

Washington State Auditor's Office
Financial Statements Audit Report

King County Water Quality Enterprise

Audit Period
January 1, 2007 through December 31, 2007

Report No. 74840

Issue Date
June 16, 2008



WASHINGTON
BRIAN SONNTAG
STATE AUDITOR



**Washington State Auditor
Brian Sonntag**

June 16, 2008

King County Council and Executive
King County
Seattle, Washington

Report on Financial Statements

Please find attached our report on the King County Water Quality Enterprise's financial statements.

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

Sincerely,

BRIAN SONNTAG, CGFM
STATE AUDITOR

Table of Contents

King County Water Quality Enterprise January 1, 2007 through December 31, 2007

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters in Accordance with <i>Government Auditing Standards</i>	1
Independent Auditor's Report on Financial Statements	3
Financial Section	5

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters in Accordance with *Government Auditing Standards*

King County Water Quality Enterprise January 1, 2007 through December 31, 2007

King County Council and Executive
King County
Seattle, Washington

We have audited the basic financial statements of the King County Water Quality Enterprise, an enterprise fund of King County, Washington, as of and for the years ended December 31, 2007 and 2006, and have issued our report thereon dated June 3, 2008. During the year ended December 31, 2007, the Enterprise implemented Governmental Accounting Standards Board *Statement 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audits, we considered the Enterprise's internal control over financial reporting as a basis for designing our auditing procedures 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 Enterprise's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Enterprise's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Enterprise's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Enterprise's financial statements that is more than inconsequential will not be prevented or detected by the Enterprise's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Enterprise's financial statements are free of material misstatement, we performed tests of the Enterprise'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information and use of management and the Council. 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.

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BRIAN SONNTAG, CGFM
STATE AUDITOR

June 3, 2008

Independent Auditor's Report on Financial Statements

King County Water Quality Enterprise January 1, 2007 through December 31, 2007

King County Council and Executive
King County
Seattle, Washington

We have audited the accompanying basic financial statements of the King County Water Quality Enterprise, an enterprise fund of King County, Washington, as of and for the years ended December 31, 2007 and 2006, as listed on page 5. These financial statements are the responsibility of the Enterprise's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 1, the financial statements present only the Enterprise and do not purport to, and do not, present fairly the financial position of King County, Washington, as of December 31, 2007 and 2006, the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the King County Water Quality Enterprise, as of December 31, 2007 and 2006, and the changes in financial position and, where applicable, cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, during the year ended December 31, 2007, the Enterprise implemented Governmental Accounting Standards Board Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

In accordance with *Government Auditing Standards*, we have also issued our report on our consideration of the Enterprise'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The management's discussion and analysis on pages 6 through 12 is not a required part of the basic financial statements but is supplementary information. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and

presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Enterprise's basic financial statements. The accompanying Supplemental Schedule of Net Revenues Available for Debt Service on page 33 is presented for purposes of additional analysis as required by bond covenants. This schedule is not part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Brian Sonntag". The signature is fluid and cursive, with the first name "Brian" and the last name "Sonntag" clearly distinguishable.

BRIAN SONNTAG, CGFM
STATE AUDITOR

June 3, 2008

Financial Section

King County Water Quality Enterprise January 1, 2007 through December 31, 2007

SUPPLEMENTAL INFORMATION

Management's Discussion and Analysis – 2007 and 2006

BASIC FINANCIAL STATEMENTS

Statements of Net Assets – 2007 and 2006

Statements of Revenues, Expenses and Changes in Net Assets – 2007 and 2006

Statements of Cash Flows – 2007 and 2006

Notes to Financial Statements – 2007 and 2006

SUPPLEMENTAL INFORMATION

Supplemental Schedule of Net Revenues Available for Debt Service – 2007

KING COUNTY WATER QUALITY ENTERPRISE

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2007 and 2006

The management of King County Water Quality Enterprise's ("Water Quality") presents readers of its financial statements this narrative overview and analysis of its activities and financial performance for the fiscal years ending December 31, 2007, and 2006.

FINANCIAL HIGHLIGHTS

During 2007, Water Quality provided sewage treatment services to 702,946 residential customer equivalents (RCE) up from 690,934 in 2006 and 689,817 in 2005. An RCE is one single family residence or 750 cubic feet of monthly water consumption for all other customers. The Capacity Charge program added 12,271 new connections to its customer base in 2007. The program added 10,896 and 9,628 new connections in 2006 and 2005, respectively. The three treatment plants average flow was 178 million gallons per day (MGD) with a peak daily flow of 636 MGD. Current system maximum capacity is 767 MGD. While overall capacity has remained level since 2003, the average daily flow has fluctuated from a low of 170.3 MGD in 2005 to a peak of 196.6 MGD in 2006. The amount of annual precipitation largely determines annual fluctuations in flows.

