matters that we have reported to the management of the County in a separate letter dated June 18, 2013.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the County's financial statements are free from material misstatement, we performed tests of the County's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and are described in the accompanying Schedule of Audit Findings and Responses. We also noted certain additional matters that we have reported to the management of the County in a separate letter dated June 18, 2013.

COUNTY'S REPONSE TO FINDINGS

The County's response to the findings identified in our audit is described in the accompanying Schedule of Audit Findings and Responses. The County's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the County's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

TROY KELLEY
STATE AUDITOR

June 18, 2013

Independent Auditor's Report on Financial Statements

King County
January 1, 2012 through December 31, 2012

Council and Executive
King County
Seattle, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of King County, Washington, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed on page 20.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Building Development and Management Corporations Fund, which represents 8 percent, -0.7 percent and 6 percent, respectively, of the assets, net position and revenue of the governmental activities, and 7 percent, -0.5 percent and 0.4 percent, respectively, of the assets, net position and revenue of the aggregate remaining fund information. We did not audit the financial statements of the Water Quality Enterprise Fund, a major fund, which additionally represents 66 percent, 23 percent and 30 percent, respectively, of the assets, net position and revenue of the business-type activities. We also did not audit the financial statements of the Public Transportation Fund, a major fund, which additionally represents 27 percent, 66 percent and 60 percent, respectively, of the assets, net position and revenue of the business-type activities. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Building Development and Management Corporations, the Water Quality Enterprise and Public Transportation funds, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Building Development and Management Corporations, Water Quality Enterprise and Public Transportation funds were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the County's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of King County, as of December 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General and Public Health funds, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 1 to the financial statements, in 2012, the County adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, Statement No. 62, *Codification of Accounting and Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements* and Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 21 through 35, infrastructure modified approach on pages 132 through 134 and information on postemployment benefits other than pensions on page 134 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplemental Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. This schedule is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This information has been subjected to auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, and the reports of the other auditors, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated June 18, 2013 on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

June 18, 2013

Financial Section

King County
January 1, 2012 through December 31, 2012

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2012

BASIC FINANCIAL STATEMENTS

Statement of Net Position - 2012
Statement of Activities – 2012
Balance Sheet – Governmental Funds – 2012
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – 2012
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities – 2012
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund – 2012
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Public Health Fund – 2012
Statement of Net Position – Proprietary Funds – 2012
Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds – 2012
Statement of Cash Flows – Proprietary Funds – 2012
Statement of Fiduciary Net Position – Fiduciary Funds – 2012
Statement of Changes in Fiduciary Net Position – Fiduciary Funds – 2012
Statement of Net Position – Component Units – 2012
Statement of Activities – Component Units – 2012
Notes to Financial Statements – 2012

REQUIRED SUPPLEMENTARY INFORMATION

Condition Assessments and Preservation of Infrastructure Eligible for Modified Approach – 2012
Post-Employment Health Care Plan – Schedule of Funding Progress for the Plan – 2012

SUPPLEMENTAL INFORMATION

Schedule of Expenditures of Federal Awards – 2012
Notes to Schedule of Expenditures of Federal Awards – 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

This section of King County's Comprehensive Annual Financial Report (CAFR) presents a narrative overview and analysis of the financial activities of the County for the year ended December 31, 2012. We encourage readers to consider this information in conjunction with that furnished in the letter of transmittal, which can be found preceding this narrative, and with the County's financial statements and notes to the financial statements, which follow.

FINANCIAL HIGHLIGHTS – PRIMARY GOVERNMENT

- As of December 31, 2012, the assets of the County exceeded its liabilities by $4,907.4 million (net position). Because most of the County's net position is either invested in capital assets or restricted as to use, the combined unrestricted net position was $654.4 million at the end of the year.

- In 2012, the County's total net position increased by 4.5 percent ($212.6 million). The governmental net position increased by 5.6 percent ($126.3 million), and the business-type net position increased by 3.5 percent ($86.3 million).

- As of December 31, 2012, the County's governmental funds reported combined ending fund balances of $671.9 million. Approximately 14.1 percent ($93.6 million) is unassigned fund balance.

- At the end of 2012 the unassigned fund balance for the General Fund was $102.6 million, amounting to 17.2 percent of total General Fund expenditures. Total fund balance for the General Fund increased 3.6 percent ($4.9 million) for the year.

- The County's total bonded debt increased by 2.9 percent ($141.2 million) in 2012 due to new bond issuance of $958.8 million offset by $124.1 million of debt service principal payments and debt of $693.6 million defeased or refunded.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the County's basic financial statements which include three components: (1) government-wide financial statements; (2) fund financial statements; and (3) notes to the financial statements. This report also contains required supplementary information and other supplementary information in addition to the basic financial statements.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with an overview of the County's finances in a manner similar to a private sector business. The statements provide short-term and long-term information about the County's financial position, which assists in assessing the County's financial condition at the end of the fiscal year. These statements are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. This means they follow methods that are similar to those used by most businesses, taking into account all revenues and expenses connected with the fiscal year, even if cash involved has not been received or paid. The government-wide financial statements include two statements:

The **statement of net position** presents all of the County's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in the County's net position may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The **statement of activities** presents information showing how the County's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. As a result, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods, such as revenues pertaining to uncollected taxes and expenses pertaining to earned but unused vacation and sick leave.

Both of the government-wide financial statements have separate sections for three different types of County programs or activities:

Governmental activities. The activities in this section are principally supported by taxes and intergovernmental revenues. Most of the County's basic services fall into this category, including general government; law, safety and justice; physical environment; transportation; economic environment; mental and physical health; culture and recreation; and debt service. Also included within the governmental activities are the 2012 operations of the County's flood control district. Although legally separate from the County, this component unit is blended with the primary government (King County) because of its governance relationship with the County. Four Washington state nonprofit corporations, included as a single internal service fund called the Building Development and Management Corporations, are reported as a single blended component unit of the County.

Business-type activities. These functions are intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. These business-type activities include the operation of the County's public transportation system, wastewater treatment facilities, solid waste disposal facilities, airport, and other services. Also included within the business-type activities are the 2012 operations of the County's ferry district. Although legally separate from the County, this component unit is blended with the primary government (King County) because of its governance relationship with the County.

Discretely presented component units. The government-wide financial statements include not only King County itself as the primary government, but also three legally separate entities for which the County is financially accountable: the Harborview Medical Center (HMC), the Washington State Major League Baseball Stadium Public Facilities District (PFD), and the Cultural Development Authority (CDA) of King County. Individual financial statements for HMC, the PFD, and the CDA can be found immediately following the fiduciary funds financial statements in the Basic Statements section of this report.

Fund Financial Statements

The fund financial statements are designed to report information about groupings of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. The County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the County can be divided into three categories: **governmental** funds, **proprietary** funds, and **fiduciary** funds.

Governmental funds. Most of the services provided by the County are accounted for in governmental funds. Governmental funds are used to account for essentially the same functions that are reported as governmental activities in the government-wide financial statements. Unlike the government-wide financial statements, however, the governmental funds financial statements focus on how cash and other financial assets can readily be converted to available resources, and the balances left at year-end that are available for future spending. Such information may be useful in determining whether there will be adequate financial resources available to meet the current needs of the County.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The County maintains a general fund and several other individual governmental funds organized according to their type (special revenue, debt service, and capital projects). Two governmental funds, the General Fund and the Public Health Fund, are considered to be major funds for financial reporting purposes. Each of the major funds is presented in a separate column in the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor funds is provided in the form of combining statements in the Governmental Funds section of this report, following the Basic Statements.

The County adopts an annual budget appropriated at the department or division level for the General Fund and at the fund level for the Public Health Fund. A budgetary comparison statement has been provided for each of the two major governmental funds.

The basic governmental funds financial statements can be found immediately following the government-wide statements.

Proprietary funds. Proprietary funds are used to account for services for which the County charges customers a fee. Proprietary funds provide the same type of information as shown in the government-wide financial statements, only in more detail. Like the government-wide financial statements, proprietary funds financial statements use the accrual basis of accounting. The basic proprietary funds financial statements can be found immediately following the governmental funds financial statements.

The County maintains two types of proprietary funds:

> **Enterprise funds** are used to report the same functions presented as business-type activities in the government-wide financial statements. The proprietary funds financial statements provide separate information for the Water Quality Enterprise and the Public Transportation Enterprise, both considered to be major funds of the County for financial reporting purposes. All other enterprise funds are aggregated into a single presentation within the proprietary funds financial statements.

> **Internal service funds** are used to report activities that provide services to the County's other programs and activities on a cost reimbursement basis. The County uses internal service funds to account for its motor pool, information and telecommunications services, facilities management, risk management, employee benefits, building development and construction, and financial and various other administrative services. These services predominantly benefit governmental rather than business-type functions and have been included within governmental activities in the government-wide financial statements. One internal service fund that provides equipment and fleet maintenance and procurement for the Water Quality Enterprise is included within the business-type activities in the government-wide financial statements but is combined with all other internal service funds into a single aggregated presentation in the proprietary funds financial statements.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds include the investment trust funds, used to report investment activity conducted by the County on behalf of legally separate entities, such as special districts and public authorities that are not part of the County's reporting entity, and the agency funds. Since the resources of these funds are not available to support the County's own programs, they are not reflected in the government-wide financial statements. The accounting for fiduciary funds is much like that used for proprietary funds. The basic fiduciary funds financial statements can be found immediately following the proprietary funds financial statements.

Notes to the financial statements

The notes provide additional information essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the individual component unit financial statements in the Basic Statements section of this report.

Other information

Required supplementary information. In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information on infrastructure assets reported using the modified approach. The required supplementary information immediately follows the notes to the financial statements in the Basic Statements section.

Combining Statements. The combining statements are presented in separate sections immediately following the required supplementary information.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Analysis of Net Position

An analysis of net position may serve as a useful indicator of a government's financial position. As indicated in the condensed financial information below, derived from the government-wide Statement of Net position, the County's combined net position (governmental and business-type activities) was $4,907.4 million at the end of 2012. This is an increase of 4.5 percent ($212.6 million) over the net position of the previous year, as restated.

Governmental activities. Although net position of the County's governmental activities increased 5.6 percent ($126.3 million) to $2,371.4 million, nearly all of the net position is either subject to external restrictions as to how it may be used, or is invested in capital assets (e.g., land, buildings, infrastructure, rights-of-way, equipment, and work in progress) less any related outstanding debt used to acquire those assets. Consequently, unrestricted net position for governmental activities was $13.2 million at the end of 2012. This is a $129.8 million increase from the deficit in unrestricted net position at the end of 2011.

Net Position
(in thousands)

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Assets						
Current and other assets	$ 1,137,831	$ 1,083,758	$ 1,464,610	$ 1,375,067	$ 2,602,441	$ 2,458,825
Capital assets	2,871,402	2,776,767	5,789,884	5,609,950	8,661,286	8,386,717
Total Assets	4,009,233	3,860,525	7,254,494	6,985,017	11,263,727	10,845,542
Liabilities						
Long-term liabilities	1,473,093	1,441,697	4,337,174	4,115,319	5,810,267	5,557,016
Other liabilities	164,715	173,749	381,388	420,053	546,103	593,802
Total Liabilities	1,637,808	1,615,446	4,718,562	4,535,372	6,356,370	6,150,818
Net Position						
Net investment in capital assets	1,905,722	1,920,793	1,627,435	1,622,274	3,533,157	3,543,067
Restricted	452,529	440,959	267,262	311,596	719,791	752,555
Unrestricted	13,174	(116,673)	641,235	515,775	654,409	399,102
Total net position	$ 2,371,425	$ 2,245,079	$ 2,535,932	$ 2,449,645	$ 4,907,357	$ 4,694,724

The increase in net position for governmental activities in 2012 reflects the County's ability, on an annual basis, to meet its current obligations in those activities including the related debt service requirements. A factor in the balance of unrestricted net position is long-term commitments that are greater than currently available resources. Specifically, the County's governmental activities include general obligation debt of $223.1 million for which no corresponding assets are recorded but for which future revenues are obligated.

Of the amount of debt with no corresponding assets, 55.9 percent ($124.7 million) is related to assets recorded on the books of one of the County's three discretely presented component units: the Harborview Medical Center. As a discretely presented component unit, this entity is not part of the primary government or incorporated into this analysis. The remaining debt consists of $66.9 million associated with the Kingdome facility, demolished in 2000, and $31.6 million used to finance assets that have been contributed by the County to other programs and services that benefit the citizens of the County.

Business-type activities. There was an increase of 3.5 percent to $2,535.9 million in the net position of business-type activities. Of the total net position for business-type activities, 64.2 percent ($1,627.4 million) is the net investment in capital assets (e.g., land, buildings, vehicles, plant assets, equipment, and work in progress). The business-type activities use these capital assets to provide services to their customers; consequently, these assets are not available for future spending. The resources needed to repay the debt incurred to acquire these assets must be provided from other sources since the capital assets themselves cannot be liquidated for these liabilities. Another 10.5 percent of the total net position of business-type activities is restricted for capital projects ($0.2 million), debt service ($232.6 million), regulatory assets and environmental liabilities ($33.0 million) and for other purposes ($1.5 million). The remaining 25.3 percent ($641.2 million) is unrestricted net position. Any balance in the unrestricted net position for business-type activities cannot be used to reduce the unrestricted net asset deficit in governmental activities.

The combination of the $13.2 million of governmental activities unrestricted net position and the $641.2 million positive balance in the business-type activities unrestricted net position of $654.4 million in total unrestricted net position for the County as a whole.

Analysis of Changes in Net position

The increase in the County's total net position in 2012 resulted from revenues exceeding related expenses and reflects the County's ability to meet its ongoing obligations, including its debt service requirements. Approximately 40.5 percent of the County's total revenues came from taxes, primarily Property taxes and the Retail sales and use taxes. Charges for various goods and services provided 45.8 percent of the total revenues, while 13.3 percent was derived from operating and capital grants and contributions, including state and federal assistance. The County's expenses cover a range of services, the largest of which were for law, safety and justice; mental and physical health; public transportation; and water quality.

The condensed financial information on the following page is derived from the government-wide Statement of Activities and reflects how the County's net position changed during 2012.

Governmental activities. Governmental activities accounted for 59.4 percent of the total growth in net position of the County, resulting in an increase in the County's governmental activities net position of $126.3 million. Program revenues for governmental activities total $898.5 million and include the amount paid by those who directly benefit from the programs ($626.1 million), and by other governments and organizations that subsidized certain programs with operating grants and contributions ($205.2 million), and capital grants and contributions ($67.1 million). In 2012, the cost of all governmental activities was $1,606.1 million. The County paid for the $707.6 million remaining public benefit portion of governmental activities with $593.7 million in property taxes, $161.5 million in retail sales and use taxes, and $72.2 million in other revenues, including other taxes and interest earnings.

The growth in net position of governmental activities of $126.3 million is primarily due to the following factors: the collection of revenues (mostly taxes) to fund repayments of long-term debt ($56.9 million); the collection of revenues for the acquisition of capital assets ($80.8 million); and, donations of capital assets, primarily infrastructure, to the County ($25.8 million). In addition, the loss on capital assets sold, retired, or transferred ($22.9 million) and depreciation expense ($33.9 million) reduced net position.

Changes in Net Position
(in thousands)

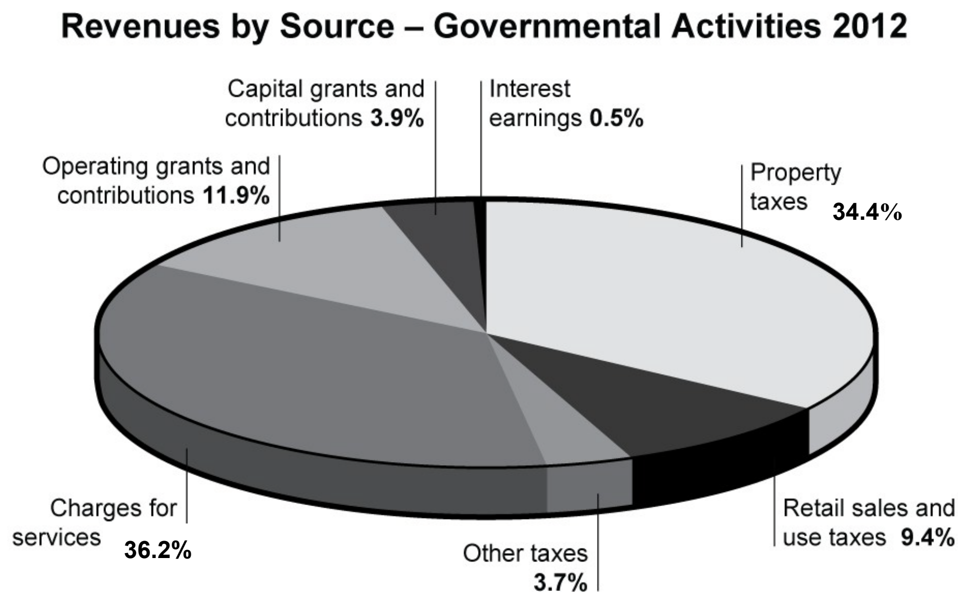
	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues						
Program revenues						
Charges for services	$ 626,138	$ 590,329	$ 794,233	$ 698,566	$ 1,420,371	$ 1,288,895
Operating grants and contributions	205,235	207,038	58,537	61,374	263,772	268,412
Capital grants and contributions	67,113	73,182	81,712	152,999	148,825	226,181
General revenues						
Property taxes	593,654	594,130	25,217	23,792	618,871	617,922
Retail sales and use taxes	161,467	180,948	413,047	399,812	574,514	580,760
Other taxes	63,808	62,387	-	-	63,808	62,387
Unrestricted interest earnings	8,356	8,050	5,700	7,033	14,056	15,083
Total revenues	1,725,771	1,716,064	1,378,446	1,343,576	3,104,217	3,059,640
Expenses [(a)]						
General government [(b)]	147,396	153,910	-	-	147,396	153,910
Law, safety and justice	629,924	594,366	-	-	629,924	594,366
Physical environment	77,111	78,823	-	-	77,111	78,823
Transportation	78,937	100,724	-	-	78,937	100,724
Economic environment	104,707	112,081	-	-	104,707	112,081
Mental and physical health	469,234	457,507	-	-	469,234	457,507
Culture and recreation	60,273	56,917	-	-	60,273	56,917
Interest and other debt service costs	38,509	51,670	-	-	38,509	51,670
Airport	-	-	29,909	28,101	29,909	28,101
Public transportation	-	-	740,384	716,949	740,384	716,949
Solid waste	-	-	108,837	96,871	108,837	96,871
Water quality	-	-	396,260	321,057	396,260	321,057
Other enterprises activity	-	-	13,912	13,183	13,912	13,183
Total expenses	1,606,091	1,605,998	1,289,302	1,176,161	2,895,393	2,782,159
Increase in net assets before transfers	119,680	110,066	89,144	167,415	208,824	277,481
Transfers	2,857	505	(2,857)	(505)	-	-
Special item	3,809		-		3,809	-
Increase in net position	126,346	110,571	86,287	166,910	212,633	277,481
Net position, beginning of year (restated) [(c)]	2,245,079	2,139,401	2,449,645	2,282,735	4,694,724	4,422,136
Net position, end of year	$ 2,371,425	$ 2,249,972	$ 2,535,932	$ 2,449,645	$ 4,907,357	$ 4,699,617

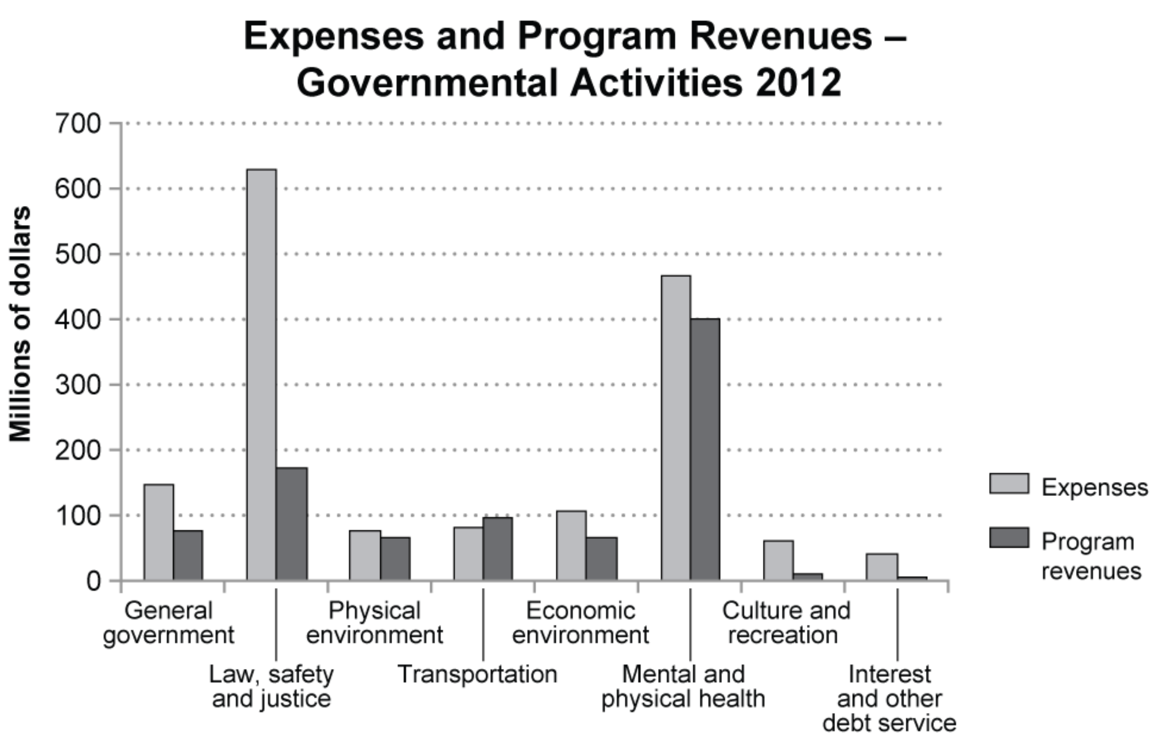
(a) Expenses for all functions include the allocation of indirect expenses from the general government function. The amount of indirect general government expenses allocated to each function is shown in a separate column on the County's government-wide Statement of Activities alongside the column that reflects the direct operating expenses incurred by each function. As a result of this allocation, the $147.4 million in General government expense above consists of $174.4 million in direct program expenses and loss on the disposal (transfer) of capital assets of $22.9 million reduced by a net allocation of $49.8 million to other County functions.

(b) General government expenses includes loss on sale/disposal/transfer of capital assets of $22.9 million and $46.5 million in 2012 and 2011, respectively.

(c) Net position, beginning of year has been restated, see Note 18 - "Restrictions, Components of Fund Balance, and Changes in Equity" – Restatements of Beginning Balances.

The charts below illustrate the County's revenues by source and its expenses and program revenues by function for its governmental activities:





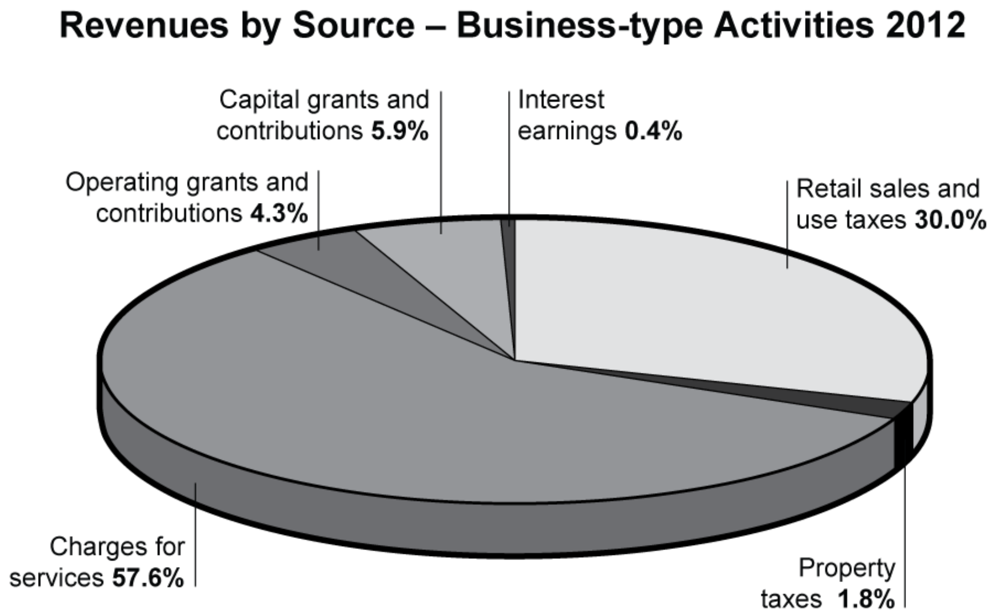
Charges for services provided 36.2 percent, and property taxes 34.4 percent, of total revenues for governmental activities. One of the most significant expense amounts is for Law, safety and justice, a function that requires the greatest usage of general government revenues. The primary revenue sources for Mental and physical health are charges for services and operating grants and contributions, which paid for 85.5 percent of the activities of that function. In 2012, Transportation received $25.8 million in infrastructure and right-of-way capital assets from developers, which enabled program revenues to exceed expenses by $15.8 million. These capital contributions accounted for 21.5 percent of the 2012 increase in governmental activities net position.

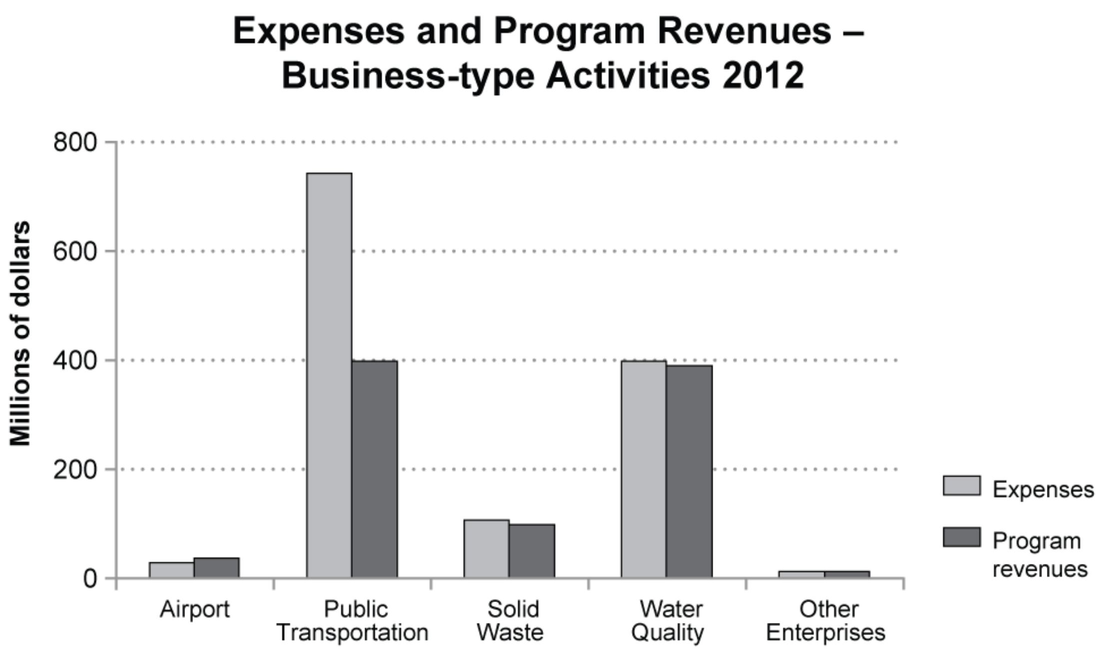
A comparison of the cost of services by function for the County's governmental activities, along with the revenues used to cover the net expenses of the governmental activities (in thousands):

(Expenses) Net of Program Revenues	
General government	$ (70,226)
Law, safety and justice	(455,206)
Physical environment	(10,838)
Transportation	15,838
Economic environment	(38,907)
Mental and physical health	(61,521)
Culture and recreation	(50,026)
Interest and other debt service costs	(36,718)
Total expenses	(707,604)
General revenues	
Property taxes	593,654
Retail sales and use taxes	161,467
Other taxes	63,807
Unrestricted interest earnings	8,356
Transfers from Business-type	2,857
Special item	3,809
Increase in net assets	$ 126,346

Business-type activities. Business-type activities increased the County's net position by $86.3 million in 2012, accounting for 41.8 percent of the total growth in net position of the County. Total revenues for business-type activities were $1,378.4 million. The cost of all business-type activities for 2012 was $1,289.3 million. Of that amount, 72.5 percent ($934.5 million) was funded from program revenues, including $794.2 million in charges for services, $58.5 million from other governments and organizations that subsidized certain programs with operating grants, and $81.7 million in capital grants and contributions. The Public Transportation operations are subsidized by retail sales and use tax revenues, which amounted to $413.0 million in 2012 and property taxes of $23.8 million. In addition, business-type activities earned $5.7 million in unrestricted interest earnings.

Business-type revenues by source and business-type expenses and program revenues by function:





FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

The County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the County's governmental funds is to provide information on near-term inflows, outflows, and balances of resources that are available for spending. Such information is useful in assessing the County's financing requirements.

As of December 31, 2012, the County's governmental funds reported combined ending fund balances of $671.9 million, an increase of $49.8 million in comparison with the prior year. Approximately 13.9 percent ($93.6 million) constitutes unassigned fund balance available for spending in the coming year at the County's discretion. The remainder of fund balance is Nonspendable (2.8 percent), Restricted (61.0 percent), Committed (16.1 percent) or Assigned (6.3 percent).

Overall governmental fund revenues totaled approximately $1,791.4 million for 2012, which represents an increase of 2.3 percent, ($40.1 million), over the fiscal year ended December 31, 2011. While property taxes declined a modest $0.5 million, Business and other taxes were up $1.9 million. Retail sales and uses taxes declined $19.5 million reflecting the decline of PFD related sales taxes of $24.8 million (effective October 1, 2011, the County ceased collecting the PFD sales taxes as the bonds issued by the County to provide funds for the construction Safeco Field and parking facilities by the Washington State Major League Baseball Stadium Public Facilities District were fully defeased). Intergovernmental revenues were up $26.8 million overall including increase for Mental Health ($9.7 million) and the County Road Construction Fund ($3.4 million).

In 2012, expenditures for governmental funds totaled $1,818.9 million, an increase of 1.2 percent ($22.1 million) from the previous fiscal year. However, adjusting for payments to escrow agents in 2011 and 2012 expenditures related to a building lease (in 2011 the revenues and expenditures related to the lease were netted), expenditures were up 2.6 percent ($46.3 million). Current expenditures were up 1.8 percent ($27.2 million) from the previous fiscal year including increases in expenditures for General government ($16.8 million), Law Safety and Justice ($17.8 million) and Mental and physical health ($14.3-million). Capital outlay expenditures were up $16.0 million (13.1 percent). Total expenditures for governmental funds exceeded revenues by $33.9 million in 2012, compared to $45.4 million for 2011. The change in fund balances in 2012 of $43.4 million included Other financing sources (uses) of $77.2 million.

The **General Fund** is the primary operating fund for the County. At the end of the fiscal year, total fund balance for the General Fund was $139.6 million. Unassigned fund balance, the amount considered available to spend, totaled $102.6 million. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 17.2 percent of total General Fund expenditures, a modest increase from the 17.0 percent of a year ago. Total fund balance (excluding the Rainy Day Fund) represents approximately 21 percent of total General Fund expenditures for both 2012 and 2011.

The fund balance of the County's General Fund increased $4.9 million during 2012, compared to an increase in fund balance of $30.6 million in 2011. While revenues were up $6.0 million (0.9 percent) in 2012, expenditures increased by $30.0 million (5.3 percent), Other financing sources declined $10.9 million, and Other financing uses declined $9.2 million. While property tax revenues increased by $6.4 million and sales and use taxes increased by $1.7 million, both Intergovernmental and Charges for services declined ($2.8 million and $3.4 million respectively). The decline in Other financing sources of $10.9 million is due to the 2011 proceeds from the sale of land of $10.2 million. Expenditures were up $30.0 million due to increases in expenditures for general government ($14.9 million) and Law, safety and justice ($13.6 million). The increase in general government expenditures of $14.9 million cover a broad range of services including Elections (up $3.1 million) and Assessments (up $1.8 million). The Law, safety and justice increase in expenditures of $13.6 million increases in Sheriff ($3.7 million), Prosecuting Attorney ($2.7 million), Adult and Juvenile Detention ($2.0 million) and Office of the Public Defender ($2.5 million).

The **Public Health Fund** is used to account for health service centers located throughout the County and other public health programs that promote health and prevent disease to King County residents. At the end of 2012 it had a total fund balance of $14.8 million (up $7.2 million in 2012). While revenues were up $11.6 million and other financing sources were up $0.5 million in 2012 from the 2011 levels, expenditures were also up $2.7 million and other financing uses were up $2.3 million in 2012 resulting in an increase in fund balance of $7.2 million in 2012 versus an increase of $0.2 million in 2011.

Proprietary Funds

The County's proprietary funds provide the same type of information found in the government-wide financial statements for business-type activities. This information is presented on the same basis of accounting, but provides more detail.

The County's net position increased by $89.1 million as a result of operations in the proprietary funds, adjusted to reflect the consolidation of internal service fund activities related to the enterprise funds. Of the two major proprietary funds, the Public Transportation Enterprise had an increase of $84.7 million and the net position of the Water Quality Enterprise decreased by $7.2 million.

The **Public Transportation Enterprise** accounts for the operations, maintenance, capital improvements, and expansion of public transportation and related facilities in the County. At the end of 2012 the Public Transportation Enterprise had total net position of $1,677.5 million of which 71.8 percent ($1,203.8 million) was the net investment in capital assets; 0.7 percent ($12.4 million) was restricted as to use for capital purposes, debt service, and other purposes; and 27.5 percent ($461.3 million) was unrestricted and available for spending. Net position increased in 2012 and 2011. The increase was $84.7 million in 2012 and $138.2 million in 2011. The increase in 2012 was principally attributable to increased sales tax receipts as the economy continued its slow recovery, the Congestion Reduction Charge which began to be collected in June, the proceeds from the sale of an easement at the employee garage located south of Downtown Seattle and capital grants associated with revenue fleet replacement. In 2011, the change was principally attributable to increased sales tax receipts and capital grants associated with revenue fleet replacements.

The **Water Quality Enterprise** accounts for the operations, maintenance, capital improvements, and expansion of the County's water pollution control facilities. Total net position in the Water Quality Enterprise was $580.9 million at the end of 2012 of which 38.1 percent ($221.2 million) was the net investment in capital assets; 43.9 percent ($254.8 million) was restricted for debt service and regulatory assets and environmental liabilities; and the remaining 18.0 percent ($104.9 million) was unrestricted. Water Quality operating revenues increased by 13.2 percent to $381.9 million, while operating expenses net of depreciation increased by 10.0 percent to $117.0 million. Water Quality collected a monthly sewage treatment charge of $36.1 per Residential Customer Equivalents (RCE) in 2012 and 2011 (an increase from the $31.90 charge in 2010). The capacity charge rate increased to $53.50 per RCE in 2012 from $50.45 in 2011.

General Fund Budgetary Highlights

The County's final General Fund budget differs from the original budget in that it reflects an increase of $18.8 million during the year due to 2012 supplemental budget appropriations. These supplemental appropriations included General Fund support for general government ($4.9 million); law, safety and justice ($1.1 million); and transfers to support capital projects ($10.9 million). However, actual budgetary basis expenditures (including encumbrances) were $9.2 million less than the original budget. This resulted in an underutilization of the total final appropriation authority by $28.0 million, including $5.9 million of under-expenditures in General government services, $12.6 million in Law, safety and justice, and $7.0 million in Transfers out. During the year total budgetary basis revenues were greater than budgetary estimates by $5.5 million with a net impact of increasing fund balance by $4.9 million in 2012.

CAPITAL ASSETS, INFRASTRUCTURE, AND DEBT ADMINISTRATION

Capital assets

The King County primary government's investment in capital assets for its governmental and business-type activities as of December 31, 2012, amounts to $8.7 billion (net of accumulated depreciation).

Capital assets include land, rights-of-way, easements and development rights, buildings, improvements other than buildings, roads and bridges infrastructure, vehicles, machinery, computers, software and other equipment, and construction work-in-progress. The total increase in the investment in capital assets over the previous year (as restated) was 3.0 percent (3.4 percent increase for governmental activities and 3.2 percent increase for business-type activities).

Major capital asset events during 2012 included the following:

- The conveyance system and marine outfall that connect the Brightwater treatment plant to various sources of wastewater were completed in the fall of 2012. The conveyance facilities include the pipes and pumps that deliver wastewater in and out of the treatment plant while the outfall discharges treated wastewater from the plant into Puget Sound. The Brightwater treatment system is now fully operational.

- Construction of the Bow Lake transfer station and recycling facility continued in 2012. The project provides a major upgrade to the existing outdated transfer facility with an expanded recycling area, a larger, modern and energy-efficient transfer building, and an improved design for customer traffic flow. Expected completion is in 2013. The transfer station handles approximately a third of the County's solid waste discharge.

- The Patricia Steel Memorial Building was acquired by the County in December 2012 when it refinanced the construction bonds originally issued by Broadway Office Properties (BOP) to fund the development of the building. BOP was previously reported as a blended component unit and the building was recognized as a governmental capital asset during 2012 when the blended entity was eliminated from the primary government.

- The project to replace the old South Park Bridge commenced in 2012. Current activities include the removal of the existing structure, preparatory roadwork and landscaping. Under the modified approach much of the cost of replacing an existing bridge is considered infrastructure preservation. Only the portion of the cost that adds capacity or efficiency may be capitalized.

A summary of the 2012 capital assets activity is shown below. More detailed information on the County's capital assets can be found in Note 7 – "Capital Assets."

Capital Assets
(in millions)

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land and land rights	$ 891.1	$ 873.3 **	$ 482.9	$ 465.9	$ 1,374.0	$ 1,357.0
Buildings*	671.0	699.2 **	1,968.6	1,815.5 **	2,639.6	2,514.7
Leasehold Improvements*	17.2	18.2 **	1.2	1.4	293.7	19.6
Improvements other than buildings*	42.9	36.8	276.5	267.5 **	42.9	304.3
Infrastructure - roads and bridges	1,020.6	952.0	-	-	1,020.6	952.0
Infrastructure - other*	7.5	5.0	1,589.7	945.8	1,597.2	950.8
Equipment, software and art collection*	129.7	73.8	1,000.6	862.0	1,130.3	935.8
Construction in progress	91.4	118.5	470.2	1,251.9	561.6	1,370.4
Total	$ 2,871.4	$ 2,776.8	$ 5,789.7	$ 5,610.0	$ 8,659.9	$ 8,404.6

* Net of depreciation/amortization

** Restated

Infrastructure

The County has elected to use the modified approach in reporting roads and bridges. Under the modified approach, asset condition is reported rather than recording depreciation. The rating scales for pavements (roads) and bridges are further explained in the required supplementary information which follows the notes to the basic financial statements.

The County performs condition assessments on its network of roads through the King County Pavement Management System, which generates a Pavement Condition Index (PCI) for each segment of arterial and local access road in the network. The PCI is a numerical index on a 100-point scale that represents the pavement's functional condition based on the quantity, severity, and type of visual distress. Condition assessments are undertaken every three years.

It is the policy of the King County Road Services Division to maintain at least 80.0 percent of the road system at a PCI of 40 or better. In the most recent condition assessments, 74.2 percent of the arterial roads in the County and 78.5 percent of the local access roads in the County had a PCI rating of 40 and above. The 2010 condition assessment indicates the arterial and local access road networks have fallen below the 80/40 threshold. The County Road Services Division's current budget conditions do not allow for additional funds to increase the number of miles overlaid. The accelerated condition of deterioration observed between the 2007 and 2010 reports are primarily the result of weather and system age. The majority of roads that fall below the established rating are local access roads that are situated in rural areas. The amount budgeted in 2012 for road preservation and maintenance was $52.7 million. The amount actually expended was $45.1 million. Underspending of the budgeted amount is a result of the removal of roads from the project list because of conflicts with anticipated utility work, cost efficiencies related to relatively few roads to be resurfaced in remote locations, and fewer weather-related work reductions or stoppages. Annexations of unincorporated areas to cities also play a role in reducing the average condition level of roads. It is the usual case that the roads in the annexed areas are high-traffic lanes and therefore were well-maintained by the County.

The County currently maintains 182 bridges. Physical inspections to uncover deficiencies are carried out at least every two years and documented. There is also an annual evaluation to determine which bridges are due for replacement or rehabilitation using a 10-point priority scale based on various factors of bridge condition. A key element in the priority scale is the sufficiency rating, which is a numerical rating (on a 100-point scale) of a bridge based on its structural adequacy and safety, essentiality for public use, and its serviceability and functional obsolescence. The policy of the King County Road Services Division is to maintain bridges in such a manner that no more than 12 (6.5 percent) will have a sufficiency rating of 20 or less. The most current complete assessment showed five bridges at or below this threshold. The amount budgeted in 2012 for bridge preservation and maintenance was $9.3 million, while the actual amount expended was $6.4 million. Underspending of the budgeted amount is due to the construction schedule of certain projects extending beyond the budget year.

Debt Administration

At the end of 2012, King County Primary Government has a total of $5,000.5 million in bonds and notes outstanding for its governmental and business-type activities. Of this amount, $2,158.8 million is comprised of debt backed by the full faith and credit of the County. The $2,841.8 million remainder of the County's debt represents bonds secured solely by specified revenue sources.

Outstanding Debt
(in millions)

	Governmental Activities		Business-type Activities		Total	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**
General obligation bonds	$ 772.4	$ 682.5	$ 991.2	$ 1,015.6	$ 1,763.6	$ 1,698.2
General obligation bond anticipation notes (long-term)		65.9	73.4	-	73.4	65.9
Lease revenue bonds	321.8	385.5	-	-	321.8	385.5
Revenue bonds	-	-	2,841.8	2,709.7	2,841.8	2,709.7
Total	$1,094.2	$1,134.0	$ 3,906.3	$ 3,725.4	$ 5,000.5	$ 4,859.4

Lease revenue bonds were bonds issued in accordance with the provisions of Revenue Ruling 63-20 and Revenue Procedure 82-26. Under the lease agreements, the County's obligation to pay rent is a limited tax general obligation.

The total debt increased over the previous year by 2.9 percent or $141.2 million (a 3.5 percent or $40 million decrease for governmental activities and 4.9 percent or $180.9 million increase for business-type activities). Debt outstanding in governmental activities decreased primarily due to the $67 million debt service payment and a decrease of $29 million in refunded limited general obligation bonds. Business-type activities' debt increased primarily due to $100 million in new sewer revenue bonds and the issuance of $73.4 million of limited general obligation bond anticipation notes (long-term) for Solid Waste.

During 2012, the County refinanced some of its existing governmental-activities type debt to take advantage of favorable interest rates. The County refinanced $219.7 million of general obligation various purpose bonds that is expected to decrease future aggregate debt service payments by $33.8 million over the life of the bonds. For business-type debt, the County refinanced $408 million ($244.9 million of general obligation bonds and $163.1 million of revenue bonds) that is expected to decrease future aggregate debt service payments by $33.9 million over the life of the bonds.

The County maintains a rating of "Aa1" from Moody's, a rating of "AAA" from Standard & Poor's, and a rating of "AA+" from Fitch for its limited tax general obligation debt. For its unlimited tax general obligation debt the County has a rating of "Aaa" from Moody's, a rating of "AAA" from Standard & Poor's, and a rating of "AAA" from Fitch. The ratings for Water Quality Enterprise's revenue debt are "Aa2" from Moody's and "AA+" from Standard & Poor's.

State statutes limit the amount of general obligation debt that the County may issue to 2.5 percent of its total assessed valuation for general county purposes and 2.5 percent for metropolitan functions. The current debt limitation of total general obligations for general county purposes is $7,868.7 million, significantly higher than the County's outstanding net general obligation long-term liabilities of $1,142.2 million. For metropolitan functions the debt limitation is $7,986.5 million and the County's outstanding net general obligation debt is $1,112.1 million.

Additional information on King County's long-term debt can be found in Note 15 – "Debt."

ECONOMIC OUTLOOK AND 2013 BUDGET

Economic factors have a direct impact on the County's revenues and the demand for services. The County's revenue sources include taxes, charges for services, and intergovernmental revenues. The largest single source is taxes, which comprise approximately one-third of total revenues and consist primarily of taxes on real property. Property taxes tend to be stable because levy rates are calculated months in advance and King County establishes assessed value from the preceding four years of real estate sales. Other tax sources, such as retail sales tax, are more volatile and directly influenced by economic conditions in the region.

The County's economy is improving significantly. The increasing diversification of the County's employment base has been an important buffer during the economic downturn, and some employment sectors are steadily gaining traction. Employment increased by 2.6 percent in 2012 with growth in several sectors including construction which rose by almost 15 percent. The County unemployment rate is now well below seven percent, which is less than the state and national averages. The region's most prominent employers, Boeing, Microsoft and Amazon.com, retain strong demand for their products.

The decline in house values since the recent recession have stabilized with 2012 showing a slight price index increase of over 8 percent. Total assessed valuation (TAV) fell, however, by 3.3 percent for tax year 2012 and an additional 1.5 percent for tax year 2013. Despite the downward pressure, TAV per capita is relatively high at $161,000. Taxpayer concentration is low, with the top ten property taxpayers accounting for less than five percent of 2013 TAV.

Following the recession, County taxable retail sales were particularly affected by declining incomes and low consumer confidence. Undesignated General Fund collections declined in 2009 by 13.3 percent from 2008 levels; then fell an additional 0.2 percent in 2010 before rebounding in 2011 by 6.6 percent, aided by a statewide tax amnesty program. Strong retail sales in the fourth quarter of 2012 helped close out the year with a positive 2.7 percent increase. The sales tax patterns among cities tend to be variable. Kirkland and Seattle showed 7 – 10 percent growth while Redmond showed a decline by 18 percent.