Water Quality produced 46,420 wet tons of biosolids at its West Point Treatment Plant and 61,584 wet tons at its South Treatment Plant in 2007. The entire system produced 26,500 dry tons of biosolids including 32 dry tons at the Vashon Island Treatment Plant for the year. Biosolids production was 48,844 wet tons at the West Point Treatment Plant and 60,766 wet tons at the South Treatment Plant or 26,111 dry tons for the entire system in 2006. About 293 million gallons of reclaimed water was used for landscape irrigation, industrial processes, and for heating and cooling in 2007. The program has used 255 million gallons on average since 1997, and will expand with the addition of the Carnation treatment plant in 2008 and the Brightwater treatment plant in 2011.

The Industrial Pretreatment Program conducted 397 inspections and took 2,279 compliance samples in 2007. There were 376 inspections and 2,051 compliance samples taken in 2006. There are currently 310 facilities with discharge authorization and 128 significant industrial users.

Water Quality currently has 38 Combined Sewer Overflow facilities. An aggressive effort conducted in concert with the City of Seattle has resulted in a significant reduction in combined sewer overflows from 2.3 billion gallons per year baseline in 1980-1983 to 691 million gallons from June 2006 to May 2007.

The Metropolitan King County Council adopted the Regional Wastewater Services Plan (RWSP) in 1999 to construct additional capacity for Water Quality to protect public health and water quality and provide for future projected population growth in its service area through 2030. Major RWSP projects include the building of the County's third major treatment plant (Brightwater), improvements to the regional conveyance system, construction of 21 combined sewer overflow (CSO) control projects and expansion of the South Treatment Plant to 135 million gallons per day capacity in 2029. RWSP also includes projects to control infiltration and inflow into the conveyance system, process biosolids and produce reclaimed water. Total Water Quality capital program expenditures were \$342.1 million for 2007 and \$266.9 million for 2006.

Construction continued on the new Brightwater treatment plant located in southern Snohomish County and the associated conveyance system. Current cost estimates for the Brightwater project total \$1.8 billion. In 2007, actual expenditures were \$218.5 million, and cumulatively, \$654.2 million. The project made major progress in 2007 with completion scheduled in 2011.

Another, smaller treatment plant located in the City of Carnation is scheduled for completion in May 2008. Total expenditures to date as of December 31, 2007 were \$17.7 million with \$10.9 million spent in 2007.

Water Quality operating revenues increased by 9.0% in 2007 to \$262.9 million, while operating expenses net of depreciation increased 4.9% to \$95.6 million. This compares to operating revenues increased by 9.1% in 2006 to \$241.3 million and operating expenses net of depreciation increased by 8.8% to \$91.1 million.

The monthly sewer rate increased to \$27.95 per RCE in 2007, while the capacity charge rate grew to \$42.00 per RCE. Rates did not increase in 2006. Capacity charge revenues increased \$4.9 million or 22.0% in 2007, and \$5.2 million or 30.7% in 2006. Residential Customer Equivalents (RCE) billed for sewer treatment services increased by 12,012 to 702,946 in 2007, and 1,117 to 690,934 in 2006. The Rate Stabilization Reserve was increased to \$22.8 million in 2007 up from \$14.5 million in 2006 and 2005. The increase of \$8.3 million reduces operating revenues and has been excluded from the calculation of debt service coverage for 2007. Future withdrawals from the Rate Stabilization Reserve will increase operating revenues and debt service coverage in the year withdrawn in accordance with the Financial Accounting Standards Board's Statement under Financial Accounting Standard # 71 (FAS 71).

A Rate Stabilization Reserve, as mandated by the Metropolitan King County Council as part of its rate setting activities allows WTD to set aside a portion of current revenue for future periods in order to moderate the impact of rate increases over time.

Water Quality issued \$250.0 million in new revenue bonds in 2007 at an average interest rate of 5.0%. An additional \$50.0 million was drawn against existing variable debt. Debt from state loans increased \$5.4 million during 2007 as new, low-rate loans were received from the State of Washington to help fund the capital program at interest rates between 1.5% and 2.6%. This compares to \$147.1 million in new revenue bonds and \$170.4 million in refunding bonds in 2006 at an average interest rate of 4.5%. In 2006, a \$100.0 million Junior Lien Multi-modal Sewer Revenue Bond issue retired \$50.0 million in Revenue Bond Anticipation Notes.

The results of operations for 2007 produced a debt service coverage ratio on senior lien debt of 1.39 compared to 1.43 in 2006, in excess of the coverage covenant requirement of 1.15 in both years. The total debt coverage ratio of 1.19 in 2007 and 1.28 in 2006 exceeded the 1.15 policy minimum in both years.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to Water Quality's basic financial statements. The basic financial statements are comprised of the comparative statements of net assets; statements of revenues, expenses and changes in net assets; statements of cash flows; and the notes to the financial statements, which explain certain elements of the financial statements in greater detail.

REQUIRED FINANCIAL STATEMENTS

Water Quality's financial statements provide information with respect to all of its activities and use accounting methods similar to those used by private-sector companies. The statements provide both long-term and short-term information about Water Quality's financial status.

The comparative statement of net assets presents information on all of Water Quality's assets and liabilities, with the difference between assets and liabilities presented as net assets as of each year-end. The statement of net assets provides information about the nature and amount of investments in resources (assets) and obligations to creditors (liabilities). Over time, the statements demonstrate Water Quality's financial health by providing a basis for the reader to evaluate capital structure, liquidity and financial flexibility.

The two most recent years' operating and non-operating revenues and expenses of Water Quality are accounted for in the statements of revenues, expenses and changes in net assets. The statements illustrate the current and prior period results of operations and recovery of costs by receipt of fees and are instrumental in demonstrating Water Quality's continued creditworthiness. All changes in net assets are reported as soon as the underlying event occurs, irrespective of the timing of related cash flows. Readers should note that the principal support for Water Quality's activities (86.6% of operating revenues in 2007 and 87.9% in 2006) is receipt of monthly sewage treatment charges. Water Quality is a wholesale provider of sewage treatment services to 33 municipal and three non-municipal participants in King, Pierce and Snohomish counties. The receipt of the monthly payments is governed by service agreements, the majority of which expire in July 2036.

The statements of cash flows report cash receipts, cash payments and net changes in cash derived from operations, financing and investment activities. From the statements, the reader can discern Water Quality's sources and applications of cash during 2007 and 2006, reasons for differences between operating cash flows and operating income, and the effect on the statements of net assets from investing, capital and financing activities.

The notes to financial statements provide additional information essential to obtain a full understanding of the data provided in the basic statements.

FINANCIAL ANALYSIS OF THE STATEMENTS OF NET ASSETS

Comparative data, stated in millions of dollars:

	Years Ended December 31		
	2007	2006	2005
Current assets and other assets	\$ 296.7	\$ 280.2	\$ 314.9
Capital assets	<u>2,744.0</u>	<u>2,435.9</u>	<u>2,221.7</u>
Total assets	<u>3,040.7</u>	<u>2,716.1</u>	<u>2,536.6</u>
Long-term liabilities outstanding	2,265.7	2,027.2	1,789.8
Other liabilities	<u>236.3</u>	<u>179.4</u>	<u>247.7</u>
Total liabilities	<u>2,502.0</u>	<u>2,206.6</u>	<u>2,037.5</u>
Net assets invested in capital assets	389.4	384.9	372.3
Net assets-restricted	97.3	85.0	98.8
Net assets-unrestricted	<u>52.0</u>	<u>39.6</u>	<u>28.0</u>
Total Net assets	<u>\$ 538.7</u>	<u>\$ 509.5</u>	<u>\$ 499.1</u>

Net assets serve as a useful indicator of Water Quality's financial position. As of December 31, 2007 and 2006, assets exceeded liabilities by \$538.7 million and \$509.5 million, respectively.

Of the total assets of Water Quality, 90.2% at year-end 2007 and 89.7% at year-end 2006 are invested in capital assets such as treatment plants, pumping and regulator stations, interceptors and other equipment. Water Quality uses its capital assets to provide wholesale wastewater collection and treatment services in

King, Pierce and Snohomish counties. Current operating and debt service requirements are met by operating and non-operating revenues composed of monthly sewage treatment charges, a capacity charge for new customers, other special-handling charges, miscellaneous operating revenues and investment earnings.

Net assets increased \$29.2 million (5.7%) in 2007 and \$10.4 million (2.1%) in 2006. This relative stability in change of net assets was attributable to stable operating results and increased revenues. Restricted assets increased by \$12.3 million (14.5%) in 2007 after decreasing by \$13.8 million in 2005 (14.0%). Unrestricted net assets increased in 2007 by \$12.4 million (31.3%) and 11.6 million (41.4%) in 2006.

Water Quality reported its investment in capital assets, net of debt related to capital asset acquisition, as \$389.4 million (1.2%) and \$384.9 million (3.4%) at year-end 2007 and 2006.