By law, the County is required to adopt a balanced budget. The budget for the County, adopted by the County Council in November 2012, totals $7.6 billion, which includes both annual and biennial budgets. Of this amount, $685.0 million, all annual, is appropriated for the General Fund. The budget also includes $238.6 million (annual) committed to Public Health and the following biennial appropriations: $247.3 million for Wastewater operating and $451.8 million for Wastewater construction; $1,352 million for Public Transportation operating and $670.9 million for Public Transportation capital and fleet replacement. The General Fund current expense budget maintained a six percent budgetary undesignated fund balance as a percentage of revenues.

King County will continue to face numerous challenges, including volatile energy prices, rising employee and programmatic healthcare costs, the cost of providing services to urban unincorporated areas, and the need to raise sufficient revenues to support utility, road infrastructure, transit system, and general government activities.

Property taxes are the largest revenue source in the County General Fund at 40 percent of total General Fund revenues. The County Council approved property tax levy is limited to one percent growth each year plus the property tax on new construction.

The County continues an annexation initiative and will face operational and budgetary adjustments as annexations are completed. Ten major urban unincorporated areas are identified that, by County Planning Policies, should be incorporated into or annexed into cities by 2013. Incorporation or annexation is also encouraged by the Washington State Growth Management Act.

In 2012 the Eastgate area and vicinity was annexed by the City of Bellevue. The completion dates of other major annexations are not currently known. The fiscal impacts of incorporation and annexation depend upon the revenue generating capacity of an area compared to its service demands.

REQUESTS FOR INFORMATION

This financial report is designed to provide an overview of the County's financial activities for all those with an interest in the government's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to the Chief Accountant, 500 Fourth Avenue Room 653, Seattle, WA 98104.

STATEMENT OF NET POSITION
DECEMBER 31, 2012
(IN THOUSANDS)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
ASSETS				
Cash and cash equivalents	$ 920,370	$ 1,049,291	$ 1,969,661	$ 254,944
Investments	-	-	-	34,842
Receivables, net	230,481	240,876	471,357	129,215
Due from primary government	-	-	-	1,372
Internal balances	(35,239)	35,239	-	-
Inventories	2,206	27,749	29,955	8,271
Prepayments and other assets	11,932	7,033	18,965	2,246
Capital assets				
Non-depreciable assets	2,012,670	947,334	2,960,004	48,756
Depreciable assets, net of depreciation	858,732	4,842,550	5,701,282	709,453
Deferred charges	8,081	26,723	34,804	-
Deposits with other governments	-	-	-	600
Regulatory assets - environmental remediation	-	46,918	46,918	-
Other utility assets	-	29,731	29,731	-
Other assets	-	1,050	1,050	2,718
TOTAL ASSETS	4,009,233	7,254,494	11,263,727	1,192,417
LIABILITIES				
Accounts payable and other current liabilities	83,235	91,694	174,929	48,810
Due to component unit	1,372	-	1,372	-
Accrued liabilities	52,288	113,407	165,695	38,345
Notes payable	-	100,325	100,325	-
Unearned revenues	27,820	13,362	41,182	3,832
Rate stabilization	-	62,600	62,600	-
Noncurrent liabilities				
Due within one year	224,727	92,009	316,736	4,958
Due in more than one year	1,248,366	4,245,165	5,493,531	42,986
TOTAL LIABILITIES	1,637,808	4,718,562	6,356,370	138,931
NET POSITION				
Net investment in capital assets	1,905,722	1,627,435	3,533,157	727,889
Restricted for:				
Capital projects	71,131	199	71,330	-
Debt service	60,689	232,600	293,289	-
General government	37,153	-	37,153	-
Law, safety and justice	78,903	-	78,903	-
Physical environment	62,536	-	62,536	-
Transportation	19	-	19	-
Economic environment	40,871	-	40,871	-
Mental and physical health	89,725	-	89,725	-
Culture and recreation	11,502	-	11,502	-
Regulatory assets and environmental liabilities	-	32,992	32,992	-
Other purposes	-	1,471	1,471	-
Expendable	-	-	-	76,345
Nonexpendable	-	-	-	3,448
Unrestricted	13,174	641,235	654,409	245,804
TOTAL NET POSITION	$ 2,371,425	$ 2,535,932	$ 4,907,357	$ 1,053,486

The notes to the financial statements are an integral part of this statement.

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012
(IN THOUSANDS)

			Program Revenues		
Functions/Programs	**Expenses**	**Indirect Expenses Allocation**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**
Primary government:					
Governmental activities:					
General government	$ 197,147	$ (49,752)	$ 72,711	$ 4,459	$ -
Law, safety & justice	609,568	20,356	143,737	30,981	-
Physical environment	75,879	1,232	55,526	9,389	1,358
Transportation	76,652	2,285	13,656	17,305	63,814
Economic environment	103,444	1,263	29,958	35,842	-
Mental & physical health	463,641	5,593	300,604	107,108	-
Culture & recreation	59,539	734	8,163	143	1,941
Interest and other debt service costs	38,509	-	1,783	8	-
Total governmental activities	1,624,379	(18,289)	626,138	205,235	67,113
Business-type activities:					
Airport	29,627	282	17,812	-	17,628
Public Transportation	727,038	13,346	278,143	58,347	59,846
Solid Waste	106,933	1,904	98,827	-	630
Water Quality	393,586	2,674	390,705	190	-
Institutional Network	3,151	-	2,739	-	-
Ferry District	6,621	-	1,421	-	3,467
Radio Communications Services	4,057	83	4,586	-	141
Total business-type activities	1,271,013	18,289	794,233	58,537	81,712
Total primary government	$ 2,895,392	$ -	$ 1,420,371	$ 263,772	$ 148,825
Component units	$ 785,003		$ 764,012	$ 19,237	$ 7,138

General revenues
- Property taxes
- Retail sales and use taxes
- Business and other taxes
- Penalties and interest - delinquent taxes
- Interest earnings

Transfers

Special item

Total general revenues and transfers

Change in net position

Net position - January 1, 2012 (Restated)

Net position - December 31, 2012

The notes to the financial statements are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Position			
Primary Government			Component Units Total
Governmental Activities	Business-type Activities	Total	
$ (70,225)	$	$ (70,225)	$
(455,206)		(455,206)	
(10,838)		(10,838)	
15,838		15,838	
(38,907)		(38,907)	
(61,522)		(61,522)	
(50,026)		(50,026)	
(36,718)		(36,718)	
(707,604)		(707,604)	
	5,531	5,531	
	(344,048)	(344,048)	
	(9,380)	(9,380)	
	(5,365)	(5,365)	
	(412)	(412)	
	(1,733)	(1,733)	
	587	587	
-	(354,820)	(354,820)	
(707,604)	(354,820)	(1,062,424)	
			5,384
593,654	25,217	618,871	-
161,467	413,047	574,514	-
42,332	-	42,332	-
21,476		21,476	-
8,356	5,700	14,056	2,182
2,856	(2,857)	(1)	-
3,809		3,809	
833,950	441,107	1,275,057	2,182
126,346	86,287	212,633	7,566
2,245,079	2,449,645	4,694,724	1,045,920
$ 2,371,425	$ 2,535,932	$ 4,907,357	$ 1,053,486

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2012
(IN THOUSANDS)

	GENERAL FUND	PUBLIC HEALTH FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS				
Cash and cash equivalents	$ 106,168	$ 72	$ 511,988	$ 618,228
Taxes receivable - delinquent	7,264	-	8,700	15,964
Accounts receivable, net	13,355	17,116	45,397	75,868
Other receivables, net	-	-	-	-
Interest receivable	9,003	-	-	9,003
Due from other funds	2,610	2,764	26,165	31,539
Interfund short-term loans receivable	6,194	-	-	6,194
Due from other governments, net	44,392	28,007	49,835	122,234
Inventory of supplies	-	579	-	579
Prepayments	-	-	7,146	7,146
Advances to other funds	3,800	-	4,000	7,800
TOTAL ASSETS	$ 192,786	$ 48,538	$ 653,231	$ 894,555
LIABILITIES AND FUND BALANCE				
Liabilities				
Accounts payable	$ 4,304	$ 16,764	$ 30,515	$ 51,583
Due to other funds	9,300	6,235	23,329	38,864
Interfund short-term loans payable	-	4,490	11,194	15,684
Due to other governments	621	-	6,033	6,654
Due to component unit	-	-	1,372	1,372
Interest payable	-	-	270	270
Wages payable	20,613	5,699	9,913	36,225
Taxes payable	204	-	32	236
Bonds payable	-	-	3,555	3,555
Unearned revenues	15,166	245	34,232	49,643
Notes and contracts payable	-	-	-	-
Custodial accounts	2,934	326	9,023	12,283
Advances from other funds	-	-	6,325	6,325
Total liabilities	53,142	33,759	135,793	222,694
Fund balances				
Nonspendable fund balance	3,800	579	14,069	18,448
Restricted fund balance	2,702	4,050	402,840	409,592
Committed fund balance	21,761	-	86,439	108,200
Assigned fund balance	8,827	10,150	23,007	41,984
Unassigned fund balance	102,554	-	(8,917)	93,637
Total fund balances	139,644	14,779	517,438	671,861
TOTAL LIABILITIES AND FUND BALANCES	$ 192,786	$ 48,538	$ 653,231	

Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds.	2,540,730
Other long-term assets are not available to pay for current-period expenditures and are deferred in the funds.	(1,752)
Governmental activities internal service funds assets and liabilities are included in the governmental activities in the statement of net position.	79,604
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(919,018)
Net position of governmental activities	$ 2,371,425

The notes to the financial statements are an integral part of this statement.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012
(IN THOUSANDS)

	GENERAL FUND	PUBLIC HEALTH FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES				
Taxes				
Property taxes	$ 282,775	$ -	$ 310,769	$ 593,544
Retail sales and use taxes	88,991	-	72,476	161,467
Business and other taxes	8,560	-	33,775	42,335
Penalties and interest - delinquent taxes	21,476	-	-	21,476
Licenses and permits	4,418	14,216	3,018	21,652
Intergovernmental revenues	101,351	137,026	359,172	597,549
Charges for services	114,226	19,965	115,564	249,755
Fines and forfeits	8,262	-	237	8,499
Interest earnings	3,612	-	2,938	6,550
Miscellaneous revenues	17,546	9,765	61,279	88,590
TOTAL REVENUES	651,217	180,972	959,228	1,791,417
EXPENDITURES				
Current				
General government	110,959	-	80,599	191,558
Law, safety and justice	459,707	-	111,219	570,926
Physical environment	-	-	98,962	98,962
Transportation	-	-	90,737	90,737
Economic environment	439	-	104,348	104,787
Mental and physical health	24,761	195,722	261,264	481,747
Culture and recreation	-	-	57,067	57,067
Debt Service				
Principal	-	-	56,913	56,913
Interest and other debt service costs	3	20	26,323	26,346
Refunding bond issuance costs	-	-	1,560	1,560
Payment to escrow agent	-	-	-	-
Capital outlay	1,149	181	136,949	138,279
TOTAL EXPENDITURES	597,018	195,923	1,025,941	1,818,882
Excess (deficiency) of revenues over (under) expenditures	54,199	(14,951)	(66,713)	(27,465)
OTHER FINANCING SOURCES (USES)				
Transfers in	238	25,042	117,675	142,955
Transfers out	(49,654)	(2,877)	(85,175)	(137,706)
General government debt issued	-	-	51,980	51,980
Premium on bonds sold	-	-	59,146	59,146
Refunding bonds issued	-	-	256,615	256,615
Sale of capital assets	93	1	453	547
Payment to refunded bonds escrow agent	-	-	(296,322)	(296,322)
TOTAL OTHER FINANCING SOURCES (USES)	(49,323)	22,166	104,372	77,215
Net changes in fund balances	4,876	7,215	37,659	49,750
Fund balances - January 1, 2012 (Restated)	134,768	7,564	479,779	622,111
Fund balances - December 31, 2012	$ 139,644	$ 14,779	$ 517,438	$ 671,861

The notes to the financial statements are an integral part of this statement.

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2012

(IN THOUSANDS)

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds	$	49,750
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. This is the amount by which capital outlays exceeded depreciation in the current period.		104,417
The net effect of various miscellaneous transactions involving capital assets (e.g., sales, trade-ins, and donations) is to increase net position.		1,276
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.		2,574
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 position. 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. This amount is the net effect of these differences in the treatment of long-term debt and related items.		(12,966)
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.		(29,213)
The net revenues and expenses of certain activities of internal service funds are reported with governmental activities.		10,508
Change in net position of governmental activities	$	126,346

The notes to the financial statements are an integral part of this statement.

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2012
(IN THOUSANDS)

	BUDGETED AMOUNTS			
	ORIGINAL	**FINAL**	**ACTUAL**	**VARIANCE**
REVENUES				
Taxes				
Property taxes	$ 276,717	$ 276,717	$ 282,775	$ 6,058
Retail sales and use taxes	87,186	87,186	88,991	1,805
Business and other taxes	6,672	6,672	8,560	1,888
Penalties and interest - delinquent taxes	22,000	22,000	21,476	(524)
Licenses and permits	3,972	3,972	4,418	446
Intergovernmental revenues	106,751	106,751	101,351	(5,400)
Charges for services	115,801	115,801	114,226	(1,575)
Fines and forfeits	9,471	9,471	8,262	(1,209)
Interest earnings	1,854	1,854	3,070	1,216
Miscellaneous revenues	14,911	14,911	17,546	2,635
Sale of capital assets	30	30	92	62
Transfers in	150	150	238	88
TOTAL REVENUES	645,515	645,515	651,005	5,490
EXPENDITURES				
Current				
General government services	112,793	117,665	111,749	5,916
Law, safety and justice	471,858	472,916	460,304	12,612
Economic environment	549	549	439	110
Mental and physical health	25,395	25,395	24,761	634
Debt service				
Principal	34	34	-	34
Interest and other debt service costs	3	3	3	-
Capital outlay	1,398	2,809	1,149	1,660
Transfers out	45,182	56,676	49,654	7,022
TOTAL EXPENDITURES	657,212	676,047	648,059	27,988
Deficiency of revenues under expenditures (budgetary basis)	$ (11,697)	$ (30,532)	2,946	$ 33,478
Adjustment from budgetary basis to GAAP basis			1,930 [a]	
Net change in fund balance			4,876	
Fund balance - January 1, 2012			134,768	
Fund balance - December 31, 2012			$ 139,644	

(a) Elements of adjustment from budgetary basis to GAAP basis:

Adjustments to revenues	
Recognition of unrealized gains on investments on a GAAP basis	$ 542
Adjustments to expenditures	
Non-budgeted expenditures	(582)
Encumbrances, not included in GAAP basis expenditures	1,969
Adjustment from budgetary basis to GAAP basis	$ 1,929

1

The notes to the financial statements are an integral part of this statement.

PUBLIC HEALTH FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2012
(IN THOUSANDS)

	BUDGETED AMOUNTS			
	ORIGINAL	**FINAL**	**ACTUAL**	**VARIANCE**
REVENUES				
Licenses and permits	$ 13,204	$ 13,066	$ 14,216	$ 1,150
Intergovernmental revenues	133,280	135,155	137,026	1,871
Charges for services	16,274	16,184	19,965	3,781
Contribution donations from private sources	7,320	5,294	4,897	(397)
Miscellaneous revenues	12,378	12,632	4,868	(7,764)
Transfers in	25,042	25,042	25,042	-
Sale of capital assets	-	-	1	1
Total Revenues	207,498	207,373	206,015	(1,358)
EXPENDITURES				
Current				
Mental and physical health	202,612	202,612	195,722	6,890
Debt service				
Interest and other debt service costs	40	40	20	20
Capital outlay	474	474	181	293
Transfers out	249	249	2,877	(2,628)
Total Expenditures	203,375	203,375	198,800	4,575
Excess (Deficiency) of revenues over (under) expenditures (budgetary basis)	$ 4,123	$ 3,998	7,215	$ 3,217
Adjustment from budgetary basis to GAAP basis - encumbrances			-	
Net change in fund balance			7,215	
Fund balances - January 1, 2012			7,564	
Fund balance - December 31, 2012			$ 14,779	

The notes to the financial statements are an integral part of this statement.

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2012
(IN THOUSANDS)
(PAGE 1 OF 2)

	BUSINESS-TYPE ACTIVITIES				
	PUBLIC TRANSPOR-TATION	WATER QUALITY	OTHER ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
ASSETS					
Current assets					
Cash and cash equivalents	$ 368,666	$ 116,800	$ 100,648	$ 586,114	$ 303,641
Restricted cash and cash equivalents	18,977	135,449	170	154,596	301
Accounts receivable	69,233	43,720	10,159	123,112	1,678
Estimated uncollectible accounts receivable	(361)	(1,151)	(128)	(1,640)	(1)
Due from other funds	1,445	2,321	3,900	7,666	5,567
Interfund short-term loans receivable	29,648	-	311	29,959	-
Property tax receivable-delinquent	463	-	43	506	-
Due from other governments, net	115,680	-	2,786	118,466	822
Inventory of supplies	19,221	6,972	1,548	27,741	1,635
Prepayments and other assets	404	144	-	548	4,786
Total current assets	623,376	304,255	119,437	1,047,068	318,429
Noncurrent assets					
Restricted assets					
Cash and cash equivalents	5,306	249,459	48,701	303,466	3,315
Accounts receivable	-	-	-	-	32
Due from other governments, net	23	325	-	348	-
Property tax receivable-delinquent	84	-	-	84	-
Total restricted assets	5,413	249,784	48,701	303,898	3,347
Capital assets					
Non-depreciable assets	251,104	536,488	159,741	947,333	8,048
Depreciable assets, net of depreciation	1,079,798	3,604,727	148,538	4,833,063	332,115
Total capital assets	1,330,902	4,141,215	308,279	5,780,396	340,163
Other noncurrent					
Prepayments	6,485	-	-	6,485	-
Advances to other funds	-	-	3,239	3,239	-
Regulatory assets - environmental remediation	-	46,918	-	46,918	-
Other utility assets, net of accumulated depreciation	-	29,731	-	29,731	-
Deferred charges	877	25,820	26	26,723	3,258
Other assets	1,050	-	-	1,050	-
Total other noncurrent	8,412	102,469	3,265	114,146	3,258
Total noncurrent assets	1,344,727	4,493,468	360,245	6,198,440	346,768
TOTAL ASSETS	1,968,103	4,797,723	479,682	7,245,508	665,197

The notes to the financial statements are an integral part of this statement.

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2012
(IN THOUSANDS)
(PAGE 2 OF 2)

	BUSINESS-TYPE ACTIVITIES				
	PUBLIC TRANSPOR-TATION	WATER QUALITY	OTHER ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
LIABILITIES					
Current liabilities					
Accounts payable	$ 50,858	$ 30,254	$ 10,170	$ 91,282	$ 10,408
Retainage payable	5,293	365	171	5,829	23
Estimated claim settlements	-	-	-	-	104,071
Due to other funds	1,293	851	762	2,906	3,002
Interest payable	460	80,520	1,714	82,694	1,354
Interfund short-term loans payable	-	20,158	311	20,469	-
Wages payable	23,511	4,471	2,717	30,699	6,227
Compensated absences payable	8,208	617	155	8,980	660
Taxes payable	3	4	214	221	1
Unearned revenues	9,090	865	3,407	13,362	2,547
Environmental remediation - current portion	-	6,246	-	6,246	-
Revenue bonds payable	-	39,290	-	39,290	9,800
General obligation bonds payable	9,975	3,435	3,930	17,340	2,055
Capital leases payable	104	-	-	104	-
State revolving loan payable	-	8,841	-	8,841	-
Notes payable	-	100,000	325	100,325	-
Landfill closure and post-closure care liability	-	-	4,061	4,061	-
Other liabilities	-		33	33	2,237
Total current liabilities	108,795	295,917	27,970	432,682	142,385
Noncurrent liabilities					
Retainage payable	1,963	-	-	1,963	-
Rate stabilization	-	62,600	-	62,600	-
Compensated absences payable	42,263	10,632	5,740	58,635	15,235
Other postemployment benefits	7,144	1,040	865	9,049	1,595
Advances from other funds	3,500	-	1,214	4,714	-
General obligation bonds payable, net of unamortized premium, discount, and deferred amount on refunding loss	123,577	888,057	111,406	1,123,040	12,035
Revenue bonds payable	-	2,802,465	-	2,802,465	311,980
Capital leases payable	2,983	-	-	2,983	-
State revolving loans payable	-	127,161	-	127,161	-
Landfill closure and post-closure care liability	-	-	88,078	88,078	-
Estimated claim settlements	-	-	-	-	65,492
Environmental remediation	353	28,955	3,295	32,603	-
Other liabilities	-	-	474	474	-
Total noncurrent liabilities	181,783	3,920,910	211,072	4,313,765	406,337
TOTAL LIABILITIES	290,578	4,216,827	239,042	4,746,447	548,722
NET POSITION					
Net investment in capital assets	1,203,777	221,227	192,943	1,617,947	7,551
Restricted for:					
Capital projects	199	-	-	199	5,339
Debt service	10,775	221,825	-	232,600	1,616
Regulatory assets and environmental liabilities	-	32,992	-	32,992	-
Other purposes	1,471	-	-	1,471	-
Unrestricted	461,303	104,852	47,697	613,852	101,969
TOTAL NET POSITION	$ 1,677,525	$ 580,896	$ 240,640	2,499,061	$ 116,475
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds				36,871	
Net position of business-type activities				$ 2,535,932	

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012
(IN THOUSANDS)

	BUSINESS-TYPE ACTIVITIES				
	PUBLIC TRANSPOR-TATION	WATER QUALITY	OTHER ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
OPERATING REVENUES					
I-Net fees	$ -	$ -	$ 2,604	$ 2,604	$ -
Radio services	-	-	4,542	4,542	-
Solid waste disposal charges	-	-	91,081	91,081	-
Airfield fees	-	-	3,054	3,054	-
Hangar, building, and site rentals and leases	-	-	13,918	13,918	-
Reimbursement for services to tenants	-	-	242	242	-
Passenger	217,138	-	1,421	218,559	-
Special service contracts	9,226	-	-	9,226	-
Sewage disposal fees	-	321,066	-	321,066	-
Other operating revenues	23,468	60,809	732	85,009	499,058
Total operating revenues	249,832	381,875	117,594	749,301	499,058
OPERATING EXPENSES					
Personal services	404,900	40,699	46,991	492,590	117,713
Materials and supplies	77,942	14,580	8,265	100,787	12,930
Contract services and other charges	33,301	13,490	37,252	84,043	283,153
Utilities	4,840	14,695	4,064	23,599	-
Purchased transportation	49,510	-	2,335	51,845	-
Internal services	63,617	31,475	15,613	110,705	25,556
Environmental related amortization	-	2,035	-	2,035	-
Depreciation and amortization	113,302	135,391	16,970	265,663	18,082
Total operating expenses	747,412	252,365	131,490	1,131,267	457,434
OPERATING INCOME (LOSS)	(497,580)	129,510	(13,896)	(381,966)	41,624
NONOPERATING REVENUES					
Sales tax	413,047	-	-	413,047	-
Property tax	23,832	-	1,385	25,217	-
Intergovernmental	58,347	190	-	58,537	24
Interest earnings	2,591	2,141	952	5,684	1,822
DNR administration	-	-	4,747	4,747	-
Rental income	-	-	261	261	-
Other nonoperating revenues	28,311	8,734	2,783	39,828	-
Total nonoperating revenues	526,128	11,065	10,128	547,321	1,846
NONOPERATING EXPENSES					
Interest	2,632	139,414	1,498	143,544	19,063
DNR administration	-	-	5,643	5,643	-
(Gain) loss on disposal of capital assets	(59)	1,556	273	1,770	(1,038)
Landfill closure and post-closure care	-	-	14,101	14,101	-
Other nonoperating expenses	122	6,493	1,124	7,739	380
Total nonoperating expenses	2,695	147,463	22,639	172,797	18,405
Income (loss) before contributions and transfers	25,853	(6,888)	(26,407)	(7,442)	25,065
Capital grants and contributions	59,846	-	21,866	81,712	1,527
Transfers in	-	-	5,812	5,812	149
Transfers out	(1,027)	(275)	(7,255)	(8,557)	(2,653)
Special items	-	-	-	-	1,182
CHANGE IN NET POSITION	84,672	(7,163)	(5,984)	71,525	25,270
NET POSITION - JANUARY 1, 2012	1,592,853	588,059	246,624		91,205
NET POSITION - DECEMBER 31, 2012	$ 1,677,525	$ 580,896	$ 240,640		$ 116,475
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds				14,762	
Change in net position of business-type activities				$ 86,287	

The notes to the financial statements are an integral part of this statement.

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012
(IN THOUSANDS)
(PAGE 1 OF 2)

	BUSINESS-TYPE ACTIVITIES				
	PUBLIC TRANSPOR-TATION	WATER QUALITY	OTHER ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash received from customers	$ 212,085	$ 368,413	$ 113,960	$ 694,458	$ 501,390
Cash payments to suppliers for goods and services	(225,620)	(71,257)	(68,247)	(365,124)	(320,390)
Cash payments for employee services	(402,592)	(39,541)	(45,550)	(487,683)	(111,732)
Other receipts	-	-	666	666	3,619
Other payments	-	-	-	-	-
Net cash provided (used) by operating activities	(416,127)	257,615	829	(157,683)	72,887
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Operating grants and subsidies received	522,425	190	3,756	526,371	1,434
Interfund loan principal amounts loaned to other funds	(29,648)	-	(303)	(29,951)	-
Interfund loan principal repayments from other funds	49,289	-	-	49,289	-
Interfund loan principal borrowed from other funds	-	20,158	-	20,158	-
Interfund loan principal repayment amounts	-	(39,583)	-	(39,583)	-
Advance to other funds	-	-	(1,214)	(1,214)	-
Grants to others	(122)	(130)	-	(252)	-
Transfers in	-	-	5,812	5,812	149
Transfers out	(1,027)	(275)	(7,255)	(8,557)	(2,653)
Net cash provided (used) by noncapital financing activities	540,917	(19,640)	796	522,073	(1,070)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition of capital assets	(179,846)	(198,764)	(44,801)	(423,411)	(8,344)
Financing of environmental remediation	-	(2,401)	-	(2,401)	-
Proceeds from capital debt	-	203,240	71,815	275,055	4,500
Principal paid on capital debt	(11,539)	(50,388)	(42,812)	(104,739)	(10,505)
Interest paid on capital debt	(5,145)	(159,750)	(780)	(165,675)	(19,353)
Proceeds from short-term interfund loan	-	-	303	303	-
Advances from other funds	-	-	1,214	1,214	-
Deferred Cost	-	-	-	-	-
Capital grants and contributions	45,291	-	20,796	66,087	43
Other capitalized payments	-	-	-	-	(9,846)
Proceeds from disposal of capital assets	1,146	36	22	1,204	1,447
Landfill closure and post-closure care	-	-	(4,273)	(4,273)	-
Net cash provided (used) by capital and related financing activities	(150,093)	(208,027)	1,484	(356,636)	(42,058)
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest on investments (including unrealized gains/losses reported as cash and cash equivalents)	2,591	2,141	957	5,689	1,823
Net cash provided by investing activities	2,591	2,141	957	5,689	1,823
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(22,712)	32,089	4,066	13,443	31,582
CASH AND CASH EQUIVALENTS - JANUARY 1, 2012	415,661	469,619	145,453	1,030,733	275,675
CASH AND CASH EQUIVALENTS - DECEMBER 31, 2012	$ 392,949	$ 501,708	$ 149,519	$ 1,044,176	$ 307,257

The notes to the financial statements are an integral part of this statement.

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012
(IN THOUSANDS)
(PAGE 2 OF 2)

	BUSINESS-TYPE ACTIVITIES				
	PUBLIC TRANSPOR-TATION	WATER QUALITY	OTHER ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES					
Operating income (loss)	$ (497,580)	$ 129,510	$ (13,896)	$ (381,966)	$ 41,624
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES					
Depreciation and amortization	113,302	137,426	16,970	267,698	18,082
Other nonoperating revenue/expense	12,870	8,734	669	22,273	-
Changes in assets - (increase) decrease					
Accounts receivable, net	(50,854)	(9,177)	(3,579)	(63,610)	(983)
Due from other funds	(654)	15	(395)	(1,034)	(1,505)
Due from other governments, net	-	-	(23)	(23)	80
Inventory of supplies	(1,534)	(640)	(25)	(2,199)	(124)
Prepayments	404	(68)	109	445	580
Changes in liabilities - increase (decrease)					
Accounts payable	4,724	2,855	926	8,505	4,303
Due to other funds	118	849	(3,966)	(2,999)	(65)
Retainage payable	36	19	(322)	(267)	(102)
Rate stabilization	-	(13,899)	-	(13,899)	-
Wages payable	2,517	928	939	4,384	2,340
Taxes payable	(133)	(31)	35	(129)	(4)
Unearned revenues	891	865	(109)	1,647	(666)
Claims and judgments payable	-	-	-	-	5,444
Compensated absences	(1,458)	45	(185)	(1,598)	3,302
Other postemployment benefits	1,249	184	148	1,581	339
Customer deposits and other liabilities	(25)	-	3,533	3,508	242
Total adjustments	81,453	128,105	14,725	224,283	31,263
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	$ (416,127)	$ 257,615	$ 829	$ (157,683)	$ 72,887

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:

Public Transportation issued bonds to refund debt issued in 2002 and 2004. The $79,005 thousand proceeds were placed in escrow for the defeasance of $73,830 thousand of outstanding bond principal and $5,175 thousand of interest.

Water Quality issued bonds to refund debt issued in 2004 and 2005. The $371,443 thousand proceeds were placed in escrow for the defeasance of $334,150 thousand of outstanding bond principal and $37,293 thousand of interest.

Internal Service Funds received $1,527 thousand of capital assets from other funds and transferred $63 thousand of capital assets to other funds.

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2012
(IN THOUSANDS)

	INVESTMENT TRUST FUNDS	AGENCY FUNDS
ASSETS		
Cash and cash equivalents	$ -	$ 149,329
Assets held in trust - external investment pool	-	2,511,962
Assets held in trust - external impaired investment pool	-	6,591
Investments	2,517,555	1,190
Assets held in trust - individual investment accounts	-	111
Taxes receivable - delinquent	-	73,804
Accounts receivable	-	4,817
Interest receivable	1,109	-
Assessments receivable	-	5,881
Notes and contracts receivable	-	51
TOTAL ASSETS	2,518,664	2,753,736
LIABILITIES		
Warrants payable	-	100,470
Accounts payable	-	4,875
Wages payable	-	1,400
Custodial accounts - County agencies	-	68,446
Due to special districts/other governments	-	2,578,545
TOTAL LIABILITIES	-	$ 2,753,736
NET POSITION		
Held in trust for pool/individual investment account participants	$ 2,518,664	

The notes to the financial statements are an integral part of this statement.

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012
(IN THOUSANDS)

	INVESTMENT TRUST FUNDS
ADDITIONS	
Contributions	$ 8,243,958
Net investment earnings	
Interest	13,589
Increase in the fair value of investments	2,238
TOTAL ADDITIONS	8,259,785
DEDUCTIONS	
Distributions	8,363,728
Change in net position	(103,943)
Net position - January 1, 2012	2,622,607
Net position - December 31, 2012	$ 2,518,664

The notes to the financial statements are an integral part of this statement.

STATEMENT OF NET POSITION
COMPONENT UNITS
DECEMBER 31, 2012
(IN THOUSANDS)

	Harborview Medical Center	WSMLB Stadium Public Facilities District	Cultural Development Authority	Total
ASSETS				
Cash and cash equivalents	$ 227,192	$ 4,042	$ 23,710	$ 254,944
Investments	-	-	34,842	34,842
Receivables, net	128,738	18	459	129,215
Due from primary government	-	-	1,372	1,372
Inventories	8,271	-	-	8,271
Prepayments	2,245	1	-	2,246
Non-depreciable assets	10,332	38,424	-	48,756
Depreciable assets, net of depreciation	363,074	346,379	-	709,453
Deposits with other governments	600	-	-	600
Other assets	2,718	-	-	2,718
Total assets	743,170	388,864	60,383	1,192,417
LIABILITIES				
Accounts payable and other current liabilities	48,433	60	317	48,810
Accrued liabilities	38,345	-	-	38,345
Unearned revenues	-	-	3,832	3,832
Noncurrent liabilities				
Due within one year	1,488	3,271	199	4,958
Due in more than one year	19,201	22,451	1,334	42,986
Total liabilities	107,467	25,782	5,682	138,931
NET POSITION				
Invested in capital assets, net of related debt	368,808	359,081	-	727,889
Restricted for:				
Expendable	20,194	-	56,151	76,345
Nonexpendable	3,448	-	-	3,448
Unrestricted	243,253	4,001	(1,450)	245,804
Total net position	$ 635,703	$ 363,082	$ 54,701	$ 1,053,486

The notes to the financial statements are an integral part of this statement.

STATEMENT OF ACTIVITIES
COMPONENT UNITS
FOR THE YEAR ENDED DECEMBER 31, 2012
(IN THOUSANDS)

		Program Revenues		
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**
Component units:				
Harborview Medical Center	$ 762,517	$ 759,779	$ 6,024	$ 3,966
WSMLB Stadium	14,273	4,149	-	3,172
Cultural Development Authority	8,213	84	13,213	-
Total component units	$ 785,003	$ 764,012	$ 19,237	$ 7,138
	General revenues			
	Interest earnings			
	Change in net position			
	Net position - January 1, 2012			
	Net position - December 31, 2012			

The notes to the financial statements are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Position			
Harborview Medical Center	WSMLB Stadium Public Facilities District	Cultural Development Authority	Total
$ 7,252	$ -	$ -	$ 7,252
-	(6,952)	-	(6,952)
-	-	5,084	5,084
7,252	(6,952)	5,084	5,384
1,283	186	713	2,182
8,535	(6,766)	5,797	7,566
627,168	369,848	48,904	1,045,920
$ 635,703	$ 363,082	$ 54,701	$ 1,053,486

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. "Blended" component units include the King County Ferry District, the Flood Control Zone District, and three non-profit property management corporations reported collectively. 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, other than cities and towns and the Port of Seattle. 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 – Discretely Presented

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 Director of the Finance and Business Operations Division is the Treasurer of HMC. 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, 2012, rather than the County's fiscal year-end of December 31, 2012.

The primary classification of HMC is that of a component unit, however the County is the issuer of HMC's general obligation bonds. Note 15 reports on all the general obligation bonds issued by the County as of December 31, 2012, including bonds reported by HMC as a component unit as of June 30, 2012.

HMC hires independent auditors and prepares its own audited financial statements. These statements may be obtained from the Finance Section of the Harborview Medical Center, Box 359750 325 Ninth Ave., Seattle, Washington, 98122.

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 (Ordinance 12000) 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 a 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 1997 general obligation bond issues and contributions from the Baseball Club of Seattle. Debt service on the bonds is supported by sales and use taxes, 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) are 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, which are audited by the State Auditor. These statements may be obtained from the Public Facilities District, P.O. Box 94445, Seattle, Washington 98124.

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

The Cultural Development Authority of King County (CDA) is a public authority organized pursuant to chapter 35.21 RCW and King County Ordinance 14482. The CDA commenced operations on January 1, 2003, and began doing business as "4Culture" effective April 4, 2004. It was created to support, advocate for, and preserve the cultural resources of the region in a manner that fosters excellence, vitality, and diversity.

The CDA is located in Seattle, Washington, and is governed by a 15-member board of directors and five *ex officio* members. The directors are appointed by the County Executive and confirmed by the County Council. The CDA receives various funds from King County and other sources that are designated for arts, cultural, and public art use, including a portion of the revenue generated by the King County lodging tax and one percent of King County expenditures for certain construction projects.

The CDA is a component unit of the County for the following reasons: (1) it is a separate legal entity (public authority); (2) the CDA's board of directors is appointed by the County Executive (from a nonrestrictive pool of candidates) and confirmed by the County Council; and (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. The CDA's financial presentation is as a discrete component unit because 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. It issues its own financial statements, which are audited by the State Auditor. These statements may be obtained from the Cultural Development Authority of King County at 4Culture, 101 Prefontaine Place South, Seattle, Washington 98104.

<u>Component Units – Blended</u>

<u>King County Ferry District</u>

The King County Ferry District (KCFD) was created under the authority of chapter 36.54 RCW to expand local transportation options through water taxi services. By statute, the King County Council serves as the Board of Supervisors for the KCFD..

The KCFD is a component unit of the County for the following reasons: (1) it is a legally separate entity established as a quasi-municipal corporation and independent taxing authority; (2) King County appoints the voting majority of the KCFD board because the County Council members are the *ex officio* supervisors of the KCFD; and (3) the County can impose its will on the KCFD. The KCFD financial presentation is on a blended basis because the two governing boards are substantively the same. It issues its own financial statements, which are audited by the State Auditor. Financial statements for the KCFD are included with other Nonmajor Enterprise Funds in the Proprietary Funds section of this CAFR. Independently audited statements for the KCFD can be obtained from Francis & Company, PLLC, 701 Dexter Avenue N, Suite 404, Seattle, WA 98109.

Flood Control Zone District

The Flood Control Zone District (FCZD) was created under the authority of chapter 86.15 RCW to manage, plan, and construct flood control facilities within district boundaries. By statute, the King County Council serves as the Board of Supervisors for the FCZD.

The FCZD is a component unit of the County for the following reasons: (1) it is a legally separate entity established as quasi-municipal corporation and independent taxing authority; (2) King County appoints the voting majority of the FCZD board because the County Council members are the *ex officio* supervisors of the FCZD; and (3) the County can impose its will on the FCZD. The FCZD financial presentation is on a blended basis because the two governing boards are substantively the same. It issues its own financial statements, which are audited by the State Auditor. Financial statements for the FCZD are included with other Nonmajor Special Revenue Funds in the Governmental Funds section of this CAFR. Independently audited statements for the FCZD can be obtained from Francis & Company, PLLC, 701 Dexter Avenue N, Suite 404, Seattle, WA 98109.

Building Development and Management Corporations

King County has project lease agreements with three Washington state nonprofit corporations, each a single-purpose entity created to assist the County in the development and construction of public buildings. Each agreement provides for the design and construction of a specific building to be financed with bonds (majority of which are tax-exempt) issued on behalf of the County by each of the corporations in accordance with IRS Revenue Ruling 63-20 and Revenue Procedure 82-26. Under the agreements, the buildings are leased by the County from the nonprofit corporations with guaranteed monthly rent payments throughout the term of the lease or until the bonds are fully retired after which ownership transfers to the County.

These nonprofit corporations are recognized as component units of the County in accordance with GASB Statement 14. Although they have independently-appointed boards, the nature and significance of their relationships with the County's primary government are such that their exclusion would cause the King County reporting entity's financial statements to be misleading or incomplete. Because they provide services exclusively to the County, these corporations are reported using the blended method. A single internal service fund, the Building Development and Management Corporations Fund, is used to report the combined activities of the corporations.

The nonprofit corporations and the related buildings under their management include: (1) CDP-King County III for the King Street Center building; (2) Goat Hill Properties for the Goat Hill Parking Garage and the Chinook Building; and (3) NJB Properties for the Ninth & Jefferson Building. At the end of November 2012 the County refinanced the revenue bonds issued by Broadway Office Properties to finance the Patricia Steel Memorial building. Title to the building effectively transferred to the County on December 2012 and Broadway Office Properties ceased to be a component unit. Separately issued and audited financial statements for the blended nonprofits may be obtained from the National Development Council, 1425 4th Avenue, Suite 608, Seattle, WA 98101.

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 nonprofit 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 officials 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 of potential liability 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 responsible for one-half of the disallowed amount. As of December 31, 2012, there are no outstanding program eligibility issues that might lead to a liability on the part of King County.

The WDC contracts with King County to provide programs related to dislocated workers, welfare to work, and workforce centers. For 2012, the WDC reimbursed King County approximately $4.4 million for the Work Training Program in eligible program costs.

Separately issued and independently audited financial statements may be obtained from the Workforce Development Council, 2003 Western Avenue, Suite 250, Seattle, Washington 98121.

Jointly governed organization

The Washington State Convention Center (WSCC) public facilities district was created in July 2010 to acquire, own and operate the convention and trade center transferred from the state-controlled nonprofit corporation that owned the original WSCC. As of December 31, 2012, the transfer of assets to the WSCC public facilities district has been completed and new debt has been issued by the district to replace the State's outstanding bonds related to the WSCC. The district's initial board of directors consists of those nine directors who served at the time of the district's creation. Following the expiration of the terms of the initial board, three members will be nominated by the County Executive subject to confirmation by the County Council, three members will be nominated by the City of Seattle, and three members will be appointed by the Washington state governor. Because there is equal representation in the governance of the district among the two local governments and the state, and because the participant governments do not retain any ongoing financial interest, the WSCC public facilities district is a jointly governed organization.

Related Organizations

Three entities are classified as related organizations because they are legally separate entities, though each is related to King County. These are the King County Library System (KCLS), the Library Capital Facility District (LCFD), and the King County Housing Authority (KCHA). The County Council appoints a majority of the board of the KCLS and the KCHA and selected Councilmembers make up the three-member board of the LCFD. There is no evidence that the County Council can influence the programs and activities of these three organizations or that they create a significant financial benefit or burden to the County. For these reasons, they are related organizations.

The County serves as the treasurer for the KCLS and the LCFD, providing services such as tax collection and warrant issuance. Due to this fiduciary relationship, these districts are reported as agency funds to distinguish them from County funds.

Government-wide and Fund Financial Statements

The government-wide financial statements (the Statement of Net Position 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 services. Likewise, the primary government is reported 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. Indirect expenses that have been allocated from general government to various functional activities are reported in a separate column. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment; and 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 in separate columns in the fund financial statements. The County also has 65 nonmajor Special Revenue and

Capital Projects funds that are combined into 17 roll-up funds.

Major Governmental Funds

The County reports two 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 other funds.

The Public Health Fund is used to finance health service centers located throughout King County and public health programs. The Public Health Fund supports clinical health services/primary care assurance, management and business practice, population and environmental health services, and targeted community health services. Its main sources of funding are grants, license and permit fees, and taxes.

Major Proprietary Funds

The County reports two 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 Metro Transit Division. Primary revenue sources include sales tax and passenger service fees. Construction and fleet replacement are funded through sales tax, bond issuance, and federal grants.

The Water Quality Enterprise accounts for the operations, capital improvements, and maintenance of the County's water pollution control facilities. The enterprise has three large treatment plants, the recently constructed Brightwater Treatment Plan that came online in 2012, the West Point Treatment Plant in Seattle, and the South Treatment Plant in Renton, as well as two smaller facilities, the Carnation and Vashon Island Treatment Plants.

Nonmajor Governmental Funds

Special Revenue Funds are used to account for a variety of County programs including alcohol and substance abuse, the arts, an automated fingerprint identification system, community development, road maintenance, emergency medical services, the enhanced 911 emergency telephone system, local hazardous waste management, mental health services, parks, 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, and special assessment debt for certain Districts.

Capital Projects Funds are used to account for the acquisition, construction, and improvement of major capital assets and other capital-related activities such as infrastructure preservation, major maintenance of building facilities, office space leasing, storm management projects, technology systems, arts and historic preservation, 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 program, and other services provided by one department or agency to other departments or agencies of the County on a cost reimbursement basis. The Wastewater Equipment Rental Fund was established to serve the Water Quality Enterprise. This fund is reported under business-type activities in the government-wide 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 the Undistributed Taxes Fund and the 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.

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 have been met.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, are generally 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 in connection with a proprietary fund's principal ongoing operations. User fees (sewage fees, passenger fares, disposal charges, etc.) charged by the County's enterprise funds for the use of its business-type facilities and charges for services of internal service funds are classified as operating revenues. Rental income is operating revenue to the Airport enterprise, whose principal operation is leasing real property. The corresponding costs of service provision and delivery, including direct administration costs, depreciation or amortization of capital assets, and other allocations of future costs to current year operations (e.g., landfill post-closure, other postemployment benefits), comprise operating expenses. All other revenues and expenses not meeting this definition are reported as nonoperating.

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 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 are generally 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.

New Accounting Standards

The following GASB pronouncements are effective for the 2012 reporting year of the County:

GASB Statement 60 – *Service Concession Arrangements* was implemented in 2012. A service concession is where a government transfers an asset to an operator who operates the asset in exchange for significant consideration to provide public services. The County does not have any material service concession contracts.

GASB Statement 62 – *Codification of Accounting and Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* was implemented in 2012. The County is already in compliance with the applicable provisions to its proprietary and governmental funds.

GASB Statement 63 – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* was implemented in 2012. This statement specified limited situations that can result in the reporting of deferred outflows or deferred inflows of resources. The County did not enter into these transactions and therefore do not have balances to report as deferred outflows or inflows of resources. The only significant change to the County's financial reporting this year is in the renaming of "Net Assets" to "Net Position", and "Invested in Capital Assets Net of Related Debt" to "Net Investment in Capital Assets" as required under the guidance.

GASB Statement 64 – *Derivative Instruments* relates to accounting for hedging of derivative investments.

The County acknowledges its issuance but it is not currently applicable as the County does not invest in derivative instruments in accordance with its risk policy.

The County did not early implement GASB Statement 65 – *Items Previously Reported as Assets and Liabilities* which is effective for periods beginning after December 15, 2013. It is a supplemental guidance to GASB Statement 63 as it expands the list of transactions that could potentially result in the recognition of deferred outflows or deferred inflows of resources.

Terminology

Expenditure Functions

General Government 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 Management and Budget, Office of Information Resources Management, Records and Licensing Services, Elections, and Assessments.

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

Physical Environment – 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 – Provided by the governmental entity for the safe and adequate flow of vehicles and pedestrians that includes expenditures for road and street construction, maintenance, transportation facilities and systems, and general administration. This function includes Road Services, Arterial Highway Development, Renton Maintenance Facilities, and county road construction.

Economic Environment – Provided for the development and improvement of the welfare of the community and individual. This function includes expenditures for employment opportunity and development, veterans' services, child-care services, and services for the aging and disabled. 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 – Provided to promote healthy people and healthy communities by preventing and treating mental, physical, and environmentally induced illnesses. This function 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 function also includes regional hazardous waste management.

Culture and Recreation – Provided to increase the individual's understanding and enjoyment that includes expenditures for education, libraries, community events, parks, and cultural facilities. This function includes Parks, Cooperative Extension Service, and various Park Capital Project Funds.

Debt Service – 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 – 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 Position:

- 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.
- The asset account *Deferred charges* combines Deferred – 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 loans payable, Compensated absences, Environmental and property remediation, Unamortized premium or discount on bonds sold, Deferred charges – refunding losses, and other liabilities.

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 the King County Investment Pool (the Pool) maintained by the King County Treasury Operations Section. (See Note 4 - "Deposits and Investments.") The Pool consists of internal and external portions. For 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 position is reported on the balance 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 investment of short-term cash surpluses that are not pool participants are allocated to the General Fund in accordance with legal requirements and are used in financing general County operations.

Investments (See Note 4 – "Deposits and 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. Money is 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 are reported as investments, regardless of length of maturity. Those attributed to both the external portion of the 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 position 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 transaction between willing parties, other than in a forced or liquidation sale. See Note 4 - "Deposits and Investments."

Receivables

(See Note 5 – "Receivables")

Receivables include charges for services rendered by the County or intergovernmental grants. All unbilled service receivables are recorded at year-end. The provisions for estimated uncollectible receivables are reviewed and updated at year-end. 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 unearned revenues. Property taxes are recognized as revenue when collected in cash at which time the balance sheet accounts, Taxes receivable and unearned 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 unearned revenues.

Abatements Receivable – This account records the unpaid abatement costs due the County from violations reported by the Code Enforcement Section on property within the County. Revenue is recognized when payment is received. Abatement costs may be certified to the property tax parcel; as a result, these costs might not be paid until the property is sold, which may take years.

Civil Penalties Receivable – This account records the unpaid civil penalty costs due the County from violations reported by the Code Enforcement Section within the County. Revenue is recognized when payment is received. Liens may be filed by the County against the property and are released once the penalties have been paid.

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 unearned assessments are due in the future. 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 is 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 noncurrent 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/from Other Funds – Noncurrent portions of long-term interfund loans 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 governmental funds are recorded using the consumption method; expenditures are recognized when inventories are actually consumed. Proprietary funds expense inventories when used or sold. The first-in, first-out (FIFO) valuation method is used by the Solid Waste, King County International Airport, Radio Communications, Construction and Facilities Management, and Public Health Funds. The Weighted Average valuation method is used by the Motor Pool Equipment Rental Fund, Public Works Equipment Rental Fund, and the Public Transportation and Water Quality Enterprises.

Prepayments

Payments made to vendors for goods or services that will benefit future periods are recorded as prepaid items.

Capital Assets (See Note 7 – "Capital Assets")

Capital assets include: Land (fee simple land, rights-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. General capital assets, including those in internal service funds that support governmental funds, are reported in the governmental column of the government-wide Statement of Net Position. Capital assets of enterprise funds, including those in internal service funds that exclusively support enterprise funds, are reported in the business-type column of the government-wide Statement of Net Position. Enterprise and internal service fund capital assets are also reported in the individual proprietary fund Statement of Net Position. The capitalization threshold in the King County Primary Government is $5 thousand for furniture, machinery and equipment, $25 thousand for software, and $50 thousand for buildings, building improvements, and other improvements.

Because the County is committed to maintaining the infrastructure indefinitely, it has elected to use the modified approach to infrastructure reporting in lieu of the depreciation method. The County is eligible to use the modified approach because it has an asset management system in place that allows for constant monitoring of the infrastructure to ensure that assets are maintained and preserved at the predetermined condition level set by the Road Services Division. The asset management system tracks the mileage, condition, and the actual and planned maintenance and preservation costs of individual infrastructure assets.

Certain equipment and facilities used in the Solid Waste Enterprise landfill closure and post-closure activities are not reported 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 normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item, or extend its useful life beyond the original estimate, are expensed as incurred. Expenditures for repairs and upgrades that materially add to the value or life of an asset are capitalized. Costs incurred to extend the life of governmental infrastructure assets are considered preservation costs and are therefore not capitalized.

Capital assets other than land, infrastructure, and artwork are depreciated in accordance with GASB Statement No. 34. As with business-type capital assets, provision is made for depreciation over the estimated useful lives of the depreciable assets using the straight-line method.

Using the straight-line method, capital assets and their components are depreciated over their estimated useful lives as follows:

Description	Estimated Useful Life
Buildings - constructed	40 - 60 years
Buildings - transfer stations, shops, scales offices, etc.	10 - 30 years
Buses and trolleys	12 - 18 years
Cars, vans, and trucks	5 - 10 years
Data processing equipment	3 - 10 years
Downtown transit tunnel	50 years
Heavy equipment	7 - 20 years
Medical and office equipment, software	3 - 25 years
Sewer lines	50 years
Shop equipment	5 - 20 years
Telecommunications equipment	3 - 20 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. The Water Quality Enterprise defers environmental remediation costs, which are amortized over 40 years. The Building Development and Management Corporations Fund defers organizational startup costs and amortizes over 5 years. 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 Position under Noncurrent liabilities and in the fund financial statements under Long-term liabilities.

Unearned Revenues

Unearned revenues include: (1) amounts collected before revenue recognition criteria are met, such as unearned parks program revenue and building and land development permit fees; (2) receivables and uncollected delinquent taxes that, under the modified accrual basis of accounting, are measurable but not yet available; and (3) a Water Quality Enterprise rate stabilization reserve (see next section on regulatory deferrals).

Regulatory Deferrals

The King County Council has taken various regulatory actions resulting in differences between the recognition of revenues for rate-making purposes in the Water Quality Enterprise fund and their treatment under generally accepted accounting principles for nonregulated entities. Currently, the Water Quality Enterprise is authorized to apply the accounting treatment of costs under the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 71 (FAS 71), *Accounting for the Effects of Certain Types of Regulation.* Water Quality meets FAS 71 criteria because the rates for its services are regulated by the King County Council, and the regulated rates chargeable to its customers are designed to recover the enterprise's allowable costs of operations.

Rate Stabilization – The County Council established a Rate Stabilization Reserve in the Water Quality Enterprise fund. This allows for deferral of certain operating revenues as a liability to be recognized in subsequent years through amortization in order to maintain stable sewer rates.

Regulatory Assets – In 2006, the County Council approved the application of FAS 71 to treat pollution remediation obligations as regulatory assets to allow for cost recovery through future rate increases. The portion of regulatory asset costs that have been accrued is being amortized over a recovery period of 30 years.

Rebatable Arbitrage

The County's tax-exempt debt is subject to arbitrage restrictions as defined by the Internal Revenue Code. All of the County's bonded debts are tax-exempt except certain taxable debts as identified in Note 15 - "Debt." Arbitrage occurs when the 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 does not recognize 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, 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 12 to 30 days of vacation per year. An unlimited amount of sick leave and a maximum of 60 days of vacation may be carried over at year-end. An employee leaving employment at King County is entitled to be paid for unused vacation leave and, if leaving employment due to death or retirement, 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 an 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 and proprietary statements.

Long-term Obligations

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 Position. 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. See Note 15 – "Debt" for further information.

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.

Note 2

Reconciliation of Government-wide and Fund Financial Statements

Explanation of certain differences between the Governmental Funds Balance Sheet and the Government-wide Statement of Net Position (in thousands):

The governmental funds balance sheet includes reconciliation between *fund balance – total governmental funds* and *net position* – governmental activities as reported in the government-wide statement of net position. 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."

Bonds payable	$ 754,794
Less: Deferred charge on refunding (to be amortized as interest expense)	(26,952)
Deferred charge for issuance costs (to be amortized over the life of the debt)	(4,823)
Plus: Unamortized premiums on bonds sold	66,786
Accrued interest payable	8,226
Compensated absences	80,828
Unemployment compensation payable	2,586
Other postemployment benefits	35,588
Environmental Remediation	1,985
Net adjustment to reduce *fund balance - total* governmental funds to arrive at net position - governmental activities	$ 919,018

Explanation of certain differences between the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities (in thousands):

The governmental funds statement of revenues, expenditures, and changes in fund balances includes reconciliation between *net changes in fund balances – total governmental funds and changes in net positions 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."

Capital outlay	$ 138,279
Depreciation expense	(33,862)
Net adjustment to increase *net changes in fund balances - total governmental funds* to arrive at *changes in net position of governmental activities*	$ 104,417

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 position."

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.	$ 23,573
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.	(24,849)
Net adjustment to increase *net changes in fund balances - total governmental funds* to arrive at *changes in net position of governmental activities*	$ (1,276)

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."

Property tax accrual	$ 110
Abatement fee accraul	11
Noxious weed assement accrual	(3)
Surface Water Management service charge accrual	134
Probation and parole service charge accrual	(244)
Fines and forfeits net accrual	(66)
Direct subsidy bonds reimbursement accrual	5
Special item	2,627
Net adjustment to increase *net changes in fund balances - total governmental funds* to arrive at *changes in net position of governmental activities*	$ 2,574

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 position. 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."

Debt issued or incurred	
Issuance of general government debt	$ 51,980
Issuance of refunding bonds	256,615
Premium on bonds sold	59,146
Bond issuance costs	(2,748)
Principal repayments	(56,913)
Receipts from component units for principal repayments	1,208
Payment to escrow agent	(296,322)
Net adjustment to decrease *net changes in fund balances - total governmental funds* to arrive at *changes in net position of governmental activities*	$ 12,966

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."

Compensated absences	$	(3,686)
Accrued unemployment compensation		(203)
Other postemployment benefits		5,829
Retroactive retirement contribution settlement		31,000
Environmental Remediation		1,985
Accrued interest		1,331
Amortization of issuance costs		1,507
Amortization of deferred charge on refunding		7,756
Amortization of bond premiums		(16,306)
Net adjustment to decrease *net changes in fund balances - total governmental funds* to arrive at *changes in net position of governmental activities*	$	29,213

Another element of that reconciliation states, "Net revenues and expenses of certain activities of internal service funds are reported with governmental activities."

Investment interest earnings	$	(1,806)
Intergovernmental revenues		(24)
Revenues related to services provided to outside parties		(6,237)
Expenses related to services provided to outside parties		5,717
Gain on disposal of capital assets		(574)
Interest on long-term debt		19,063
Capital contributions		(487)
Transfers in		(149)
Transfers out		2,543
Special item		(1,182)
Internal service fund gains allocated to governmental activities		(27,372)
Net adjustment to increase *net changes in fund balances - total governmental funds* to arrive at *changes in net position of governmental activities*	$	(10,508)

Explanation of certain differences between the Proprietary Funds Statement of Net Position and the Government-wide Statement of Net Position (in thousands):

The proprietary funds statement of *net position includes reconciliation between net position – total enterprise funds and net position of business-type activities* as reported in the government-wide statement of net position. The description of the reconciliation is "Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds." The assets and liabilities of one internal service fund, Wastewater Equipment Rental Fund, are included in the business-type activities in the statement of net position because the fund was established to serve the Water Quality Enterprise.

Net assets of the business-type activities internal service fund	$	14,265
Internal receivable representing charges in excess of cost to the enterprise funds by the governmental activities internal service funds - prior years		9,944
Internal payable representing the amount overcharged to the enterprise funds by the governmental activities internal service funds - current year		12,662
Net adjustment to increase *net assets - total enterprise funds* to arrive at *net position of business-type activities*	$	36,871

Explanation of certain differences between the Proprietary Funds Statement of Revenues, Expenses, and Changes in Fund Net Position and the Government-wide Statement of Activities (in thousands):

The proprietary funds statement of revenues, expenses, and changes in fund net position includes a reconciliation between *change in net position – total enterprise funds* and *change in net position of business-type activities* as reported in the government-wide statement of activities. The description of the reconciliation is "Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds."

Investment interest earnings	$	16
Revenues related to services provided to outside parties		96
Expenses related to services provided to outside parties		(88)
Gain on disposal of capital assets		84
Transfers in		1,040
Transfers out		(110)
Internal service fund gains allocated to business-type activities		13,724
Net adjustment to increase *net position - total enterprise funds* to arrive at *net position of business-type activities*	$	14,762

Note 3

Stewardship, Compliance, and Accountability

Basis 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.

Two Special Revenue Funds (the County Road Fund and the Marine Operating Fund) have adopted biennial budgets for 2012/13.

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 multiyear 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 District Fund, the King County Ferry District Fund, the Parks Trust and Contribution Fund, the Road Improvement Districts Maintenance Fund, and the Treasurer's Operations and Maintenance Fund are not budgeted.

Three Debt Service Funds have annual budgets. They have annual budgets with budgeting concepts identical to the General Fund. The fourth budgeted Debt Service Fund, the Road Improvement Guaranty Fund, has a biennial budget for 2012/13.

The Road Improvement Districts Special Assessment Debt Redemption Fund is not budgeted.

All funds in the Capital Projects Fund type, except the Road Improvement Districts Construction Fund, are controlled by multiyear 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.

The Road Improvement Districts Construction Fund is not budgeted.

The Enterprise and Internal Service Funds, with the exception of the Insurance Fund and the Building Development and Management Corporations 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 during the fiscal year. Estimated revenues are based on the amount estimated to be earned and available during the fiscal year. Several divisions within the Department of Transportation are appropriated as biennial budgets for the 2012/13 biennium.

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 claims 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.

The Building Development and Management Corporations Fund and the Trust and Agency Funds are not budgeted.

Encumbrances

Encumbrances outstanding as of December 31, 2012, by fund type (in thousands):

General Fund	$	1,969
Special Revenue Funds		261
Internal Service Funds		2,623
Total All Funds	$	4,853

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. 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. 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 seven Special Revenue Funds (Children and Family Services, Community Development Block Grant, County Roads, Developmental Disabilities, Mental Illness and Drug Dependency, Miscellaneous Grants and Public Health), which are appropriated at the department/division level. The Capital Projects Funds 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 year-end. 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, Materially in Excess of Amounts Legally Authorized

Funds with Annual or Biennial Budgets

All funds and departments/divisions with annual or biennial budgets completed the year within their legally authorized expenditures, including other financing uses.

Material Fund Balance and Net Position Deficits

Building Development and Management Corporations – The deficit of $17.3 million is the result of the depreciation on capital assets being greater than the principal payments on the lease revenue bonds and bond interest expenses exceeding rent collected in the initial years of a buildings operation. When bond payments become progressively larger the deficit will be reduced.

Construction and Facilities Management Fund – The deficit of $713 thousand in unrestricted net position is the result of accumulated impact of $4.1 million fund balance reduction through tenant rebates in 2010 and 2011, and an unanticipated draw down of the 2012 fund balance caused by lower than expected revenues and unfunded supplemental appropriation approvals. The accumulated fund balance target for this fund is designed to cover unanticipated needs for supplemental appropriations. Unfortunately, the fund balance was insufficient to deal with unanticipated expenditures and long term liabilities of the fund.

A fund balance surcharge of $700 thousand was proposed during a 2013 budget development process. This proposal was designed to restore FMD's fund balance to established financial targets and adequate fund balances. However, this proposal was not approved. FMD will be proposing a tenant rate surcharge to restore the fund balance to financial target levels during the 2015 budget process. FMD will also be careful in forecasting revenues in future years.

County Road Construction Fund – The deficit of $1.2 million is the result of timing differences between construction spending and receipt of tax revenues. Property tax allocations for 2013 will correct the deficit.

I-Net Enterprise Funds – The deficit of $511 thousand is due to the cost of constructing IT investment. $1.8M is transferred in 2012 to KCIT Capital fund to plan and replace the aged I-Net infrastructure system. The negative net position is expected to be reduced as the fund collects the revenue from customers in the future years. The I-Net service fees include the system replacement surcharge.

King County Information Technology Services Fund – The deficit of $1.8 million is primarily caused by $3.4M increase in the vacation/sick liability due to the IT reorganization. Because of the IT consolidation efforts, 216 employees moved from various departments in the King County Executive branch to KCIT Services fund in 2012. As a result, the fund experienced a large increase in vacation/sick related liabilities. The subsequent effort to transfer equity from other funds to cover this transfer of liability will improve the negative net position in the future years.

King County Information Technology Services Capital Fund – The deficit of $33 thousand is the result of timing differences between project spending and transfer of revenues. Bond proceeds will be transferred in 2013 to cover the deficit.

King County Flood Control Contract Fund – The deficit of $91 thousand was caused by an increase in expenditures reported in the general ledger after the final reimbursement billing was sent to the King County Flood District. The deficit will be eliminated by requesting further reimbursement from the Flood District.

Park Facilities Rehabilitation – The deficit of $118 thousand of unassigned fund balance was due to costs incurred pending transfer of resources from other funds. Transfers will occur in 2013 to cover the deficit.

Parks, Recreation and Open Space Fund – The deficit of $835 thousand is due to timing differences between expenditure and reimbursement from real estate excise tax revenues. Tax receipts will be distributed in 2013 to cover the deficit.

Renton Maintenance Facilities Construction – The deficit of $5.5 million was the result of costs to begin the design of a new regional maintenance facility in Ravensdale. The deficit will be eliminated from proceeds received from the sale of property at a future date.

River Improvements Fund — The deficit of $1 thousand is the result of timing differences between expenditures and the receipt of tax revenues.

Unrestricted Net Position Deficits

Solid Waste Enterprise Fund – The deficit of $1,6 million in unrestricted net position is the result of recognizing a long-term liability for landfill closure and post-closure care which is being funded through annual contributions from operations.

Note 4

Deposits and Investments

Deposits

The County maintains deposit relationships with several local commercial banks and thrift institutions in addition to its concentration bank. All deposits that are not entirely insured by the Federal Deposit Insurance Corporation (FDIC) are fully collateralized by the Public Deposit Protection Commission of the State of Washington (PDPC). The PDPC is a statutory authority established under chapter 39.58 RCW that governs public depositaries and provides that "All public funds deposited in public depositaries, including investment deposits and accrued interest thereon, shall be protected against loss, as provided in the chapter." It constitutes a multiple financial institution collateral pool that can make pro rata assessments to all public depositaries within the state for their public deposits. PDPC protection is of the nature of collateral, not of insurance.

Custodial credit risk – Deposits The custodial credit risk for deposits is the risk that, in the event of a bank failure, the County's deposits may not be recovered. State statutes require that certificates of deposit be placed in qualified public depositaries in the State of Washington and total deposits cannot exceed the net worth of the financial institution. The County further limits deposits to institutions with a short-term investment positive grade rating of Moody's P-3, S&P A-3 or Fitch F-3 or better and a Safe & Sound Star rating of 3 or better. Those institutions not meeting the minimum credit rating requirements may receive deposits up to the FDIC or federally guaranteed amounts. No new deposits will be placed with institutions that are on credit watch "negative" by Moody's, S&P or Fitch, or where Safe & Sound's predictive indicator is negative. The County's diversification policy limits the maximum amount of investment in certificates of deposit to 25 percent of the total amount of the portfolio and 2.5 percent from a single issuer.

As of December 31 the County's total deposits, excluding the equity in the component units, were $187.6 million in carrying amount and $181.7 million in bank balance. All of the deposits are either covered entirely by the FDIC or uninsured but fully collateralized under the PDPC collateral pool. Accordingly, the County has no custodial risk for its deposits as shown in the following schedule (in thousands):

	Carrying Amount	Bank Balance
Demand deposits	$ 184,052	$ 178,156
Money Market Accounts	3,596	3,596
Total deposits	$ 187,648	$ 181,752

The money market accounts in the schedule above comprise cash held with trustees for three Washington state nonprofit corporations reported in the internal service funds as Building Development and Management Corporations, a blended component unit of King County. The cash held in various financial institutions, including most notably the Bank of New York Trust Company (Trustee) and Wells Fargo (Trustee), is invested in United States Government Money Market accounts that are uninsured but fully collateralized under the PDPC collateral pool.

Investments

Investment Instruments State statutes authorize King County to invest in:

- Savings or time accounts in designated qualified public depositaries; and certificates, notes, or bonds of the United States.
- Other obligations of the United States, its agencies, or in any corporation wholly owned by the U.S. government.
- Bankers' acceptances purchased on the secondary market, Federal Home Loan bank notes and bonds, Federal Land Bank bonds, Federal National Mortgage Association notes, debentures, and guaranteed certificates of participation.

- Obligations of any other government-sponsored corporation whose obligations is or may become eligible as collateral for advances to member banks as determined by the board of governors of the Federal Reserve System.
- Commercial paper (within the policies established by the State Investment Board)
- Debt instruments of banking institutions, local and state general obligations
- Revenue bonds issued by Washington State governments that are rated at least "A" by a nationally recognized rating agency.

King County voluntarily invests in the Washington State Treasurer's Local Government Investment Pool (LGIP). The amount is carried at cost, which approximates fair value. The LGIP is a 2a7-like pool 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 County is authorized to enter into repurchase agreements to meet the investment needs of the Pool. Such transactions are governed by a Master Repurchase Agreement. County investment policies require that securities' tri-party underlying repurchase agreements must have a market value equal to at least 102 percent of repurchase price, plus accrued interest. Repurchase agreements in excess of 60 days are not allowed. Currently, the County's tri-party custodial bank monitors compliance with these provisions.

Although the County is authorized to enter into reverse repurchase agreements, the County has chosen not to enter into this type of transaction during the year. Also, during the year, the County did not buy, sell, or hold any derivative or similar instrument.

External Investment Pool For investment purposes, the County pools the cash balances of County funds and participating component units, and allows for participation by other legally separate entities such as special districts, for which the County is the *ex officio* treasurer, and public authorities. The King County Investment Pool (the main Pool), administered by the King County Treasury Operations Section, is an external investment pool. The external portion of the Pool (the 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 main Pool is not registered with the Securities and Exchange Commission (SEC) as an investment company. Oversight is provided by the King County Executive Finance Committee (EFC), which serves the role of the County Finance Committee as defined in RCW 36.48.070. The Investment Pool Advisory Committee (IPAC) was created by Ordinance 16280 to provide input to the EFC on matters related to the County Investment Pool. The IPAC is comprised of 10 members drawn from representatives of King County government agencies and nearly 100 other special purpose districts, including school, fire, sewer, library, water and other districts within the County. The IPAC has not been vested with decision making authority for the Pool; it will make recommendations to the EFC on its agenda items related to the Pool.

Impaired Investment Pool In 2008, the County placed four impaired commercial paper investments into an impaired investment pool (Impaired Pool), which is separated from the King County Investment Pool. The Impaired Pool holds one commercial paper asset (Victoria), where the County accepted an exchange offer in 2009 and is receiving the cash flows from the investment's underlying securities. For the other three commercial paper investments (Cheyne, Mainsail and Rhinebridge), the County accepted a cash-out option in 2008, based on the results of three separate restructuring auctions conducted by the designated "receiver" of each commercial paper asset.

The Depository Trust Company (DTC), a clearing house for settling trades, was responsible for distributing the cash proceeds from each restructuring auction based on directions provided by each applicable receiver. However, DTC insisted on being indemnified before they would consent to distribute proceeds from the restructuring process. The receivers agreed to set aside a "reserve" for potential legal claims that might arise and potentially impact the receiver and/or DTC. The receivers also retained funds for possible legal actions and to protect other parties involved in the restructuring process. At year-end, the amount reserved for the County amounted to a total of $2.0 million for the Cheyne, Rhinebridge, and Mainsail restructurings. The "estimated fair value" of the $2.0 million was based on the value of the cash retained by the receivers as of December 31, 2012. The receivers indicated that future cash distribution of the reserve would occur gradually in two, four and six year increments, with the caveat that distributions could be impacted by legal claims.

During 2012, the County received a cash "tail" payment of over $810 thousand related to Mainsail that was distributed to impaired pool participants. The realized loss that was associated with this amount was also distributed. The Mainsail receivers also indicated that up to $405 thousand may be available for future disbursement. This brings the total cash available for future disbursement from all receivers to $2 million. The receiver for Cheyne and Rhinebridge have elected not to distribute any funds that were segregated for the various parties involved in the restructuring process until there is more certainty about the impact of pending legal claims.

Between 2008 and 2010, the County initiated lawsuits seeking recovery for losses associated with all four of the impaired investments. In 2012, the County settled the litigation concerning Mainsail and Victoria, and executed a settlement with three of the defendants in the lawsuits concerning Rhinebridge. The net settlement payments have been distributed to each pool participant.

When accounting for all four impaired investments, the fair value of the Impaired Pool at December 31, 2012, was $11.6 million and the book value was $23.6 million. The fair value at year-end was determined by a combination of the December 2012 value of Victoria based on a market quote from one dealer and, as stated earlier, the value of the cash retained by the receivers as of December 31, 2012. Also, because of extremely low interest rates, the County chose not to discount these future cash flows.

The Main Pool Excluding the equity in the component units, the main Pool has a balance of $4,419.1 million. The component units have a balance of $249.5 million. The change in the fair value of the total investments for the reporting entity as of December 31, 2012, after considering purchases, sales and maturities, resulted in a net markup from cost of $15.0 million. The following schedule shows the types of investments, the average interest rate, and the effective duration limits of the various components of the King County Investment Pool as of December 31, 2012 (in thousands):

Investment Type	Fair Value	Principal	Average Interest Rate	Effective Duration (Yrs)
Repurchase Agreements	$ 150,000	$ 150,000	0.20%	0.006
U.S. Agency Discount Notes	396,463	396,576	0.14%	0.321
U.S. Treasury Notes	1,685,111	1,650,000	0.57%	1.958
U.S. Agency Notes	1,622,785	1,615,457	0.85%	1.755
U.S. Agency Collateralized Mortgage Obligations	17,605	16,101	4.34%	3.239
State Treasurer's Investment Pool	796,069	796,069	0.24%	-
Totals	$ 4,668,033	$ 4,624,203	0.57%	1.357

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 investment accounting system. If a security is not priced by the County's accounting system vendor, prices are obtained from the County's safekeeping bank or from Bloomberg L.P., a provider of fixed income analytics, market monitors, and security pricing. In 2012, the County also obtained quotes from primary investment dealers to help determine the fair values of impaired investments. The County has not provided or obtained any legally binding guarantees to support the value of the Investment Pool's shares.

The main 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; (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 upon fees. This method differs from the fair value method used to value investments in the financial statements because the amortized cost method is not designed to distribute to participants all unrealized gain and loss due to change in the fair values. The net change in the fair values of the investments is reported as an increase or decrease in cash and cash equivalents in the statement of net position.

<u>Custodial credit risk – Investments</u> Custodial credit risk is the risk that, in the event of the failure of the counterparty, the County will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. County policy mandates that all security transactions, including repurchase agreements, are settled "delivery versus payment." This means that payment is made simultaneously with the receipt of the security. These securities are delivered to the County's safekeeping bank or its tri-party custodian banks.

<u>Concentration of credit risk – Investments</u> Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year-end the Pool had concentrations greater than 5 percent of the total investment pool portfolio in the following issuers: Federal Home Loan Mortgage Corporation–15.2 percent, Federal National Mortgage Association–13.6 percent, Federal Home Loan Bank–5.8 percent, and Federal Farm Credit Bank–9 percent.

<u>Interest rate risk – Investments</u> Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Through its investment policy, the County manages its exposure to fair value losses arising from increasing interest rates by setting maturity and effective duration limits for the main Pool. The policy limit for the Pool's maximum effective duration is 1.5 years, and 40 percent of the Pool's total value in securities must have a maturity of 12 months or less. Securities in the portfolio cannot have an average life greater than five years at purchase. As of December 31, 2012, the effective duration of the main Pool was 1.357 years.

<u>Credit risk of Debt Securities</u> Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. At year-end, the King County Investment Pool was not rated by a Nationally Recognized Statistical Rating Organization (NRSRO). In compliance with state statutes, Pool policies authorize investments in U.S. Treasury securities, U.S. agency securities and mortgage-backed securities, municipal securities (rated at least "A" by two NRSROs), commercial paper (rated at least the equivalent of "A-1" by two NRSROs), certificates of deposit issued by qualified public depositaries, repurchase agreements, and the Local Government Investment Pool managed by the Washington State Treasurer's office.

The credit quality distribution below is categorized to display the greatest degree of credit risk as rated by Standard and Poor's, Moody's, or Fitch. For example, a security rated "AAA" by one rating agency and "AA" by another would be listed as "AA." This table shows the credit quality for all securities in the main Pool not backed by the full faith and credit of the United States (in thousands):

Credit Quality Distribution

Investment Type	AAA or A-1	AA	Not Rated	Total
Repurchase Agreements	$ 150,000	$ -	$ -	$ 150,000
U.S. Agency Discount Notes	396,463	-	-	396,463
U.S. Treasury Notes	-	1,685,111	-	1,685,111
U.S. Agency Notes	-	1,622,785	-	1,622,785
U.S. Agency Collateralized Mortgage Obligations	-	17,605	-	17,605
State Treasurer's Investment Pool	-	-	796,069	796,069
TOTAL	$ 546,463	$ 3,325,501	$ 796,069	$ 4,668,033

The main Pool's policies limit the maximum amount that can be invested in various securities. At year-end the Pool was in compliance. The Pool's actual composition consisted of Repurchase Agreements, 3.2 percent, U.S. Agency Discount Notes, 8.5 percent, U.S. Treasury Notes, 36.1 percent, U.S. Agency Notes, 34.8 percent, U.S. Agency Mortgage Backed Securities, 0.4 percent, and the State Treasurer's Investment Pool, 17.0 percent. The following table summarizes the Pool's diversification policy.

OVERVIEW OF THE KING COUNTY INVESTMENT POOL'S POLICIES TO LIMIT INTEREST RATE & CREDIT RISK

Investment Type	Maximum Maturity	Security Type Limit	Single Issuer Limit	Minimum Credit Rating
U.S. Treasury	5 Years	100%	None	N/A
U.S. Federal Agency	5 Years	100%	35%	N/A
U.S. Federal Agency MBS(1)	5 Year WAL	25%	25%	N/A
Certificates of Deposit(2)	1 Year	25%	2.5%	A3/P3/F3
Municipal Securities(3)	5 Years	20%	2.5%	A(4)
Bank Securities	5 Years	20%	2.5%	A(4)
Repurchase Agreements(5)	60 Days	40%	5%	A1/P1/F1
Commercial Paper	180 Days	25%	2.5%	A1/P1/F1(6)
Bankers' Acceptances	180 Days	25%	2.5%	A1/P1/F1(7)
State LGIP(8)	N/A	25%	25%	N/A

N/A = Not applicable
(1) MBS count toward the total that can be invested in any one U.S. Federal Agency.
(2) Institution must be a Washington State depository and participate in the PDPC collateralization program.
(3) County policy limits purchases to general obligation bonds.
(4) Must be rated A or better by two rating agencies.
(5) Tri-party repurchase agreements collateralized at 102%.
(6) Must be rated in top credit category by at least two rating agencies. Maturities > 100 days must have AA long-term rating.
(7) Bankers' acceptances must be rated in top credit category by at least two rating agencies.
(8) The State LGIP is a money market-like fund managed by the State Treasurer's Office.

King County Investment Pool and Impaired Investment Pool Condensed Statements

The King County Investment Pool's (the main Pool) and the Impaired Investment Pool's Condensed Statements of Net Position and Changes in Net Position as of December 31, 2012 (in thousands):

Condensed Statement of Net Position

	Total	Main Pool	Impaired Pool
Assets	$ 4,681,221	$ 4,669,637	$ 11,584
Net Position held in trust for pool participants	$ 4,681,221	$ 4,669,637	$ 11,584
Equity of internal pool participants	$ 2,162,669	$ 2,157,676	$ 4,993
Equity of external pool participants	2,518,552	2,511,962	6,591
Total equity	$ 4,681,221	$ 4,669,637	$ 11,584
Condensed Statement of Changes in Net Position			
Net Position - January 1, 2012	$ 4,671,245	$ 4,657,920	$ 13,325
Net change in investments by pool participants	9,976	11,717	(1,741)
Net Position - December 31, 2012	$ 4,681,221	$ 4,669,637	$ 11,584

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 position in these individual investment accounts are reported in a separate Investment Trust Fund in the Fiduciary Funds section.

Component Units

Harborview Medical Center (HMC)

Harborview Medical Center (HMC) participates in the County's investment pool and follows the applicable criteria as described above for the King County Investment Pool deposits and investments.

Custodial credit risk – Deposits The custodial credit risk for deposits is the risk that in the event of a bank failure, the HMC's deposits may not be recovered. HMC maintains demand deposit accounts in various banks (insured up to $250 thousand per bank) totaling $4.4 million and reports a carrying amount of $4.4 million. In addition, HMC has equity in the Investment Pool (reported as cash equivalents on June 30, 2012) totaling $222.7 million and a carrying amount of $222.7 million. As of June 30, 2012, all of the deposits were covered entirely by the FDIC or uninsured but fully collateralized under the PDPC collateral pool. Accordingly, the HMC has no custodial credit risk for its deposits as shown in the following table (in thousands):

Harborview Medical Center
Deposits and Investments

	Carrying Amount	Bank Balance
Cash in other banks	$ 4,441	$ 4,431
Equity in Investment Pool	222,751	222,751
Total	$ 227,192	$ 227,182

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

The Washington State Major League Baseball Stadium Public Facilities District (PFD) participates in the County's investment pool and follows the applicable criteria as described above for the King County Investment Pool deposits and investments.

Custodial credit risk – Deposits The custodial credit risk for deposits is the risk that in the event of a bank failure, the PFD's deposits may not be recovered. At year-end, all the PFD's deposits are covered entirely by the FDIC or uninsured but fully collateralized under the PDPC collateral pool. Accordingly, the PFD has no custodial credit risk for its deposits. At year-end, the PFD's equity in the King County Investment Pool and carrying amount was $4 million.

Cultural Development Authority of King County (CDA)

Deposits The Cultural Develoment Authority of King County (CDA) maintains a deposit relationship with a local commercial bank. All deposits with this qualified public depositary that are not insured by the FDIC are fully collateralized by the PDPC. Accordingly, the CDA has no custodial credit risk for its deposits. Carrying amounts of deposits for book purposes are materially the same as bank balances.

Investments The CDA has an investment policy to guide the management of its assets and ensure that investment activity is within regulations established by state and county codes. The primary objective is the preservation of principal.

State statutes authorize the CDA to invest in certificates, notes, and bonds of the United States, other obligations of the United States or its agencies, or any corporation wholly owned by the government of the United States. Statutes also authorize the CDA to invest in bankers' acceptances purchased on the secondary market, Federal Home Loan bank notes and bonds, Federal Land Bank bonds, Federal National Mortgage Association notes and debentures, and guaranteed certificates of participation. The CDA is also authorized to invest in the Washington State Local Government Investment Pool (LGIP), which is comparable to a Rule 2a-7 money market fund recognized by the Securities and Exchange Commission. LGIP funds are limited to high quality obligations with limited maximum and average maturities, which has the effect of minimizing both market and credit risk.

All investment securities are recorded at fair market value based on reports provided by the CDA's investment trustee.

The following schedule shows the types of investments, the average interest rate, the effective duration limits and the concentration of all CDA investments as of December 31, 2012 (in thousands):

Cultural Development Authority
Investments By Type

Investment Type	Fair Value	Principal	Average Interest Rate	Effective Duration (Yrs)	Concentration
U.S. Treasury Notes	$ 16,720	$ 15,268	2.80%	3.949	29.14%
Federal Home Loan Mortgage Corp Debentures	3,852	3,686	4.12%	2.250	6.71%
Federal National Mortgage Association Notes	5,969	5,689	3.86%	2.335	10.40%
Federal Home Loan Bank Bonds	3,487	3,128	3.92%	6.002	6.08%
Federal Farm Credit Bank Bonds	1,392	1,279	3.85%	3.007	2.43%
State Treasurer's Investment Pool	22,527	22,527	0.24%	0.003	39.27%
Other/Money Market Fund	3,423	3,423	0.13%	0.003	5.97%
Subtotals	$ 57,370	$ 55,000	1.93%	1.984	100.00%
Less State Treasurer's Investment Pool (Cash Equivalent)	(22,527)				
Total Investments per Statement of Net Position	$ 34,843				

Interest rate risk – Investments Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Through its investment policy, the CDA manages its exposure to interest rate risk by setting maturity and effective duration limits for its portfolio. As of December 31, 2012, the combined weighted average effective duration of the CDA's portfolio was 1.98 years.

Credit risk Credit risk is the risk that an issuer will not fulfill its obligations. As of December 31, 2012, all issuers of investments in the CDA portfolio had a Standard & Poor's rating of "AA+." The Washington State Local Government Investment Pool is not rated.

Concentration of credit risk – Investments Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. As of December 31, 2012, the CDA had concentrations greater than 5 percent of its total portfolio, excluding U.S. Treasury obligations, in the following issuers: Federal National Mortgage Association – 10.4 percent, Federal Home Loan Mortgage Corporation – 6.7 percent, and Federal Home Loan Bank – 6.1 percent.

Note 5
Receivables

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 (in thousands):

	General Fund	Public Health Fund	Other Governmental Funds	Total Governmental Funds
Accounts receivable				
Accounts receivable	$ 80,328	$ 17,116	$ 47,569	$ 145,013
Estimated uncollectible accounts receivable	(66,973)	-	(2,172)	(69,145)
Net accounts receivable	$ 13,355	$ 17,116	$ 45,397	$ 75,868
Due from other governments	$ 44,675	$ 28,007	$ 49,835	$ 122,517
Estimated uncollectible due from other governments	(283)	-	-	(283)
Net due from other governments	$ 44,392	$ 28,007	$ 49,835	$ 122,234

Note 6
Property Taxation

Taxing Powers

The County is authorized to levy both "regular" property taxes and "excess" property taxes. Regular property taxes are subject to rate limitations and amount limitations 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 numbers of voters approving the excess levy is at least 60 percent of a number equal to 40 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 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 thousand of assessed value; the County levied $1.21477 per thousand in 2012. 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 thousand; the County currently is at the maximum rate of $2.25 per thousand in 2012. Additional statutory provisions limit the increase in the aggregate amount of taxes levied.

The County is authorized to increase its general purposes levy to a maximum of $2.475 per thousand of assessed value if the total combined levies for both general and road purposes do not exceed $4.05 per thousand 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 thousand 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 thousand (authorized by RCW 84.52.069); (2) a voted levy to finance affordable housing for very low income households, limited to $0.50 per thousand (authorized by RCW 84.52.105), however, the County has not sought approval from voters for this levy; (3) a non-voted levy for conservation futures, limited to $0.0625 per thousand (authorized by RCW 84.34.230); and (4) a non-voted levy for transit-related purposes, limited to $0.075 per $1,000 (authorized by RCW 84.52.140). The County's levy rate for conservation futures in 2012 is $0.05483 per $1,000 of assessed value and its levy rate for transit-related purposes is $0.075.

In November 2007, voters approved a six-year Emergency Medical Services property tax at a maximum rate of $0.30 per thousand beginning in the 2008 tax year (the 2012 rate was $0.30 per $1,000 of assessed value). On November 8, 2005, voters approved a $0.05 Veterans and Human Services temporary lid lift for six years. On August 16, 2011, voters approved an extension of this levy for an additional six years. The County levied $0.05000 per thousand for Veterans and Human Services in 2012. In 2006, voters in the County approved a six-year temporary lid lift to finance an automated fingerprint identification system. This six-year levy began in 2008; the 2012 levy rate is $0.03530 per thousand. A Regional and Rural Parks lid lift plus a companion lid lift for the Woodland Park Zoo/Open Space and Trails were approved by voters in 2007 for a six-year period beginning in 2008. The 2012 levy rate is $0.06308 each per $1,000 of assessed value.

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 thousand) 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 thousand of assessed value by RCW 84.52.043(2). This limitation is exclusive of excess levies authorized by Article VII, Section 2, of the State Constitution; levies for emergency medical services, affordable housing for very low income households, transit-related purposes, and acquiring conservation futures; a portion of certain levies by metropolitan park districts and by fire protection districts; and levies imposed by ferry districts.

If aggregate regular property tax levies exceed the one percent or $5.90 per $1,000 of assessed value limitations, then, in order to bring the aggregate levy into compliance, levies requested by "junior" taxing districts within the area affected are reduced or eliminated according to a detailed prioritized list (RCW 84.52.010). 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 (RCW 84.55) 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 taxing district, 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 taxing district upon a finding of substantial need and is also approved by the voters at a general or special election within the taxing district. 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 increases 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 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.

Excess Property Taxes. The County also may impose "excess" property taxes, which 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 number of voters approving the excess levy is at least 60 percent of a number equal to 40 percent of the number who voted at the last County general election. Excess levies also may be imposed without a popular vote when necessary to prevent the impairment of the obligation of contracts.

Component Units with Taxing Authority. In 2007, the County Council created a countywide flood control zone district and a countywide ferry district with rates of $0.11616 and $0.00372, respectively for the 2012 tax year. The boundaries of each district are coterminous with the boundaries of the County and the members of the County Council serve (at least initially) as the legislative body for each district, but under State law each district is a separate taxing district with independent taxing authority.

Pursuant to Ordinance 16742, adopted in January 2010, the County Council created a Transportation Benefit District (TBD) with boundaries comprised of the unincorporated portions of the County. Pursuant to State law, the members of the County Council serve as the governing body of the TBD, which is a separate taxing district with independent taxing authority. The TBD is not authorized to levy regular property taxes but may levy excess property taxes for a one-year period for any purpose or over multiple years to provide for the retirement of voter-approved general obligation bonds, issued for capital purposes, in either case only when authorized by the voters. The TBD has not sought voter approval for any such excess levies.

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 due.
May 31	Assessed value of property established for next year's levy at 100 percent of market value.
October 31	Second installment 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 the half to be paid on April 30 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. Personal property taxes levied by the County Council are secured by a lien on the personal property assessed. A federal tax lien filed before the County Council levies the personal property taxes is senior to the County's personal property tax lien. In addition, a federal civil judgment lien is senior to a lien on real property taxes once the federal lien has been recorded. In all other respects, and subject to the possible homestead exemption described below, the lien of 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 $125 thousand in 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 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, in order to levy taxes payable the following year, the County Council receives the Assessor's final certificate of assessed value of property within the County.

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 unearned revenue at the beginning of the year. Property taxes are recognized as revenue when collected in cash at which time the accounts taxes receivable and unearned revenues on the balance sheet 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 unearned revenues. For the government-wide financial statements, the unearned 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 2011 and 2012 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 2012 countywide assessed valuation was $319.5 billion, a decrease of $11 billion from 2011; the assessed valuation for the unincorporated area levy was $33.0 billion, a decrease of $6.5 billion from 2011.

ALLOCATION OF 2012 AND 2011 TAX LEVIES

	2012 Original Taxes Levied (in thousands)	2012 Levy Rate (per thousand)	2011 Original Taxes Levied (in thousands)	2011 Levy Rate (per thousand)
Countywide Levy Assessed Valuation:				
$319,460,937 thousand[(a)]				
Items Within Operating Levy[(b)]				
General Fund	$ 284,370	$ 0.89508	$ 278,188	$ 0.84638
Veterans' Relief	2,602	0.00819	2,557	0.00778
Human Services	5,840	0.01838	5,739	0.01746
Intercounty River Improvement	50	0.00016	49	0.00015
Limited GO Bonds Debt Service	25,893	0.08150	24,582	0.07479
Automated Fingerprint Identification System[(c)]	11,216	0.03530	11,596	0.03528
Parks Levy[(d)]	40,081	0.12616	38,264	0.11642
Veterans and Human Services[(e)]	15,886	0.05000	15,473	0.04708
Total Operating Levy	385,938	1.21477	376,448	1.14534
Public Transportation[(f)]	23,827	0.07500	22,625	0.06884
Conservation Futures Levy[(g)]				
Conservation Futures Levy	9,235	0.02907	10,008	0.03045
Farmland and Park Debt Service	8,184	0.02576	7,053	0.02146
Total Conservation Futures Levy	17,419	0.05483	17,061	0.05191
Unlimited Tax GO Bonds				
(Voter-approved Excess Levy)	22,459	0.07128	23,501	0.07207
Total Countywide Levy	449,643	1.41588	439,635	1.33816
EMS Levy Assessed Valuation:				
$201,874,699 thousand [(a) (h)]	60,238	0.30000	62,740	0.30000
Unincorporated County Levy Assessed Valuation:				
$32,993,778 thousand [(a) (i)]				
County Road Fund	73,716	$ 2.25000	86,111	$ 2.19730
Total County Tax Levies [(j)]	$ 583,597		$ 588,486	

(a) Assessed valuation for taxes payable in 2012.

(b) The operating levy tax rate is statutorily limited to $1.80 per thousand of assessed valuation.

(c) The Automated Fingerprint Identification System (AFIS) levy is a regular property tax assessed for six years beginning in 2007 at a levy rate of not more than $0.05680 per thousand of assessed valuation (RCW 84.55.050).

(d) The Parks Levy was renewed as a two-part regular property tax (parks and open space/trails/zoo) to be assessed for six years beginning in 2008 at a levy rate of not more than $0.05 per $1,000 of assessed value for each part, as authorized by RCW 84.55.050 and approved by a majority of the voters in the County.

(e) The Veterans and Human Services levy is a regular property tax to be assessed for six years beginning in 2006 at a levy rate of not more than $0.05 per thousand of assessed valuation as authorized by RCW 84.55.050 and a proposition approved by a majority of voters in the County. On Augeust 16, 2011, voters approved an extension of this levy for an additional six years.

(f) The non-voted levy for transit-related purposes is limited to $0.075 per $1,000 of assessed value.

(g) The Conservation Futures levy tax rate is statutorily limited to $.0625 per thousand of assessed value.