FINANCIAL ANALYSIS OF THE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Comparative data, stated in millions of dollars:

	Years Ended December 31		
	2007	2006	2005
Sewage treatment fees	\$ 227.7	\$ 212.1	\$ 197.6
Capacity Charge Revenue	27.1	22.2	17.0
Other Revenue	<u>8.1</u>	<u>7.0</u>	<u>6.5</u>
Operating revenues	262.9	241.3	221.1
Operating expenses	<u>170.3</u>	<u>166.9</u>	<u>154.6</u>
Operating income	92.6	74.4	66.5
Non operating revenues(expenses)	(64.4)	(66.3)	(64.4)
Grant revenues	1.2	2.3	3.2
Transfers	<u>(0.2)</u>	<u>(0.0)</u>	<u>(0.3)</u>
Change in net assets	29.2	10.4	5.0
Net assets beginning of year	<u>509.5</u>	<u>499.1</u>	<u>494.1</u>
Net assets end of year	<u>\$ 538.7</u>	<u>\$ 509.5</u>	<u>\$ 499.1</u>

While the statement of net assets shows changes in assets, liabilities, and net assets, the statements of revenues, expenses and changes in net assets provide insight into the source of these changes:

- During 2007 and 2006, operating revenues increased by \$21.6 million (9.0%) and \$20.2 million (9.1%), while operating expenses increased by \$3.4 million (2.0%) and \$12.3 million (8.0%).
- Water Quality collected a monthly sewage treatment charge of 27.95 per RCE in 2007 and \$25.60 per RCE in 2006. Total sewer disposal revenues before rate stabilization was \$235.9 million, a 23.8% increase. Residential Customer Equivalents (RCE) billed for sewage treatment services increased by

12,012 (1.7%) between 2006 and 2007. Total sewage treatment revenues were flat (ignoring the 2005 Rate Stabilization Reserve deposit) in 2006 with RCE growth of 0.2% in 2006.

- Other operating revenues, including capacity charges for new customers and other treatment charges, increased \$6.0 million in 2007 (20.5%) and \$5.7 million in 2006 (24.3%). Early payoff revenues were \$5.3 million in 2007 or 19.7% of the total capacity charge revenues for the year. Early payoff revenues were \$4.8 million in 2006, 21.5% of the annual total. Actual new capacity charge connections increased by 12,271 in 2007 and 10,896 in 2006.
- Non-depreciation-related operating expenses increased \$4.5 million (4.9%) in 2007 and \$7.5 million (8.9%) in 2006.
- Non-operating revenues in excess of non-operating expenses were \$64.4 million in 2007, and \$66.3 million in 2006 (decrease of \$1.9 million, 2.9%); 2006 showed an increase of \$1.9 million (3.0%), from \$64.5 million in 2005.
- Capital grant revenues derived from federal and state agencies were \$1.2 million in 2007, a decrease of \$1.1 million (47.8%), and \$2.3 million in 2006 a decrease of \$0.9 million (28.1%). Low interest loans have largely replaced grants as the primary method of state agency support in recent years.

CAPITAL ASSETS

At December 31, 2007, Water Quality's investment in capital assets, net of accumulated depreciation, was \$2.7 billion. It was \$2.4 billion in 2006. These represent increases of \$307.5 million (12.6%) in 2007 and \$214.2 million (9.6%) in 2006. The change is a result of replacement and additions to the interceptor and siphon systems, purchases of land, additional storage capacity, extensions of sewer trunk lines and continued efforts to control odor and improve sewage-handling technology.

The increase is directly related to continued implementation of Water Quality's RWSP.

Large 2007 construction project expenditures include:

- \$8.4 million for Juanita Bay Pump Station construction;
- \$10.9 million for the Carnation Treatment Plant construction;
- \$12.2 million for the Hidden Lake Pump Station;
- \$15.5 million for the Bellevue Pump Station Upgrade;
- \$218.5 million spent toward the Brightwater Treatment Plant and conveyance and reclaimed water pipeline.

Large 2006 construction project expenditures include:

- \$5.9 million for completion of New Facilities at the Vashon Island Treatment Plant;
- \$5.9 million for the Fairwood Interceptor construction;
- \$8.8 million for Juanita Bay Pump Station construction;

- \$10.1 million for construction of the Hidden Lake Pump Station;
- \$170.3 million spent toward the Brightwater Treatment Plant and conveyance.

For more detailed information on capital assets please refer to the notes to the financial statements.

DEBT ADMINISTRATION

Water Quality issued \$250.0 million in revenue bonds in June 2007, with an average interest rate of 5.0% and average life of 31.9 years.