(h) The Emergency Medical Services (EMS) levy shown excludes that portion of the levy within the City of Seattle, which is paid to the city. The levy was approved by the voters in the County in 2007 for a six-year period with collection beginning in 2008.

(i) The tax rate is statutorily limited to a maximum of $2.25 per thousand of assessed valuation.

(j) Excludes tax levy of the blended component units a) the Flood Control Zone District (in 2012 and 2011, the original taxes levied were $36,905 and $36,076 thousand, respectively), and b) the Ferry District (in 2012 and 2011 the original taxes levied were $1,182 thousand and $1,185 thousand).

Note 7
Capital Assets

Primary Government

A summary of changes in capital assets for the King County Primary Government (in thousands):

	Balance 1/1/2012	Increases	Decreases	Balance 12/31/2012
Governmental Activities:				
Capital assets not being depreciated				
Land	$ 449,602	$ 31,524	$ (12,797)	$ 468,329
Rights-of-way and easements	423,742	8,338	(9,248)	422,832
Infrastructure	951,972	78,299	(9,665)	1,020,606
Art collections	10,742	56	(1,280)	9,518
Work in progress	118,512	126,538	(153,665)	91,385
Total capital assets not being depreciated	1,954,570	244,755	(186,655)	2,012,670
Capital assets being depreciated				
Buildings	1,021,300	42,165	(42,406)	1,021,059
Leasehold Improvements	19,076	-	-	19,076
Improvements other than buildings	46,968	8,063	-	55,031
Infrastructure	5,294	2,815	-	8,109
Furniture, machinery & equipment	162,539	11,209	(28,018)	145,730
Software	39,409	71,335	(1,190)	109,554
Total capital assets being depreciated	1,294,586	135,587	(71,614)	1,358,559
Less accumulated depreciation for:				
Buildings	(322,126)	(28,219)	273	(350,072)
Leasehold Improvements	(936)	(984)	-	(1,920)
Improvements other than buildings	(10,194)	(1,927)	-	(12,121)
Infrastructure	(313)	(270)	-	(583)
Furniture, machinery & equipment	(111,093)	(14,463)	23,047	(102,509)
Software	(27,727)	(4,914)	19	(32,622)
Total capital assets being depreciated - net	822,197	84,810	(48,275)	858,732
Governmental activities capital assets - net	$ 2,776,767	$ 329,565	$ (234,930)	$ 2,871,402
Business-type Activities:				
Capital assets not being depreciated				
Land	$ 430,865	$ 17,235	$ (1)	$ 448,099
Rights-of-way and easements	27,458	-	-	27,458
Art collections	1,291	302	-	1,593
Work in progress	1,251,927	406,607	(1,188,349)	470,185
Total capital assets not being depreciated	1,711,541	424,144	(1,188,350)	947,335
Capital assets being depreciated				
Buildings	2,714,735	261,799	(16,478)	2,960,056
Leasehold Improvements	1,467	-	-	1,467
Improvements other than buildings	565,969	23,028	(566)	588,431
Rights-of-way - Easements Temp	7,635	-	-	7,635
Infrastructure	1,306,576	674,670	(448)	1,980,798
Furniture, machinery & equipment	1,965,390	224,298	(56,172)	2,133,516
Software	96,181	47,001	(2,396)	140,786
Total capital assets being depreciated	6,657,953	1,230,796	(76,060)	7,812,689
Less accumulated depreciation for:				
Buildings	(899,298)	(97,388)	5,328	(991,358)
Leasehold Improvements	(147)	(147)	-	(293)
Improvements other than buildings	(298,480)	(13,639)	253	(311,866)
Rights-of-way - Easements Temp	(55)	(473)	255	(273)
Infrastructure	(360,756)	(30,413)	57	(391,112)
Furniture, machinery & equipment	(1,144,492)	(115,422)	48,063	(1,211,851)
Software	(56,314)	(9,348)	2,275	(63,387)
Total capital assets being depreciated - net	3,898,411	963,966	(19,829)	4,842,549
Business-type activities capital assets - net	$ 5,609,952	$ 1,388,110	$ (1,208,179)	$ 5,789,884

Beginning balances have been restated; see Note 18 - "Restrictions, Components of Fund Balance, and Changes in Equity." Governmental activities include capital assets of governmental internal service funds except for the Wastewater Equipment Rental Fund, which is reported under business-type activities because it provides services exclusively to the Water Quality Enterprise.

Depreciation Expense

Depreciation and amortization expense charged to functions of the Primary Government (in thousands):

Governmental Activities	
General government services	$ 16,443
Law, safety and justice	11,767
Physical environment	311
Transportation	369
Economic environment	174
Mental and physical health	1,114
Culture and recreation	3,685
Capital assets held by the County's governmental internal service funds are charged to governmental activities based on their usage of the assets	16,915
Total depreciation and amortization expense - governmental activities	$ 50,777

Business-type Activities	
Water Quality	$ 135,391
Public Transportation	113,302
Solid Waste	10,854
King County International Airport	4,105
Institutional Network	1,462
Radio Communications	367
King County Ferry District	182
Capital assets held by the Wastewater Equipment Rental internal service fund are charged to business-type activities based on their usage of the assets	1,167
Total depreciation and amortization expense - business-type activities	$ 266,830

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 non-depreciable infrastructure are 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. Under the modified approach depreciation is not recorded; instead, costs incurred to extend an asset's useful life are expensed as preservation costs.

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

Rights-of-Way

Historical costs for infrastructure-related rights-of-way 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 indexes from the King County Assessor's Office.

Flood Control Zone District (FCZD)

As a blended governmental component unit, the FCZD's capital assets are recorded as governmental capital assets. Land acquisitions are capitalized from expenditures of the King County Flood Control Capital Contract Fund which is reimbursed periodically by the District. The land is held under the County's name until transferred to the District in accordance with an inter-local agreement. As of December 31, 2012, transfers have not taken place. Other FCZD's capital assets are added to the County''s governmental capital assets as reported in their independently audited financial statements.

Governmental Buildings in Internal Service Funds

Certain capital assets classified under governmental activities are reported under a building development and management internal service fund which consists of the aggregation of four separate nonprofit property management corporations that are recognized as blended component units of the County in accordance with GASB Statement 14. These buildings are the King Street Center building,, the Chinook building and Goat Hill parking garage, and the Ninth & Jefferson Building. The Patricia Bracelin Steel Memorial building was transferred to governmental capital assets in 2012 after the County refinanced the original bonds issued by Broadway Office Properties, the former owner-manager.

Construction Commitments

Project commitments are defined as authorized and planned expenditures for the next fiscal year.

Enterprise Funds

Public Transportation Enterprise – $340 million is committed to the maintenance of existing infrastructure, service delivery and partnership efforts.

Water Quality Enterprise – $252 million is committed to completing construction of the conveyance to Puget Sound for a new major wastewater treatment plant and ensuring the continued operation, reliability, and compliance with regulatory standards of existing wastewater treatment facilities.

Other Enterprises – $75 million is committed to improving the County's solid waste regional landfill and transfer stations and $1 million is committed to runway rehabilitation and facilities improvements at the King County International Airport..

Capital Projects Funds

$117 million is committed to various capital projects, including: (1) open space and conservation easement acquisitions, (2) development and improvement of trails, playgrounds and ballfields, and other cultural facilities; (3) affordable housing; (4) technology initiatives to improve business efficiency, emergency preparedness, and network security; (5) flood control projects to protect the ecosystem and public property; (6) preservation of roads construction of bridges; and (7) improvements and major repairs to office buildings and other facilities.

Discretely Presented Component Units

Harborview Medical Center (HMC)

Capital assets activity for HMC during the fiscal year ended June 30, 2012 (in thousands):

	Balance 06/30/2011	Increases	Decreases	Balance 06/30/12
Capital assets not being depreciated:				
Land	$ 1,586	$ -	$ -	$ 1,586
Work in progress	7,860	11,257	(10,371)	8,746
Total capital assets not being depreciated	9,446	11,257	(10,371)	10,332
Capital assets being depreciated:				
Buildings	391,951	2,175	-	394,126
Improvements other than buildings	14,127	71	(7)	14,191
Equipment	381,557	19,210	(4,372)	396,395
Total capital assets being depreciated	787,635	21,456	(4,379)	804,712
Less accumulated depreciation for:				
Buildings	(134,357)	(13,599)	-	(147,956)
Improvements other than buildings	(3,137)	(933)	7	(4,063)
Equipment	(263,085)	(30,779)	4,245	(289,619)
Total accumulated depreciation	(400,579)	(45,311)	4,252	(441,638)
HMC capital assets, net	$ 396,502	$ (12,598)	$ (10,498)	$ 373,406

HMC owns other properties (net book value of $2.7 million) which are held for future use and are reported under "Other assets" in the component unit's statement of net position.

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

Capital assets activity for the PFD for the fiscal year ended December 31, 2012 (in thousands):

	Balance 01/01/12	Increases	Decreases	Balance 12/31/12
Capital assets not being depreciated:				
Land	$ 38,424	$ -	$ -	$ 38,424
Capital assets being depreciated:				
Baseball stadium	489,255	872	-	490,128
Improvements other than buildings	27,070	736	(859)	26,947
Equipment	65	-	-	65
Total capital assets being depreciated	516,390	1,609	(859)	517,140
Less accumulated depreciation for:				
Baseball stadium	(155,112)	(12,253)	-	(167,366)
Improvements other than buildings	(2,657)	(674)	-	(3,331)
Equipment	(65)	-	-	(65)
Total accumulated depreciation	(157,834)	(12,927)	-	(170,761)
PFD capital assets, net	$ 396,980	$ (11,318)	$ (859)	$ 384,803

Note 8

Restricted Assets

Within the Statement of Net Position are amounts that are restricted as to their use.

The restricted assets for these funds are (in thousands):

Proprietary Funds		
Public Transportation - restricted for future construction projects, debt service and obligations.	$	24,390
Radio Communications Services - restricted for construction projects and obligations.		44
Water Quality - restricted for future construction projects, debt service, and reserves and obligations.		385,233
King County International Airport - restricted for construction projects and obligations.		565
Solid Waste - restricted for landfill closure and post-closure care costs.		48,262
Building Development & Management Corporations - restricted for construction projects and debt service.		3,625
Construction & Facilities Management - restricted for construction projects and obligations.		23
Total Proprietary Funds restricted assets	$	462,142
Component Unit - Harborview Medical Center (HMC)		
HMC Construction Fund - restricted for construction projects, seismic, public safety and other improvements, and furnishings of HMC buildings.	$	14,126
HMC Special Purpose Fund - restricted donations, gifts, and bequests from various sources for specific uses.		10,949
HMC Operating Fund - restricted resources that are board-designated for specific purposes, including planned capital and service components, self-insurance, commuter services, net fixed assets held for future use, research and training.		41,853
HMC Plant Fund - restricted resources that are board-designated for building improvements, furnishings, and repair and replacement.		54,806
Total HMC restricted assets	$	121,734
Component Unit - Cultural Development Authority of King County		
Public Arts Projects Fund - restricted for the one percent for public art programs operated for the benefit of King County.	$	3,832
Cultural Grant Awards Fund - restricted for arts and heritage cultural programs.		56,552
Total CDA restricted assets	$	60,384

Note 9
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), the Public Safety Employees' Retirement System (PSERS), or the Seattle City Employees' Retirement System (SCERS). PERS, LEOFF, and PSERS 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; or it may be downloaded from the DRS website at www.drs.wa.gov.

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, 720 Third Avenue, Suite 1000, Seattle, WA 98104.

<u>Public Employees' Retirement System (PERS) Plans 1, 2, and 3</u>

<u>Plan Descriptions</u>

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges currently in the Judicial Retirement System); employees of legislative committees; community and technical colleges, college and university employees not participating in higher education retirement programs; judges of district and municipal courts; and employees of local governments.

PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

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 defined benefit plan with a defined contribution component. PERS members 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 irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days default to PERS Plan 3. PERS Plan 2 and Plan 3 members may opt out of plan membership if terminally ill with less than five years to live.

PERS Plan 1 and Plan 2 defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. PERS Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement 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 monthly benefit is 2 percent of the average final compensation (AFC) per year of service. (AFC is the monthly average of the 24 consecutive highest-paid service credit months.) The retirement benefit may not exceed 60 percent of AFC. The monthly benefit is subject to a minimum for PERS Plan 1 retirees who have 25 years of service and have been retired 20 years, or who have 20 years of service and have been retired 25 years. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits. If a survivor option is chosen, the benefit is further reduced. A cost-of-living allowance (COLA) was granted at age 66 based upon years of service times the COLA amount. This benefit was eliminated by the Legislature, effective July 1, 2011. Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity payable to the age of 60. The allowance amount is $350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60. A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the allowance amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. A cost-of-living allowance was granted at age 66 based upon years of service times the COLA amount. This benefit was eliminated by the Legislature, effective July 1, 2011. Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 members can receive credit for military service. Members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. (AFC is the monthly average of the 60 consecutive highest-paid service months.)

PERS Plan 2 members who have at least 20 years of service credit and are 55 years of age or older are eligible for early retirement with a reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

- With a benefit that is reduced by 3 percent for each year before age 65.
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2 retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. There is no cap on years of service credit and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

The surviving spouse or eligible child(ren) of a PERS Plan 2 member who dies after leaving eligible employment having earned 10 years of service credit may request a refund of the member's accumulated contributions.

PERS 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 monthly benefit that is 1 percent of the AFC per year of service. (AFC is the monthly average of the 60 consecutive highest-paid service months.)

Effective June 7, 2006, PERS Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service, if twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

Vested Plan 3 members are eligible for normal retirement at age 65, or they may retire early with the following conditions and benefits:

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.
- If they have 30 service credit years and are at least 55 years old, they have the choice of a benefit that is reduced by 3 percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.

PERS Plan 3 defined benefit retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. There is no cap on years of service credit and Plan 3 provides the same cost-of-living allowance as Plan 2.

PERS Plan 3 defined contribution retirement benefits are solely dependent upon contributions and the results of investment activities.

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 Director of the Department of Retirement Systems.

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2 percent of the AFC per year of service. For Plan 3, the monthly benefit amount is 1 percent of the AFC per year of service.

These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

PERS Plan 2 and Plan 3 members may have up to ten years of interruptive military service credit; five years at no cost and five years that may be purchased by paying the required contributions. Effective July 24, 2005, a member who becomes totally incapacitated for continued employment while serving the uniformed services, or a surviving spouse or eligible child(ren), may apply for interruptive military service credit. Additionally, PERS Plan 2 and Plan 3 members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

PERS members may also purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement and can be used only to provide the member with a monthly annuity that is paid in addition to the member's retirement benefit.

Beneficiaries of a PERS Plan 2 or Plan 3 member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction, if the member was not at normal retirement age at death. This provision applies to any member killed in the course of employment, on or after June 10, 2004, if found eligible by the Department of Labor and Industries.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a PERS member who dies in the line of service as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of said member's covered employment, if found eligible by the Department of Labor and Industries.

Judicial Benefit Multiplier

During January 1 through December 31, 2007, judicial members of PERS were given the choice to participate in the Judicial Benefit Multiplier Program (JBM) enacted in 2006. Justices and judges in PERS Plan 1 and Plan 2 were able to make a one-time irrevocable election to pay increased contributions that would fund a retirement benefit with a 3.5 percent multiplier. The benefit would be capped at 75 percent of AFC. Judges in PERS Plan 3 could elect a 1.6 percent of pay per year of service benefit, capped at 37.5 percent of AFC.

Members who chose to participate in JBM would: accrue service credit at the higher multiplier beginning with the date of their election; be subject to the benefit cap of 75 percent of AFC; pay higher contributions; stop contributing to the Judicial Retirement Account (JRA); and be given the option to increase the multiplier on past judicial service. Members who did not choose to participate would: continue to accrue service credit at the regular multiplier; continue to participate in JRA, if applicable; never be a participant in the JBM Program; and continue to pay contributions at the regular PERS rate.

Newly elected or appointed justices and judges who chose to become PERS members on or after January 1, 2007, or who had not previously opted into PERS membership, were required to participate in the JBM Program. Members required to participate in the JBM program would: return to prior PERS plan if membership had previously been established; be mandated into Plan 2 and not have a Plan 3 transfer choice, if a new PERS member; accrue the higher multiplier for all judicial service; not contribute to JRA; and not have the option to increase the multiplier for past judicial service.

There are 1,184 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2011:

Retirees and beneficiaries receiving benefits	79,363
Terminated plan members entitled to,	
but not yet receiving benefits	29,925
Active plan members vested	105,578
Active plan members nonvested	46,839
Total	261,705

Funding Policy

Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. 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. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5 percent to 15 percent, based on member choice. Two of the options are graduated rates dependent on the employee's age. As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program.

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, 2012, are as follows:

Members not participating in JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer	7.21%	7.21%	7.21%
Employee	6.00%	4.64%	Variable

The employer rates include the employer administrative expense fee currently set at 0.16%. PERS Plan 3 is the defined benefit portion only.

Variable rate: 5.0% minimum/15.0% maximum based on rate selected by the PERS 3 member. Members participating in the JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer - Local government	7.21%	7.21%	7.21%
Employee - Local government	12.26%	11.60%	7.50%

The employer rates include the employer administrative expense fee currently set at 0.16%. PERS Plan 3 is the defined benefit portion only. For PERS Plan 3, 7.5% is the minimum rate.

Both the County and the employees made the required contributions. The County's required contributions for the years ended December 31 (in thousands):

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2010	$ 2,197	$ 37,286	$ 6,083
2011	$ 2,247	$ 43,421	$ 7,270
2012	$ 2,255	$ 50,402	$ 8,621

Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF)

Plan Descriptions

The Legislature established LEOFF in 1970. Membership in the system includes all full-time, fully compensated, local law enforcement commissioned officers, firefighters and, as of July 24, 2005, emergency medical technicians. LEOFF membership is comprised primarily of non-state employees, with Department of Fish and Wildlife enforcement officers, who were first included prospectively effective July 27, 2003, being an exception. LEOFF retirement benefit provisions are established in Chapter 41.26 RCW and may be amended only by the State Legislature.

LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate defined benefit plans. LEOFF members 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.

LEOFF defined benefit retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays through state legislative appropriations.

Effective July 1, 2003, the LEOFF Plan 2 Retirement Board was established by Initiative 790 to provide governance of LEOFF Plan 2. The Board's duties include adopting contribution rates and recommending policy changes to the Legislature for the LEOFF Plan 2 retirement plan.

LEOFF Plan 1 members are vested after the completion of 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 (FAS):

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 FAS 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. A cost-of-living allowance is granted (based on the Consumer Price Index).

LEOFF Plan 1 provides death and disability benefits. Death benefits for survivors of Plan 1 members on active duty consist of the following: (1) if eligible spouse, 50 percent of the FAS, plus 5 percent of FAS for each eligible surviving child, with a limitation on the combined allowances of 60 percent of the FAS; or (2) if no eligible spouse, eligible children receive 30 percent of FAS for the first child plus 10 percent for each additional child, subject to a 60 percent limitation of FAS, divided equally.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a LEOFF Plan 1 member who dies as a result of injuries or illness sustained in the course of employment, if found eligible by the Department of Labor and Industries.

The LEOFF Plan 1 disability allowance is 50 percent of the FAS plus 5 percent for each child up to a maximum of 60 percent. Upon recovery from disability before the age of 50, a member is restored to service with full credit for service while disabled. Upon recovery after the age of 50, the benefit continues as the greater of the member's disability allowance or service retirement allowance.

LEOFF Plan 1 members may purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement and can be used only to provide the member with a monthly annuity that is paid in addition to the member's allowance.

LEOFF Plan 2 members are vested after the completion of 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 FAS per year of service. (FAS is based on the highest consecutive 60 months.) Plan 2 members who retire prior to the age of 53 receive reduced benefits. Benefits are actuarially reduced for each year that the benefit commences prior to age 53 and to reflect the choice of a survivor option. If the member has at least 20 years of service and is age 50, the reduction is 3 percent for each year prior to age 53. A cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

LEOFF Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 allowance amount is 2 percent of the FAS for each year of service. Benefits are actuarially reduced for each year that the member's age is less than 53, unless the disability is duty-related, and to reflect the choice of a survivor option. If the member has at least 20 years of service and is age 50, the reduction is 3 percent for each year prior to age 53. A catastrophic disability benefit equal to 70 percent of their FAS, subject to offsets for workers' compensation and Social Security disability benefits received, is also available to those LEOFF Plan 2 members who are severely disabled in the line of duty and incapable of future substantial gainful employment in any capacity.

Effective June 2010, benefits to LEOFF Plan 2 members who are catastrophically disabled include payment of eligible health care insurance premiums.

Members of LEOFF Plan 2 who leave service because of a line of duty disability are allowed to withdraw 150 percent of accumulated member contributions. This withdrawal benefit is not subject to federal income tax. Alternatively, members of LEOFF Plan 2 who leave service because of a line of duty disability may be eligible to receive a retirement allowance of at least 10 percent of FAS and 2 percent per year of service beyond five years. The first 10 percent of the FAS is not subject to federal income tax.

LEOFF Plan 2 retirees may return to work in an eligible position covered by another retirement system, choose membership in that system and suspend their pension benefits, or not choose membership and continue receiving pension benefits without interruption.

LEOFF Plan 2 members who apply for retirement may purchase up to five years of additional service credit. The cost of this credit is the actuarial equivalent of the resulting increase in the member's benefit.

LEOFF Plan 2 members can receive service credit for military service that interrupts employment. Additionally, LEOFF Plan 2 members who become totally incapacitated for continued employment while servicing in the uniformed services may apply for interruptive military service credit. Should any such member die during this active duty, the member's surviving spouse or eligible child(ren) may request service credit on behalf of the deceased member.

LEOFF Plan 2 members may also purchase up to 24 consecutive months of service credit for each period of temporary duty disability.

Beneficiaries of a LEOFF Plan 2 member who is killed in the course of employment receive retirement benefits without actuarial reduction, if found eligible by the Director of the Department of Labor and Industries.

Benefits to eligible surviving spouses and dependent children of LEOFF Plan 2 members killed in the course of employment include the payment of ongoing health care insurance premiums paid to the Washington State Health Care Authority.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a LEOFF Plan 2 member who dies as a result of injuries or illness sustained in the course of employment, if found eligible by the Department of Labor and Industries.

There are 373 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2011:

Retirees and beneficiaries receiving benefits	9,947
Terminated plan members entitled to, but not yet receiving benefits	656
Active plan members vested	13,942
Active plan members nonvested	3,113
Total	27,658

Funding Policy

Starting on July 1, 2000, LEOFF Plan 1 employers and employees 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. LEOFF Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board. 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 LEOFF Plan 2 in accordance with the requirements of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. 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 required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2012, are as follows:

	LEOFF Plan 1	LEOFF Plan 2
Employer	0.16%	5.24%
Employee	None	8.46%

The employer rates include the employer administrative expense fee currently set at 0.16%.

Both the County and the employees made the required contributions. The County's required contributions for the years ended December 31 (in thousands):

	LEOFF Plan 1	LEOFF Plan 2
2010	$ 1	$ 4,035
2011	$ 1	$ 4,081
2012	$ 1	$ 4,163

Public Safety Employees' Retirement System (PSERS) Plan 2

Plan Description

The Legislature created PSERS in 2004 and the system became effective July 1, 2006. PSERS Plan 2 membership includes full-time employees of a covered employer on or before July 1, 2006, who met at least one of the PSERS eligibility criteria, and elected membership during the election period of July 1, 2006 to September 30, 2006; and those full-time employees, hired on or after July 1, 2006, by a covered employer, that meet at least one of the PSERS eligibility criteria. PSERS retirement benefit provisions are established in Chapter 41.37 RCW and may be amended only by the State Legislature.

PSERS is a cost-sharing multiple-employer retirement system comprised of a single defined benefit plan, PSERS Plan 2.

PSERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions.

A "covered employer" is one that participates in PSERS. Covered employers include the following:

- State of Washington agencies: Department of Corrections, Department of Natural Resources, Gambling Commission, Liquor Control Board, Parks and Recreation Commission, and Washington State Patrol;
- Corrections departments of Washington State counties;
- Corrections departments of Washington State cities except for Seattle, Tacoma and Spokane; and
- Interlocal corrections agencies.

To be eligible for PSERS, an employee must work on a full-time basis and:

- Have completed a certified criminal justice training course with authority to arrest, conduct criminal investigations, enforce the criminal laws of Washington and carry a firearm as part of the job; or
- Have primary responsibility to ensure the custody and security of incarcerated or probationary individuals; or
- Function as a Washington peace officer, as defined in RCW 10.93.020; or
- Have primary responsibility to supervise eligible members who meet the above criteria.

PSERS Plan 2 members are vested after completing five years of eligible service. PSERS Plan 2 members may retire at the age of 65 with five years of service, or at the age of 60 with at least 10 years of PSERS service credit, with an allowance of 2 percent of the average final compensation (AFC) per year of service. The AFC is the monthly average of the member's 60 consecutive highest-paid service credit months, excluding any severance pay such as lump-sum payments for deferred sick leave, vacation or annual leave. Plan 2 members who retire prior to the age of 60 receive reduced benefits. If retirement is at age 53 or older with at least 20 years of service, a 3 percent per year reduction for each year between the age at retirement and age 60 applies. There is no cap on years of service credit and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

PSERS Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. Eligibility is based on the member being totally incapacitated for continued employment with a PSERS employer and leaving that employment as a result of the disability. The disability allowance is 2 percent of the average final compensation (AFC) for each year of service. AFC is based on the member's 60 consecutive highest creditable months of service. Service credit is the total years and months of service credit at the time the member separates from employment. Benefits are actuarially reduced for each year that the member's age is less than 60 (with ten or more service credit years in PSERS), or less than 65 (with fewer than 10 service credit years).

PSERS Plan 2 members can receive service credit for military service that interrupts employment. Additionally, PSERS members who become totally incapacitated for continued employment while serving in the uniformed services may apply for interruptive military service credit. Should any such member die during this active duty, the member's surviving spouse or eligible child (ren) may request service credit on behalf of the deceased member.

PSERS members may also purchase up to 24 consecutive months of service credit for each period of temporary duty disability.

Beneficiaries of a PSERS Plan 2 member with 10 years of service who is killed in the course of employment receive retirement benefits without actuarial reduction, if the member was not at normal retirement age at death. This provision applies to any member killed in the course of employment, if found eligible by the Director of the Department of Labor and Industries.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a PSERS member who dies as a result of injuries or illness sustained in the course of employment, if found eligible by the Department of Labor and Industries.

There are 76 participating employers in PSERS. Membership in PSERS consisted of the following as of the latest actuarial valuation date for the plan of June 30, 2011:

Retirees and beneficiaries receiving benefits	15
Terminated plan members entitled to, but not yet receiving benefits	1
Active plan members vested	167
Active plan members nonvested	4,020
Total	4,203

Funding Policy

Each biennium, the state Pension Funding Council adopts PSERS Plan 2 employer and employee contribution rates. The employer and employee contribution rates for Plan 2 are developed by the Office of the State Actuary to fully fund Plan 2. All employers are required to contribute at the level established by the Legislature. The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.37 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2012, were as follows:

	PSERS Plan 2
Employer	8.87%
Employee	6.36%

The employer rate includes an employer administrative expense fee of 0.16%.

Both the County and the employees made the required contributions. The County's required contributions for the year ended December 31 (in thousands):

	PSERS Plan 2
2010	$ 2,039
2011	$ 2,120
2012	$ 2,188

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 10 or more years of service; and after age 62 with five or more years of service. Disability retirement is available after 10 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 24 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 11.01 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 11.01 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 contributions for the years 2010, 2011 and 2012 ending December 31 were $696, $544, and $540 thousand, respectively.

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 three 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)

Employees of the WSMLB Stadium Public Facilities District have the option of participating in either PERS or the Stadium PFD Retirement Plan (in 2012, no employees elected to participate in PERS). Employer contributions are paid by the District in accordance with rates specified by the individual plans.

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 contributions by participants are required or permitted other than authorized rollover contributions. All contributions to the plan vest immediately. Actual contributions made to the plan in 2012 were zero.

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

All CDA personnel participate in PERS, a statewide local government retirement system administered by the DRS under cost-sharing, multiple-employer defined benefit plans.

Note 10

Postemployment Health Care Plan

During the year ended December 31, 2007, the County elected to adopt the provisions of GASB Statement No. 45, "*Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*" (GASB No. 45), which requires the County to accrue other postemployment benefits (OPEB) expense related to its postretirement health care plan based on a computed annual required contribution (ARC) that includes the current period's service cost and an amount to amortize unfunded actuarial accrued liabilities. Instead of recording expense on a "pay-as-you-go" basis, the County, under GASB No. 45, has recorded a liability of $46.2 million for the difference between the actuarially calculated ARC and the estimated contributions made since the adoption of GASB No. 45. Such liability is included in other noncurrent liabilities in the accompanying December 31, 2012, balance sheet.

The effect of GASB No. 45 for the current fiscal year was to decrease the County's excess of revenue over expenses before capital contributions and the County's increase in net position for the year ended December 31, 2012, by approximately $7.8 million.

Plan Description The King County Health Plan (the Health Plan) is a single-employer defined-benefit health care plan administered by the County. The Health Plan provides medical, prescription drug, vision, and other unreimbursed medical benefits to eligible retirees. The Health Plan's actuary is Healthcare Actuaries. The Health Plan does not issue a separate stand-alone financial report.

Funding Policy LEOFF 1 retirees are not required to contribute to the Health Plan. All other retirees are required to pay the COBRA rate associated with the elected plan.

For the fiscal year ended December 31, 2012, the County contributed an estimated $5.1 million to the Health Plan. The County's contribution was entirely to fund "pay-as-you-go" costs under the Health Plan and not to prefund benefits.

Annual OPEB Cost and Net OPEB Obligation The basis for the County's annual OPEB cost (expense) is the ARC. The ARC represents a level of funding that, if paid on an ongoing basis, the actuary projects will cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The components of the County's annual OPEB cost, the estimated amount contributed to the Health Plan, and changes in the County's net OPEB obligation to the Health Plan for the year ended December 31, 2012 (in thousands):

Normal cost - Unit Credit Method	$ 4,833
Amortization of unfunded actuarial accrued liability (UAAL)	8,696
Annual Required Contribution (ARC)	13,529
Interest on net OPEB obligation	860
Adjustment to annual required contribution	(1,528)
Annual OPEB cost (expense)	12,861
Contributions made	(5,117)
Increase in net OPEB obligation	7,744
Net OPEB obligation - beginning of year	38,484
Net OPEB obligation - end of year	$ 46,228

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the Health Plan, and the net OPEB obligation (in thousands):

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2010	$ 12,835	39.0%	$ 30,740
12/31/2011	12,861	39.8%	38,484
12/31/2012	12,861	39.8%	46,228

Funded Status and Funding Progress

The funded status of the Health Plan as of December 31, 2011 (in thousands):

Actuarial accrued liability (AAL) – Unit Credit (12/31/11 Valuation)	$ 178,502
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	178,502
Funded ratio (actuarial value of plan assets ÷ AAL)	0.00%
Covered payroll (2011)	$ 961,982
UAAL as a percentage of covered payroll	18.6%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and health care cost trends. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. GASB 45 requires that the schedule of funding progress, presented as required additional information following the notes to the financial statements, presents multi-year trend information that shows whether the actuarial value of Health Plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions The basis of projections of benefits for financial reporting purposes is the substantive plan (the Health Plan as understood by the County and members of the Health Plan) and includes the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the County and Members of the Health Plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The December 31, 2011, valuation used the projected unit credit actuarial cost method. The actuarial assumptions included a 2.8 percent investment rate of return (net of administrative expenses) and an initial annual health care cost trend rate of 10.0 percent for KingCare medical, 8.0 percent for KingCare pharmacy, and 10.0 percent for HMO medical/pharmacy, each reduced by decrements to an ultimate rate of 4.2 percent after 71 years and 12 years for medical and pharmacy, respectively. The vision trend rate is 4.0 percent, the miscellaneous trend rate is 7.0 percent, and the Medicare Premium trend rate is 7.0 percent, for all years. All trend rates include a 3.0 percent inflation assumption, with the exception of vision trends. The amortization of the UAAL at transition uses a level dollar amount on a open basis. The amortization of the UAAL at transition uses a level dollar amount on an open basis. The UAAL is recalculated each year and amortized as a level dollar amount on an open basis over 30 years.

Component Unit – Harborview Medical Center (HMC)

Health care and life insurance programs for employees of the State of Washington are administered by the Washington State Health Care Authority (HCA). All University of Washington employees, including Medical Center employees, are employees of the State of Washington. State of Washington retirees may elect coverage through state health and life insurance plans, for which they pay less than the full cost of the benefits, based on their age and other demographic factors.

An actuarial study performed by the Washington Office of the State Actuary calculated the total OPEB obligation of the State of Washington. Since sufficient specific employee data and other actuarial data are not available at levels below the statewide level, such amounts have not been determined nor recorded in the University's nor the Medical Center's financial statements. This liability is recorded at the statewide level. The Medical Center was billed and paid $52.3 million and $56.1 million, for health care expenses for the years ended June 30, 2012, and 2011, respectively, which included funding of the OPEB liability.

Note 11

Risk Management

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 is accounted for in the funds with loss experience and as governmental long-term liability. The County contracts with a plan administrator to process medical and dental claims. County fund/claims managers, together with the Civil Division of the 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 exposures 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 as of December 31, 2012, is $68.5 million.

The County purchases excess liability coverage that currently provides $92.5 million in limits above a $7.5 million per occurrence self-insured retention (SIR) for its general liability, automobile liability, police professional, public officials, errors and omissions, and professional malpractice exposures.

Effective July 1, 2012, the County renewed the property insurance policy. This policy has a blanket limit of $500 million above a $250 thousand per occurrence deductible and provides an overall earthquake sublimit of $100 million and a flood sublimit of $250 million. The 2012 policy was endorsed to cover Certified and Non-Certified Acts of Terrorism on a blanket basis up to $250 million.

In addition to its excess liability policy and property insurance policies, the County has the following specific insurance policies to cover some of its other exposures.

COVERAGE	AMOUNT	DEDUCTIBLE
Aircraft liability & physical damage	$50 million per occurrence & scheduled value	None for liability, $1,000 to $85,000 for physical damage
Crime and fidelity for employee dishonesty	$2.5 million	$50,000
Excess workers' compensation	Statutory	$2.5 million per occurrence
Fiduciary liability for employees' benefit	$20 million	None
Foreign liability in general and automobile	$1 million	None
Airport general liability	$300 million per occurrence	$50,000 aggregate
Airport property damage	$160 million with sublimits of $100 million for flood and $50 million for earthquake	$100,000
Marine (includes Ferry District)	$150 million	$2,500
Parks swimming pools general liability	$7.5 million	None

In 2010 and 2011 there were four occurrences that resulted in payment in excess of the self-insured retention of $3.5 million. There was no occurrence that resulted in payment in excess of the $7.5 million self-insured retention in 2012.

During 2012, there were significant changes made in the County's insurance program. The Brightwater treatment plant was added to the County's property insurance policy which resulted in an increased premium.

The fiduciary liability limit increased from $10 million to $20 million and general liability limit for Parks swimming pools increased from $5 million to $7.5 million.

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. Changes in the Insurance Fund's estimated claims liability in 2011 and 2012 (in thousands):

	Beginning of Year Liability	Claims and Changes in Estimates	Claim Payments	End of Year Liability
2011	$ 65,043	$ 9,579	$ (14,854)	$ 59,768
2012	59,768	26,383	(17,614)	68,537

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 Revised Code of Washington (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 and Water Quality 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 financial statements is not discounted due to low rate of return on investment. As of December 31, 2012, the total claim liability is $81.3 million.

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 1, 2004, was $2.5 million. In the prior three years, there has been no settlement in excess of the insurance coverage.

The Fund's claims liability is estimated by an independent actuary. The claim liability represents the estimated ultimate amount to be paid for reported and incurred but not reported claims based on past experience and other actuarial techniques. Nonincremental claim adjustment expenses are not included as part of the liability.

Changes in the Safety and Workers' Compensation Fund's claims liability in 2011 and 2012 (in thousands):

	Beginning of Year Liability	Claims and Changes in Estimates	Claim Payments	End of Year Liability
2011	$ 79,431	$ 25,320	$ (19,925)	$ 84,826
2012	84,826	13,707	(17,228)	81,305

Employee Benefits Program Fund

The Employee Benefits Program Fund, an internal service fund, accounts for employee medical, dental, vision, life, accidental death and dismemberment (AD&D), and long-term disability (LTD) benefit programs. There are two self-insured medical plans. The pharmacy, dental, and vision plans are also self-insured. The life, AD&D, and LTD are fully insured. Interfund premiums are determined on a per employee, per month basis and charged to departments through a composite rate of expected claims and expenses. In some cases, there are employee contributions towards premiums. The estimated liability for probable self-insurance losses (reported and unreported recorded in the fund as of December 31, 2012, is $19.7 million.

The Fund's claims liability is based on historical experience. Changes in the Employee Benefits Program Fund's claims liability in 2011 and 2012 (in thousands) are shown below:

	Beginning of Year Liability	Claims and Changes in Estimates	Claim Payments	End of Year Liability
2011	$ 18,851	$ 174,237	$ (173,563)	$ 19,525
2012	19,525	179,225	(179,029)	19,721

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 $2.6 million is recorded in governmental long-term liability for the estimated future claims liability for employees as of December 31, 2012.

Changes in the Unemployment liability in 2011 and 2012 (in thousands):

	Beginning of Year Liability	Claims and Changes in Estimates	Claim Payments	End of Year Liability
2011	$ 2,466	$ 4,019	$ (3,696)	$ 2,789
2012	2,789	2,587	(2,790)	2,586

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, 2012, the UW did not carry commercial general liability coverage at levels below $10 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 was approximately $2.1 million in the period July 1, 2010 to June 30, 2011, and $2.7 million in the period July 1, 2011 to June 30, 2012.

Employee Benefits Program

Eligible permanent employees of HMC receive the basic insurance benefits package purchased by the University of Washington through the Public Employees Benefits Board (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 insurance available to employees.

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; compensation 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 state law.

Component Unit – WSMLBS Public Facilities District

Insurance Fund

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. Commercial personal property losses are covered up to the replacement value not exceeding $67 thousand.

Component Unit – Cultural Development Authority of King County

Insurance Fund

The Cultural Development Authority of King County (CDA) carries comprehensive general liability, auto liability, and employee benefit liability coverage with a limit of $10 million per occurrence and no aggregate limit. Commercial property losses are covered up to the replacement cost on file with Enduris Washington. The CDA also carries Public Official Errors and Omissions Liability coverage with a limit of $10 million per occurrence and an aggregate limit of $10 million.

Employee Benefits Program

Employees of the CDA have a comprehensive health benefits package through the Public Employees Benefits Board (PEBB), which includes medical, dental, basic life, and long-term disability coverage. In addition, the PEBB offers the following optional products: long-term care, auto, and home insurance. WageWorks, Inc. is the administrating authority. The CDA also offers insurance with American Family Life Assurance Company (AFLAC). With the AFLAC coverage, the CDA employees can pick from a selection of insurance policies at their own expense.

Note 12
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 under Governmental Activities. All capital leases related to Governmental Activities were settled during 2011. Such assets and liabilities related to proprietary funds are accounted for within the proprietary funds (Business-type Activities).

Capital assets and outstanding liabilities relating to capital lease agreements and installment purchase contracts as of December 31, 2012 (in thousands):

	Business-type Activities	
	Capital Assets	Capital Leases Payable
Leasehold improvements	$ 4,881	$ 3,087
Less depreciation	(1,760)	-
Totals	$ 3,121	$ 3,087

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, 2012 (in thousands):

	Minimum Lease Payments
2013	$ 255
2014	$ 255
2015	$ 255
2016	$ 255
2017	$ 255
2018-2022	$ 1,275
2023-2027	$ 1,275
2022-2032	$ 914
Total minimum lease payments	4,739
Less: Amount representing interest	(1,652)
Present value of net minimum lease payments	$ 3,087

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 ended December 31, 2012 for operating lease and rental agreements for office space, equipment, and other operating leases amount to $19.1 million. The patterns of future lease payment requirements are systematic and rational.

Future minimum lease payments for these leases (in thousands):

Year	Office Space	Equipment	Other	Total
2013	$ 4,914	$ 161	$ 1,571	$ 6,646
2014	4,740	-	836	5,576
2015	3,913	-	692	4,605
2016	3,338	-	697	4,035
2017	2,896	-	676	3,572
2018-2022	7,873	-	2,466	10,339
2023-2027	1,126	-	1,905	3,031
2028-2032	1,126	-	1,815	2,941
2033-2037	250	-	2,006	2,256
2038-2042	-	-	2,213	2,213
2043-2047	-	-	2,445	2,445
2048-2052	-	-	2,697	2,697
2053	-	-	573	573

The County currently leases some of its property to various tenants under long-term, renewable, and noncancelable 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.

The County's investment in property under long-term, noncancelable operating leases as of December 31, 2012 (in thousands):

	Governmental Activities	Business-type Activities	
		Airport	Other
Land	$ 152	$ 11,220	$ 3,711
Buildings	443	29,439	-
Less depreciation	(436)	(14,683)	-
Total cost of property under lease	$ 159	$ 25,976	$ 3,711

Minimum future lease receipts on noncancelable operating leases based on contract amounts and terms as of December 31, 2012 (in thousands):

Year	Governmental Activities	Business-type Activities		Total
		Airport	Other	
2013	$ 2,505	$ 4,637	$ 196	$ 7,338
2014	2,457	4,518	151	7,126
2015	2,344	4,295	111	6,750
2016	2,067	4,200	87	6,354
2017	1,751	4,157	45	5,953
2018-2022	5,383	19,632	81	25,096
2023-2027	3,575	17,952	81	21,608
2028-2032	2,477	11,716	23	14,216

Note 13

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, deflation, changes in technology, or changes in laws or regulations.

State and federal laws and regulations require King County to place a final cover on its Cedar Hills Landfill site when the County stops accepting waste at this location. 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, and First Northeast 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 year-end.

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, 2012, cash and cash equivalents of $36.4 million were held in the Landfill Reserve Fund. and $10.8 million were held in the Landfill Post-closure Maintenance Fund.

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 user fees or tax revenues.

The County also established the Environmental Reserve Fund for future investigation and possible remediation of custodial landfills. Because landfill investigations and foreseeable remediation efforts are complete; there is no liability recorded for custodial landfills.

The $92.1 million reported as landfill closure and post-closure care liability as of December 31, 2012, represents the cumulative percentage reported based on the amount that each of the landfills has been filled to date as follows (dollars in thousands):

Landfill	Percent Filled	Estimated Liability	Estimated Remaining Liability	Estimated Year of Closure
Cedar Hills	77%	$ 66,099	$ 28,087	2024
Covered	100%	20,465	-	Closed
Custodial	100%	5,574	-	Closed

Note 14

Pollution Remediation

The County accounts for pollution remediation liabilities in accordance with GASBS 49, *Accounting and Financial Reporting for Pollution Remediation Obligations.* This guidance mandates recognition and reporting of a liability for pollution remediation whenever the County is obligated for future cleanup and the amounts are reasonably estimable.

Liabilities reported at the end of 2012 do not include potential costs of cleanup that may arise out of the legal issues described in Note 19 - "Legal Matters, Contingent Liabilities, and Other Commitments." The likelihood of negative outcomes in these matters and the amount of liabilities that may arise cannot be reasonably estimated. The major sites where the County is conducting remediation activities are:

Elliott Bay and the Lower Duwamish Waterway – These ongoing projects include the sediment management of aquatic habitats along Elliott Bay and the cleanup of certain sites along the Lower Duwamish Waterway. The Sediment Management Project has been approved by the Metropolitan King County Council as a self-obligated pollution remediation program. The Lower Duwamish Waterway project became an obligation when King County entered into an Administrative Order on Consent (AOC) with the Washington State Department of Ecology (DOE) and the U.S. Environmental Protection Agency (EPA). This AOC also includes the Boeing Company, the City of Seattle, and the Port of Seattle as parties to conduct the studies on which to base the cleanup decision. Each party has agreed to pay one-fourth of the cleanup costs.

Both projects may result in additional cleanup efforts as a result of additional regulatory orders. These potential cleanup liabilities cannot be currently estimated. Ongoing regulatory action may identify other PRPs for the Lower Duwamish Waterway cleanup.

There are no estimated recoveries at this time that will reduce the amount of these obligations. However, the State of Washington has indicated that it intends to fund grants in support of the Lower Duwamish Waterway cleanup. The total environmental remediation liability at December 31, 2012, stands at $35.2 million. This liability is an estimate and is subject to changes resulting from price increases or reductions, changes in technology, or changes in applicable laws or regulations.

The methods for estimating liabilities continues to be based on internal engineering analysis, program experience, and cost projections for the remediation activities scheduled to be undertaken in future years as programmed under Water Quality's Regional Wastewater Services Plan. Certain costs were developed by consulting engineers. Costs were estimated using the expected cash flow method set out by GASB 49. For the Lower Duwamish Waterway Project a weighted average method is used to calculate the liability. The Sediment Management Plan does not employ a weighted average cost estimate because the remaining work is well-defined and negates the utility of multiple estimates. The cost estimates continue to be re-measured as succeeding benchmarks are reached or when cost assumptions are modified. All pollution remediation obligations are being deferred as permitted by regulatory accounting standards.

Lake Union Tank and Dearborn Groundwater Monitoring – The Public Transportation Enterprise reported an environmental pollution remediation liability of $353 thousand at December 31, 2012. The pollution obligation is primarily related to monitoring soil and ground water contamination at the Lake Union Tank and Dearborn sites (under consent decrees from the DOE, dating back to the mid-1990's) and groundwater monitoring at two bus operation bases on a voluntary basis. The liability was measured at the estimated amounts compiled by Metro Transit staff with knowledge of pollution issues at the sites, using the expected cash flow technique. Cost estimates are subject to changes when additional information becomes available regarding the level of contamination at specific sites, when existing agreements or remediation methods are modified, or when new applicable regulations emerge.