Water Quality received \$5.4 million in low interest loans from the state of Washington in 2007 and 10.6 million in 2006. The loans carry below-market interest rates of 1.0% to 2.6% and repayment terms up to 20 years.

Water Quality has \$1.7 billion and \$1.5 billion of sewer revenue bonds and variable rate revenue bonds outstanding at the end of 2007 and 2006, respectively. Revenue bonds are repaid from and secured by a pledge of earnings, revenues and money received by Water Quality from or on account of operation of the sewer system, to include receipts from sewage treatment fees and other income of Water Quality. Revenue bonds are not guaranteed by the full faith and credit of King County.

At the end of 2007 and 2006, Water Quality had \$450.5 million and \$456.5 million of general obligation bonds outstanding, respectively. Although repaid from a portion of receipts from sewage treatment fees and other income, the full faith and credit of King County guarantees repayment of principal and interest on general obligation bonds. At time of the issuance of the sewer revenue bonds in 2007, Water Quality’s bond ratings, as conditioned upon the delivery of an accompanying municipal bond insurance policy, were:

Moody’s Investor’s Service	Standard & Poor’s
Aaa	AAA

Underlying ratings (those assigned by the ratings services without benefit of an accompanying municipal bond insurance policy) are “A1” for Moody’s Investor’s Service and “AA” for Standard & Poor’s.

Underlying ratings for Water Quality’s limited tax general obligation bond issue in 2006 were “Aa1” for Moody’s Investor’s Service and “AA+” for Standard & Poor’s. These ratings were retained for the January 2008 limited tax general obligation refunding bond issue.

As required by bond covenant, Water Quality maintains a bond reserve account, which is funded by cash balances and surety policies. At December 31, 2007, the cash balance in the reserve account was \$67.2 million. It was \$68.0 million in 2006. In addition to bond covenant reserves, Water Quality also maintains financial policy reserves. At December 31, 2007 and 2006, the rate stabilization, liquidity and asset management financial policy reserves totaled \$52.7 and \$44.5 million, respectively.

For more detailed information on debt please refer to the notes to the financial statements.

DEBT SERVICE COVERAGE RATIOS

	<u>FY 2007</u>	<u>FY 2006</u>
Parity Debt	1.39	1.43
Total Debt	1.19	1.28

Two debt service coverage ratios closely monitored by bond rating agencies are coverage on parity debt and coverage on total debt. By bond ordinance, Water Quality sets sewer rates at a level adequate to provide net revenue equal to at least 1.15 times the annual debt service requirement on parity debt. Water Quality has an adopted policy to achieve a ratio of at least 1.25 on parity debt or 0.10 above the ratio required by bond ordinance. To further strengthen coverage performance, Water Quality established a minimum coverage policy of 1.15 on total debt in 2001.

REQUESTS FOR INFORMATION

This financial report is designed to provide an overview of Water Quality's financial condition as of the years ending December 31, 2007 and 2006. Questions concerning this report or requests for additional information should be addressed to Pete Anthony, Chief Accountant for King County, 500 Fourth Avenue, Room 653, Seattle, Washington 98104.

KING COUNTY WATER QUALITY ENTERPRISE

STATEMENTS OF NET ASSETS DECEMBER 31, 2007 AND DECEMBER 31, 2006 (IN THOUSANDS)

	2007	2006
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 34,820	\$ 32,630
Restricted cash and cash equivalents	83,348	72,913
Accounts receivable, net	20,721	22,174
Inventory of supplies	5,249	4,991
Due from other funds	1,440	-
Prepaid insurance	108	94
	145,686	132,802
NONCURRENT ASSETS:		
Revenue fund:		
Cash and cash equivalents	62,010	52,355
Accounts receivable, net	413	443
Bond fund—cash and cash equivalents	69,537	75,820
	131,960	128,618
Capital assets:		
Building and land improvements	2,002,194	1,970,219
Plant in service and other equipment	514,924	508,491
Less accumulated depreciation	(1,008,311)	(934,782)
	1,508,807	1,543,928
Land	149,997	148,938
Construction work in progress	1,084,607	743,045
	2,743,411	2,435,911
Other noncurrent:		
Deferred environmental remediation costs	5,862	6,099
Other deferred charges	13,175	12,633
	19,037	18,732
TOTAL ASSETS	3,040,094	2,716,063

(Continued)

KING COUNTY WATER QUALITY ENTERPRISE

STATEMENTS OF NET ASSETS DECEMBER 31, 2007 AND DECEMBER 31, 2006 (IN THOUSANDS)

	2007	2006
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable	\$ 39,314	\$ 31,346
Interest payable	50,753	44,494
Wages and benefits payable	2,568	2,772
Compensated absences	518	605
Notes payable	100,000	50,000
Obligations under reverse repurchase agreements	-	9,827
State loans payable	6,580	5,850
Due to other funds	3,242	3,568
General obligation bonds payable—current portion	6,270	6,005
Revenue bonds payable—current portion	26,315	24,885
	<u>235,560</u>	<u>179,352</u>
NONCURRENT LIABILITIES:		
Compensated absences	8,427	8,165
Other Post-Employment Benefits	134	-
General obligation bonds payable	444,270	450,540
Revenue bonds payable	1,697,905	1,474,220
Deferred bond premium, discount, and refunding losses	(31,348)	(43,326)
Rate stabilization	22,750	14,500
Environmental remediation costs	11,793	10,356
State loans payable	111,944	112,772
	<u>2,265,875</u>	<u>2,027,227</u>
Total liabilities	<u>2,501,435</u>	<u>2,206,579</u>
NET ASSETS		
Invested in capital assets—net of related debt	389,380	384,874
Restricted for:		
Capital Projects	59,515	51,965
Debt Service	32,595	28,419
Litigation	5,092	4,670
Unrestricted	52,077	39,556
	<u>52,077</u>	<u>39,556</u>
Total net assets	<u>\$ 538,659</u>	<u>\$ 509,484</u>

See notes to financial statements.

(Concluded)

KING COUNTY WATER QUALITY ENTERPRISE

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS YEARS ENDED DECEMBER 31, 2007 AND DECEMBER 31, 2006 (IN THOUSANDS)

	2007	2006
OPERATING REVENUES:		
Sewage disposal fees	\$ 227,665	\$ 212,117
Other operating revenues	35,265	29,200
Total operating revenues	<u>262,930</u>	<u>241,317</u>
OPERATING EXPENSES:		
Sewage treatment, disposal, and transmission	81,529	77,081
General and administrative	14,045	14,040
Depreciation and amortization	74,781	75,796
Total operating expenses	<u>170,355</u>	<u>166,917</u>
OPERATING INCOME	<u>92,575</u>	<u>74,400</u>
NONOPERATING REVENUES (EXPENSES):		
Investment earnings	6,853	10,104
Interest	(68,590)	(68,276)
Amortization of bond premium, discount, and issuance costs	(3,936)	(4,411)
Gain (loss) on disposal of capital assets and environ. remediation	677	(5,159)
Other	593	1,435
Total nonoperating expenses	<u>(64,403)</u>	<u>(66,307)</u>
INCOME BEFORE GRANTS, CONTRIBUTIONS, AND TRANSFERS	28,172	8,093
Capital grant revenues	1,164	2,271
Transfers	(161)	(11)
CHANGE IN NET ASSETS	29,175	10,353
NET ASSETS—Beginning of year	<u>509,484</u>	<u>499,131</u>
NET ASSETS—End of year	<u>\$ 538,659</u>	<u>\$ 509,484</u>

See notes to financial statements.

KING COUNTY WATER QUALITY ENTERPRISE

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2007 AND 2006 (IN THOUSANDS)

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 272,723	\$ 236,600
Cash payments to suppliers for goods and services	(52,455)	(54,397)
Cash payments for employee services	(37,145)	(34,115)
Net cash provided by operating activities	<u>183,123</u>	<u>148,088</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Transfers out	(161)	(11)
Interest paid on short-term loans	(44)	(43)
Net cash used in noncapital financing activities	<u>(205)</u>	<u>(54)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of capital assets	(343,423)	(269,875)
Principal paid on general obligation bonds	(6,005)	(6,215)
Interest paid on general obligation bonds	(25,204)	(28,279)
Proceeds of new bond issuance	250,000	417,505
Principal paid on bonds by refunding	-	(170,370)
Principal paid on revenue bonds	(24,885)	(23,115)
Interest paid on revenue bonds	(69,867)	(57,591)
Principal paid on notes payable	50,000	(50,000)
Interest paid on notes payable	(3,451)	(3,533)
Principal paid on state loans	(5,472)	(3,479)
Proceeds of state loans	5,374	10,618
Interest paid on state loans	(1,773)	(2,273)
Capital grants received	1,164	5,449
Deferred costs	9,596	5,673
Net cash used in capital and related financing activities	<u>(163,946)</u>	<u>(175,485)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest and changes in reverse repurchase obligations	(2,975)	(10,071)
Net cash provided (used) by investing activities	<u>(2,975)</u>	<u>(10,071)</u>

(Continued)

KING COUNTY WATER QUALITY ENTERPRISE

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2007 AND 2006 (IN THOUSANDS)