Gasworks Park – In 2005, the City of Seattle and Puget Sound Energy (PSE) entered an agreed order with the DOE for investigating and identifying cleanup options for Lake Union sediments surrounding Gasworks Park. The City and PSE named Metro Transit and Chevron Corporation as additional potentially liable parties (PLP) related to the Gasworks sediment site. Subsequently, the DOE notified Metro Transit and Chevron Corporation that they might be PLPs under the Model Toxics Control Act. The DOE has not issued a final decision regarding Metro Transit's status as a PLP. No liability was recorded because outlays for the site cleanup were not reasonably estimable at December 31, 2012.

Maury Island Gravel Mine Site – In December 2010, King County acquired approximately 250 acres of property on Vashon Island. The property is within the footprint of the former ASARCO smelter plume, and contains elevated levels of lead and arsenic, a condition that was known at the time of acquisition. In February 2011, King County was named a "potentially liable party" for cleanup of the site by the Washington State Department of Ecology. An Agreed Order between Ecology and King County was finalized in January 2013 requiring the County to conduct a remediation investigation, a feasibility study and a cleanup action plan. The County estimates that remediation will cost approximately $4 million which it expects to finance through grants, contribution from former owner, and County resources. Because the remediation was a prerequisite to the agreement to purchase the property and is a necessary activity to prepare a portion of the land for its intended use, the County intends to capitalize the cost of pollution as part of the land in accordance with Codification of Governmental Accounting and Financial Reporting Standards, Section P40.120b.

Quad 7 Development Site – In 2011, King County and Quad 7 Development LLC entered an agreement to investigate and identify cleanup options in connection with development of the site located at 7777 Perimeter Road South. During the development of the site, some remediation of the soils will occur as outlined in the Soils Management Plan. The total liability, as stated in the agreement, is $800 thousand. There are no estimated recoveries at this time that will reduce the amount of this liability.

Former Standard Service Station Site - A tenant took a core sample of soil on undeveloped airport property in an area planned for a future development. The sample indicated that there was contamination in the soil and groundwater that was outside the standards established by Washington State's Model Toxic Control Act. The Airport then contracted an environmental engineering firm to do a further investigation. The environmental firm confirmed the contamination in a report dated November 13, 2012 and recommended two cleanup alternatives. The estimated liability, which was estimated using the expected cash flow technique, is $510 thousand. Remediation cost estimates are subject to changes due to price increases or reductions, changes in technology, or changes in applicable laws or agreements.

Note 15
Debt

Short-term Debt Instruments and Liquidity

For governmental activities, on March 29, 2012, the County completed the sale of $65.94 million of limited tax general obligation bonds, of which the proceeds and other unspent additional proceeds were used to pay off both its $65.94 long-term limited tax general obligation bond anticipation notes and $16.36 million of its short-term bond anticipation notes.

For business-type activities, on March 1, 2012, the County completed the sale of $73.4 million of limited tax general obligation (Solid Waste) Bond Anticipation Notes, with a maturity of February 28, 2013. Proceeds from the sale of the Note are used to refinance a $40 million Bond Anticipation Notes issued on February 13, 2011. Also a portion of the proceeds of the notes are accounted for in the Solid Waste Construction Fund, and provide financing to upgrade the County's solid waste facilities. The 2012 Notes, reported as long-term debt, was refinanced on February 27, 2013, with the completed sale of $77.1 million of limited tax general obligation bonds (payable from Solid Waste).

The County also has $100 million of commercial paper outstanding in the Water Quality Enterprise Fund at year-end. The commercial paper has maturity dates ranging from 62 to 94 days. 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. The debt will be repaid from operating revenues.

CHANGES IN SHORT-TERM DEBT
FOR THE YEAR ENDED DECEMBER 31, 2012
(IN THOUSANDS)

	Balance 01/01/12	Additions	Reductions	Balance 12/31/12
Governmental activities:				
Limited Tax GO Bond Anticipation Notes	$ 16,360	$ -	$ (16,360)	$ -
Unamortized premium bonds sold	187	-	(187)	-
Governmental activities short-term debt	$ 16,547	$ -	$ (16,547)	$ -
Business-type activities:				
Commercial paper	$ 100,000	$ 1,173,650	$ (1,173,650)	$ 100,000
Limited Tax GO Bond Anticipation Notes	40,000	-	(40,000)	-
Unamortized premium bonds sold	795	-	(795)	-
Business-type activities short-term debt	$ 140,795	$ 1,173,650	$ (1,214,445)	$ 100,000

Long-term Debt

King County has long-term debt reported with both governmental and business-type activities. For governmental activities, long-term debt consists of general obligation bonds and lease revenue bonds accounted for in the Internal Service Funds.

For business-type activities, long-term debt consists of limited tax general obligation bonds accounted for in the King County International Airport, Institutional Network (I-NET), Solid Waste, Public Transportation, and Water Quality Enterprise Funds; capital leases accounted for in the Public Transportation Fund; and Sewer Revenue Bonds and State of Washington revolving loans accounted for in the Water Quality Enterprise Fund.

SCHEDULE OF LONG-TERM DEBT
(IN THOUSANDS)

	Issue Date	Final Maturity	Interest Rates	Original Issue Amount	Outstanding at 12/31/12
I. GOVERNMENTAL ACTIVITIES – LONG-TERM DEBT					
IA. Limited Tax General Obligation Bonds (LTGO)					
2003 Limited Tax GO (Payoff BAN 2003B) Series A	10/30/03	06/01/23	2.00-5.25%	27,605	$ 1,270
2003 Various Purpose Refunding Bonds Series B (Partial)	10/30/03	06/01/23	2.00-5.25%	27,890	405
2004 Refunding Bonds Series A	09/21/04	01/01/16	2.00-5.00%	57,045	28,210
2004 Limited Tax GO (Payoff BAN2003A) Series B	10/01/04	01/01/25	2.50-5.00%	82,435	11,175
2005 Refunding Bonds Series A	06/29/05	01/01/19	5.00%	22,510	11,330
2006 Refunding Bonds (Partial)	12/14/06	01/01/19	4.00-5.00%	38,330	22,070
2006 HUD Section 108 Bonds – Greenbridge Project	08/01/06	08/01/24	4.96-5.70%	6,783	3,599
2007 Kingdome Debt Series A Refunding 1997F	09/05/07	12/01/15	4.00-5.00%	48,665	47,155
2007 Various Purpose Series C	11/01/07	01/01/28	4.00-4.50%	10,695	9,140
2007 Various Purpose Series D	11/01/07	01/01/28	4.00-5.00%	34,630	29,725
2007 Various Purpose Series E (Partial)	11/27/07	12/01/17	4.00-5.00%	3,070	1,710
2009 Multi-Modal Limited Tax GO Bond Series A	02/26/09	06/01/29	Variable [a]	50,000	44,100
2009 LTGO VP Capital Facilities Project Series B2	05/12/09	06/01/29	2.00-5.13%	34,810	30,965
2009 LTGO (Refg93B) Series C	12/10/09	01/01/24	4.50%	17,150	16,975
2010 LTGO Refunding Series A (Partial)	10/18/10	12/31/21	2.00-5.00%	21,295	19,845
2010 LTGO Series A Tax-Exempt	11/15/10	12/01/14	2.00-5.00%	17,240	7,900
2010 LTGO Series B (BABs) Taxable	11/15/10	12/01/30	2.85-6.05%	17,355	17,355
2010 LTGO Series C (RZEDBs) Taxable	11/15/10	12/01/30	4.58-6.05%	23,165	23,165
2010 LTGO Series D (QECBs) Taxable	11/15/10	12/01/25	4.33-5.43%	2,825	2,825
2010 Tax Exempt Series E	11/15/10	12/01/30	2.00-4.50%	10,025	9,295
2011 LTGO Refunding Bonds	08/01/11	06/01/23	2.00-5.00%	25,700	25,385
2011 Flood Plain Series B/payoff 2010B BAN	12/01/11	12/01/19	2.00-4.00%	5,725	5,725
2011 LTGO Series C (Taxable)	12/01/11	12/01/19	0.03-1.85%	15,530	12,855
2011 LTGO Series D	12/21/11	12/01/31	2.00-3.50%	21,895	20,495
2012 LTGO Series A (ABT Project)	03/29/12	07/01/22	3.00-5.00%	65,935	65,935
2012 LTGO Series B (S. Park Bridge)	05/08/12	09/01/32	3.00-5.00%	28,065	28,065
2012 LTGO Series C Refunding Bonds	08/28/12	01/01/25	5.00%	54,260	54,260
2012 LTGO Series D Ref02 (HMC)	11/29/12	12/01/31	2.00-5.00%	41,810	41,810
2012 LTGO Series E (Partial)	12/19/12	12/01/27	2.00-5.00%	20,905	20,905
2012 LTGO Series F (QECBS) Taxable (Partial)	12/19/12	12/01/22	2.20%	3,010	3,010
Total Payable From Limited Tax GO Redemption Fund				836,358	616,659
Payable From Internal Service Funds					
2010 LTGO Series A (Tax Exempt)	11/15/10	12/01/14	2.00-5.00%	4,730	2,465
2010 LTGO Series B (BABs) Taxable	11/15/10	12/01/30	4.58-6.05%	7,125	7,125
2012 LTGO Series E (Partial)	12/19/12	12/01/27	2.00-5.00%	4,500	4,500
Total Payable From Internal Service Funds				16,355	14,090
Total Limited Tax General Obligation Debt				852,713	630,749
IB. Unlimited Tax General Obligation Bonds (ULTGO)					
Payable From Unlimited Tax GO Redemption Fund					
2003 Refunding 1993 Series C Bonds	04/23/03	06/01/19	2.00-5.25%	108,795	10,605
2004 Harborview Medical Center Series A	05/04/04	12/01/23	2.00-5.00%	110,000	10,245
2004 Harborview Medical Center Series B	09/14/04	06/01/23	3.00-5.00%	54,000	5,065
2009 Refunding 2001(HMC) Series A	12/10/09	12/01/20	4.30-5.00%	19,570	15,980
2010 Partial Refunding 2000 UTGO Series A	10/18/10	12/31/15	3.00-5.00%	16,305	6,375
2012 UTGO Refunding Bonds (HMC)	08/14/12	12/01/23	2.00-5.00%	94,610	93,420
Total Payable From Unlimited Tax GO Bond Redemption Fund				403,280	141,690
IC. Lease Revenue Bonds [b]					
Payable From Internal Service Funds					
2005 Goathill Property – Chinook Building	02/03/05	12/01/33	4.00-5.25%	101,035	89,335
2006A NJB Properties – HMC	12/05/06	12/01/36	5.00%	179,285	172,095
2006B NJB Properties – HMC (Taxable)	12/05/06	12/01/36	5.51%	10,435	10,045
2007 King Street Center Project Refunding 1997	03/08/07	06/01/25	4.00-5.00%	62,400	50,305
Total Lease Revenue Bonds Payable from Internal Service Funds				353,155	321,780
TOTAL GOVERNMENTAL ACTIVITIES – LONG-TERM DEBT				1,609,148	1,094,219

SCHEDULE OF LONG-TERM DEBT
(IN THOUSANDS)

	Issue Date	Final Maturity	Interest Rates	Original Issue Amount	Outstanding at 12/31/12
II. BUSINESS-TYPE ACTIVITIES – LONG-TERM DEBT					
IIA. Limited Tax General Obligation Bonds (LTGO)					
Payable From Enterprise Funds					
2004 LTGO (Public Transp. Sales Tax) Bonds	06/08/04	06/01/34	2.50-5.50%	49,695	$ 2,150
2005 LTGO (WQ-LTGO) Bonds	04/21/05	01/01/35	5.00%	200,000	28,925
2006 Refunding Bonds (Partial)	12/14/06	01/01/15	4.00-5.00%	7,995	1,940
2007 Various Purpose Series E (Partial)	11/27/07	12/01/27	4.00-5.00%	40,635	33,750
2008 LTGO (WQ-LTGO) Refunding Bonds	02/12/08	01/01/34	3.25-5.25%	236,950	225,155
2009 LTGO (Public Transp. Sales Tax) Refunding Bonds	02/18/09	12/01/19	2.00-4.00%	48,535	32,490
2009 LTGO (WQ-LTGO) Bonds Series B	04/08/09	01/01/39	5.00-5.25%	300,000	300,000
2010 Partial Refunding 2001VP Series A	10/18/10	12/31/21	2.00-5.00%	5,110	4,585
2010 LTGO Series A (TR) Tax-Exempt	11/15/10	12/01/14	2.00-5.00%	3,855	2,010
2010 LTGO Series B (BABs) (TR) Taxable	11/15/10	12/01/30	2.85-6.05%	20,555	20,555
2010 LTGO Series D (QECBs) Taxable	11/15/10	12/01/25	4.33-5.43%	3,000	3,000
2010 Multi-Modal LTGO (WQ) Series A	01/12/10	01/01/40	Variable [(a)]	50,000	50,000
2010 Multi-Modal LTGO (WQ) Series B	01/12/10	01/01/40	Variable [(a)]	50,000	50,000
2012 LTGO (WQ) Refg05A Bonds Series A	04/18/12	01/01/25	2.00-5.00%	68,395	68,395
2012 LTGO (WQ) Refg05A Bonds Series B	08/02/12	01/01/29	5.00%	41,725	41,725
2012 LTGO (WQ) Refg05A Bonds Series C	09/19/12	01/01/34	5.00%	53,405	53,405
2012 LTGO (TR) Refunding Bonds Series A	10/16/12	06/01/34	2.00-5.00%	71,670	70,080
2012 LTGO (WQ) Bonds Series F	12/19/12	12/01/22	2.20%	3,010	3,010
Total Limited Tax GO Bonds Payable From Enterprise Funds				1,254,535	991,175
IIB. Limited Tax General Obligation Bond Anticipation Notes					
Payable From Enterprise Funds					
2012 LTGO Bond Anticipation Notes (payable from Solid Waste) [(d)]	03/01/12	02/28/13	2.50%	73,395	73,395
Total Limited Tax General Obligation Debt				1,327,930	1,064,570
IIC. Revenue Bonds, Capital Leases and Loans					
Payable From Enterprise Funds					
2001 WQ Revenue Bonds Junior Lien Series A	08/06/01	01/01/32	Variable [(c)]	$ 50,000	$ 50,000
2001 WQ Revenue Bonds Junior Lien Series B	08/06/01	01/01/32	Variable [(c)]	50,000	50,000
2003 WQ Revenue Refunding Bonds	04/24/03	01/01/35	2.00-5.25%	96,470	89,380
2004 WQ Revenue Refunding 1999-2 Bonds Series B	03/18/04	01/01/35	2.00-5.00%	61,760	53,095
2006 WQ Revenue and Refunding 1999-1 Bonds Series A	05/16/06	01/01/36	5.00%	124,070	102,970
2006 WQ Revenue and Refunding Bonds Series B-2	11/30/06	01/01/36	3.50-5.00%	193,435	179,870
2007 WQ Revenue Bonds	06/26/07	01/01/47	5.00%	250,000	250,000
2008 WQ Revenue Bonds	08/14/08	01/01/48	5.00-5.75%	350,000	350,000
2009 WQ Revenue Bonds	08/12/09	01/01/42	4.00-5.25%	250,000	250,000
2010 WQ Revenue Bonds	07/19/10	01/01/50	2.00-5.00%	334,365	334,215
2011 WQ Revenue Bonds	01/25/11	01/01/41	5.00-5.125%	175,000	175,000
2011 WQ Revenue Bonds Series B	10/05/11	01/01/41	1.00-5.00%	494,270	490,660
2011 WQ Revenue Bonds Series C	11/01/11	01/01/35	3.00-5.00%	32,445	32,445
2011 WQ Revenue Bonds Junior Lien	10/26/11	01/01/42	Variable [(c)]	100,000	100,000
2012 WQ Revenue and Refunding Bonds Series A	04/18/12	01/01/52	5.00%	104,450	104,445
2012 WQ Revenue and Refunding Bonds Series B	08/02/12	01/01/35	4.00-5.00%	64,260	64,260
2012 WQ Revenue and Refunding Bonds Series C	09/19/12	01/01/33	2.50-5.00%	65,415	65,415
2012 WQ Revenue Bonds Junior Lien VR Demand bonds	12/27/12	01/01/43	Variable [(c)]	100,000	100,000
2000-2012 State of Washington Revolving Loans	Various	Various	0.50-3.10%	177,834	136,002
2000 Public Transp. Park and Ride Capital Leases	03/30/00	12/31/31	5.00%	4,722	3,087
Total Revenue Bonds, Capital Leases and Loans Payable From Enterprise Funds				3,078,496	2,980,844
TOTAL BUSINESS-TYPE ACTIVITIES – LONG-TERM DEBT				4,406,426	4,045,414
TOTAL LONG-TERM DEBT (EXCLUDING GO LONG-TERM LIABILITIES)				$ 6,015,574	$ 5,139,633

(a) The Multi-Modal bonds initially issued in the Weekly Mode bear interest at Weekly Rates. The bonds in the Weekly Mode may be converted to Daily Mode, Flexible Mode, Term Rate Mode or Fixed Rate Mode.

(b) Lease revenue bonds were bonds issued in accordance with the provisions of Revenue Ruling 63-20 and Revenue Procedure 82-26. Under the lease agreements, the County's obligation to pay rent is a limited tax general obligation of the County.

(c) The junior lien variable rate demand bonds initially issued in the Weekly Mode will bear interest at Weekly Rates. The Weekly Rate for each Interest Period is 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.

(d) On February 27, 2013, the County financed the repayment of the 2012 bond anticipation notes with the issuance of $77.1 million in limited tax general obligation bonds (payable from Solid Waste), 2013 Series A, with a maturity date of December 1, 2040.

DEBT SERVICE REQUIREMENTS TO MATURITY
(IN THOUSANDS)

	GOVERNMENTAL ACTIVITIES					
	General Obligation Bonds		Lease Revenue Bonds		Total	
Year	Principal	Interest	Principal	Interest	Principal	Interest
2013	72,581	31,987	9,800	15,667	82,381	47,654
2014	73,503	28,239	10,280	15,188	83,783	43,427
2015	80,942	25,191	10,800	14,669	91,742	39,860
2016	64,636	21,889	11,330	14,141	75,966	36,030
2017	55,982	19,376	11,890	13,579	67,872	32,955
2018-2022	250,726	62,171	68,235	59,110	318,961	121,281
2023-2027	124,074	18,100	73,575	41,655	197,649	59,755
2028-2032	49,995	3,271	77,275	24,213	127,270	27,484
2033-2037	-	-	48,595	6,126	48,595	6,126
TOTAL	$ 772,439	$ 210,225	$ 321,780	$ 204,348	$ 1,094,219	$ 414,573

	BUSINESS-TYPE ACTIVITIES						Debt Service Requirements to Maturity	
	General Obligation Bonds		Revenue Bonds, Capital Leases and Loans		Total		Total	
Year	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2013	17,340	44,789	48,235	128,483	65,575	173,272	147,956	220,926
2014	23,610	45,491	56,690	127,339	80,300	172,830	164,083	216,257
2015	24,520	44,361	59,295	124,889	83,815	169,250	175,557	209,110
2016	24,920	43,243	61,804	122,324	86,724	165,567	162,690	201,597
2017	37,100	41,883	52,260	119,946	89,360	161,829	157,232	194,784
2018-2022	185,665	182,406	293,444	563,689	479,109	746,095	798,070	867,376
2023-2027	199,645	136,889	341,306	492,339	540,951	629,228	738,600	688,983
2028-2032	228,980	83,651	507,099	401,838	736,079	485,489	863,349	512,973
2033-2037	175,340	30,395	450,688	291,581	626,028	321,976	674,623	328,102
2038-2042	147,450	3,127	544,470	182,760	691,920	185,887	691,920	185,887
2043-2047	-	-	440,670	79,376	440,670	79,376	440,670	79,376
2048-2052	-	-	124,885	10,381	124,885	10,381	124,885	10,381
TOTAL	$ 1,064,570	$ 656,235	$ 2,980,844	$ 2,644,945	$ 4,045,414	$ 3,301,180	$ 5,139,633	$ 3,715,753

Summary of changes in long-term liabilities for the year ended December 31, 2012 (in thousands):

	Balance 01/01/12	Additions	Reductions	Balance 12/31/12	Due Within One Year
Governmental activities:					
Bonds payable:					
General obligation bonds	$ 748,482	$ 313,095	$ (289,138)	$ 772,439	$ 72,581
Lease revenue bonds [(a)]	385,525	-	(63,745)	321,780	9,800
Less deferred amounts:					
Unamortized premium bonds sold	23,947	59,146	(16,307)	66,786	-
Refunding	(11,412)	(23,297)	7,757	(26,952)	-
Total bonds payable	1,146,542	348,944	(361,433)	1,134,053	82,381
Retainage payable	125		(125)	-	-
Compensated absences liability	97,107	7,411	(7,795)	96,723	4,237
Other postemployment benefits	31,015	6,168	-	37,183	-
Unemployment compensated liabilities	2,789	2,587	(2,790)	2,586	2,586
Environmental remediation	-	1,985	-	1,985	452
Estimated claims settlements and other liabilities	164,119	253,836	(217,392)	200,563	135,071
Total Governmental activities long-term liabilities	$ 1,441,697	$ 620,931	$ (589,535)	$ 1,473,093	$ 224,727
Business-type activities:					
Bonds payable:					
General obligation bonds	$ 1,015,642	$ 238,205	$ (262,672)	$ 991,175	$ 16,055
General obligation bond anticipation notes [(b)]	-	73,395	-	73,395	1,285
Revenue bonds	2,709,715	334,120	(202,080)	2,841,755	39,290
Less deferred amounts:					
Unamortized premium bonds sold	128,024	61,023	(12,699)	176,348	-
Refunding	(74,144)	(35,168)	8,774	(100,538)	-
Total bonds payable	3,779,237	671,575	(468,677)	3,982,135	56,630
Capital leases	3,185	-	(98)	3,087	104
State revolving loans	129,276	15,325	(8,599)	136,002	8,841
Retainage payable	6,236	7,541	(5,985)	7,792	5,829
Compensated absences liability	69,212	23,042	(24,639)	67,615	8,980
Other postemployment benefits	7,469	2,685	(1,105)	9,049	-
Landfill closure and post-closure care liability	82,311	17,101	(7,274)	92,138	4,061
Environmental remediation	37,861	3,475	(2,487)	38,849	6,246
Customer deposits	532	102	(127)	507	33
Total Business-type activities long-term liabilities	$ 4,115,319	$ 740,847	$ (518,991)	$ 4,337,174	$ 90,724

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 $169.6 million are included in the above amount. Governmental activities compensated absences and other postemployment benefits 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.

(a) Lease revenue bonds were bonds issued in accordance with the provisions of Revenue Ruling 63-20 and Revenue Procedure 82-26. Under the lease agreements, the County's obligation to pay rent is a limited tax general obligation of the County.

(b) On February 27, 2013, the County financed the repayment of the 2012 bond anticipaton notes with the issuance of a $77.1 million limited tax general obligation bonds (payable from Solid Waste), 2013 Series, with a maturity date of December 1, 2040.

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 2.5 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 1.5 percent of assessed value of property within the County for general county purposes and 0.75 percent for metropolitan functions, but the total of limited tax general obligation debt for general county purposes and metropolitan functions should not exceed 1.5 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 2.5 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.

The legal debt margin computation for the year ended December 31, 2012 (in thousands):

2012 ASSESSED VALUE (2013 TAX YEAR)	$ 314,746,207
Debt limit of limited tax (LT) general obligations for metropolitan functions	
0.75 % of assessed value	$ 2,360,597
Less: Net LT general obligation indebtedness for metropolitan functions	(1,112,057)
LT GENERAL OBLIGATION DEBT MARGIN FOR METROPOLITAN FUNCTIONS	$ 1,248,540
Debt limit of LT general obligations for general county purposes and	
metropolitan functions - 1.5 % of assessed value	$ 4,721,193
Less: Net LT general obligation indebtedness for general county purposes	(1,007,232)
Net LT general obligation indebtedness for metropolitan functions	(1,112,057)
Net total LT general obligation indebtedness for general county	
purposes and metropolitan functions	(2,119,289)
LT GENERAL OBLIGATION DEBT MARGIN FOR GENERAL COUNTY	
PURPOSES AND METROPOLITAN FUNCTIONS	$ 2,601,904
Debt limit of total general obligations for metropolitan functions	
2.5 % of assessed value	$ 7,868,655
Less: Net total general obligation indebtedness for metropolitan functions	(1,112,057)
TOTAL GENERAL OBLIGATION DEBT MARGIN FOR METROPOLITAN FUNCTIONS	$ 6,756,598
Debt limit of total general obligations for general county purposes	
2.5 % of assessed value	$ 7,868,655
Less: Net unlimited tax general obligation indebtedness	
for general county purposes	(134,967)
Net LT general obligation indebtedness for general county purposes	(1,007,232)
Net total general obligation indebtedness for general county purposes	(1,142,199)
TOTAL GENERAL OBLIGATION DEBT MARGIN FOR GENERAL COUNTY PURPOSES	$ 6,726,456

Refunding and Defeasing General Obligation Bond Issues – 2012

Limited Tax General Obligation (GO) Refunding Bonds, 2012C – On August 28, 2012, the County issued $54.26 million in limited tax general obligation bonds, 2012C with an effective interest cost of 1.90 percent to advance refund $58.97 million of outstanding limited tax general obligation refunding bonds 2004B and 2005 with an effective interest rate of 4.88 percent. The net proceeds were used to purchase U.S. government securities that were deposited with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered defeased and the liability for those bonds has been removed from the governmental activities column of the statement of net position.

The reacquisition price exceeded the net carrying amount of the old debt by $10.1 million. This amount, reported in the statement of net position as a reduction in bonds payable, is being charged to operations through fiscal year 2024, using the outstanding principal balance method. This advance refunding was undertaken to reduce total debt service payments by $5.98 million over the life of the new bonds.

<u>Limited Tax General Obligation (GO) Refunding Bonds, 2012D</u> – On November 29, 2012, the County issued $41.81 million in limited tax general obligation bonds, 2012D with an effective interest cost of 2.36 percent to advance refund $54.39 million of outstanding limited tax GO lease revenue bonds, 2002 Broadway Office Properties with an effective interest rate of 5.05 percent. The net proceeds were used to purchase U.S. government securities that were deposited with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered defeased and the liability for those bonds has been removed from the governmental activities column of the statement of net position.

The reacquisition price exceeded the net carrying amount of the old debt by $852 thousand. This amount, reported in the statement of net position as a reduction in bonds payable, is being charged to operations through fiscal year 2030, using the outstanding principal balance method. This advance refunding was undertaken to reduce total debt service payments by $12.8 million over the life of the new bonds.

<u>Unlimited Tax General Obligation Refunding Bonds, 2012</u> – On August 14, 2012, the County issued $94.6 million in unlimited tax general obligation bonds, 2012 with an effective interest cost of 1.67 percent to advance refund $106.31 million of outstanding unlimited tax general obligation refunding bonds 2004 and 2004B (HMC) with an effective interest rate of 4.89 percent. The net proceeds were used to purchase U.S. government securities that were deposited with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered defeased and the liability for those bonds has been removed from the governmental activities column of the statement of net position.

The reacquisition price exceeded the net carrying amount of the old debt by $13.5 million. This amount, reported in the statement of net position as a reduction in bonds payable, is being charged to operations through fiscal year 2022, using the outstanding principal balance method. This advance refunding was undertaken to reduce total debt service payments by $14.93 million over the life of the new bonds.

<u>Limited Tax General Obligation (G0) (Public Transportation Sales Tax) Refunding Bonds, 2012</u> – On October 16, 2012, the County issued $71.67 million in limited tax GO (Public Transportation Sales tax) bonds, with an effective interest cost of 2.59 percent to current and advance refund $73.83 million of outstanding limited tax GO (Public Transportation Sales Tax) bonds, 2002 and 2004 with an effective interest rate of 5.27 percent. The net proceeds were used to purchase U.S. government securities that were deposited with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered defeased and the liability for those bonds has been removed from the business-type activities column of the statement of net position.

The reacquisition price exceeded the net carrying amount of the old debt by $5 million. This amount, reported in the statement of net position as a reduction in bonds payable, is being charged to operations through fiscal year 2034, using the outstanding principal balance method. This advance refunding was undertaken to reduce total debt service payments by $15.3 million over the life of the bonds, resulting in an economic gain (difference between the present values of the old and new debt service payments) of $12.5 million.

<u>Refunding and Defeasing Sewer Revenue Bond and Limited Tax General Obligation (GO) (Payable from Sewer Revenues) Bond Issues – 2012</u>

<u>Sewer Revenue Refunding Bonds and Limited Tax General Obligation Refunding Bonds (Payable from Sewer Revenues), 2012A</u> – On April 18, 2012, the County issued $24.4 million in sewer revenue

bonds and $68.4 in limited tax GO refunding bonds (Payable from Sewer Revenues), Series A with an effective interest cost of 2.7 percent to advance refund $26.1 million of outstanding Sewer Revenue bonds, 2004A and $71.7 million of limited tax GO bond (Sewer Revenues) bonds, 2005A, with an effective interest rate of 4.8 percent.

The net proceeds were used to purchase U.S. government securities that were deposited with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered defeased and the liability for those bonds has been removed from the business-type activities column of the statement of net position.

The reacquisition price exceeded the net carrying amount of the old debt by $12.1 million. This amount, reported in the statement of net position as a reduction in bonds payable, is being charged to operations through fiscal year 2025, using the outstanding principal balance method. This advance refunding was undertaken to reduce total debt service payments by $8.2 million over the life of the bonds, resulting in an economic gain (difference between the present values of the old and new debt service payments) of $6.8 million.

<u>Sewer Revenue Refunding Bonds and Limited Tax General Obligation Refunding Bonds (Payable from Sewer Revenues), 2012B</u> – On August 8, 2012, the County issued $64.3 million in sewer revenue bonds and $41.7 in limited tax GO refunding bonds (Sewer Revenues), Series B with an effective interest cost of 3.7 percent to advance refund $67.9 million of outstanding Sewer Revenue bonds, 2004A and $43.8 million of limited tax GO bond (Sewer Revenues) bonds, 2005A, with an effective interest rate of 4.8 percent.

The net proceeds were used to purchase U.S. government securities that were deposited with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered defeased and the liability for those bonds has been removed from the business-type activities column of the statement of net position.

The reacquisition price exceeded the net carrying amount of the old debt by $9.7 million. This amount, reported in the statement of net position as a reduction in bonds payable, is being charged to operations through fiscal year 2035, using the outstanding principal balance method. This advance refunding was undertaken to reduce total debt service payments by $10.2 million over the life of the bonds, resulting in an economic gain (difference between the present values of the old and new debt service payments) of $7.0 million.

<u>Sewer Revenue Refunding Bonds and Limited Tax General Obligation Refunding Bonds (Payable from Sewer Revenues), 2012C</u> – On September 19, 2012, the County issued $65.4 million in sewer revenue bonds and $53.4 in limited tax GO refunding bonds (Sewer Revenues), Series C with an effective interest cost of 3.6 percent to advance refund $69.1 million of outstanding Sewer Revenue bonds, 2004A and 2006 and $55.6 million of limited tax GO bond (Sewer Revenues) bonds, 2005A, with an effective interest rate of 4.8 percent.

The net proceeds were used to purchase U.S. government securities that were deposited with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered defeased and the liability for those bonds has been removed from the business-type activities column of the statement of net position.

The reacquisition price exceeded the net carrying amount of the old debt by $13.1 million. This amount, reported in the statement of net position as a reduction in bonds payable, is being charged to operations through fiscal year 2034, using the outstanding principal balance method. This advance refunding was undertaken to reduce total debt service payments by $10.8 million over the life of the bonds, resulting in an economic gain (difference between the present values of the old and new debt service payments) of $7.5 million.

<u>Refunded Bonds</u>

King County has ten refunded and defeased bond issues consisting of limited tax general obligation bonds ($376.8 million) and sewer revenue bonds ($171.0 million) that were originally reported in the Primary Government's statement of net position. The payments of principal and interest on these bond issues are the responsibility of the escrow agent, U.S. Bank of Washington, and the liability for the defeased bonds has been removed from the statement of net position.

Note 16

Interfund Balances and Transfers

Interfund Balances

Due from/to other funds and interfund short-term loans receivable and payable (in thousands):

Fund types with account balances of less than $500 thousand are aggregated into "All Others."

Receivable Fund	Payable Fund	Amount
General Fund	Nonmajor Governmental Funds	$ 7,305
	Public Transportation Enterprise	727
	All Others	772
Public Health Fund	General Fund	2,569
	All Others	195
Nonmajor Governmental Funds	General Fund	2,068
	Nonmajor Governmental Funds	17,886
	Public Health Fund	5,628
	All Others	583
Public Transportation Enterprise	General Fund	1,033
	Public Health Fund	4,490
	Nonmajor Governmental Funds	5,410
	Water Quality Enterprise	20,160
Water Quality Enterprise	General Fund	1,026
	Nonmajor Governmental Funds	1,186
	All Others	109
Nonmajor Enterprise Funds	General Fund	2,262
	Nonmajor Governmental Funds	1,207
	All Others	742
Internal Service Funds	Public Health Fund	537
	Nonmajor Governmental Funds	1,334
	Internal Service Funds	2,649
	All Others	1,047
Total		$ 80,925

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.

$6,194 thousand due from Nonmajor Governmental Funds to the General Fund, $4,490 thousand due from Public Health Fund to the Public Transportation Enterprise, $5,000 thousand due from Nonmajor Governmental Funds to the Public Transportation Enterprise, and $20,158 thousand due from the Water Quality Enterprise to the Public Transportation Enterprise were short-term loans made for the purpose of cash flow.

Advances from/to other funds (in thousands)

Receivable Fund	Payable Fund	Amount
General Fund	Public Transportation Enterprise	$ 3,500
	Nonmajor Governmental Funds	300
Nonmajor Governmental Funds	Nonmajor Governmental Funds	4,000
Nonmajor Enterprise Funds	Nonmajor Governmental Funds	2,025
	Nonmajor Enterprise Funds	1,214
Total		$ 11,039

All three of these advances consisted of loans made for the purpose of cash flow. None of the advances is scheduled to be repaid in 2013.

Interfund Transfers (in thousands)

Fund types with account balances of less than $500 thousand are aggregated into "All Others."

Transfers Out	Transfers In	Amount
General Fund	Public Health Fund	$ 25,042
	Nonmajor Governmental Funds	24,512
	All Others	100
Public Health Fund	Nonmajor Governmental Funds	2,877
Nonmajor Governmental Funds	Nonmajor Governmental Funds	84,598
	All Others	577
Public Transportation Enterprise	Nonmajor Governmental Funds	1,027
Water Quality Enterprise	All Others	275
Nonmajor Enterprise Funds	Nonmajor Governmental Funds	2,005
	Nonmajor Enterprise Funds	5,250
Internal Service Funds	Nonmajor Governmental Funds	2,504
	All Others	149
Total transfers out		$ 148,916

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.

Note 17

Related Party Transactions

Harborview Medical Center (HMC), a discretely presented component unit of King County, makes monthly rental payments to the County for use of the Patricia Steel Memorial Building and the Ninth & Jefferson Building. The County became the legal owner of the Patricia Steel Memorial Building in December 2012 when it refinanced the original developer issued bonds and will continue to lease the property to HMC with rental revenues received accreting towards debt service on the new bonds. Rent is also paid by HMC to the County on the Ninth and Jefferson Building (NJB), owned by a nonprofit corporation that is part of the blended component unit of the County. The County is contractually obligated for the debt service on the lease revenue bonds issued by the nonprofit which funded construction of NJB. In both situations, HMC has agreed to include the annual rental payments in their operating budget for as long as they use the buildings. In 2012, the primary government received $21.6 million in building lease revenues from HMC.

The Cultural Development Authority (CDA), a discretely presented component unit of King County, annually receives funding from various County funds under the One Percent for Art program. Revenues are used to support activities related to the development and maintenance of County public art. In 2012, the King County primary government transferred $306 thousand to the CDA. The CDA spent $1.6 million on art projects for which the County recorded a corresponding decrease in receivables from the CDA and an increase in artwork work-in-progress. The County also distributes to the CDA the lodging taxes that it collects for funding arts and heritage programs. In 2012, the County distributed $11.3 million to the CDA for this purpose.

The Public Transportation Enterprise (Transit) entered into a ground lease agreement as lessor with King County Housing Authority (KCHA) for the development of affordable housing units and a parking garage in the City of Redmond. The land under the lease has a cost of $1.3 million. KCHA is a related organization of King County. The lease provides for a set-aside of a minimum of 150 parking stalls for use by park and ride commuters.

Metro Transit provided loans to KCHA at an interest rate of 1.0 percent. At December 31, 2012, total loans receivable from KCHA, including principal and accrued interest, amounted to $830 thousand.

The lease calls for an annual lease payment with a 3.0 percent increase each year, commencing with the year ended December 31, 2003. The lease payment is due within 90 days following the end of each calendar year. A portion of the annual lease payment is restricted for use on future Federal Transit Administration projects. The term of the lease is 50 years with one option to extend for 25 years. Metro Transit recorded lease revenue of $39 thousand for 2012. The lease and loan payments are payable out of net cash flow in the order and priority established in the lease.

Note 18

Restrictions, Components of Fund Balance, and Changes in Equity

Net Position

The government-wide and proprietary fund financial statements utilize a net position presentation. Net position is classified into three components:

Net imvestment in capital assets – Consists of capital assets net of accumulated depreciation and reduced by outstanding balances of bonds, notes and other debt attributed to the acquisition, construction, or improvement of those assets.

Restricted net position – Results when constraints are placed on net position use either by external parties or by law through constitutional provision or enabling legislation.

Unrestricted net position – Consists of net position that do not meet the definition of the two preceding categories.

Restricted Net Position - Business-type Activities (in thousands)	
Public Transportation Enterprise restricted for future construction projects ($199), debt service ($10,775) and other purposes ($1,471).	$ 12,445
Water Quality Enterprise restricted for debt service ($221,825) and regulatory assets and environmental liabilities ($32,992).	254,817
Total Business-type Restricted Net Position	$ 267,262

Restricted Net Position - Internal Service Funds (in thousands)	
Building Development & Management Corporations Fund restricted for future construction projects ($278) and debt service ($1,616).	$ 1,894
King County Information Technology Services Fund restricted for future construction projects ($5,061).	5,061
Total Internal Service Funds Restricted Net Position	$ 6,955

Components of Fund Balance

King County's governmental fund balances are classified according to the relative constraints that control how amounts can be spent. Classifications include:

· Nonspendable. Balances that either are not in a spendable form or are legally or contractually required to remain intact.

· Restricted. Balances that are restricted for specific purposes by the constitution, enabling legislation or external resource providers such as creditors, grantors, or laws or regulations of other governments.

· Committed. Balances that can only be used for specific purposes pursuant to constraints imposed by formal action of the King County Council. A Council ordinance or motion is required to establish, modify or rescind a commitment of fund balance.

· Assigned. Balances that are constrained by management to be used for specific purposes, but are neither restricted nor committed. Assignments are authorized by chief officers of executive departments and administrative offices.

· Unassigned. Residual balances that are not contained in the other classifications.

A summary of governmental fund balances at December 31, 2012, is as follows (in thousands)(page 1 of 2):

	General Fund	Public Health Fund	Nonmajor Governmental Funds	Total
Nonspendable:				
Advances	$ 3,800	$ -	$ -	$ 3,800
Youth Sports Facilities				
Grant Endowment			2,620	2,620
Inventories		579	-	579
Flood Control Zone District			4,000	4,000
Prepayments			7,449	7,449
Total Nonspendable Fund Balance	3,800	579	14,069	18,448
Restricted for:				
Crime Victim Compensation Progra	51			51
Criminal Justice	442			442
Dispute Resolution	133			133
Drug Enforcement	2,051			2,051
Real Property Title Assurance	25			25
Public Health		4,050		4,050
Alcoholism and Substance Abuse Services			4,235	4,235
Animal Services			238	238
Automated Fingerprint ID System			10,159	10,159
Building Construction and Improvement			1,459	1,459
Community Development Block Grant			1,323	1,323
Conservation Futures			20,867	20,867
County Road			30,338	30,338
Department of Permitting and Environmental Review			2,926	2,926
Developmental Disabilities			11,651	11,651
Emergency Medical Services			39,955	39,955
Enhanced 911 Emergency Telephone System			20,572	20,572
Environmental Resources			334	334
Flood Control Zone District			45,524	45,524
Historical Preservation and Programs			173	173
Information Resource Management			2	2
Intercounty River			3	3
King Marine Division			(2)	(2)
King County Flood Control contract			(83)	(83)
Mental Health			35,670	35,670
Mental Illness and Drug Dependency			23,962	23,962
Miscellaneous Grants			2,032	2,032
Noxious Weed Control			984	984
Critical Area Mitigation			2,899	2,899
Parks and Recreation			6,640	6,640
Real Estate Excise Tax Capital			11,962	11,962
Recorder's Operations And Management			1,875	1,875
Risk Abatement			8,772	8,772
Surface Water Management			1,857	1,857
Veterans and Human Services			6,446	6,446
Veterans' Relief			961	961
Green River Flood Mitigation			2,590	2,590
Housing Opportunity Acquisition			29,617	29,617
Major Maintenance Reserve			22,988	22,988
SWM CIP Non-bond subfund			3,192	3,192
Title III Forestry			74	74
Transfer of Development Credit Program			276	276
Tech Systems			38,078	38,078
PFD Stadium Bond Debt Service			12,290	12,290
Total Restricted Fund Balance	2,702	4,050	402,840	409,592

A summary of governmental fund balances at December 31, 2012, is as follows (in thousands) (page 2 of 2):

	General Fund	Public Health Fund	Nonmajor Governmental Funds	Total
Committed for:				
Antiprofiteering Program	$ 69	$	$	$ 69
Capital Project	5,573			5,573
Rainy Day Fund	16,119			16,119
Building Repair and Replacement			7,703	7,703
Community Development Block Grant			431	431
Debt Service			53,270	53,270
Farmland and Open Space Acquisition			1,433	1,433
Parks Expansion and Construction			22,050	22,050
OS Trails and Zoo Levy subfund			844	844
Urban Restore Habitat Restoration			708	708
Total Committed Fund Balance	21,761	-	86,439	108,200
Assigned for:				
Inmate Welfare	$ 4,083			4,083
Environmental Health Services		3,750		3,750
Animal Services			478	478
Children and Families Services			1,281	1,281
Citizen Councilor Revolving			2	2
Flood Control Zone District			5,103	5,103
Local Hazardous Waste			10,351	10,351
Road Improvement Districts Construction			9	9
Road Improvement Districts Maintenance			10	10
Treasurer's Operations and Management			75	75
Youth Employment Programs			977	977
Youth Sports Facilities Grant			231	231
Arts and Historic Preservation Capital			906	906
Long-term Leases			2,206	2,206
Regional Justice Center Construction			1,377	1,377
Encumbrances	1,935		-	1,935
Reappropriation	2,809			2,809
Total Assigned Fund Balance	8,827	3,750	23,007	35,584
Unassigned Fund Balance	102,554		(8,917)	93,637
Total Fund Balance	$ 139,644	$ 8,379	$ 517,438	$ 665,461

Rainy Day Reserve Ordinance 15961 created the Rainy Day Reserve for the purposes of accumulating revenues to be available for emergencies. The fund is fully invested for its own benefit.

The ordinance states that the Rainy Day Reserve shall be used in the event of an emergency, as declared by a vote of the County Council, for the following purposes:

1. Maintenance of essential county services in the event that current expense fund revenue collections in a given fiscal year are less than 97 percent of adopted estimates;

2. Payment of current expense fund legal settlements or judgments in excess of the County's ability to pay from other sources;

3. Catastrophic losses in excess of the County's other insurances against such losses; and

4. Other emergencies, as determined by the County Council.

In 2008, the County Council moved the rainy day fund from the general fund to a special revenue fund reducing general fund balance by approximately $15 million. In 2011, in accordance with the implementation of GASB 54, it was reported as part of the General fund. As of December 31, 2012, the Rainy Day Reserve had a committed fund balance of $16.1 million.

Entity Change – Special Item

In November 2012, the County exercised its option to refinance the revenue bonds held by Broadway Office Properties (BOP), a non-profit corporation reported as a blended component unit, and owner-developer of the Patricia Steel Building. In accordance with BOP's project lease agreement with the County, title to the property transfers to the County upon the County's voluntary redemption of the bonds. BOP as of December 1, 2012, therefore, ceased to be a blended component unit and its residual assets and liabilities were eliminated from the King County reporting entity. The corresponding change in net position of $1.2 million is reported as a special item in the Internal Service Funds Combining Statement of Revenues, Expenses, and Changes in Fund Net Position and the related change in net position of $3,8 million is reported as a special item in the governmental activities statement of activities.

Restatements of Beginning Balances

Detailed information regarding restatements of beginning balances (in thousands):

	Governmental Activities	Governmental Funds	Nonmajor Special Revenue Funds
Fund Balance - December 31, 2011	$ 2,273,680	$ 645,731	$ 336,297
Reclassification of King County Ferry District from Special Revenue to Nonmajor Enterprise	(23,656)	(23,568)	(23,568)
Flood District expenditure corrrection	(52)	(52)	(52)
Flood District work-in-progress correction	(6,193)		
Capitalized prior year expenditures	9,708		
Adjust general legder to fixed asset system	(8,408)		
Net Position/Fund Balance - January 1, 2012 (Restated)	$ 2,245,079	$ 622,111	$ 312,677

	Business-type Activities	Nonmajor Enterprise Funds	King County Ferry District
Net Position – December 31, 2011	$ 2,422,836	$ 219,815	$ -
Reclassification of King County Ferry Distrct from Special Revenue to Nonmajor Enterprise	26,809	26,809	26,809
Net Position – January 1, 2012 (Restated)	$ 2,449,645	$ 246,624	$ 26,809

Governmental activities –
The King County Ferry District was reclassified from a special revenue fund to a nonmajor enterprise. In 2011, the balances reported in governmental activities for the Ferry District did not include capital assets.