	2007	2006
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ 15,997	\$ (37,522)
CASH AND CASH EQUIVALENTS—Beginning of year	<u>233,718</u>	<u>271,240</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 249,715</u>	<u>\$ 233,718</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	<u>\$ 92,575</u>	<u>\$ 74,400</u>
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	74,781	75,796
Changes in assets:		
Accounts receivable	1,469	(5,704)
Inventory of supplies	(258)	(304)
Due from other governments	-	985
Changes in liabilities:		
Accounts payable	7,968	1,497
Wages and benefits payable	105	604
Rate stabilization	8,250	-
Due to other funds	(1,767)	814
Total adjustments	<u>90,548</u>	<u>73,688</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 183,123</u>	<u>\$ 148,088</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES—Contribution of capital assets from government	<u>\$ 296</u>	<u>\$ 279</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES—Changes in fair value of investments (held in investment pool)	<u>\$ (8,533)</u>	<u>\$ (19,202)</u>
See notes to financial statements.		(Concluded)

KING COUNTY WATER QUALITY ENTERPRISE

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

1. OPERATIONS AND ACCOUNTING POLICIES

Summary of Operations—The King County Water Quality Enterprise (Water Quality) is an enterprise fund operated by the King County Department of Natural Resources in accordance with Chapter 35.58 of the Revised Code of Washington (RCW) to provide sewage treatment and water pollution abatement services to the urbanized areas of King County, Washington (the County).

Water Quality is an integral part of the County reporting entity and is included, as an enterprise fund, in the County's comprehensive annual financial report. As an enterprise fund, Water Quality is funded and operated separately from other operations of the County. Revenues, bond proceeds, and grants-in-aid are restricted by purpose. Accordingly, Water Quality has separate accounting records and financial statements.

Water Quality has long-term sewage disposal agreements with the cities and sewer districts that operate sewage collection systems within its service area. The monthly sewage disposal charge to the contracting cities and districts is based on Water Quality's estimated annual monetary requirements, including operating costs and debt service. Revenues from Water Quality's largest customer, the City of Seattle (Seattle Public Utilities), represent approximately 40.3% of total sewage disposal fees in 2007 and 41.7% in 2006.

Water Quality purchases goods and services from other County agencies, including reimbursement of the County's general fund for a share of general government. Expenses incurred in doing business with other County agencies amounted to \$28.7 million and \$27.4 million in 2007 and 2006, respectively.

Significant Accounting Policies—Water Quality is accounted for on a flow of economic resources measurement focus similar to that of a private enterprise organized for profit. Water Quality's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as applied to governmental units using the accrual basis of accounting. Under this method, revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred. Water Quality, regardless of the timing of cash flows, applies all applicable GASB Pronouncements as well as Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins (ARBs) of the Committee on Accounting Procedures issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB Pronouncements. Water Quality, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, elected not to apply all statements of the Financial Accounting Standards Board issued subsequent to November 30, 1989.

- a. *Cash and Cash Equivalents*—Water Quality considers as cash and cash equivalents all balances held with the King County Treasurer in the King County Investment Pool (the Pool) and petty cash. Unrealized gain or loss on Water Quality's proportionate share of the Pool is reported as a component of investment earnings.

- b. *Due to/From Other County Funds*—Due to/from other funds consists of payments for goods and services or advances provided to or by other funds and for cash collected on behalf of or due from another fund.
- c. *Inventory of Supplies*—Inventory is recorded at the lower of cost or market using the weighted-average cost method. Materials and supplies are expensed as consumed. Inventory is written off in the year that it is determined obsolete.
- d. *Restricted Assets*—In accordance with Water Quality’s bond resolutions, state law, King County codes, or other agreements, separate restricted assets have been established. These assets are restricted for specific purposes, including debt service payments and funding of capital projects. These funds are maintained in the revenue fund, construction fund, and bond fund on the statements of net assets.
- e. *Capital Assets*—The capitalization threshold in Water Quality is \$1,000. The provision for depreciation is made on a straight-line basis over the estimated useful lives of Water Quality’s capital assets, which range from 2 to 50 years.

Water Quality capitalizes certain interest income and expense related to tax-free borrowings until the assets are ready for their intended use. The amount capitalized is the difference between the interest revenue and interest expense associated the applicable tax free borrowings. Total interest incurred was \$106.6 million and \$92.7 million during the years ended December 31, 2007 and 2006, respectively, of which \$38.0 million and \$24.4 million, respectively, was capitalized.

Repairs and maintenance are expensed as incurred; major renewals, replacements, and betterments are capitalized.