The beginning balances of the Flood District (a special revenue fund) were adjusted for prior year expenditures and a correction to capital assets.

The governmental activities capital asset balances were adjusted to capitalize costs that had been treated as expenses in prior years and to adjust the general ledger capital asset balance to the balance reported by the capital asset system.

Business-type Activities –

The King County Ferry District was reclassified from a special revenue fund to a nonmajor enterprise.

Component Unit – Harborview Medical Center (HMC)

Restricted Net Assets

Restricted expendable net assets – The $20.2 million consists of investments restricted either for capital use or 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 $3.4 million consists of permanent endowments by donors.

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

Restricted Net Assets

Restricted expendable net assets – $56.2 million is restricted by RCW 67.28.180.3 and King County ordinance for use for arts and heritage cultural program awards fund and special account according to a specified formula.

Note 19

Legal Matters, Contingent Liabilities, and Other Commitments

Pending Litigation and Other Claims

King County and its agencies are parties to routine legal proceedings that normally occur in governmental operations. At any given point, there may be numerous lawsuits that could significantly impact expenditures and future budgets. The County's threshold for disclosure of loss contingencies is $500 thousand.

- King County was the defendant in a lawsuit by public defenders claiming that they should have been enrolled in the State retirement system. The Supreme Court affirmed that claim and the case was remanded to Superior Court for further proceedings. King County reached a settlement with the attorneys for the class, which would require a payment of approximately $31 million by King County for retroactive PERS contributions. The settlement must also be approved by the Pierce County Superior Court to be effective.

King County is contesting or negotiating the following claims and lawsuits for material damages against King County and the outcomes are uncertain at this time:

- An administrative order from the Environmental Protection Agency (EPA) that requires the County, the City of Seattle, the Boeing Company, and the Port of Seattle to conduct a feasibility study to determine the nature and extent of the contamination in the Lower Duwamish Waterway. The feasibility study has been issued in final form by EPA. The proposed plan is subject to public comment and may be changed by EPA as a result. EPA has stated that it will issue a Record of Decision (ROD) in the first quarter of 2014. Due to the high level of regulatory review, the County is unable to determine the particular remediation alternative that may be required, the schedule and cost of any required remediation, or the extent of County responsibility.

- A potential requirement for more cleanup in the area contaminated when the Denny Way combined sewer outflow was replaced in 2005. The King County Wastewater Treatment Division (WTD) has already performed interim cleanup costing $3.6 million to comply with an agreed order issued by the Washington State Department of Ecology, which reserves its right to require additional remediation over a ten year monitoring period.

- Potential claims for past and future cleanup costs at the Harbor Island Superfund Site. Certain removal costs already incurred by the Port of Seattle are expected to be defrayed by the County and the City of Seattle. The parties have also agreed to share the cost of a supplemental investigation and feasibility study required by the EPA. The agreement states that the WTD has only a one-third pro rata share of the study costs although that portion may still be reallocated among the several potentially responsible parties. Further remediation costs cannot be reasonably estimated until the study is completed.

- In the lawsuit filed by two sewer districts who allege that certain expenditures of the WTD constitute a breach of contract and a violation of local statutes, all issues, except one, were summarily dismissed by the court. In accordance with the ruling on the lone remaining issue, King County transferred $2.9 million from its general fund to the water quality fund. Subsequently, both parties have initiated appeals to the higher courts contesting the respective portions of the ruling that they lost on. Oral arguments were heard by the Supreme Court in January 2013 and a decision by the court is expected sometime in late 2013.

- A contractor's claim against the County in the amount of $2.4 million related to the Juanita Bay Pump Station Replacement project, alleging extra work and delay costs. The County issued counterclaims in the amount of over $11.0 million. Prior to the December 2012 trial, the contractor settled with the County in the amount of $4.8 million, which was paid in 2013.

- A series of requests for change orders and claims for alleged damages from the prime contractor for the Brightwater Treatment Plant central conveyance system alleging differing site conditions and defective specifications. The County vigorously defended against the claims and filed suit alleging contract default by the contractor for failure to complete the contract work within time limits. The contractor asserted damages of approximately $66 million. The County estimated its damages at $158 million. The County received a jury verdict of $155 million on December 21, 2012. The contractor received a verdict of $26.2 million. The County is now awaiting rulings on post-trial motions that may modify the verdict amounts. After Judgement is entered, it may be appealed.

- The Wastewater Treatment Division approved a consent decree with EPA and the Department of Ecology which requires the County to pay a civil penalty of $400,000 and to complete the EPA approved CSO long-term control plan by the end of 2030.

- King County is in negotiations with the Washington State Department of Ecology regarding a potential Agreed Order under the Model Toxics Control Act regarding the Maury Island Gravel Mine Site. Due to the high level of regulatory review, approval requirements, and environmental permitting associated with any remediation project, the cost of any such remediation is not determinable.

- A new $192 million South Park Bridge is being built over the Duwamish River to replace the old, failing structure. The project has several funding sources, including the Federal Highway Administration, the City of Seattle, and King County. The contractor is seeking $6.8 million in additional compensation for what it asserts are differing soil conditions encountered during excavation of a caisson than what was represented in the plans and specifications. The County disputes this claim and has retained outside council to assist in defense of the claim. The County and the contractor are scheduled to present their positions on June 10, 2013 before a dispute resolutions board for a nonbinding opinion.

<u>Contingent Liability</u>

King County has entered into several contingent loan agreements with the King County Housing Authority (KCHA) and other owners/developers of affordable housing; these agreements total $152.9 million at the end of 2012. The County has provided credit support for certain bonds issued by the KCHA. All projects are currently self-supporting and the County has not made any loans pursuant to these agreements.

<u>Other Commitments</u>

The Solid Waste Enterprise paid the County General Fund $8.9 million for rent on the Cedar Hills landfill site in 2012. The Enterprise is committed to paying rent to the General Fund as long as the Cedar Hills site continues to accept waste.

<u>Component Unit – Harborview Medical Center</u>

Harborview Medical Center (HMC) is involved in litigation arising in the course of business. It is HMC management's opinion 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's 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.

Note 20

Subsequent Events

Debt Issuances in 2013

In February 2013, the County issued $77.1 million of Limited Tax General Obligation Bonds to retire the 2012A Bond Anticipation Notes and to provide financing for the County's Solid Waste capital improvement program and the Solid Waste Transfer and Waste Management Plan.

In April 2013, the County issued $122.9 million of Sewer Revenue Refunding Bonds. The proceeds from these bonds were used to refund all of the Sewer Revenue Bonds, Series 2003A, and a portion of Sewer Revenue Bonds, Series 2006, and all of the outstanding Limited Tax General Obligation Bonds (payable from Sewer Revenues), 2005.

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 condition assessments of the County's roads are shown below for the last three completed cycles. The next assessment cycle will be completed in 2013 and is not included in these tables.

	2010-2008		2007-2005		2004-2002	
Condition ratings	**(miles)**	**%**	**(miles)**	**%**	**(miles)**	**%**
Arterial roads						
Excellent to good	348.2	71.8	485.4	89.6	442.9	81.7
Fair	20.3	4.2	14.5	2.7	61.1	11.3
Poor to substandard	116.7	24.0	41.6	7.7	38.0	7.0
Total	485.2	100.0	541.5	100.0	542.0	100.0
Local access roads						
Excellent to good	867.0	75.6	1,094.5	83.4	1,075.4	81.6
Fair	74.2	6.5	127.3	9.7	139.0	10.6
Poor to substandard	205.8	17.9	91.2	6.9	102.9	7.8
Total	1,147.0	100.0	1,313.0	100.0	1,317.3	100.0

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.

	2010-2008		2007-2005		2004-2002	
PCI score interval	**(miles)**	**%**	**(miles)**	**%**	**(miles)**	**%**
Arterial roads						
PCI 40 - 100	360.0	74.2	493.4	91.1	475.6	87.7
PCI 0 - 39	125.3	25.8	48.1	8.9	66.4	12.3
Total	485.3	100.0	541.5	100.0	542.0	100.0
Local access roads						
PCI 40 - 100	900.0	78.5	1,170.3	89.1	1,165.6	88.5
PCI 0 - 39	247.0	21.5	142.7	10.9	151.7	11.5
Total	1,147.0	100.0	1,313.0	100.0	1,317.3	100.0

It is the policy of the King County Road Services Division to maintain at least 80 percent of the road system at a PCI of 40 or better. The 2010 Condition Assessment indicates the arterial and local access road networks have fallen below the 80/40 established condition level for Modified Approach. The accelerated condition deterioration observed between the 2007 and 2010 reports are primarily the result of weather and system age. The extreme ranges of weather experienced between 2007 and 2012 have resulted in a higher than normal amount of asphalt cracking caused by the freezing and thawing of a rain-saturated road base. Many of the arterial roadways are beyond their cost-effective life cycles, resulting in roadway deterioration earlier than what was estimated or budgeted.

The County Road Division's current budget conditions do not allow for additional funds to increase the number of miles overlaid, thereby increasing PCI scores. Bringing road system scores into compliance with GASB Modified Method Roads will reduce the number of Hot Mix Asphalt (HMA) miles resurfaced and increase the number of miles resurfaced with Bituminous Surface Treatment (Chip Seal) at a lower unit cost and reduced life cycle. Roads will also investigate a short section paving program that will only resurface road segments with PCI less than 40. While this methodology is not cost effective, it will most immediately correct the PCI deficiencies.

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 2008 to 2012. The budgeted amount is equivalent to the anticipated amount needed to maintain roads up to the required condition level (in thousands).

	2012	2011	2010	2009	2008
Budgeted	$52,658	$62,947	$78,844	$64,615	$69,349
Expended	45,082	52,080	52,701	58,488	57,371

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 182 bridges. Physical inspections to determine the condition of bridges 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, rotted timbers, deteriorated bridge decks, bank erosion, and cracked concrete. These are documented in an inspection report along with recommended repairs. Four pedestrian bridges are included in the list of bridges being maintained by the County. These are also subject to condition assessments, but are subject to different standards than the more heavily used vehicular bridges.

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 score 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 funding. The 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. The formula used to calculate the sufficiency rating for a particular bridge is dictated by the Federal Highway Administration. The sufficiency rating 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 could be considered for replacement or rehabilitation funding, though typically only bridges that score less than 30 are selected for funding.

The three most recent bridge sufficiency ratings:

Bridge Sufficiency Rating	Number of Bridges 2012	2011	2010
0 - 20	8	5	6
21 - 30	1	1	1
31 - 49	17	13	13
50 - 100	149	158	160
Totals	175	177	180

Note: Co-owned and pedestrian bridges are not rated and not included in the table.

It is the policy of the King County Road Services 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.

Amounts budgeted and spent to maintain and preserve bridges (in thousands):

	2012	2011	2010	2009	2008
Budgeted	$9,337	$10,635	$19,866	$13,465	$18,855
Expended	6,375	5,499	9,760	10,625	11,761

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. Factors contributing to these backlogs include increased bridge traffic, higher weight loads, labor shortages, stringent environmental restrictions, and an aging inventory.

Postemployment Health Care Plan

Schedule of Funding Progress for the Plan
(in thousands)

Year	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Unit Credit (b)	Unfunded AAL (UAAL) (b – a)	Funded Ratio (a ÷ b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b – a) ÷ c)
2010	12/31/2009	$ -	$ 149,390	$ 149,390	0.0%	$ 969,082	15.4%
2011	12/31/2011	$ -	$ 178,502	$ 178,502	0.0%	$ 956,750	18.7%
2012	12/31/2011	$ -	$ 178,502	$ 178,502	0.0%	$ 961,982	18.6%

KING COUNTY, WASHINGTON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE PERIOD ENDING DECEMBER 31, 2012

Federal Grantor Agency	Pass-through Agency name	Direct or Indirect	Federal Program Name (CFDA Name)	CFDA Number	AWARD ID Number	Total Expenditures	Notes	Research and Development
US Department Of Agriculture	State Office of Public Instruction	INDIRECT	School Breakfast Program	10.553	17-001-6860	45,279		N
				10.553 Total		45,279		
	State Office of Public Instruction	INDIRECT	National School Lunch Program	10.555	17-001-6860	91,033		N
				10.555 Total		91,033		
	WA-DEPARTMENT OF HEALTH	INDIRECT	Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	2012W100347	289,872		N
	WA-DEPARTMENT OF HEALTH	INDIRECT	Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	2013W100347	7,057,897		N
	WA-DEPARTMENT OF HEALTH	INDIRECT	Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	2011IW5003472/2012IW500347	344,240		N
				10.557 Total		7,692,009		
US Department Of Agriculture	WITHIN REACH	INDIRECT	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	1113-38241/1213-61151	208,363		N
	WA-DEPARTMENT OF HEALTH	INDIRECT	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	11117/12127/13137 WAWA5Q3903	791,404		N
				10.561 Total		999,767		
US Department Of Agriculture	WA-DEPARTMENT OF HEALTH	INDIRECT	WIC Farmers' Market Nutrition Program (FMNP)	10.572	2012IY860447	7,079		N
				10.572 Total		7,079		
US Department Of Agriculture	UNITED WAY OF KING COUNTY	INDIRECT	Hunger Free Communities	10.583	CN-HFC-11-0030	186,334		N
				10.583 Total		186,334		
US Department Of Agriculture	SECRETARY OF STATE	INDIRECT	Schools and Roads - Grants to States	10.665	PL 106-393	269,707		N

The accompanying notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

KING COUNTY, WASHINGTON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE PERIOD ENDING DECEMBER 31, 2012

Federal Grantor Agency	Pass-through Agency name	Direct or Indirect	Federal Program Name (CFDA Name)	CFDA Number	AWARD ID Number	Total Expenditures	Notes	Research and Development
				10.665 Total		269,707		
US Department Of Agriculture		DIRECT	Urban and Community Forestry Program	10.675	2009-DG-11062765-032	15,783		Y
		DIRECT	Urban and Community Forestry Program	10.675	PNW 10-DG-11261985-098	13,204		Y
				10.675 Total		**28,987**		
			US Department of Agriculture Total			**9,320,195**		
US Department of Commerce (NOAA)	WA State Recreation and Conservation Office	INDIRECT	Pacific Coast Salmon Recovery_Pacific Salmon Treaty Program	11.438	11-1479P	100,995		N
	WA State Recreation and Conservation Office	INDIRECT	Pacific Coast Salmon Recovery_Pacific Salmon Treaty Program	11.438	11-1480P	45,696		N
	WA State Recreation and Conservation Office	INDIRECT	Pacific Coast Salmon Recovery_Pacific Salmon Treaty Program	11.438	08-1564	114,410		N
	WA State Recreation and Conservation Office	INDIRECT	Pacific Coast Salmon Recovery_Pacific Salmon Treaty Program	11.438	11-1528	400,000		N
				11.438 Total		661,101		
			US Department of Commerce Total			**661,101**		
US Department of Defense		DIRECT	Electronic Absentee Systems for Elections	12.217	H98210-12-1-0004	449,498		Y
				12.217 Total		449,498		
			US Department of Defense Total			**449,498**		
US Department Of Housing And Urban Development		DIRECT	Community Development Block Grants/Entitlement Grants	14.218	B-12-UC-53-001	3,894,326	(3)	N
		DIRECT	Community Development Block Grants/Entitlement Grants	14.218	B-11-UC-53-001	2,194,465	(3)	N
				14.218 Total		6,088,791		

The accompanying notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

KING COUNTY, WASHINGTON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE PERIOD ENDING DECEMBER 31, 2012

Federal Grantor Agency	Pass-through Agency name	Direct or Indirect	Federal Program Name (CFDA Name)	CFDA Number	AWARD ID Number	Total Expenditures	Notes	Research and Development
US Department Of Housing And Urban Development		DIRECT	Emergency Solutions Grant Program	14.231	S-11-UC-53-0002	114,752	(3)	N
		DIRECT	Emergency Solutions Grant Program	14.231	S-12-UC-53-0002	157,770	(3)	N
				14.231 Total		272,522		
US Department Of Housing And Urban Development		DIRECT	Supportive Housing Program	14.235	WA0055B0T0001003	468,425	(3)	N
		DIRECT	Supportive Housing Program	14.235	WA0055B0T001104	156,141	(3)	N
		DIRECT	Supportive Housing Program	14.235	5H79TI020847-03 & NCE	252,033	(3)	N
		DIRECT	Supportive Housing Program	14.235	5H79TI023202-02	212,374	(3)	N
		DIRECT	Supportive Housing Program	14.235	1H79TI022856-03	94,509	(3)	N
		DIRECT	Supportive Housing Program	14.235	5H79TI022126-03	132,920	(3)	N
		DIRECT	Supportive Housing Program	14.235	WA0030B0T001003	55,461	(3)	N
		DIRECT	Supportive Housing Program	14.235	WA0030B0T001104	93,266	(3)	N
		DIRECT	Supportive Housing Program	14.235	WA0041B0T001003	57,129	(3)	N
		DIRECT	Supportive Housing Program	14.235	WA0041B0T001104	20,274	(3)	N
		DIRECT	Supportive Housing Program	14.235	WA0042B0T001003	66,631	(3)	N
		DIRECT	Supportive Housing Program	14.235	WA0042B0T001104	201,145	(3)	N
		DIRECT	Supportive Housing Program	14.235	WA0064B0T001003	57,477	(3)	N
		DIRECT	Supportive Housing Program	14.235	WA0064B0T001104	5,571	(3)	N
		DIRECT	Supportive Housing Program	14.235	WA0049B0T001003	299,712	(3)	N
		DIRECT	Supportive Housing Program	14.235	WA0050B0T000802	7,983	(3)	N
		DIRECT	Supportive Housing Program	14.235	WA0050B0T001104	97,604	(3)	N
		DIRECT	Supportive Housing Program	14.235	WA0001B0T001001	58,891	(3)	N
		DIRECT	Supportive Housing Program	14.235	WA0001B0T001102	54,570	(3)	N
				DIRECT TOTAL		2,392,116		
US Department Of Housing And Urban Development	City of Seattle Dept. of Human Svcs.	INDIRECT	Supportive Housing Program	14.235	WA0039BOT001003	324,706		N
	City of Seattle Dept. of Human Svcs.	INDIRECT	Supportive Housing Program	14.235	WA0040BOT001003	626,662		N
				INDIRECT TOTAL		951,368		
				14.235 Total		3,343,484		

The accompanying notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

KING COUNTY, WASHINGTON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE PERIOD ENDING DECEMBER 31, 2012

Federal Grantor Agency	Pass-through Agency name	Direct or Indirect	Federal Program Name (CFDA Name)	CFDA Number	AWARD ID Number	Total Expenditures	Notes	Research and Development
US Department Of Housing And Urban Development		DIRECT	Shelter Plus Care	14.238	WA0033C0T001003	354,583	(3)	N
		DIRECT	Shelter Plus Care	14.238	WA0034C0T001003	1,293,506	(3)	N
		DIRECT	Shelter Plus Care	14.238	WA0223C0T001001	79,055	(3)	N
		DIRECT	Shelter Plus Care	14.238	WA0223C0T001102	241,579	(3)	N
		DIRECT	Shelter Plus Care	14.238	WA0034C0T001104	3,424,541	(3)	N
		DIRECT	Shelter Plus Care	14.238	WA0033C0T001104	414,642	(3)	N
				14.238 Total		5,807,906		
US Department Of Housing And Urban Development		DIRECT	Home Investment Partnerships Program	14.239	M-11-DC-530200	4,944,505		N
				14.239 Total		4,944,505		
US Department Of Housing And Urban Development		DIRECT	ARRA -Community Development Block Grants/Entitlement Grants	14.253	B-09-UY-53-0001	112,651	(3), (5)	N
				14.253 Total		112,651		
US Department Of Housing And Urban Development		DIRECT	ARRA - Homelessness Prevention and Rapid Re-Housing Program	14.257	S-09-UY-53-0002	438,761	(3), (5)	N
				DIRECT TOTAL		438,761		
	WA State Department of Commerce	INDIRECT	ARRA - Homelessness Prevention and Rapid Re-Housing Program	14.257	10-46111-612	274,983	(3), (5)	N
				INDIRECT TOTAL		274,983		
				14.257 Total		713,744		
US Department Of Housing And Urban Development		DIRECT	Fair Housing Assistance Program_State and Local	14.401	FF210K091005	15,627		N
		DIRECT	Fair Housing Assistance Program_State and Local	14.401	FF210K101005	267		N
				14.401 Total		15,894		

The accompanying notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

Federal Grantor Agency	Pass-through Agency name	Direct or Indirect	Federal Program Name (CFDA Name)	CFDA Number	AWARD ID Number	Total Expenditures	Notes	Research and Development
US Department Of Housing And Urban Development	PUGET SOUND REGIONAL COUNCIL	INDIRECT	Sustainable Communities Regional Planning Grant Program	14.703	WARIP0042	107,651		N
				14.703 Total		107,651		
			US Department Of Housing And Urban Development Total			**21,407,148**		
US Department of the Interior		DIRECT	Fish and Wildlife Management Assistance	15.608	F11AC00061; Legacy 13410BJ034	1,975		N
		DIRECT	Fish and Wildlife Management Assistance	15.608	F10AC000325-001; 002	38,859		N
				DIRECT TOTAL		40,834		
	National Fish and Wildlife Foundation	INDIRECT	Fish and Wildlife Management Assistance	15.608	27579	13,952		N
	National Fish and Wildlife Foundation	INDIRECT	Fish and Wildlife Management Assistance	15.608	2010-0057-003	8,085		N
	National Fish and Wildlife Foundation	INDIRECT	Fish and Wildlife Management Assistance	15.608	2010-0060-051	34,910		N
	National Fish and Wildlife Foundation	INDIRECT	Fish and Wildlife Management Assistance	15.608	2010-0060-045	29,481		N
	National Fish and Wildlife Foundation	INDIRECT	Fish and Wildlife Management Assistance	15.608	2004-0228-027	11,230		N
				INDIRECT TOTAL		97,658		
				15.608 Total		138,492		
US Department of the Interior		DIRECT	U.S. Geological Survey_ Research and Data Collection	15.808	G12AC20102	44,113		Y
				15.808 Total		44,113		
US Department of the Interior	National Park Service	INDIRECT	Historic Preservation Fund Grants-In-Aid	15.904	FY12-61012-002	10,000		N

The accompanying notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

KING COUNTY, WASHINGTON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE PERIOD ENDING DECEMBER 31, 2012

Federal Grantor Agency	Pass-through Agency name	Direct or Indirect	Federal Program Name (CFDA Name)	CFDA Number	AWARD ID Number	Total Expenditures	Notes	Research and Development
				15.904 Total		10,000		
			US Department of the Interior Total			**192,605**		
US Department of Justice	DSHS/Juv Rehabilitation Administration	INDIRECT	Juvenile Accountability Block Grants	16.523	Federal: 2010-JB-FX-0087, State: '0663-98299-07	184,674		N
	DSHS/Juv Rehabilitation Administration	INDIRECT	Juvenile Accountability Block Grants	16.523	Federal: 2011-JB-FX-0087, State: '0663-98299-08	23,291		N
				16.523 Total		207,965		
US Department of Justice		DIRECT	Enhanced Training and Services to End Violence and Abuse of Women Later in Life	16.528	2009-EW-AX-K010	151,130		N
				DIRECT TOTAL		151,130		
US Department of Justice	City of Seattle Dept. of Human Svcs.	INDIRECT	Enhanced Training and Services to End Violence and Abuse of Women Later in Life	16.528	2009-WEAX-0008	39,567		N
				INDIRECT TOTAL		39,567		
				16.528 Total		190,697		
US Department of Justice	OJJDP/DSHS/Office of Juvenile Justice	INDIRECT	Juvenile Justice and Delinquency Prevention_Allocation to States	16.540	I-300-00112	21,021		N
				16.540 Total		21,021		
US Department of Justice	OJJDP/DSHS/Office of Juvenile Justice	INDIRECT	Title V_Delinquency Prevention Program	16.548	Federal Source FJ4, State: I-200-00112	15,534		N
				16.548 Total		15,534		
US Department of Justice		DIRECT	National Institute of Justice Research, Evaluation, and Development Project Grants	16.560	2010-DN-BX-K002	206,234		N
				16.560 Total		206,234		

The accompanying notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

KING COUNTY, WASHINGTON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE PERIOD ENDING DECEMBER 31, 2012

Federal Grantor Agency	Pass-through Agency name	Direct or Indirect	Federal Program Name (CFDA Name)	CFDA Number	AWARD ID Number	Total Expenditures	Notes	Research and Development
US Department of Justice		DIRECT	Drug Court Discretionary Grant Program	16.585	2009-DC-BX-0080	82,851		N
				16.585 Total		82,851		
US Department of Justice	OVAW/Administrative Office of the Courts	INDIRECT	Violence Against Women Formula Grants	16.588	Federal: 2001-WF-AX-056, State: ICA 12273	12,380		N
	OVAW/Administrative Office of the Courts	INDIRECT	Violence Against Women Formula Grants	16.588	Federal: F10-31103-210, State: ICA 11283	1,364		N
	OVAW/Administrative Office of the Courts Total					13,744		
US Department of Justice	WA Dept. of Commerce	INDIRECT	Violence Against Women Formula Grants	16.588	F11-31103-079	71,045		N
	WA Dept. of Commerce	INDIRECT	Violence Against Women Formula Grants	16.588	2010-WF-AX0021	70,769		N
	WA Dept. of Commerce Total					141,814		
				16.588 Total		155,558		
US Department of Justice		DIRECT	State Criminal Alien Assistance Program	16.606	2012-AP-BX-0566	724,358		N
				16.606 Total		724,358		
US Department of Justice		DIRECT	Public Safety Partnership and Community Policing Grants	16.710	2008CKWX0300	184,000		N
		DIRECT	Public Safety Partnership and Community Policing Grants	16.710	2011-CK-WX-K007	94,094		N
		DIRECT	Public Safety Partnership and Community Policing Grants	16.710	2009-CK-WX-0386	57,458		N
		DIRECT	Public Safety Partnership and Community Policing Grants	16.710	2009-CK-WX-0643	14,328		N
		DIRECT	Public Safety Partnership and Community Policing Grants	16.710	2010-CK-WX-0569	115,569		N
				DIRECT TOTAL		465,449		
US Department of Justice	WASPC	INDIRECT	Public Safety Partnership and Community Policing Grants	16.710	WSMI10104	19,635		N
				INDIRECT TOTAL		19,635		

The accompanying notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

KING COUNTY, WASHINGTON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE PERIOD ENDING DECEMBER 31, 2012

Federal Grantor Agency	Pass-through Agency name	Direct or Indirect	Federal Program Name (CFDA Name)	CFDA Number	AWARD ID Number	Total Expenditures	Notes	Research and Development
				16.710 Total		485,084		
US Department of Justice	City of Seattle Dept. of Human Svcs.	INDIRECT	Edward Byrne Memorial Justice Assistance Grant Program	16.738	2009-DJ-BX-0339	230,224		N
	City of Seattle Dept. of Human Svcs.	INDIRECT	Edward Byrne Memorial Justice Assistance Grant Program	16.738	2010-DJ-BX-0630	107,498		N
	City of Seattle Dept. of Human Svcs.	INDIRECT	Edward Byrne Memorial Justice Assistance Grant Program	16.738	2011-DJ-BX-3203	45,999		N
				16.738 Total		383,721		
US Department of Justice	WASHINGTON STATE PATROL	INDIRECT	Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	2011CDBX0020	97,435		N
				16.742 Total		97,435		
US Department of Justice		DIRECT	Congressionally Recommended Awards	16.753	2010-DD-BX-0660	67,209		N
				16.753 Total		67,209		
US Department of Justice	City of Seattle Dept. of Human Svcs.	INDIRECT	ARRA - Edward Byrne Memorial Justice Assistance Grant (JAG) Program / Grants To Units Of Local Government	16.804	2009-SB-B9-0769	361,436	(5)	N
				16.804 Total		361,436		
			US Department of Justice Total			**2,999,103**		
US Department of Department of Labor	Workforce Development Council	INDIRECT	WIA Adult Program	17.258	11/182-OPR	174,165		N
	Workforce Development Council	INDIRECT	WIA Adult Program	17.258	10/501-POP	31,204		N

The accompanying notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

KING COUNTY, WASHINGTON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE PERIOD ENDING DECEMBER 31, 2012

Federal Grantor Agency	Pass-through Agency name	Direct or Indirect	Federal Program Name (CFDA Name)	CFDA Number	AWARD ID Number	Total Expenditures	Notes	Research and Development
	Workforce Development Council	INDIRECT	WIA Adult Program	17.258	12/144-LLD	107,834		N
	Workforce Development Council	INDIRECT	WIA Adult Program	17.258	MOA	29,220		N
				17.258 Total		342,423		
US Department of Department of Labor	Workforce Development Council	INDIRECT	WIA Youth Activities	17.259	11/174-YOS	671,112		N
	Workforce Development Council	INDIRECT	WIA Youth Activities	17.259	12/132-YTH	1,051,650		N
	Workforce Development Council	INDIRECT	WIA Youth Activities	17.259	11/173-YIS	208,753		N
	Workforce Development Council	INDIRECT	WIA Youth Activities	17.259	12/132-YTH	544,390		N
				17.259 Total		2,475,905		
US Department of Department of Labor	Washington State DSHS	INDIRECT	WIA Pilots, Demonstrations, and Research Projects	17.261	Federal: YF18881-09-60-A-53, State: 1163-30415	127,622		N
	Washington State DSHS	INDIRECT	WIA Pilots, Demonstrations, and Research Projects	17.261	1163-30379	1,004,534		N
				17.261 Total		1,132,156		
US Department of Department of Labor	Workforce Development Council	INDIRECT	H-1B Job Training Grants	17.268	11/182-OPR	18,727		N
	Workforce Development Council	INDIRECT	H-1B Job Training Grants	17.268	10/526-ROW	85,643		N
				17.268 Total		104,370		
US Department of Department of Labor	Workforce Development Council	INDIRECT	ARRA - Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors	17.275	10/501-POP	7,801	(5)	N
				INDIRECT TOTAL		7,801		
US Department of Department of Labor	Workforce Development Council	INDIRECT	Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors	17.275	11/182-OPR	3,744		N
				INDIRECT TOTAL		3,744		
				17.275 Total		11,545		
US Department of Department of Labor	Workforce Development Council	INDIRECT	WIA Dislocated Worker Formula Grants	17.278	11/175-WYB	2,103		N

The accompanying notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

KING COUNTY, WASHINGTON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE PERIOD ENDING DECEMBER 31, 2012

Federal Grantor Agency	Pass-through Agency name	Direct or Indirect	Federal Program Name (CFDA Name)	CFDA Number	AWARD ID Number	Total Expenditures	Notes	Research and Development
	Workforce Development Council	INDIRECT	WIA Dislocated Worker Formula Grants	17.278	11/162-DWK	1,004,349		N
	Workforce Development Council	INDIRECT	WIA Dislocated Worker Formula Grants	17.278	12/122-DWK	607,211		N
	Workforce Development Council	INDIRECT	WIA Dislocated Worker Formula Grants	17.278	11/182-OPR	177,909		N
	Workforce Development Council	INDIRECT	WIA Dislocated Worker Formula Grants	17.278	12/144-LLD	107,834		N
	Workforce Development Council	INDIRECT	WIA Dislocated Worker Formula Grants	17.278	MOA	54,220		N
				17.278 Total		1,953,626		
			US Department of Labor Total			**6,020,025**		
US Department of Transportation		DIRECT	Airport Improvement Program	20.106	3-53-0058-36	540,529	(7)	N
		DIRECT	Airport Improvement Program	20.106	3-53-0058-39	(64,138)	(6)	N
		DIRECT	Airport Improvement Program	20.106	3-53-0058-42	2,939,751		N
		DIRECT	Airport Improvement Program	20.106	3-53-0058-43	8,807,971		N
		DIRECT	Airport Improvement Program	20.106	3-53-0058-44	2,247,940		N
		DIRECT	Airport Improvement Program	20.106	3-53-0058-45	903,624		N
		DIRECT	Airport Improvement Program	20.106	3-53-0058-46	2,149,779		N
		DIRECT	Airport Improvement Program	20.106	3-53-0058-47	323,921		N
				20.106 Total		17,849,377		
US Department of Transportation	WASHINGTON STATE DOT	INDIRECT	Highway Planning and Construction	20.205	STPE-2017(093)	9,446		N
	WASHINGTON STATE DOT	INDIRECT	Highway Planning and Construction	20.205	STPE-EN10(017)	2,477		N
	WASHINGTON STATE DOT	INDIRECT	Highway Planning and Construction	20.205	LA-7589	975,000		N
	WASHINGTON STATE DOT	INDIRECT	Highway Planning and Construction	20.205	LA-7839	196,789		N
	WASHINGTON STATE DOT	INDIRECT	Highway Planning and Construction	20.205	VPPP-2006(052)	35,328		N
	WASHINGTON STATE DOT	INDIRECT	Highway Planning and Construction	20.205	VPP-9917(017)	349,130		N
	WASHINGTON STATE DOT	INDIRECT	Highway Planning and Construction	20.205	HRRR-000S (238)	220,304		N
	WASHINGTON STATE DOT	INDIRECT	Highway Planning and Construction	20.205	HSIP-0005 (281)	80,626		N
	WASHINGTON STATE DOT	INDIRECT	Highway Planning and Construction	20.205	CM-1147(012)	2,008		N
	WASHINGTON STATE DOT	INDIRECT	Highway Planning and Construction	20.205	BHM-1135(004)	911,613		N
	WASHINGTON STATE DOT	INDIRECT	Highway Planning and Construction	20.205	CM-2085(004)	956,328		N
	WASHINGTON STATE DOT	INDIRECT	Highway Planning and Construction	20.205	STPE-2094(001)	108,084		N
	WASHINGTON STATE DOT	INDIRECT	Highway Planning and Construction	20.205	STPUL-2456(002)	214		N
	WASHINGTON STATE DOT	INDIRECT	Highway Planning and Construction	20.205	ATPR-T175(001)	204,731		N
	WASHINGTON STATE DOT	INDIRECT	Highway Planning and Construction	20.205	TIGER II-BRM-STPUL-1491(002)	28,858,434		N
	WASHINGTON STATE DOT	INDIRECT	Highway Planning and Construction	20.205	CM-2017(122)	279,065		N
	WASHINGTON STATE DOT	INDIRECT	Highway Planning and Construction	20.205	CM-1147(012)	301,048		N

The accompanying notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

KING COUNTY, WASHINGTON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE PERIOD ENDING DECEMBER 31, 2012

Federal Grantor Agency	Pass-through Agency name	Direct or Indirect	Federal Program Name (CFDA Name)	CFDA Number	AWARD ID Number	Total Expenditures	Notes	Research and Development
	WASHINGTON STATE DOT	INDIRECT	Highway Planning and Construction	20.205	ITS-2004(046)	396,333		N
	WASHINGTON STATE DOT	INDIRECT	Highway Planning and Construction	20.205	CM-2085(005)	135,436		N
	WASHINGTON STATE DOT	INDIRECT	Highway Planning and Construction	20.205	BROS-2017(125)	181,419		N
	WASHINGTON STATE DOT	INDIRECT	Highway Planning and Construction	20.205	BROS-2017(107)	18,254		N
	WASHINGTON STATE DOT	INDIRECT	Highway Planning and Construction	20.205	BRS-172N(001)	6,474		N
	WASHINGTON STATE DOT	INDIRECT	Highway Planning and Construction	20.205	ER-1101(010)	527,456		N
	WASHINGTON STATE DOT	INDIRECT	Highway Planning and Construction	20.205	ER-1104(014)	88,961		N
	WASHINGTON STATE DOT Total			INDIRECT TOTAL		34,844,958		
	WASHINGTON STATE DOT	INDIRECT	ARRA - Highway Planning and Construction	20.205	ARRA-STPE-2017(090)	4,952	(5)	N
				INDIRECT TOTAL		4,952		
				20.205 Total		34,849,910		
US Department of Transportation		DIRECT	Federal Transit_Capital Investment Grants	20.500	WA030135	74,054		N
		DIRECT	Federal Transit_Capital Investment Grants	20.500	WA050060	1,138,350	(4)	N
		DIRECT	Federal Transit_Capital Investment Grants	20.500	WA030245	14,662,547		N
		DIRECT	Federal Transit_Capital Investment Grants	20.500	WA030236	6,266		N
		DIRECT	Federal Transit_Capital Investment Grants	20.500	WA030243	3,873,459		N
		DIRECT	Federal Transit_Capital Investment Grants	20.500	WA040021	440,421		N
		DIRECT	Federal Transit_Capital Investment Grants	20.500	WA04032	124		N
		DIRECT	Federal Transit_Capital Investment Grants	20.500	WA040061	2,094,456		N
		DIRECT	Federal Transit_Capital Investment Grants	20.500	WA050053	5,540,000		N
		DIRECT	Federal Transit_Capital Investment Grants	20.500	WA040081	225,576		N
		DIRECT	Federal Transit_Capital Investment Grants	20.500	WA400080	7,243		N
		DIRECT	Federal Transit_Capital Investment Grants	20.500	WA400077	3,609,174		N
				20.500 Total		31,671,670		
US Department of Transportation		DIRECT	Federal Transit_Formula Grants	20.507	WA90X483	44,460,000		N
		DIRECT	Federal Transit_Formula Grants	20.507	WA70X012	37,334		N
		DIRECT	Federal Transit_Formula Grants	20.507	WA90X209	36,513		N
		DIRECT	Federal Transit_Formula Grants	20.507	WA90X2019	19,636		N
		DIRECT	Federal Transit_Formula Grants	20.507	WA90X254	2,390,225		N
		DIRECT	Federal Transit_Formula Grants	20.507	WA90X321	169,701		N
		DIRECT	Federal Transit_Formula Grants	20.507	WA90X363	81,237		N
		DIRECT	Federal Transit_Formula Grants	20.507	WA90X405	6,926,508		N

The accompanying notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

KING COUNTY, WASHINGTON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE PERIOD ENDING DECEMBER 31, 2012

Federal Grantor Agency	Pass-through Agency name	Direct or Indirect	Federal Program Name (CFDA Name)	CFDA Number	AWARD ID Number	Total Expenditures	Notes	Research and Development
		DIRECT	Federal Transit_Formula Grants	20.507	WA90X455	1,604,239		N
		DIRECT	Federal Transit_Formula Grants	20.507	WA90X475	2,589,226		N
		DIRECT	Federal Transit_Formula Grants	20.507	WA90X475	8,412,098		N
		DIRECT	Federal Transit_Formula Grants	20.507	WA90X479	3,312,441		N
		DIRECT	Federal Transit_Formula Grants	20.507	WA90X513	7,438		N
		DIRECT	Federal Transit_Formula Grants	20.507	WA95X005	627,935		N
		DIRECT	Federal Transit_Formula Grants	20.507	WA95X027	3,990,254		N
		DIRECT	Federal Transit_Formula Grants	20.507	WA95X043	47,453		N
		DIRECT	Federal Transit_Formula Grants	20.507	WA90X256	192,510		N
		DIRECT	ARRA -Federal Transit_Formula Grants	20.507	WA96X020	1,314,011	(4) AND (5)	N
				20.507 Total		76,218,759		
US Department of Transportation		DIRECT	Public Transportation Research	20.514	WA260020	25,192		Y
		DIRECT	Public Transportation Research	20.514	WA267008	58,381		Y
				20.514 Total		83,573		
US Department of Transportation		DIRECT	Job Access_Reverse Commute	20.516	WA37X001	159,405		N
		DIRECT	Job Access_Reverse Commute	20.516	WA37X034	23,159		N
				20.516 Total		182,564		
US Department of Transportation		DIRECT	Capital Assistance Program for Reducing Energy Consumption and Greenhouse Gas Emissions	20.523	WA880001	2,015		N
				20.523 Total		2,015		
US Department of Transportation	WASHINGTON TRAFFIC SAFETY COMM	INDIRECT	State and Community Highway Safety	20.600	UNKNOWN	14,219		N
				20.600 Total		14,219		
US Department of Transportation		DIRECT	Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	AL12-06	154,355		N
				20.601 Total		154,355		

The accompanying notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

KING COUNTY, WASHINGTON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE PERIOD ENDING DECEMBER 31, 2012

Federal Grantor Agency	Pass-through Agency name	Direct or Indirect	Federal Program Name (CFDA Name)	CFDA Number	AWARD ID Number	Total Expenditures	Notes	Research and Development
US Department of Transportation	UNIVERSITY OF WASHINGTON	INDIRECT	National Highway Traffic Safety Administration (NHTSA) Discretionary Safety Grants	20.614	DTNH2210H00295	1,287		N
				20.614 Total		1,287		
			US DOT Total			**161,027,729**		
U.S. Environmental Protection Agency		DIRECT	Puget Sound Watershed Management Assistance	66.120	PO-00J08401-0	140,594		Y
		DIRECT	Puget Sound Watershed Management Assistance	66.120	PO-00J08901-0	263,035		Y
		DIRECT	Puget Sound Watershed Management Assistance	66.120	PO-00J09801-1	129,869		Y
		DIRECT	Puget Sound Watershed Management Assistance	66.120	PO-00J09001	141,769		Y
				66.120 Total		675,267		
U.S. Environmental Protection Agency		DIRECT	Puget Sound Action Agenda: Technical Investigations and Implementation Assistance Program	66.123	PO-00J28401-0	150,861		Y
		DIRECT	Puget Sound Action Agenda: Technical Investigations and Implementation Assistance Program	66.123	PO-00J28501-0	283,132		Y
				DIRECT TOTAL		433,993		
U.S. Environmental Protection Agency	WA State Dept of Ecology	INDIRECT	Puget Sound Action Agenda: Technical Investigations and Implementation Assistance Program	66.123	G1200473	124,210		N
	WA State Dept of Ecology Total					124,210		
U.S. Environmental Protection Agency	Washington State Dept of Commerce	INDIRECT	Puget Sound Action Agenda: Technical Investigations and Implementation Assistance Program	66.123	12-63401-002	14,977		N
	Washington State Dept of Commerce Total					14,977		

The accompanying notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

KING COUNTY, WASHINGTON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE PERIOD ENDING DECEMBER 31, 2012

Federal Grantor Agency	Pass-through Agency name	Direct or Indirect	Federal Program Name (CFDA Name)	CFDA Number	AWARD ID Number	Total Expenditures	Notes	Research and Development
U.S. Environmental Protection Agency	WA Fish & Wildlife	INDIRECT	Puget Sound Action Agenda: Technical Investigations and Implementation Assistance Program	66.123	EPA PC-00J29801-0; WDFW Contract 10-1744	10,137		N
	WA Fish & Wildlife Total					10,137		
U.S. Environmental Protection Agency	WA-DEPARTMENT OF HEALTH	INDIRECT	Puget Sound Action Agenda: Technical Investigations and Implementation Assistance Program	66.123	PC-00J32601-0	54,194		N
	WA-DEPARTMENT OF HEALTH Total					54,194		
				INDIRECT TOTAL		203,518		
				66.123 Total		637,511		
U.S. Environmental Protection Agency		DIRECT	Targeted Watersheds Grants	66.439	WS-96074801-3	302,617		Y
				66.439 Total		302,617		
U.S. Environmental Protection Agency	WA State Department of Ecology State Revolving Fund	INDIRECT	Capitalization Grants for Clean Water State Revolving Funds	66.458	L1100009	9,027,412	(8)	N
				66.458 Total		9,027,412		
U.S. Environmental Protection Agency	WA-DEPARTMENT OF HEALTH	INDIRECT	Beach Monitoring and Notification Program Implementation Grants	66.472	CU00J34401-3	29,260		N
				66.472 Total		29,260		
U.S. Environmental Protection Agency		DIRECT	Environmental Workforce Development and Job Training Cooperative Agreements	66.815	JT-00J24801-0	70,469		N
				66.815 Total		70,469		
U.S. Environmental Protection Agency		DIRECT	Brownfields Assessment and Cleanup Cooperative Agreements	66.818	BF 00J26801-0	194,127		N
				66.818 Total		194,127		

The accompanying notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

Federal Grantor Agency	Pass-through Agency name	Direct or Indirect	Federal Program Name (CFDA Name)	CFDA Number	AWARD ID Number	Total Expenditures	Notes	Research and Development
			U.S. Environmental Protection Agency Total			**10,936,663**		
US Department of Energy	PUGET SOUND CLEAN AIR AGENCY	INDIRECT	Conservation Research and Development	81.086	DE-EE0002020	241,174		Y
				81.086 Total		241,174		
US Department of Energy		DIRECT	ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG)	81.128	DE-EE0000854-02	563,740	(5)	Y
		DIRECT	ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG)	81.128	DE-EE0000854	1,139,776	(5)	Y
				DIRECT TOTAL		1,703,516		
US Department of Energy	City of Seattle Dept. of Human Svcs.	INDIRECT	ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG)	81.128	DE-EE0000857	74,096	(5)	Y
				INDIRECT TOTAL		74,096		
				81.128 Total		1,777,612		
			US Department of Energy Total			**2,018,786**		
US Department of Education	Washington State Dept of Commerce	INDIRECT	Community Mobilization Program	84.186B	M08-66100-117 C	28,054		N
				84.186B Total		28,054		
US Department of Education	WA-DEPARTMENT OF HEALTH	INDIRECT	Special Education-Grants for Infants and Families	84.181	H181A100128	14,482		N
				84.181 Total		14,482		
			Department of Education Total			**42,536**		
US Election Assistance Commission	STATE OF WA Office of the Secretary of State	INDIRECT	Help America Vote Act Requirements Payments	90.401	G-2842 18	2,510		N
	STATE OF WA Office of the Secretary of State	INDIRECT	Help America Vote Act Requirements Payments	90.401	G-2842 19	3,275		N

The accompanying notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

KING COUNTY, WASHINGTON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE PERIOD ENDING DECEMBER 31, 2012

Federal Grantor Agency	Pass-through Agency name	Direct or Indirect	Federal Program Name (CFDA Name)	CFDA Number	AWARD ID Number	Total Expenditures	Notes	Research and Development
	STATE OF WA Office of the Secretary of State	INDIRECT	Help America Vote Act Requirements Payments	90.401	G-2842 20	245,629		N
	STATE OF WA Office of the Secretary of State	INDIRECT	Help America Vote Act Requirements Payments	90.401	G-2842 8	106,895		N
				90.401 Total		358,309		
			US Election Assistance Commission Total			**358,309**		
US Department Of Health And Human Services	NACCHO	INDIRECT	Medical Reserve Corps Small Grant Program	93.008	5MRCSG101005-02	2,020		N
				93.008 Total		2,020		
US Department Of Health And Human Services		DIRECT	Innovations in Applied Public Health Research	93.061	5R18EH000537	311,204		Y
				DIRECT TOTAL		311,204		
US Department Of Health And Human Services	UNIVERSITY OF WASHINGTON	INDIRECT	Innovations in Applied Public Health Research	93.061	P01-TP-000297-04	147,508		Y
				INDIRECT TOTAL		147,508		
				93.061 Total		458,712		
US Department Of Health And Human Services	WA-DEPARTMENT OF HEALTH	INDIRECT	Public Health Emergency Preparedness	93.069	2U90TP017010-11	1,695,353		N
	WA-DEPARTMENT OF HEALTH Total					1,695,353		
US Department Of Health And Human Services	JOHNS HOPKINS UNIVERSITY	INDIRECT	Public Health Emergency Preparedness	93.069	1U90TP000397-01	40,670		N
	JOHNS HOPKINS UNIVERSITY Total					40,670		
				93.069 Total		1,736,023		

The accompanying notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

KING COUNTY, WASHINGTON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE PERIOD ENDING DECEMBER 31, 2012

Federal Grantor Agency	Pass-through Agency name	Direct or Indirect	Federal Program Name (CFDA Name)	CFDA Number	AWARD ID Number	Total Expenditures	Notes	Research and Development
US Department Of Health And Human Services	WA-DEPARTMENT OF HEALTH	INDIRECT	Environmental Public Health and Emergency Response	93.070	1UE1EH000836-01	188,187		N
				93.070 Total		188,187		
US Department Of Health And Human Services		DIRECT	Environmental Health	93.113	5R01ES014583	231,870		N
				93.113 Total		231,870		
US Department Of Health And Human Services	WA-DEPARTMENT OF HEALTH	INDIRECT	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	SU52PS000510-30	447,895		N
				93.116 Total		447,895		
US Department Of Health And Human Services	UNIVERSITY OF WASHINGTON	INDIRECT	Centers for Research and Demonstration for Health Promotion and Disease Prevention	93.135	5U48DP001911	9,420		Y
	UNIVERSITY OF WASHINGTON	INDIRECT	Centers for Research and Demonstration for Health Promotion and Disease Prevention	93.135	U48 DP001911-04	10,329		Y
				93.135 Total		19,749		
US Department Of Health And Human Services	DSHS/ADSA/DBHR	INDIRECT	Projects for Assistance in Transition from Homelessness (PATH)	93.150	1169-43813	96,404		N
	DSHS/ADSA/DBHR	INDIRECT	Projects for Assistance in Transition from Homelessness (PATH)	93.150	1269-59246	28,213		N
	DSHS/ADSA/DBHR	INDIRECT	Projects for Assistance in Transition from Homelessness (PATH)	93.150	1169-43815	103,323		N
	DSHS/ADSA/DBHR	INDIRECT	Projects for Assistance in Transition from Homelessness (PATH)	93.150	1269-59264	31,580		N
				93.150 Total		259,520		

The accompanying notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

KING COUNTY, WASHINGTON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE PERIOD ENDING DECEMBER 31, 2012

Federal Grantor Agency	Pass-through Agency name	Direct or Indirect	Federal Program Name (CFDA Name)	CFDA Number	AWARD ID Number	Total Expenditures	Notes	Research and Development
US Department Of Health And Human Services	WA-DEPARTMENT OF HEALTH	INDIRECT	Family Planning_Services	93.217	1FPHPA106023-01-00/5FPHPA10623	3,047,612		N
				93.217 Total		3,047,612		
US Department Of Health And Human Services		DIRECT	Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, Public Housing Primary Care, and School Based Health Centers)	93.224	H80CS00056	3,019,320		N
				93.224 Total		3,019,320		
US Department Of Health And Human Services	WA-DEPARTMENT OF HEALTH	INDIRECT	Grants to States to Support Oral Health Workforce Activities	93.236	5T12HP14654	35,770		N
				93.236 Total		35,770		
US Department Of Health And Human Services	UNIVERSITY OF WASHINGTON	INDIRECT	Mental Health Research Grants	93.242	5R01MH084897-03	4,120		Y
				93.242 Total		4,120		
US Department Of Health And Human Services	Substance Abuse & Mental Health Services Admin	INDIRECT	Substance Abuse and Mental Health Services_Projects of Regional and National Significance	93.243	1H79SM060121-2	375,226		N
	Substance Abuse & Mental Health Services Admin	INDIRECT	Substance Abuse and Mental Health Services_Projects of Regional and National Significance	93.243	1H79SM060121-3	194,439		N
	Substance Abuse & Mental Health Services Admin Total					569,665		
	SAMHSA CSAT	INDIRECT	Substance Abuse and Mental Health Services_Projects of Regional and National Significance	93.243	1163-40112	285,221		N
	SAMHSA CSAT Total					285,221		

The accompanying notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

KING COUNTY, WASHINGTON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE PERIOD ENDING DECEMBER 31, 2012

Federal Grantor Agency	Pass-through Agency name	Direct or Indirect	Federal Program Name (CFDA Name)	CFDA Number	AWARD ID Number	Total Expenditures	Notes	Research and Development
	WA State Division of Behavioral Health	INDIRECT	Substance Abuse and Mental Health Services_Projects of Regional and National Significance	93.243	1163-40112	48,224		N
	WA State Division of Behavioral Health Total					48,224		
				INDIRECT TOTAL		903,110		
US Department Of Health And Human Services		DIRECT	Substance Abuse and Mental Health Services_Projects of Regional and National Significance	93.243	5H79TI023202-03	108,182		N
		DIRECT	Substance Abuse and Mental Health Services_Projects of Regional and National Significance	93.243	1H79TI022856-02	213,761		N
		DIRECT	Substance Abuse and Mental Health Services_Projects of Regional and National Significance	93.243	5H79TI022126-02	293,774		N
				DIRECT TOTAL		615,717		
				93.243 Total		1,518,827		
US Department Of Health And Human Services	WA-DEPARTMENT OF HEALTH	INDIRECT	Immunization Cooperative Agreements	93.268	5H23IP022548	1,555,911		N
				93.268 Total		1,555,911		
US Department Of Health And Human Services	Washington State DSHS	INDIRECT	Substance Abuse and Mental Health Services-Access to Recovery	93.275	1163-19806	413,593		N
				93.275 Total		413,593		
US Department Of Health And Human Services		DIRECT	Drug Abuse and Addiction Research Programs	93.279	5R03DA31072	36,156		Y
				93.279 Total		36,156		

The accompanying notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

Federal Grantor Agency	Pass-through Agency name	Direct or Indirect	Federal Program Name (CFDA Name)	CFDA Number	AWARD ID Number	Total Expenditures	Notes	Research and Development
US Department Of Health And Human Services	UNIVERSITY OF WASHINGTON	INDIRECT	Mental Health Research Career/Scientist Development Awards	93.281	5K23MH090923-03	28,229		N
				93.281 Total		28,229		
US Department Of Health And Human Services	Washington State DSHS	INDIRECT	Centers for Disease Control and Prevention_Investigations and Technical Assistance	93.283	N-18060	76,953		N
	DSHS Total					76,953		
US Department Of Health And Human Services	NACCHO	INDIRECT	Centers for Disease Control and Prevention_Investigations and Technical Assistance	93.283	5H75TP000309-03	207,700		N
	NACCHO	INDIRECT	Centers for Disease Control and Prevention_Investigations and Technical Assistance	93.283	3U38HM000449	51,481		N
	NACCHO Total					259,181		
US Department Of Health And Human Services	WA-DEPARTMENT OF HEALTH	INDIRECT	Centers for Disease Control and Prevention_Investigations and Technical Assistance	93.283	5U58DP002057	259,536		N
	WA-DEPARTMENT OF HEALTH	INDIRECT	Centers for Disease Control and Prevention_Investigations and Technical Assistance	93.283	5U58DP000793/1U5 8DP003899	1,114,093		N
	WA-DEPARTMENT OF HEALTH	INDIRECT	Centers for Disease Control and Prevention_Investigations and Technical Assistance	93.283	5U50DP000727-05/ -05W1	70,000		N
	WA-DEPARTMENT OF HEALTH	INDIRECT	Centers for Disease Control and Prevention_Investigations and Technical Assistance	93.283	5U58DP001996-04-5952	21,881		N
	WA-DEPARTMENT OF HEALTH Total					1,465,510		
				93.283 Total		1,801,644		
US Department Of Health And Human Services	NEIGHBORHOOD HOUSE	INDIRECT	Minority Health and Health Disparities Research	93.307	1R24MD002768	54,924		Y

The accompanying notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

Federal Grantor Agency	Pass-through Agency name	Direct or Indirect	Federal Program Name (CFDA Name)	CFDA Number	AWARD ID Number	Total Expenditures	Notes	Research and Development
				93.307 Total		54,924		
US Department Of Health And Human Services	WA-DEPARTMENT OF HEALTH	INDIRECT	ARRA - Pregnancy Assistance Fund Program	93.500	5SP1AH000015	124,464	(5)	N
				93.500 Total		124,464		
US Department Of Health And Human Services		DIRECT	Affordable Care Act (ACA) Grants for School-Based Health Center Capital Expenditures	93.501	1C12CS21992	75,571		N
				93.501 Total		75,571		
US Department Of Health And Human Services	THRIVE BY FIVE WASHINGTON	INDIRECT	Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	93.505	1X02MC23096-01-00	127,826		N
	THRIVE BY FIVE WASHINGTON	INDIRECT	Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	93.505	D89MC23536-01-00	67,714		N
				93.505 Total		195,540		
US Department Of Health And Human Services	AMERICAN PUBLIC HEALTH ASSOCIATION	INDIRECT	Building Capacity of the Public Health System to Improve Population Health through National, Non-Profit Organizations- financed in part by 2013 Prevention and Public Health Funds (PPHF-2013)	93.524	1U38HM000459-4	21,009		N
				93.524 Total		21,009		
US Department Of Health And Human Services		DIRECT	Affordable Care Act (ACA) Grants for Capital Development in Health Centers	93.526	1C8BCS23970	43,277		N
				93.526 Total		43,277		

The accompanying notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

KING COUNTY, WASHINGTON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE PERIOD ENDING DECEMBER 31, 2012

Federal Grantor Agency	Pass-through Agency name	Direct or Indirect	Federal Program Name (CFDA Name)	CFDA Number	AWARD ID Number	Total Expenditures	Notes	Research and Development
US Department Of Health And Human Services	WA-DEPARTMENT OF HEALTH	INDIRECT	PPHF 2012: Community Transformation Grants and National Dissemination and Support for Community Transformation Grants - financed solely by 2012 Prevention and Public Health Funds	93.531	1U58DP003558-01/-02	11,918		N
				93.531 Total		11,918		
US Department Of Health And Human Services	WA-DEPARTMENT OF HEALTH	INDIRECT	PPHF 2012 - Prevention and Public Health Fund (Affordable Care Act) - Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance financed in part by 2012 Prevention and Public Health Funds	93.539	1H23IP000561	65,169		N
				93.539 Total		65,169		
US Department Of Health And Human Services		DIRECT	The Patient Protection and Affordable Care Act of 2010 (ACA)	93.541	5U58DP001058	306,935		N
				93.541 Total		306,935		
US Department Of Health And Human Services	WA-DEPARTMENT OF HEALTH	INDIRECT	PPHF 2012: Nutrition, Physical Activity and Obesity Program - financed in part by 2012 Prevention and Public Health Funds (PPHF-2012)	93.548	5U58DP001491-05A	16,102		N
				93.548 Total		16,102		
US Department Of Health And Human Services	DSHS/Division of Child Support	INDIRECT	Child Support Enforcement	93.563	Federal: 75-1501-0-1-609, State: 0963-69320	4,157,927		N
				93.563 Total		4,157,927		
US Department Of Health And Human Services	WA-DEPARTMENT OF HEALTH	INDIRECT	Child Care and Development Block Grant	93.575	G996005	1,964		N

The accompanying notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

KING COUNTY, WASHINGTON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE PERIOD ENDING DECEMBER 31, 2012

Federal Grantor Agency	Pass-through Agency name	Direct or Indirect	Federal Program Name (CFDA Name)	CFDA Number	AWARD ID Number	Total Expenditures	Notes	Research and Development
				93.575 Total		1,964		
US Department Of Health And Human Services	WA-DEPARTMENT OF HEALTH	INDIRECT	Community-Based Child Abuse Prevention Grants	93.590	G994551	3,121		N
				93.590 Total		3,121		
US Department Of Health And Human Services	Washington State DSHS	INDIRECT	Head Start	93.600	CHSW/EHS	55,681		N
				93.600 Total		55,681		
US Department Of Health And Human Services	STATE OF WA OSOS	INDIRECT	Voting Access for Individuals with Disabilities_Grants to States	93.617	G-4276	26,755		N
				93.617 Total		26,755		
US Department Of Health And Human Services		DIRECT	ARRA - Prevention and Wellness – Communities Putting Prevention to Work Funding Opportunities Announcement (FOA)	93.724	1U58DP002423-01	3,409,562	(5)	N
		DIRECT	ARRA - Prevention and Wellness – Communities Putting Prevention to Work Funding Opportunities Announcement (FOA)	93.724	1U58DP002422-01	2,194,487	(5)	N
				DIRECT TOTAL		5,604,049		
US Department Of Health And Human Services	WA-DEPARTMENT OF HEALTH	INDIRECT	ARRA - Prevention and Wellness – Communities Putting Prevention to Work Funding Opportunities Announcement (FOA)	93.724	3U58DP001996-02S1	77,111	(5)	N
				INDIRECT TOTAL		77,111		
				93.724 Total		5,681,160		
US Department Of Health And Human Services		DIRECT	Prevention Public Health Fund 2012: Viral Hepatitis Prevention	93.736	1U51PS003827	5,183		N
				93.736 Total		5,183		

The accompanying notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

KING COUNTY, WASHINGTON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE PERIOD ENDING DECEMBER 31, 2012

Federal Grantor Agency	Pass-through Agency name	Direct or Indirect	Federal Program Name (CFDA Name)	CFDA Number	AWARD ID Number	Total Expenditures	Notes	Research and Development
US Department Of Health And Human Services	SEATTLE CHILDRENS HOSPITAL	INDIRECT	PPHF 2012: Community Transformation Grants - Small Communities Program financed solely by 2012 Public Prevention and Health Funds	93.737	DP12-1216PPHF12	58,255		N
				93.737 Total		58,255		
US Department Of Health And Human Services	DSHS/Division of Child Support	INDIRECT	Medical Assistance Program	93.778	DSHS: 0563-75892-03, HCA: 1163-18662	302,472		N
	DSHS/Division of Child Support	INDIRECT	Medical Assistance Program	93.778	1163-18662 Amdmt #1	400,000		N
	DSHS/Division of Child Support Total					702,472		
US Department Of Health And Human Services	Washington State DSHS	INDIRECT	Medical Assistance Program	93.778	1163-27311	962,044		N
	DSHS Total					962,044		
US Department Of Health And Human Services	WASHINGTON HEALTH CARE AUTHORITY	INDIRECT	Medical Assistance Program	93.778	UNKNOWN	3,003,936		N
	WASHINGTON HEALTH CARE AUTHORITY Total					3,003,936		
US Department Of Health And Human Services	WA-DEPARTMENT OF HEALTH	INDIRECT	Medical Assistance Program	93.778	051205WA5ADM	399,534		N
	WA-DEPARTMENT OF HEALTH Total					399,534		
				93.778 Total		5,067,986		
US Department Of Health And Human Services	UNIVERSITY OF WASHINGTON	INDIRECT	Cardiovascular Diseases Research	93.837	1R01HL055456-01	12,842		Y
	UNIVERSITY OF WASHINGTON	INDIRECT	Cardiovascular Diseases Research	93.837	1RO1HL088456-01	31,007		Y

The accompanying notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

Federal Grantor Agency	Pass-through Agency name	Direct or Indirect	Federal Program Name (CFDA Name)	CFDA Number	AWARD ID Number	Total Expenditures	Notes	Research and Development
				93.837 Total		43,849		
		DIRECT	Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	1R18DK088072	420,936		Y
				93.847 Total		420,936		
US Department Of Health And Human Services	UNIVERSITY OF WASHINGTON	INDIRECT	Allergy, Immunology and Transplantation Research	93.855	5U54AI057141	115,118		Y
	UNIVERSITY OF WASHINGTON	INDIRECT	Allergy, Immunology and Transplantation Research	93.855	5U54AI05714108	32,834		Y
	UNIVERSITY OF WASHINGTON Total					147,952		
US Department Of Health And Human Services	KECK GRADUATE INSTITUTE	INDIRECT	Allergy, Immunology and Transplantation Research	93.855	R01AI090831-01	3,124		Y
	KECK GRADUATE INSTITUTE Total					3,124		
				93.855 Total		151,076		
US Department Of Health And Human Services	UNIVERSITY OF WASHINGTON	INDIRECT	Medical Library Assistance	93.879	R01LM010811-01	5,895		N
	UNIVERSITY OF WASHINGTON Total							
				93.879 Total		5,895		
US Department Of Health And Human Services	WA-DEPARTMENT OF HEALTH	INDIRECT	National Bioterrorism Hospital Preparedness Program	93.889	U3REP090228-03	638,269		N
	WA-DEPARTMENT OF HEALTH	INDIRECT	National Bioterrorism Hospital Preparedness Program	93.889	5U3REP090228/1U90TP000559	261,089		N
				93.889 Total		899,358		

The accompanying notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

KING COUNTY, WASHINGTON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE PERIOD ENDING DECEMBER 31, 2012

Federal Grantor Agency	Pass-through Agency name	Direct or Indirect	Federal Program Name (CFDA Name)	CFDA Number	AWARD ID Number	Total Expenditures	Notes	Research and Development
US Department Of Health And Human Services		DIRECT	HIV Emergency Relief Project Grants	93.914	2H89HA00022	6,787,112		N
				93.914 Total		6,787,112		
US Department Of Health And Human Services	WA-DEPARTMENT OF HEALTH	INDIRECT	HIV Prevention Activities_Health Department Based	93.940	1U62PS003666	1,418,039		N
	WA-DEPARTMENT OF HEALTH	INDIRECT	HIV Prevention Activities_Health Department Based	93.940	RFP-PS12-1201-C	302,788		N
	WA-DEPARTMENT OF HEALTH	INDIRECT	Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	93.940	1U1BPS003250-01	466,211		N
				93.940 Total		2,187,038		
US Department Of Health And Human Services	WA-DEPARTMENT OF HEALTH	INDIRECT	Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	93.944	5U62PS001017-04	771,928		N
	WA-DEPARTMENT OF HEALTH	INDIRECT	Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	93.944	5U62PS001593-03	365,861		N
	WA-DEPARTMENT OF HEALTH	INDIRECT	Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	93.944	3U62PS001593-04W1	18,113		N
				93.944 Total		1,155,902		
US Department Of Health And Human Services	DSHS/ADSA/DBHR	INDIRECT	Block Grants for Community Mental Health Services	93.958	1169-35584	1,417,535		N
	DSHS/ADSA/DBHR	INDIRECT	Block Grants for Community Mental Health Services	93.958	1169-35584-1	465,065		N
				93.958 Total		1,882,600		

The accompanying notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

Federal Grantor Agency	Pass-through Agency name	Direct or Indirect	Federal Program Name (CFDA Name)	CFDA Number	AWARD ID Number	Total Expenditures	Notes	Research and Development
US Department Of Health And Human Services	Washington State DSHS	INDIRECT	Block Grants for Prevention and Treatment of Substance Abuse	93.959	1163-27311	1,656,814		N
	Washington State DSHS	INDIRECT	Block Grants for Prevention and Treatment of Substance Abuse	93.959	1163-27311	542,153		N
	Washington State DSHS	INDIRECT	Block Grants for Prevention and Treatment of Substance Abuse	93.959	1163-27311	131,257		N
	Washington State DSHS	INDIRECT	Block Grants for Prevention and Treatment of Substance Abuse	93.959	1163-27311	320,360		N
				93.959 Total		2,650,584		
US Department Of Health And Human Services	WA-DEPARTMENT OF HEALTH	INDIRECT	Preventive Health Services_Sexually Transmitted Diseases Control Grants	93.977	5H25PS001349	788,889		N
	WA-DEPARTMENT OF HEALTH	INDIRECT	Preventive Health Services_Sexually Transmitted Diseases Control Grants	93.977	5H25PS001349-04/-05	114,781		N
				93.977 Total		903,670		
US Department Of Health And Human Services	WA-DEPARTMENT OF HEALTH	INDIRECT	Maternal and Child Health Services Block Grant to the States	93.994	1B04MC23416-01-00	1,021,435		N
	WA-DEPARTMENT OF HEALTH	INDIRECT	Maternal and Child Health Services Block Grant to the States	93.994	1B04MC23416/1B04MC25378	123,745		N
				93.994 Total		1,145,180		
			US Department of Health and Human Services Total			**49,011,299**		
US Department of Homeland Security	WA State Dept. of Parks	INDIRECT	Boating Safety Financial Assistance	97.012	None	75,791		N
				97.012 Total		75,791		
US Department of Homeland Security	WA State Military Dept	INDIRECT	Flood Mitigation Assistance	97.029	E11-142	304,051		N
				97.029 Total		304,051		

The accompanying notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

Federal Grantor Agency	Pass-through Agency name	Direct or Indirect	Federal Program Name (CFDA Name)	CFDA Number	AWARD ID Number	Total Expenditures	Notes	Research and Development
US Department of Homeland Security	WA State Military Dept	INDIRECT	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-4056-DR-WA	2,438,167		N
				97.036 Total		2,438,167		
US Department of Homeland Security	WA State Military Dept	INDIRECT	Hazard Mitigation Grant	97.039	E13-013	315,798		N
				97.039 Total		315,798		
US Department of Homeland Security	WA State Military Dept	INDIRECT	Emergency Management Performance Grants	97.042	E12-086	225,045		N
				97.042 Total		225,045		
US Department of Homeland Security	WA State Military Dept	INDIRECT	Pre-Disaster Mitigation	97.047	E12-185	26,009		N
				97.047 Total		26,009		
US Department of Homeland Security	WA State Military Dept	INDIRECT	Interoperable Emergency Communications	97.055	2009-IP-T9-0034	15,060		N
				97.055 Total		15,060		
US Department of Homeland Security	WA State Military Dept	INDIRECT	Homeland Security Grant Program	97.067	E10-215	1,986,219		N
US Department of Homeland Security	WA State Military Dept	INDIRECT	Homeland Security Grant Program	97.067	E10-186	692,038		N
US Department of Homeland Security	WA State Military Dept	INDIRECT	Homeland Security Grant Program	97.067	E11-220	812,717		N
US Department of Homeland Security	WA State Military Dept	INDIRECT	Homeland Security Grant Program	97.067	E11-198	55,295		N
US Department of Homeland Security	WA State Military Dept	INDIRECT	Homeland Security Grant Program	97.067	K860	15,251		N

The accompanying notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

KING COUNTY, WASHINGTON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE PERIOD ENDING DECEMBER 31, 2012

Federal Grantor Agency	Pass-through Agency name	Direct or Indirect	Federal Program Name (CFDA Name)	CFDA Number	AWARD ID Number	Total Expenditures	Notes	Research and Development
US Department of Homeland Security	WA State Military Dept	INDIRECT	Homeland Security Grant Program	97.067	2009-SS-T9-0015	99,012		N
	WA State Military Dept Total					3,660,532		
US Department of Homeland Security	Seattle Police Department	INDIRECT	Homeland Security Grant Program	97.067	None	9,263		N
US Department of Homeland Security	Seattle Police Department	INDIRECT	Homeland Security Grant Program	97.067	None	9,202		N
	Seattle Police Department Total					18,465		
				97.067 Total		3,678,997		
US Department of Homeland Security		DIRECT	Rail and Transit Security Grant Program	97.075	2009-RA-T9-0067	610,706		N
		DIRECT	Rail and Transit Security Grant Program	97.075	2010-RA-RI-0035	3,819		N
		DIRECT	Rail and Transit Security Grant Program	97.075	EMW-2011-RA-K00010-S01	551,884		N
		DIRECT	ARRA - Rail and Transit Security Grant Program	97.075	2009-RA-RI-0089	289,195	(5)	N
				97.075 Total		1,455,604		
US Department of Homeland Security		DIRECT	Buffer Zone Protection Program (BZPP)	97.078	2009-BF-T9-0035 E12-170	20,294		N
				97.078 Total		20,294		
US Department of Homeland Security	WA State Military Dept	INDIRECT	Severe Repetitive Loss Program	97.110	E11-246	2,907		N
	WA State Military Dept	INDIRECT	Severe Repetitive Loss Program	97.110	E12-211	16,004		N
	WA State Military Dept	INDIRECT	Severe Repetitive Loss Program	97.110	E12-212	311,111		N
				97.110 Total		330,022		
US Department of Homeland Security	City of Seattle Office of Emergency Management	INDIRECT	Regional Catastrophic Preparedness Grant Program (RCPGP)	97.111	FY2010RCGP	83,419		N
				97.111 Total		83,419		
			US Department of Homeland Security Total			**8,968,257**		
				Grand Total		273,413,254		

The accompanying notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

General Notes

(1) Basis of Accounting. The Schedule of Expenditures of Federal Awards is prepared on the same basis of accounting as the county's financial statements. The county's financial statements are prepared on a modified accrual or full accrual basis, depending on the type of fund.

(2) Program Costs. The amounts shown as current year expenditures represent only the federal portion of program costs. The full cost may include state or local funds in addition to the amounts shown.

Line-item Specific notes

(3) These programs generate income used to cover expenses. Current year expenditures may include transfers between programs or repayments of float loans.

(4) The Ferry District will have its own Single Audit to comply with the requirements of the federal grantor and Circular A-133. The expenditures were reported on the King County Marine Division SEFA.

(5) American Recovery and Reinvestment Act (ARRA) of 2009 - Expenditures for this program were funded by ARRA.

(6) KC International Airport incurred expenditures that were paid back to the FTA in FY12. The returned funds FAA were accrued URS Corporation invoice amounts provided by their engineers that were never billed to the Airport.

(7) KC International Airport transferred expenditures from grant 3-53-0058-40 to grant 3-53-0058-36 during closeout.(year-end accrual reversal)

(8) Federal Loan - State Revolving Loan Fund

Washington State Auditor's Office

Federal Single Audit Report

King County

Audit Period
January 1, 2012 through December 31, 2012

Report No. 1010522

Issue Date
September 30, 2013

WASHINGTON
TROY KELLEY
STATE AUDITOR

Washington State Auditor
Troy Kelley

September 30, 2013

Council and Executive
King County
Seattle, Washington

Report on Federal Single Audit

Please find attached our report on King County's compliance with federal laws and regulations.

Sincerely,

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

Insurance Building, P.O. Box 40021 • Olympia, Washington 98504-0021 • (360) 902-0370 • TDD Relay (800) 833-6388

Table of Contents

King County
January 1, 2012 through December 31, 2012

Federal Summary

King County
January 1, 2012 through December 31, 2012

The results of our audit of King County are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

FINANCIAL STATEMENTS

An unmodified opinion was issued on the financial statements.

Internal Control Over Financial Reporting:

- ***Significant Deficiencies:*** We identified deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.

- ***Material Weaknesses:*** We identified deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the County.

FEDERAL AWARDS

Internal Control Over Major Programs:

- ***Significant Deficiencies:*** We identified deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.

- ***Material Weaknesses:*** We identified deficiencies that we consider to be material weaknesses.

We issued an unmodified opinion on the County's compliance with requirements applicable to each of its major federal programs.

We reported findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

Identification of Major Programs:

The following were major programs during the period under audit:

CFDA No.	Program Title
10.557	Special Supplemental Nutrition Program for Women, Infants and Children
14.238	Shelter Plus Care
14.239	HOME Investment Partnerships Program
14.257	ARRA - Homelessness Prevention and Rapid Re-Housing Program (Recovery Act)
16.606	State Criminal Alien Assistance Program
16.710	Public Safety Partnership and Community Policing Grants
17.258	WIA Cluster - WIA Adult Program
17.259	WIA Cluster - WIA Youth Activities
17.278	WIA Cluster - WIA Dislocated Formula Grants
20.205	Highway Planning and Construction Cluster - Highway Planning and Construction
20.500	Federal Transit Cluster - Federal Transit - Capital Investment Grants
20.507	Federal Transit Cluster - Federal Transit - Formula Grants
66.458	Capitalization Grants for Clean Water State Revolving Funds
93.217	Family Planning Services
93.224	Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, Public Housing Primary Care, and School Based Health Centers)
93.724	ARRA Prevention and Wellness - Communities Putting Prevention to Work Funding Opportunities Announcement (FOA) (Recovery Act)
93.778	Medicaid Cluster - Medical Assistance Program
93.914	HIV Emergency Relief Project Grants

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was $3,000,000.

The County did not qualify as a low-risk auditee under OMB Circular A-133.

Schedule of Federal Audit Findings and Questioned Costs

King County
January 1, 2012 through December 31, 2012

1. The County did not have controls in place for the first seven months of 2012 to ensure Davis-Bacon Act (prevailing wages) requirements were met.

CFDA Number and Title:	66.458 Capitalization Grants for Clean Water State Revolving Funds
Federal Grantor Name:	Environmental Protection Agency
Federal Award/Contract Number:	SRF LOAN L1100009
Pass-through Entity Name:	State Department of Ecology
Pass-through Award/Contract Number:	L1100009
Questioned Cost Amount:	$0

Description of Condition

The County spent $9,027,412 in Capitalization Grants for Clean Water State Revolving Funds during 2012. All of the expenditures were for construction costs.

The Davis-Bacon Act requires contractors to pay federally prescribed prevailing wages to laborers for federally funded construction projects that exceed $2,000. Grant recipients must include in the construction contracts a provision the contractors and subcontractors must comply with the Act. Grant recipients must obtain weekly statements of compliance or certified payrolls. In addition, the awarding agency has required a special Environmental Protection Agency (EPA) insert regarding Davis-Bacon be included in all contracts for contractors and subcontractors.

In our 2011 audit, we notified County management of these requirements and reported noncompliance with Davis-Bacon Act requirements. However, prior to our 2011 audit, in July 2012, the County found they were not in compliance with the awarding agency's requirement that a special EPA insert, regarding the Davis-Bacon requirement of receiving certified payrolls on a weekly basis, be included in all contracts for contractors and subcontractors.

In July 2012, the County began implementing procedures to comply with Davis-Bacon requirements:

- The County informed the contractor of the requirement that statements of compliance or certified payrolls are due on a weekly basis.
- The County requested all outstanding certified payrolls from the contractor.
- The County implemented a process to review laborer's pay wages against federally prescribed prevailing wages.

Though the County implemented new control processes in July 2012 to comply with Davis-Bacon Act requirements, they did not have controls in place for the first seven months of 2012 and; therefore, were not in compliance with the requirements during that time. We confirmed the County has since obtained all outstanding certified payrolls.

Cause of Condition

County staff was not knowledgeable of the federal requirements; therefore, the County was unaware it was out of compliance with federal Davis-Bacon requirements and the Department of Ecology's requirement to include a special Davis-Bacon clause in all contracts until July 2012.

Effect of Condition and Questioned Costs

The County cannot ensure contractors and subcontractors pay prevailing wages. This could result in an underpayment in wages to laborers working on the project for which the county may ultimately be responsible.

The Department of Ecology can withhold loan reimbursements until the required Environmental Protection Agency's Davis-Bacon insert is included in all contracts.

Recommendation

To ensure compliance with federal requirements we recommend the County:

- Continue to strengthen internal controls ensuring Davis-Bacon Act requirements, including obtaining weekly certified payrolls, are met.
- Include the Department of Ecology's required special Environmental Protection Agency insert regarding Davis-Bacon be included in all contracts for contractors and subcontractors.
- Provide training to all employees responsible for grants administration and/or oversight.

County's Response

King County Department of Natural Resources and Parks – Wastewater Treatment Division (WTD) agrees with the finding and the recommendation. Prior to the FY 2011 SAO Single Audit, the WTD found out that it was not in compliance with Davis-Bacon requirements. WTD immediately began implementing procedures to comply in July 2012 by implementing the following controls:

- *Weekly Certified Payroll submittals were requested and have been received from the contractor for the current construction contract. Current bid documents, where Davis-Bacon Act requirements are applicable, have been enhanced to include specific language of the responsibility of the contractor to provide the Weekly Certified Payrolls to WTD on a weekly basis.*
- *WTD personnel have audited, reviewed, and verified prevailing wage rates were paid for current certified payroll submittals and have enforced any necessary corrections.*
- *WTD has implemented the periodic interview process of the prime contractor's employees and the subcontractor employees per Davis-Bacon Act requirements. Interview documentation to be placed in WTD's project files.*

- *WTD personnel responsible for current contract administration of applicable Davis-Bacon construction contracts, specifically for Ballard Siphon, were trained in July 2012 on the appropriate understanding of the Davis-Bacon Act submittal.*
- *Future training will occur on an as-required basis for WTD personnel whose construction contract has Davis-Bacon Act requirements. The Grants Administrator will identify Davis-Bacon Act-affected construction contracts and coordinate with the Capital Projects Manager to provide Davis-Bacon Act requirements training to WTD personnel assigned contract administration for the affected contract.*

Auditor's Remarks

We appreciate the County's commitment to resolve this finding and thank the County for its cooperation and assistance during the audit. We will review the corrective action taken during our next regular audit.

Applicable Laws and Regulations

Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, states in part:

> Subpart C, *Auditees*; Section .300 *Auditee Responsibilities.*
>
> The auditee shall: (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

Title 29, Code of Federal Regulations Section 3.3 *Weekly statement with respect to payment of wages*, states in part:

> b) Each contractor or subcontractor engaged in the construction, prosecution, completion, or repair of any public building or public work, or building or work financed in whole or in part by loans or grants from the United States, shall furnish each week a statement with respect to the wages paid each of its employees engaged on work covered by this part 3 and part 5 of this chapter during the preceding weekly payroll period. This statement shall be executed by the contractor or subcontractor or by an authorized officer or employee of the contractor or subcontractor who supervises the payment of wages, and shall be on form WH 348, "Statement of Compliance", or on an identical form on the back of WH347, "Payroll (For Contractors Optional Use)" or on any form with identical wording.

Title 29 Code of Federal Regulations, Section 3.11, *Regulations part of contract.*

> All contracts made with respect to the construction, prosecution, completion, or repair of any public building or public work or building or work financed in whole or in part by loans or grants from the United States covered by the regulations in this part shall expressly bind the contractor or subcontractor to comply with such of the regulations in this part as may be applicable. In this regard, see §5.5(a) of this subtitle.

Title 29 Code of Federal Regulations, Section 5.5, *Contract provisions and related matters,* states in part:

> (a) The Agency head shall cause or require the contracting officer to insert in full in any contract in excess of $2,000 which is entered into for the actual construction, alteration and/or repair, including painting and decorating, of a public building or public work, or building or work financed in whole or in part from Federal funds or in accordance with guarantees of a Federal agency or financed from funds obtained by pledge of any contract of a Federal agency to make a loan, grant or annual contribution (except where a different meaning is expressly indicated), and which is subject to the labor standards provisions of any of the acts listed in §5.1, the following clauses (or any modifications thereof to meet the particular needs of the agency, *Provided,* That such modifications are first approved by the Department of Labor):
>
> (1) *Minimum wages.* (i) All laborers and mechanics employed or working upon the site of the work (or under the United States Housing Act of 1937 or under the Housing Act of 1949 in the construction or development of the project), will be paid unconditionally and not less often than once a week, and without subsequent deduction or rebate on any account (except such payroll deductions as are permitted by regulations issued by the Secretary of Labor under the Copeland Act (29 CFR part 3)), the full amount of wages and bona fide fringe benefits (or cash equivalents thereof) due at time of payment computed at rates not less than those contained in the wage determination of the Secretary of Labor which is attached hereto and made a part hereof, regardless of any contractual relationship which may be alleged to exist between the contractor and such laborers and mechanics.
>
> (3)(ii)(A) The contractor shall submit weekly for each week in which any contract work is performed a copy of all payrolls to the (write in name of appropriate federal agency) if the agency is a party to the contract, but if the agency is not such a party, the contractor will submit the payrolls to the applicant, sponsor, or owner, as the case may be, for transmission to the (write in name of agency).
>
> (B) Each payroll submitted shall be accompanied by a “Statement of Compliance,” signed by the contractor or subcontractor or his or her agent who pays or supervises the payment of the persons employed under the contract . . . .

Washington State Water Pollution Control Revolving Fund Loan Agreement between the State of Washington Department of Ecology and King County Department of Natural Resources and Parks (DNR&P) Wastewater Treatment Division (WTD):

> Part V(a). Special Terms and Conditions:
>
> > The RECIPIENT is required to include a special EPA insert regarding Davis-Bacon in all contracts for contractors and subcontractors . . . .

Schedule of Federal Audit Findings and Questioned Costs

King County
January 1, 2012 through December 31, 2012

2. The County did not have adequate internal controls to ensure compliance with federal time and effort and earmarking requirements for the HIV Emergency Relief Project Grants program.

CFDA Number and Title:	93.914 HIV Emergency Relief Project Grants
Federal Grantor Name:	Health Resources and Services Administration, Department of Health and Human Services
Federal Award/Contract Number:	6 H89HA00022
Pass-through Entity Name:	NA
Pass-through Award/Contract Number:	NA
Questioned Cost Amount:	$779,412

Description of Condition

Time and effort

We reviewed payroll transactions to determine whether salaries and benefits charged to the federal grant were supported by adequate time and effort documentation, as required by federal regulations. Depending on the number and type of activities an employee works on, documentation can be a semi-annual certification or a monthly personnel activity report, such as a timesheet.

We reviewed payroll records for eight employees whose salaries and benefits were charged to the grant. We found the four hourly employees properly submitted timesheets. However, we found the four salaried employees did not submit semi-annual certifications. The County's internal processes do not include one for collecting required time and effort information for salaried employees.

Earmarking

During the period under audit, the County charged $6.8 million to this grant. Of this amount, approximately $6 million was paid to subrecipients.

Federal regulations require the County to use no more than ten percent of the award for administration, accounting, reporting, program oversight and planning council activities. Furthermore, at least 75 percent of the award, after reserving amounts for administrative expenses and clinical quality management, must be used to provide core medical services.

During the audit period**,** the granting agency performed a monitoring review citing concerns the County did not have a process to track core medical services and administrative costs separately, jeopardizing compliance with the earmarking requirements. In response to the review, the County reviewed administrative costs charged to the grant and determined they were below the 10 percent threshold. However, the County's calculation was incorrect and it did not establish a tracking process to monitor administrative expenses charged by subrecipients.

Cause of Condition

Time and effort

County staff administering the grant did not establish a system to obtain semi-annual certifications for employees working solely on objectives for this grant.

Earmarking

County staff administering the grant did not require its subrecipients to clearly separate core medical service and administrative costs in monthly billings and the County failed to use its accounting system to track those costs separately.

Effect of Condition and Questioned Costs

Time and effort

The County charged salaries and benefits totaling $274,400 to the grant without adequate time and effort records. However, we determined the costs charged were for allowable activities; therefore, we are not questioning these costs.

Earmarking

We reviewed all costs charged by the County's subrecipients and determined the County and subrecipients charged approximately $1.3 million, or 22 percent of the grant expenditures, for administrative costs. As a result, by exceeding the allowable administrative cost limit, the County only used 67 percent of the award for core medical services, which is not allowed by the grant. Further, the County did not adjust its reimbursement requests to the grantor to reflect the overage, nor did it pay the difference with other funds.

The County exceeded the 10 percent limit on administrative costs and was over-reimbursed by $779,412. We are questioning these costs.

Recommendation

We recommend the County establish and follow internal controls to ensure:

- Time and effort documentation is obtained for all employees in accordance with federal requirements
- Administrative costs paid to subrecipients are accurately tracked to comply with earmarking requirements

We further recommend the County consult with the granting agency to determine the amount of grant funds, if any, that will have to be repaid.

County's Response

Public Health – Seattle and King County (PHSKC) thanks the SAO for their work and has implemented recommendations regarding time and effort documentation and the tracking of administrative costs ("earmarking"). PHSKC also provides additional information about the earmarking component of the finding below and is confident that the questioned costs will not be an issue with the federal granting agency.

Time and Effort
PHSKC concurs with the auditor's finding of deficient time and effort documentation in this program, and we appreciate the auditor's willingness to consider other documentation showing the allowable nature of the expenditures.

In concert with the launch of the County's new payroll system, PHSKC offered time and effort training for all grant funded employees; the training included instructions for both hourly and salaried staff on use of the new payroll system. PHSKC central finance staff will remind finance managers in all divisions about the importance of time and effort documentation, and review with them the time and effort training materials used previously and available to all PHSKC employees on the intranet.

Earmarking
PHSKC acknowledges feedback from the SAO and granting agency that 2012 contracts in this program made it difficult to discern, within tight audit/review timelines, the direct service nature of some subgrantee positions which have administrative titles. On January 18, 2013 PHSKC central finance staff, in collaboration with program staff, reviewed contracts which began March 1, 2013 to detect and correct ambiguous direct service/administrative language prior to contract signing. PHSKC believes this review, which will continue in successive contracts, will prevent the issue reported in this finding.

Relating to the 2012 questioned contract costs; PHSKC believes that an in-depth review of the work performed by the positions, documented through written communications with our subrecipients, will affirm the direct service nature of the work and full compliance with both the administrative and direct service earmarking requirements of the grant. We look forward to facilitating this review with the program's grantor.

Auditor's Remarks

We appreciate the County's commitment to resolve this finding and thank the County for its cooperation and assistance during the audit. We will review the corrective action taken during our next regular audit.

Applicable Laws and Regulations

U.S. Office of Management and Budget Circular A-133, *Audits of States*, *Local Governments, and Non-Profit Organizations*, Section 300, states in part:

The auditee shall:

(b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

(c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.

U.S. Office of Management and Budget Circular A-87, *Cost Principles for State, Localand Indian Tribal Governments* (2 CFR Part 225), Appendix B, Section 8(h), states:

(1) Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit.

(2) No further documentation is required for the salaries and wages of employees who work in a single indirect cost activity.

(3) Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and will be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee.

(4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:

(a) More than one Federal award,

(b) A Federal award and a non-Federal award,

(c) An indirect cost activity and a direct cost activity,

(d) Two or more indirect activities which are allocated using different allocation bases, or

(e) An unallowable activity and a direct or indirect cost activity.

(5) Personnel activity reports or equivalent documentation must meet the following standards:

(a) They must reflect an after-the-fact distribution of the actual activity of each employee,

(b) They must account for the total activity for which each employee is compensated,

(c) They must be prepared at least monthly and must coincide with one or more pay periods, and

(d) They must be signed by the employee.

(e) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes, provided that:

(i) The governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed;

(ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and

(iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances.

United States Code, Title 42, Chapter 6A, Subchapter XXIV, Part A, Subpart I, § 300ff–14, states in part:

(c) Required funding for core medical services

(1) In general: With respect to a grant under section 300ff–11 of this title for an eligible area for a grant year, the chief elected official of the area shall, of the portion of the grant remaining after reserving amounts for purposes of paragraphs (1) and (5)(B)(i) of subsection (h), use not less than 75 percent to provide core medical services that are needed in the eligible area for individuals with HIV/AIDS who are identified and eligible under this subchapter (including services regarding the co-occurring conditions of the individuals).

(h) Administration

(1) Limitation: The chief elected official of an eligible area shall not use in excess of 10 percent of amounts received under a grant under this subpart for administrative expenses.
(2) Allocations by chief elected official

> In the case of entities and subcontractors to which the chief elected official of an eligible area allocates amounts received by the official under a grant under this subpart, the official shall ensure that, of the aggregate amount so allocated, the total of the expenditures by such entities for administrative expenses does not exceed 10 percent (without regard to whether particular entities expend more than 10 percent for such expenses).

U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, states in part:

Section 105: definitions.

Questioned cost means a cost that is questioned by the auditor because of an audit finding:

(1) Which resulted from a violation or possible violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the use of Federal funds, including funds used to match Federal funds;
(2) Where the costs, at the time of the audit, are not supported by adequate documentation; or
(3) Where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances.

Schedule of Prior Federal Audit Findings

King County
January 1, 2012 through December 31, 2012

This schedule presents the status of federal findings reported in prior audit periods. The status listed below is the representation of King County. The State Auditor's Office has reviewed the status as presented by the County.

<table>
<tr><td>Audit Period:
2011</td><td>Report Reference No: 1008602</td><td>Finding Reference No: 1</td><td>CFDA Number(s):
93.914</td></tr>
<tr><td colspan="2">Federal Program Name and Granting Agency:
HIV Emergency Relief Project Grants – U.S. Department of Health and Human Services</td><td colspan="2">Pass-Through Agency Name:
NA</td></tr>
<tr><td colspan="4">Finding Caption: The County lacks controls over the HIV Emergency Relief Project Grants program could not identify the specific costs that were billed and could not demonstrate compliance with program requirements.</td></tr>
<tr><td colspan="4">Background:
The objective of the HIV Emergency Relief Project grant is to improve access to medical and support services for those affected by the Human Immunodeficiency Virus (HIV)/Acquired Immune Deficiency Syndrome (AIDS).

The County was unable to provide a list of expenditures billed to the program. The Fiscal Coordinator was responsible for determining allowable costs and activities; completing reimbursement requests; maintaining documentation to demonstrate compliance with maintaining a required level of expenditures; monitoring and maintaining documentation to demonstrate compliance with percentage requirements for specified expenditure types. The Fiscal Coordinator retired during the audit and the County was unable to demonstrate that its internal control system over grant billings provided adequate support for amounts charged to the grant. The County did not have a back-up person to perform these duties. It was unaware of the methods used by the Fiscal Coordinator to prepare the grant billings and to ensure the expenditures were allowable.

The County did not monitor the activities of the Fiscal Coordinator and County staff was unable to provide documentation to demonstrate the processes that had been used to ensure compliance with federal requirements and a list of expenditures charged to the program.</td></tr>
<tr><td colspan="4">Status of Corrective Action: (check one)
☐ Fully Corrected   X Partially Corrected   ☐ No Corrective Action Taken   ☐ Finding is considered no longer valid</td></tr>
</table>

PHSKC notified DHHS/HRSA of the scope limitation on September 24, 2012. Public Health's program officer acknowledged receipt of the information and indicated she would notify appropriate HRSA internal resources to follow-up with Public Health when their schedules permit. HRSA assigned staff to begin testing 2011 transactions on June 19, 2013; their efforts have not yet been completed.

Corrective Action Plan:
The County appreciates the work of the auditor and understands why the auditor chose to issue the finding, but we want to make it clear that Public Health Seattle-King County (PHSKC) has already mitigated the impact of the finding based on thorough reconciliation work completed in September 2012. PHSKC acknowledges the Fiscal Coordinator for this program retired as described; this retirement led to a regrettable delay in providing this program's reconciled expenditure information to the auditor. While preparing the reconciliation, PHSKC detected that labor costs for PHSKC staff in this program had been prepared using reports from the County's payroll system instead of the general ledger. This resulted in minor month-to-month timing differences between the general ledger and our manually prepared billing records. Although late in the audit, PHSKC provided the auditor a general ledger transaction dataset which exactly reconciled to the Schedule of Expenditures of Federal Awards (SEFA). We look forward to demonstrating our fully compliant management of program funds to the grantor. PHSKC also concurs with the recommendations and will continue to ensure that program requirements are monitored, expenditures are compliant with federal requirements and documented, and documentation is maintained.

Audit Period: 2011	**Report Reference No:** 1008602	**Finding Reference No:** 2	**CFDA Number(s):** 10.557 ; 93.061; 93.069 ; 93.135 ; 93.268 ; 93.279 ; 93.283 ; 93.307 ; 93.703 ; 93.712 ; 93.724 ; 93.778 ; 93.837 ; 93.847 ; 93.855 ; 93.914 ; 93.944
Federal Program Name and Granting Agency: Special Supplemental Nutrition Program for Women, Infants and Children/Research and Development Cluster/Public Health Emergency Preparedness Grant/Immunization Grants/Centers for Disease Control and Prevention Investigations and Technical Assistance/ ARRA-Grants to Health Center Programs/ARRA-Immunization/ARRA-Prevention and Wellness-Communities Putting Prevention to Work Funding Opportunities Announcement/Medical Assistance Program/HIV Emergency Relief Project Grants/Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus		**Pass-Through Agency Name:** Washington State Department of Health, Washington State Department of Social and Health Services, State of Washington Health Care Authority, University of Washington, Neighborhood House, Denver Health and Hospital Authority, National Association of County and City Health Officials	

Syndrome (AIDS) - U.S. Department of Agriculture/U.S. Department of Health and Human Services	
Finding Caption: King County does not have adequate controls over paid time off, furlough replacement time and executive leave time charged to grants operated by the Public Health Department.	
Background: The County charges paid time off for its employees, such as vacation, sick leave, holidays and jury duty, to its grant programs. At the end of the year, the County allocates employee paid time off based on actual hours worked by project on a percentage basis. For example, if an employee works a total of 2,000 hours, spending 1,000 on project A, 800 on project B and 200 on project C; the paid time off for the year charged to each project would be 50 percent, 40 percent and 10 percent respectively. Furlough replacement and executive leave are handled differently. The County charged the cost of the furlough replacement time and executive leave time directly to individual grants, rather including them as part of paid time off allocation. The County was unable to provide the logic for this treatment. Therefore, we determined that this method is not reasonable.	
Status of Corrective Action: (check one) X Fully Corrected ☐Partially Corrected ☐ No Corrective Action Taken ☐ Finding is considered no longer valid	
Corrective Action Taken: *Public Health conducted training on November 14, 2012 for program staff completing manual recalculation of paid-time-off charges for Furlough Replacement and Executive Leave; these recalculations refined the specific impact to each grant program impacted by questioned costs. Public Health program staff notified their grantors of the finding and transmitted the recalculation results to them; where this transmittal resulted in additional grantor instructions; such follow-up steps have also been completed.* *Public Health changed paid time off allocation procedures effective January 3, 2012 to conform to the new King County standards implemented in conjunction with its new enterprise resource planning system, Oracle eBusiness Suite.*	

Audit Period: 2011	**Report Reference No:** 1008602	**Finding Reference No:** 3	**CFDA Number(s):** 93.724
Federal Program Name and Granting Agency: ARRA – Prevention and Wellness – Communities Putting Prevention to Work Funding Opportunities Announcement – U.S Department of Health and Human Services		**Pass-Through Agency Name:** State Department of Health	
Finding Caption: The County's internal controls were inadequate to ensure compliance with subrecipient monitoring and procurement requirements for the Prevention and Wellness – Communities Putting Prevention to Work program.			
Background: The objective of the Prevention and Wellness grant is to assist local governments in reducing chronic disease, promoting wellness and in better managing chronic conditions. Recipients are to use program funds to increase physical activity, improve nutrition and decrease smoking.			

Subrecipient Monitoring Federal regulations require the County to monitor the activities of subrecipients to provide reasonable assurance that the subrecipient administers federal awards in compliance with federal requirements. The County's grant monitoring process was not sufficient to ensure subrecipient compliance with the grant documents or federal requirements. In addition, the County identified two agencies as vendors rather than subrecipients and did not adequately monitor their activities to ensure they received the required audit and took prompt action on audit findings. Procurement Federal regulations require the County to seek bids for purchases of goods and service of more than $100,000. Further, it is to properly publish and distribute notices of criteria and solicitations of proposals; properly evaluate submissions of qualifications to achieve open competition; and ensure all potential contractors receive the same solicitation, information and bid package. The County entered into three agreements with vendors to provide prevention and wellness services. The total amount of these agreements was approximately $3.9 million. The County waived each of these agreements from standard procurement procedures due to single source availability. The County's rationale for single source availability was that these vendors were named in its approved grant application. Naming vendors in a grant application does not make them the only source of services. The County should have competitively procured these agreements.
Status of Corrective Action: (check one) X Fully Corrected ☐ Partially Corrected ☐ No Corrective Action Taken ☐ Finding is considered no longer valid
Public Health submitted a budget amendment to specifically delineate the purchase of equipment in the grant budget; CDC approved that budget amendment request on March 26, 2013. Public Health also drafted new standard operating procedures on November 12, 2012 describing the new level of documentation required for procurement waivers. Public Health's contracts office began using the new procedure in the fourth quarter, 2012.
Corrective Action Taken: *Public Health – Seattle & King County (PHSKC) concurs with the finding with one exception noted below regarding a subrecipient monitoring determination for two subcontractors. PHSKC has internal control processes and procedures to ensure subrecipients are identified and monitored for compliance with grants.* ***PHSKC, together with Procurement and Contract Services, will review current waiver procedures, including documentation, and modify as necessary. In the interim, waivers will be expanded to include more discussion and documentation.*** *PHSKC believes underlying reasons for waivers are appropriate. Below, PHSKC offers additional information on each aspect of the finding.* ***Subrecipient Monitoring*** *PHSKC acknowledges that it did not include equipment purchases as a specific line item in its CDC-approved project budget; however, the purchase of equipment was included in our grant application, was transparent to all parties, and was often discussed with the program's CDC project officer. Meeting minutes provided by the CDC acknowledge their awareness of equipment purchases on at least five (5) different occasions during 2011.* ***However, PHSKC will immediately file a budget amendment to formalize the purchase of equipment with this program's funds.***

PHSKC respectfully disagrees with the auditor's determination that the form of the contract arrangement leads to the conclusion that the subcontractors used for mapping bicycle routes and smoking prevention services make them subrecipients instead of vendors. In both cases, PHSKC staff analyzed the subrecipient and vendor criterion and determined that the two subcontractors are vendors because:

- *They had their performance measured on the basis of service units provided, not on the basis of grant objectives achieved or costs incurred.*
- *They were engaged for services offered to multiple buyers in a commercial marketplace. The smoking prevention vendor had over 600 clients purchasing the same service and the bicycle route mapping vendor had 25 clients purchasing the same service.*
- *They had no involvement in program development or execution; all programmatic decision-making remained in PHSKC, and the subcontractors were engaged for a specific service.*

Procurement

PHSKC acknowledges that more precise descriptions and complete documentation should have been submitted in support of the requests for waiver of competitive procurement procedures**. However, PHSKC believes that the underlying reasons for the waivers remain appropriate**. Future waiver requests will specifically include a discussion of the analysis conducted to determine whether the firms, agencies and professionals that are named in the grant application process, meet the requirements to waive the competitive process.

The Evaluation contractor has unique expertise in evaluating community-based health initiatives that include community action plans, community coalitions, and policy change components. Their unique experience includes conducting evaluations of national multi-site community-level interventions with an emphasis on implementation and outcomes. This contractor has pioneered many of the standard evaluation techniques of community-based interventions, such as the logic model, the case study method, and innovative approaches to measuring the community landscape No other firm possessed these unique attributes which were necessary to implement program elements required by the funder.

For the Communications contractor, the firm has unique qualifications developing public awareness, policy change and social marketing campaigns in the areas of tobacco, nutrition and physical activity - principle areas of emphasis required by the funder. As a result of their unique and extensive experience on the national, state and local levels (State of Washington Department of Health's Tobacco Prevention and Control Program, The Bill and Melinda Gates Foundation, The California State Endowment's Healthy Eating, Active Communities Initiative, the Blue Cross/Blue Shield Associations Walking Works Campaign, and the Public Health's Communications and Coalition Building Programs), the firm had the unique capacity to meet the immediate and sophisticated requirements of the ARRA grant and meet funder-required deliverables and timelines. No other firms possessed these unique attributes which were necessary to implement program elements required by the funder.

For the Healthy food retail technical assistance provider, the sole-sourced organization has unique expertise in local food systems including co-founding a local food policy council, being a founding member of King County Food and Fitness Initiative, and conducted precedent-setting assessments of regional food systems. The firm also had unique experience with healthy food communities and urban planning, and economic development, specifically to *improve access to healthy food in diverse, underserved communities. No other local firms possessed these unique attributes which were necessary to implement program elements required by the funder.*

Audit Period: 2011	**Report Reference No:** 1008602	**Finding Reference No:** 4	**CFDA Number(s):** 93.778
Federal Program Name and Granting Agency: Medical Assistance Program - U.S. Department of Health and Human Services		**Pass-Through Agency Name:** Department of Social and Health Services/Washington State Health Care Authority	
Finding Caption: The County did not monitor subrecipients paid through the Medical Assistance Program.			
Background: Federal regulations require the County to monitor activities of subrecipients to provide reasonable assurance they administer federal awards in compliance with federal requirements. The County is also responsible for ensuring subrecipients who spend $500,000 or more in federal money in a fiscal year have an audit conducted in accordance with federal Office of Management and Budget (OMB) Circular A-133 and take prompt corrective action on audit findings. Under their contracts with the County, the performance of agencies is to be measured to determine if they are meeting the program goals and complying with federal requirements. These agencies are subrecipients for the Medical Assistance Program. The County identified these agencies as vendors rather than subrecipients and did not adequately monitor their activities to ensure they received the required audit and took prompt action on audit findings. This represents a material weakness in the County's controls and resulted in material non-compliance with the monitoring requirement.			
Status of Corrective Action: (check one) X Fully Corrected ☐ Partially Corrected ☐ No Corrective Action Taken ☐ Finding is considered no longer valid			
Public Health drafted new contracts for its community partners in 2013, passing all Federal program requirements through to the contractors. Subrecipient monitoring in Public Health is a shared responsibility between program staff and central fiscal staff. Each subrecipient contract has been assigned a contract manager for program monitoring; PH Finance is responsible for fiscal monitoring, is collecting the audit reports from the 93.778 subrecipients, and is making arrangements for on-site visits of 2012 fiscal activity at select sites based on a risk assessment of the subrecipients participating in this program.			
Corrective Action Taken:			
Public Health – Seattle and King County (PHSKC) concurs with changing most subcontractor relationships in this program from vendor to subrecipient. The exception to our concurrence relates to contracts for interpretation services; this service is commercially available, the contracts are competitively bid, and PHSKC believes these relationships remain appropriately classified as vendors. The State Auditor's Office did not test these contracts as part of their audit work. *PHSKC does not have unilateral control over the treatment of subcontractors as either vendors or subrecipients in this program. The Washington State Health Care Authority (HCA), as the prime recipient, has imposed a requirement upon PHSKC requiring HCA approval of all contracting activity including all contractual terms, conditions, and documents between PHSKC and our community partners. HCA did not require PHSKC to incorporate federal compliance*			

requirements on these contracts. ***To remedy the condition noted here, the contracts for this program must be amended to pass compliance requirements through to those subcontractors which will become subrecipients. PHSKC will immediately engage with HCA to obtain their approval for new contractual terms, conditions, and documents.***

PHSKC staff is aware of the difference between a vendor and a subrecipient for the purposes of administering federal grants. Staffs, both at the program level and in the central finance team, regularly attend seminars and workshops to stay informed about current compliance requirements, including the vendor/subrecipient determinations noted in this finding. ***These efforts will continue****. Additionally, PHSKC added content around vendor/subrecipient determinations to our procurement training for program staff in 2012.*

Audit Period: 2011	**Report Reference No:** 1008602	**Finding Reference No:** 5	**CFDA Number(s):** 20.514; 93.061; 93.135; 93.279; 93.307; 93.837; 93.847; 93.855
Federal Program Name and Granting Agency: Research and Development Cluster – U.S. Department of Transportation/U.S. Department of Health and Human Services		**Pass-Through Agency Name:** NA	

Finding Caption: The County's Public Health Department does not have adequate internal controls to ensure compliance with federal suspension and debarment requirements for the Research and Development Cluster.

Background:
Recipients of federal grants are prohibited from contracting with parties that are suspended or debarred from doing business with the federal government. If the subcontractor certifies in writing that it or its organization or business has not been suspended or debarred, the grantee may rely on that certification. Alternatively, the grantee may check for suspended or debarred parties by reviewing the federal Excluded Parties List issued by the U.S. General Services Administration. Additionally, recipients are required to inform prime vendors of their responsibility to check the suspension and debarment status for any covered transactions they enter into. Grantees must meet these requirements prior to entering into contracts with vendors and subrecipients.

The Technical Services contract boilerplate language does not inform prime vendors of their responsibility to check the suspension and debarment status for any covered transactions they enter into. If a Technical Services contract is procured through standard procedures, the Procurement and Contract Services Section has internal controls to inform prime vendors of their responsibility in this area. If the contract is waived from standard procedures, this responsibility falls on the Department executing the contract.

The Public Health Department's internal controls were not adequate to ensure compliance with the federal suspension and debarment requirement in situations in which standard procurement procedures are waived.

Status of Corrective Action: (check one)

X Fully Corrected	☐ Partially Corrected	☐ No Corrective Action Taken	☐ Finding is considered no longer valid

Procurement and Contract Services (PCSS) promulgated the revised county-wide boilerplate in November, 2012. Further, PCSS reinstated the federal debarment and suspension clause in the terms and conditions of Goods, Services, and Technical Consulting contracts in November 2012.
Corrective Action Taken: *Public Health – Seattle and King County (PHSKC) appreciates the work of the auditor and concurs with the finding, while also noting that mitigating controls severely reduced or eliminated any Federal risk associated with the single instance of non-compliance noted.* *PHSKC's Contracts, Procurement, and Real Estate Services (CPRES) division detected the County's removal of Suspension and Debarment language from the countywide Technical Consulting Boilerplate in June of 2011. CPRES immediately worked with King County Procurement and Contract Services (PCSS) to have the Suspension and Debarment language placed back into the PHSKC copy of the boilerplate.* ***Further, PCSS will reinstate the federal debarment and suspension clause in the terms and conditions of Goods, Services, and Technical Consulting contracts in September 2012.*** *Throughout 2011, PHSKC had mitigating controls in place to reduce the impact of the missing contractual verbiage. The technical consulting boilerplate contains a requirement that the County approve the use of any subcontractor in writing. In addition to this language, PHSKC conducted Excluded Parties List System (EPLS) checks on all primary contractors. Specific to the contractor noted in this finding, the EPLS check indicated the vendor was not suspended or debarred. PHSKC believes the process of conducting our own EPLS checks, and prohibiting the contractor from further contracting work without obtaining our written approval severely limited, if not eliminated, the debarment risk on the contracts that were issued without this language present.*

Audit Period: 2011	**Report Reference No:** 1008602	**Finding Reference No:** 6	**CFDA Number(s):** 20.500, 20.507
Federal Program Name and Granting Agency: Federal Transit Cluster - U.S. Department of Transportation		**Pass-Through Agency Name:** NA	
Finding Caption: The County's internal controls were inadequate to ensure charges to the Federal Transit grant programs complied with federal requirements.			
Background: Bus Parts: The County does not include the sales tax in the cost of the part when it adds it to its inventory system. It expenses sales tax and charges to the grant when paid, regardless of whether the part has been used. Federal regulations require that the part must be used on a federal activity before the County can seek reimbursement. Moreover, the County's accounting treatment of immediately expensing the sales tax is not in accordance with Generally Accepted Accounting Principles (GAAP). Therefore, the County's controls are not designed to comply with federal requirements. Further, the County did not demonstrate it used the parts associated with the sales tax on a federal program in 2011. Salaries: We reviewed payroll to determine whether employee salaries charged to the grant were supported by required time and effort documentation. In 2011, the County charged salaries of approximately $53 million to the grant. The County had inadequate internal controls to ensure compliance with time and effort requirements for the first six months in 2011. We found			

salaried employees working on only one program relied on semi-annual certifications signed by the Manager of Vehicle Maintenance. This blanket certification did not identify individual employees. This does not meet federal grant requirements.
Status of Corrective Action: (check one) ☐ Fully Corrected X Partially Corrected ☐ No Corrective Action Taken ☐ Finding is considered no longer valid
Corrective Action Taken: ***Sales Tax for Bus Parts – Unresolved - Partially corrected*** *The County agrees that immediately expensing sales tax is not in accordance with generally accepted accounting principles and stopped this past practice in 2011. As explained in the County's response for the 2010 audit, the past practice was necessary due to system limitations. The system limitations are now resolved with the County's newly implemented financial system in January 2012* *It is important to point out that the amount of actual sales tax charged to the grant in 2011 was $292,601, which is far less than the allowable amount that could have been charged. Bus parts charged to the grant, net of sales tax, were $15,879,090. The sales tax rate during 2011 applied by Transit was 9.5 percent, which results in a $1,508,513 estimate of taxes paid ($15,879,090 * 9.5%) on parts consumed. Therefore, although approximately $1.5 million in sales tax could have been charged against the grant in 2011, the $292,601 amount of sales tax actually charged was far less.* ***Salaries Documentation – Unresolved - Partially corrected*** *Effective July 1, 2012, the County included a list of names on the semi-annual certification, though the County believes there is no requirement to do so based on confirmation from the Federal Transit Administration Region X office. We recognize, however, the Auditor was looking for a higher level of confirmation within FTA. The County is compliant with federal regulations, as well as County policies and practices regarding time and effort reporting. Notwithstanding the County's respectful disagreement with the Auditor's interpretation of the federal regulations, the County supplied a list of names with its semi-annual certification for Preventive Maintenance that covered all King County Metro employees in the Vehicle Maintenance section. Because the Manager of that Section relied on his staff to supply the list of names and does not know all 700+ employees by name, the County agrees that it should reduce the list of names on the certification to salaried employees in that Section that are supervised by the Manag*er. The change will take place starting with the next certification in January 2014.

Audit Period: 2011	**Report Reference No:** 1008602	**Finding Reference No:** 7	**CFDA Number(s):** 20.519
Federal Program Name and Granting Agency: Clean Fuels Program – U.S. Department of Transportation		**Pass-Through Agency Name:** NA	
Finding Caption: The County does not have adequate internal controls and did not comply with allowable cost requirements for its Clean Fuels Program.			
Background: The objectives of this program are to assist in financing the acquisition of clean fuel vehicles and related facilities providing public transportation. According to the grant agreement with the U.S. Department of Transportation, Federal Transit Administration (FTA) the County is to use the grant funding to cover the incremental cost difference for 39 hybrid electric-diesel buses			

funded under a separate agreement with the FTA. Incremental costs are the difference between a regular diesel bus and a hybrid electric- diesel bus. The County charged the Clean Fuels Program for the total cost of 12 hybrid electric-diesel buses rather than the incremental costs of 39 hybrid electric/diesel costs. The difference between the total costs charged to the grant and the incremental costs of the 12 buses was $3,785,574. The County did not have adequate internal controls to ensure compliance with allowable costs. The control deficiencies represent material weaknesses in controls which resulted in material non-compliance.
Status of Corrective Action: (check one) X Fully Corrected ☐ Partially Corrected ☐ No Corrective Action Taken ☐ Finding is considered no longer valid
Corrective Action Taken: *The County identified and corrected the error using current review processes. This is an isolated incident. Departmental staff also provided documentation to the auditors as evidence that these buses were not tagged or counted against other federal grant awards.* *Upon initial delivery of 12 40-foot hybrid diesel electric buses in 2011, the Department mistakenly charged the full cost of the 12 buses to the Clean Fuels grant and assigned FTA grant number WA-58-0001 to those buses. After the grant funds were drawn down, Department staff discovered the error and initiated a correction in early June 2012 after the remaining 27 buses were delivered. The correction assigned the FTA grant number to the 39 buses noted in the grant award. Subsequently, Department Vehicle Maintenance staff submitted paperwork to the County's Central Fixed Assets group to accurately reflect the correct information in the Fixed Asset records.* *To mitigate against a similar incident in the future,* ***Grants staff will carefully review the specific terms of the grant and the bus delivery documentation prior to drawing down funds from an FTA grant for bus acquisition. T****he Department's Grants Administration team has a collective 45 years of experience with FTA, FHWA, DHS, and DOE grants. Members are certified in grant administration, and regularly attend seminars to maintain their knowledge and expertise.*

Audit Period: 2011	**Report Reference No:** 1008602	**Finding Reference No:** 8	**CFDA Number(s):** 81.128
Federal Program Name and Granting Agency: ARRA-Energy Efficiency and Conservation Block Grant Program - U.S. Department of Energy		**Pass-Through Agency Name:** NA	
Finding Caption: The County does not have controls in place to ensure compliance with requirements of its Energy Efficiency and Conservation Block Grant Program			
Background: Federal regulations require recipients of federal money to establish and follow internal controls to ensure program requirements are followed. The County did not have adequate internal controls in place to ensure compliance with Davis-Bacon (prevailing wage) Act, reporting and Recovery Act accountability requirements. The control deficiencies represent material weaknesses, which resulted in material noncompliance with the requirements. Davis-Bacon Act			

The Davis-Bacon Act requires contractors to pay federally prescribed prevailing wages to laborers for federally-funded construction projects that exceed $2,000. Grant recipients must include in construction contracts a provision requiring contractors and subcontractors to comply with the Act. Grant recipients must obtain weekly statements of compliance or certified payrolls. We found the County did not collect certified payroll reports weekly from construction contractors or subcontractors. The County did not have adequate internal controls to ensure it received weekly certified payrolls from contractors and subcontractors it paid with this grant money.

Recovery Act Accountability
Federal regulations require recipients of American Recovery and Reinvestment Act money to establish and follow internal controls to maintain records that adequately identify the source and use of the money. The County did not comply with this requirement when it coded Recovery Act expenditures to generic project accounts. The County records all costs for a project to a single project code and, as a result, commingled these expenditures with non-Recovery Act expenditures. The expenditures charged to the Recovery Act grant are identifiable only through a review of reimbursement requests and supporting documentation attached in the paper files. This documentation enabled us to determine the costs are allowable and, as such, we did not question the costs; however, this does not meet the federal government's expectation.

Reporting
The County is responsible for submitting a quarterly SF-425 financial report to the U.S. Department of Energy. It also must submit expenditure and jobs information to the federal government quarterly, as required the Recovery Act. We verified the County filed the required reports before each deadline, but found the reports were not accurate, complete or supported by accounting records. Further, no one performs a review of the financial reports and Section 1512 reports to ensure the information is complete, accurate and presented in accordance with program requirements.

Status of Corrective Action: (check one)

X Fully Corrected	☐ Partially Corrected	☐ No Corrective Action Taken	☐ Finding is considered no longer valid

Corrective Action Taken:
A. Davis-Bacon Act – The County agrees with the auditor's finding. It should be noted that the County paid prevailing wages. The County notes that there is no enforcement mechanism within the Act to compel contractors to submit their paperwork on a weekly basis, making it difficult for public entities like the County to meet the time requirement of the Act. ***The County will review its existing procedures, and revise as necessary to ensure that certified payrolls with appropriate signatures are collected, and reviewed in a timely manner****.*

B. Recovery Act Accountability - The County respectfully disagrees with the auditor's finding. The detailed accounting transaction records supporting ARRA reimbursement requests enable the County to easily identify ARRA funded project expenditures. All ARRA revenues received were accounted for in unique ARRA revenue accounts.

The County had 22 active projects during 2011, eight in IBIS and fourteen in ARMS. All IBIS projects are coded with a project number and a unique three digit grant identification number established solely to record EECBG grant expenditures and revenues. Only expenditures coded with both the project number and unique grant number are used as the basis for draw-downs against the EECBG grant. ARRA revenue for this grant is coded to the unique ARRA revenue account number, and is identified with the project and grant in IBIS. All but two ARMS

projects used unique project numbers and/or accounting code strings to track ARRA project expenditures and revenues. For the remaining two ARMS projects, the ARRA expenditures and revenues were easily identifiable and documented. In addition to the electronic records, detailed paper billing files were maintained for each draw-down of funds against the EECBG grant. *It is common for projects to incur more grant eligible expenditures than can be supported by grant awards. This practice does not create a problem as the granting agency can only be billed for eligible costs incurred up to the maximum grant award for the project. This overmatch of expenditures is a common grant management practice and can be a useful technique in the event that additional grant funds become available. This overmatching situation should not be considered as commingling.* *In January 2012, the County replaced its two legacy financial systems with a new system that has a specific grant accounting component. The new financial system is expected to further enhance the County's capability to track grant revenues and expenditures.* *C. Reporting – The County agrees, in part, with the auditor's finding. The County acknowledges the incomplete nature of the SF-425 reports, which primarily was due to an interface issue with the US Department of Energy's on-line reporting system. In addition, the County was instructed by the USDOE project officer to report expenditures and actual cash received for a given quarter. Actual cash received during a quarter did not match the expenditures because of the lag in the accounting close period for each month. This closure period created a one to two month lag from the time expenditures were recorded against a grant funded project and when they were billed to the grant, which also meant that 2010 revenues were reported in the first quarter 2011 SF-425 report, and 2011 revenues were reported in the first quarter 2012 SF-425 report.* *At the end of the second quarter of 2012, the original USDOE project officer left the USDOE. The new USDOE project officer provided the County with different SF-425 reporting instructions.* ***The County will comply with these instructions on a go-forward basis. For 2012, the County will create more complete reporting records, and for the remaining reports, will have a second person review them prior to submission. Documentation of this review will be retained.***

<table>
<tr><td>Audit Period: 2011</td><td>Report Reference No: 1008602</td><td>Finding Reference No: 9</td><td>CFDA Number(s): 14.238</td></tr>
<tr><td colspan="2">Federal Program Name and Granting Agency:
Shelter Plus Care - U.S. Department of Housing and Urban Development (HUD)</td><td colspan="2">Pass-Through Agency Name:
NA</td></tr>
<tr><td colspan="4">Finding Caption:
The County did not have adequate internal controls over subrecipient monitoring requirements for the Shelter Plus Care Grant.</td></tr>
<tr><td colspan="4">Background:
Federal regulations require the County to monitor subrecipients using federal funds. As a pass-through agency, the County is required to monitor the subrecipient's activities to provide reasonable assurance the subrecipient administers federal awards in compliance with federal requirements.</td></tr>
</table>

Shelter Plus Care grants may be used to pay rental assistance and administrative costs. This grant money may not be used for rental assistance or operating costs that are also paid through any other U.S. Department of Housing and Urban Development (HUD) rental assistance program. In our prior audit, we notified the County of this requirement and reported a material weakness in internal controls because it was not monitoring the subrecipient's activities in this area. In our current audit, we followed up to see if the weakness had been resolved. We found controls still are not adequate to ensure no other HUD programs provided rental assistance to the units receiving Shelter Plus Care rent support. The County began using additional internal controls to monitor its subrecipient in 2012 as a result of our prior audit and we have not audited those additional controls. However, these internal controls were not in place in 2011.
Status of Corrective Action: (check one) X Fully Corrected ☐ Partially Corrected ☐ No Corrective Action Taken ☐ Finding is considered no longer valid
Corrective Action Taken: 3Q2012 *The County concurs with the finding and recommendation. As indicated in the Description of Condition above, the County implemented additional internal controls in 2012 to more actively monitor its Shelter Plus Care rent assistance recipients. These additional controls will provide reasonable assurance that no other HUD programs provide rental assistance to the units receiving Shelter Plus Care rent support.*

Audit Period: 2011	**Report Reference No:** 1008602	**Finding Reference No:** 10	**CFDA Number(s):** 14.239
Federal Program Name and Granting Agency: HOME Investment Partnerships Program - U.S Department of Housing and Urban Development (HUD)		**Pass-Through Agency Name:** NA	
Finding Caption: The County does not have adequate internal controls to ensure compliance with eligibility requirements for its HOME Investment Partnerships Program.			
Background: The objectives of the program are to expand housing opportunities for low- and very low-income individuals and to assist state and local governments and the private sector in that effort. Rental housing projects funded with HOME Partnerships Program funds must be occupied by households that are eligible as low-income families and must limit the rent that can be charged. The County must perform on-site inspections to verify the income and rent information submitted by the project owners are accurate based on the following on-site inspection schedule: • On-site Monitoring Visits Upon Project Completion — Frequency • Rental Projects with 1-4 total units in the project — Every 3 years • Rental Projects with 5-25 total units in the project — Every 2 years • Rental Projects with 26 or more total units in the project — Annually The County does not have adequate internal controls to ensure eligibility requirements are met. The County performed on-site monitoring at 27 HOME-assisted housing projects and relied on its partnering agency to visit the remaining nine projects. For the 27 on-site visits			

performed by the County, it was unable to demonstrate that three met income and rent eligibility requirements. For the nine projects the County did not conduct on-site monitoring, it could not demonstrate eligibility requirements were reviewed.
Status of Corrective Action: (check one) X Fully Corrected ☐ Partially Corrected ☐ No Corrective Action Taken ☐ Finding is considered no longer valid
Corrective Action Taken: 2Q13 *The County concurs with the finding and recommendation. We will re-assess our internal controls to ensure that documentation of tenant eligibility reviews are retained and readily available for review. When the property inspection is conducted by a partner agency, we will request that tenant files be submitted directly to King County for review within 30 days of the site visit. Our review will verify tenant eligibility against the annual report information submitted by the project owners. We will document our review and resolution of any identified issues and retain the documentation.*

<table>
<tr><td>Audit Period: 2011</td><td>Report Reference No: 1008602</td><td>Finding Reference No: 11</td><td>CFDA Number(s): 16.710</td></tr>
<tr><td colspan="2">Federal Program Name and Granting Agency:
Public Safety Partnership and Community Policing Grants - U.S. Department of Justice</td><td colspan="2">Pass-Through Agency Name:
Washington Association of Sheriffs and Police Chiefs</td></tr>
<tr><td colspan="4">Finding Caption:.
The County’s internal controls were inadequate to ensure compliance with federal time and effort and suspension and debarment requirements for its Public Safety Partnership and Community Policing Grants.</td></tr>
<tr><td colspan="4">Background:
The Public Safety Partnership and Community Policing Grants provide law enforcement agencies with resources to address law enforcement needs with a focus on increasing their community policing capacity. These strategies are focused on three primary elements of community policing: developing community/law enforcement partnerships; developing problem-solving and innovative approaches to crime issues; and organizational change to build and strengthen community policing.

Time and Effort
The County charged $664,542 to the Public Safety Partnership and Community Policing Grants in 2011. Of this, $152,749 was salary and benefit costs. When federal grants pay for employee payroll costs, the employees who work on only one grant or cost objective must support salaries and wages with time and effort certifications at least twice a year. Either the employee or the supervisor with firsthand knowledge of the work performed must sign the certifications. A single employee's charges were 98 percent of payroll costs charged and 22 percent of total program costs. The County did not obtain signed semiannual time and effort certifications for this employee in a timely manner.

Suspension and Debarment
Recipients of federal grants are prohibited from contracting with parties that are suspended or debarred from doing business with the federal government. If the subcontractor certifies in writing that it or its organization or business has not been suspended or debarred, the grantee may rely on that certification. Alternatively, the grantee may check for suspended or debarred parties by reviewing the federal Excluded Parties List issued by the U.S. General Services Administration. Additionally, recipients are required to inform vendors of their responsibility to</td></tr>
</table>

check the suspension and debarment status for any covered transactions they enter into. Grantees must meet this requirement prior to making payments to vendors and subrecipients. During 2011 the County entered into a contract with a vendor for $297,030 for time, attendance, and scheduling software to automate scheduling and the tracking of leave and overtime. County policy requires the grantee agency, in this case the Sheriff's Office, to ensure goods and services are not obtained from vendors on the federal debarred list. The Sheriff's Office did not perform this confirmation. As a result, the County did not ensure this vendor was eligible to participate in federal programs and did not inform it of the responsibility to check the suspension and debarment status for any covered transactions it enters into.
Status of Corrective Action: (check one) X Fully Corrected ☐ Partially Corrected ☐ No Corrective Action Taken ☐ Finding is considered no longer valid
Corrective Action Taken: *The King County Sheriff's Office concurs with the findings and recommendations.* *Time and Effort* *In order to complete the semi-annual certification in a timely manner, the Sheriff's Office Grant Administrator will utilize task management software that will notify supervisors to obtain the semi-annual certifications for all grants-funded employees. The Grant Administrator's manager will also monitor compliance with this requirement through monthly meetings with the Grant Administrator to ensure complete and timely semi-annual certifications.* *Suspension and Debarment* *The Sheriff's Office will ensure vendors are not suspended or disbarred by creating and* ***utilizing a checklist for all contracts****. This checklist will require the Business and Finance Officer to review the federal Excluded Parties List and incorporate the results in the contract file; ensure that all contracts require a vendor to certify, in writing, that it or its organization has not been suspended or debarred; and include language informing vendors of their responsibility to check the suspension and debarment status for any covered transactions they enter into. This was an isolated incident and further steps will be taken to ensure the Business and Finance Officer is included in the contract development phase.*

Audit Period: 2011	**Report Reference No:** 1008602	**Finding Reference No:** 12	**CFDA Number(s):** 66.418, 66.458
Federal Program Name and Granting Agency: Capitalization Grants for Clean Water State Revolving Funds/Capitalization Grants For Wastewater Treatment Works - Environmental Protection Agency		**Pass-Through Agency Name:** State Department of Ecology Revolving Fund	
Finding Caption: The County does not have controls to ensure compliance with Davis-Bacon Act (prevailing wage) requirements for grants administered by the Wastewater Treatment Division.			
Background: The County spent $6,587,110 in Construction Grants for Wastewater Treatment Works and $3,351,798 in Capitalization Grants for Clean Water State Revolving Funds in 2011. All of the expenses of these grants were for construction projects.			

The Davis-Bacon Act requires contractors to pay federally prescribed prevailing wages to laborers for federally funded construction projects that exceed $2,000. Grant recipients must include in their construction contracts a provision that contractors and subcontractors comply with the Act. Grant recipients must obtain weekly statements of compliance or certified payrolls. We found the County did not collect certified payroll reports weekly from construction contractors or subcontractors.
Status of Corrective Action: (check one) X Fully Corrected ☐ Partially Corrected ☐ No Corrective Action Taken ☐ Finding is considered no longer valid
Corrective Action Taken: 4Q2012 *The County concurs with the Description of Condition, and notes that this issue is isolated to a single contract. The Davis-Bacon clause is incorporated into this contract. It should also be noted that all grant dollars spent on this project were supported by sufficient documentation and that the auditor did not question any of the costs paid on this project.* *The Wastewater Treatment Division is currently addressing and has implemented the following for current and future federally funded construction contracts:* • *The required certified payroll submittals were requested for the contract currently funded by State Revolving Funds.* • *An audit and review of future certified payroll submittals compared to prevailing wage rates will be performed to verify the appropriate rates have been paid and any corrections necessary will be enforced.* • *A process has been implemented to enhance the pay invoice review process that includes confirmation of weekly certified payroll submittals from the prime contractor. The prime contractor submittals are required to include certified payroll for subcontractors.* • *Periodic contract file reviews will be performed to include verification that weekly certified payroll submittals are in the contract file and to confirm that prevailing wage rates were reviewed and appropriate rates paid.* • *Training has been provided to WTD staff responsible for contract administration to ensure appropriate understanding of Davis-Bacon Act construction contract submittal requirements (i.e. deliverables required by the Davis-Bacon act from the prime and subcontractors).* *These improved control processes has brought Wastewater Treatment Division into compliance with its current contract for Ballard Siphon and future construction contracts applicable to the Davis-Bacon Act.*

Independent Auditor's Report on Compliance For Each Major Federal Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

King County
January 1, 2012 through December 31, 2012

Council and Executive
King County
Seattle, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of King County, Washington, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012. The County's major federal programs are identified in the accompanying Federal Summary.

The County's basic financial statements include the operations of the Harborview Medical Center, a discretely presented component unit, which expended $6,776,054 in federal awards which is not included in the Schedule of Expenditures of Federal Awards for the year ended December 31, 2012. The County's basic financial statements also include the operations of the King County Ferry District, a blended component unit, which expended $2,871,903 in federal awards which is included in the Schedule of Expenditures of Federal Awards for the year ended December 31, 2012. Our audit, described below, did not include the operations of the Harborview Medical Center or the King County Ferry District because these have arranged for a separate audit of their federal awards in accordance with OMB Circular A-133.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the County's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the County's compliance.

Opinion on Each Major Federal Program

In our opinion, the County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Findings 1 and 2. Our opinion on each major federal program is not modified with respect to these matters.

County's Response to Findings

The County's response to the noncompliance findings identified in our audit is described in the accompanying Schedule of Federal Audit Findings and Questioned Costs. The County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal* *control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Findings 1 and 2 to be material weaknesses.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Finding 2 to be significant deficiencies.

County's Response to Findings

The County's response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Federal Audit Findings and Questioned Costs. The County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

PURPOSE OF THIS REPORT

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

September 16, 2013

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

Our mission is to work with our audit clients and citizens as an advocate for government accountability. As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

The State Auditor's Office employees are located around the state to deliver services effectively and efficiently.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments and fraud, whistleblower and citizen hotline investigations.

The results of our work are widely distributed through a variety of reports, which are available on our Web site and through our free, electronic subscription service.

We take our role as partners in accountability seriously. We provide training and technical assistance to governments and have an extensive quality assurance program.

State Auditor	**Troy Kelley**
Chief of Staff	**Doug Cochran**
Director of State and Local Audit	**Chuck Pfeil, CPA**
Deputy Director of State and Local Audit	**Kelly Collins, CPA**
Deputy Director of State and Local Audit	**Jan M. Jutte, CPA, CGFM**
Deputy Director of State and Local Audit	**Sadie Armijo**
Deputy Director of Quality Assurance	**Barb Hinton**
Deputy Director of Communications	**Thomas Shapley**
Local Government Liaison	**Mike Murphy**
Public Records Officer	**Mary Leider**
Main number	**(360) 902-0370**
Toll-free Citizen Hotline	**(866) 902-3900**

Website	**www.sao.wa.gov**
Subscription Service	**www.sao.wa.gov/EN/News/Subscriptions**

Corrective Action Plan for Findings Reported Under OMB Circular A-133

King County
January 1, 2012 through December 31, 2012

This schedule presents the corrective action planned by the auditee for findings reported in this report in accordance with OMB Circular A-133. The information in this schedule is the representation of the King County. The State Auditor's Office has reviewed the information as presented by the County.

Finding ref number: 1	**Finding caption:** King County lacks adequate internal controls to ensure accurate financial reporting for the Public Health fund.
Name, address, and telephone of auditee contact person: Pete Anthony, Chief Accountant 500 Fourth Ave, Room 653 Seattle, WA 98104	
Corrective action the auditee plans to take in response to the finding: *The Finance and Business Operations Division (FBOD) will work with the Department of Public Health (DPH) to develop a more formal review process of accounting journal entries and account balances to ensure compliance with GAAP. FBOD and DPH will work to document roles/responsibilities between the two agencies and address the areas of concern in the new financial system and in DPH side systems as well as in reporting.* *In response to the specific procedural issues and errors that were identified, we have the following comments:* • *Accurate, timely EBS reports became available to staff to review in December 2012. The County continues to provide the new financial system and reporting training to employees.* • *FBOD staff reconciles receivables from the EBS Accounts Receivable Module to EBS General Ledger monthly. The receivables variance between these two modules for DPH was $350 at December 31, 2012.* • *FBOD and DPH staff will assess the risk of side systems and their impact on the CAFR and adopt reconciliation processes.*	
Anticipated date to complete the corrective action: December 2013	

Finding ref number: 2	**Finding caption:** King County does not have adequate internal controls to ensure accurate accounting and financial reporting in the Public Transportation Enterprise fund.
Name, address, and telephone of auditee contact person: Pete Anthony, Chief Accountant 500 Fourth Ave, Room 653 Seattle, WA 98104	

Corrective action the auditee plans to take in response to the finding: *Transit and FBOD staff will be working closely together to identify and roles and responsibilities and develop and define or revise existing processes. This will be accomplished through monthly meetings and work sessions devoted to specific topics.* *Based on a review of the finding as well as an evaluation of last year's audit, activities have been focused on two areas: Fixed Assets and Account Review. Fixed Assets: jointly testing a new process for creating assets; identifying visual management systems to track efforts and setting up metrics to ensure timely processing. Account Review: Established a process for a September 'soft close' where account balances will jointly be reviewed*
Anticipated date to complete the corrective action: January 2014

Finding ref number: 3	**Finding caption:** The County did not have controls in place for the first seven months of 2012 to ensure Davis-Bacon Act (prevailing wages) requirements were met.
Name, address, and telephone of auditee contact person: Steve Baruso 201 S Jackson, KSC-NR-0502 Seattle, WA 98104-3855 (206) 684-1022	
Corrective action the auditee plans to take in response to the finding: *The Wastewater Treatment Division (WTD) began implementing its corrective action plan in the latter part of 2012, bringing WTD into compliance with the Davis-Bacon Act. WTD implemented the following controls for the current federally funded construction contract and these controls will be implemented to cover future construction contracts with Davis-Bacon Act applicability:* • *Weekly Certified Payroll submittals were requested and have been received from the contractor for the current construction contract. Current bid documents, where Davis-Bacon Act requirements are applicable, have been enhanced to include specific language of the responsibility of the contractor to provide the Weekly Certified Payrolls to WTD on a weekly basis.* • *WTD personnel have audited, reviewed, and verified prevailing wage rates were paid for current certified payroll submittals and have enforced any necessary corrections.* • *WTD has implemented the periodic interview process of the prime contractor's employees and the subcontractor employees per Davis-Bacon Act requirements. Interview documentation to be placed in WTD's project files.* • *WTD personnel responsible for current contract administration of applicable Davis-Bacon construction contracts (specifically, for the Ballard siphon project) were trained in July 2012 on the appropriate understanding of the Davis-Bacon Act submittal requirements Future training will occur on an as-required basis for WTD personnel whose construction contract has Davis-Bacon Act requirements. The Grants Administrator will identify Davis-Bacon Act-affected construction contracts and coordinate with the Capital Projects Manager to provide Davis-Bacon Act requirements training to WTD personnel assigned contract administration for the affec*ted contract.	
Anticipated date to complete the corrective action: Completed	

<table>
<tr><td>Finding ref number: 4</td><td>Finding caption:
The County did not have adequate internal controls to ensure compliance with federal time and effort and earmarking requirements for the HIV Emergency Relief Project Grants program.</td></tr>
<tr><td colspan="2">Name, address, and telephone of auditee contact person:
Eben Sutton
401 Fifth Avenue, Suite 1200
Seattle, WA 98104
(206) 263-8609</td></tr>
<tr><td colspan="2">Corrective action the auditee plans to take in response to the finding:
<u>Time and Effort</u>
PHSKC central finance staff will remind finance managers in all divisions about the importance of time and effort documentation, and review with them the time and effort training materials used previously and available to all PHSKC employees on the intranet.

<u>Earmarking</u>
PHSKC believes that an in-depth review of the work performed by the positions, documented through written communications with our subrecipients, will affirm the direct service nature of the work and full compliance with both the administrative and direct service earmarking requirements of the grant. We look forward to facilitating this review with the program's grantor.</td></tr>
<tr><td colspan="2">Anticipated date to complete the corrective action:
<u>Time & Effort:</u> Q3, 2013
<u>Earmarking:</u> Based on Grantor's availability</td></tr>
</table>