Water Quality annually reviews long-lived assets for impairment to determine whether any events or circumstances indicate the carrying value of the assets may not be recoverable. No impairment was identified in 2007 or 2006.

- f. *Environmental and Property Remediation Costs*—Water Quality evaluates and accrues for environmental remediation based on engineering studies and estimates of future potential costs. In prior years, Water Quality settled lawsuits related to certain environmentally damaged sites. In these settlements, Water Quality agreed to pay its portion of remediation and cleanup costs.

During the early years, Water Quality funded the majority of its environmental expenditures with debt proceeds. Water Quality also received grant funding to offset a portion of these costs. The initial settlement costs, net of the partial grant funding and other recoveries, are deferred and are being amortized over 40 years as revenues are collected from Water Quality’s customers. Also see Note 6 relating to regulatory deferrals under FAS 71.

- g. *Compensated Absences*—Employees earn vacation based upon their date of hire and years of service. They may accumulate a maximum of 480 hours. Unused vacation at retirement or normal termination is considered vested and payable to the employee.

Employees also earn up to 12 days of sick leave per year and may accumulate sick leave balances without limit. Employees or their beneficiaries are paid 35% of the accrued unused sick leave upon retirement or death. No amounts are paid for unused sick leave upon termination.

Water Quality records additions to wages and benefits payable for accrued and unused vacation and sick leave in the period earned.

In addition, Water Quality accrues 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 cash-out of unused annual leave in excess of 240 hours and a cash-out of any other form of leave.

- h. *Amortization*—Bond issue costs and discounts are amortized to interest expense using the effective interest rate method over the term of the bonds.

The excess costs incurred over the carrying value of bonds refunded on early extinguishment of debt are amortized as a component of interest expense over the shorter of the remaining term of the refunded bond or the term of the new bond.

- i. *Operating and Nonoperating Revenues and Expenses*— Operating revenues result from exchange transactions of Water Quality's activities. Expenses associated with providing wastewater treatment services and operating Water Quality's treatment facilities are considered operating. Nonoperating revenues result from nonexchange transactions such as operating subsidies and investment earnings.
- j. *Deferred Compensation*—The County offers a consolidated deferred compensation plan that complies with Internal Revenue Code Section (IRC) 457. The plan permits employees to defer a portion of annual compensation until future years. Participation in the plan is voluntary. The assets are not the property of Water Quality and not recorded in the financial statements.
- k. *Use of Estimates*—The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Specific estimates have been made in the areas of allowance for uncollectible accounts, environmental remediation costs, useful lives of capital assets, and future interest rates. Actual results could differ from these estimates.
- l. *Reclassifications*—Certain reclassifications have been made to the prior year statements to conform to the current year presentation.
- m. *Capital Grant Revenues*—Pursuant to GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, grant revenues are reported separately from operating and nonoperating revenues as capital grant revenues. Water Quality received capital grant revenues of \$1.2 million and \$2.3 million for the years ended December 31, 2007 and 2006, respectively.
- n. *Net Assets*—Pursuant to GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, grant revenues and resources set aside for repayment of bonds, net of related liabilities, are classified as restricted net assets on the statement of net assets, as their use is limited by externally-imposed restrictions. Capital assets, net of related debt, are reported as a separate component of net assets. Any net assets not subject to classification as restricted or invested in capital assets are reported as unrestricted.

New Accounting Standards Adopted—In June 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Statement No. 45 establishes accounting and financial reporting standards for benefits that are earned during an employee’s active service, but will not be paid until after the employee retires. GASB Statement No. 45 was adopted for 2007 with an immaterial impact on Water Quality’s financial position and results of operations for 2007.

GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, establishes accounting and financial reporting standards for:

- Accounting for cash received in exchange for rights to the collection of specific receivables
- Accounting for cash received in exchange for rights to specific future revenue streams
- Accounting for the transfer of assets within the financial reporting entity
- Note disclosure requirements applicable to all pledges of specific future revenues.

The new pronouncement must be implemented starting with fiscal years that end December 31, 2007. The impact of GASB Statement 48 is encompassed in Note 4.

GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, establishes accounting and financial reporting standards for pollution remediation obligations. A pollution remediation obligation is a requirement to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities. The requirements of this statement are effective for fiscal periods beginning after December 15, 2007. Water Quality management is currently evaluating the potential impact GASB Statement No. 49 might have on its financial position and results of operations.

2. DEPOSITS AND REVERSE REPURCHASE AGREEMENTS

The King County Treasurer is the custodian of Water Quality’s cash. Water Quality’s cash on deposit with the King County Treasurer is pooled with cash from other County funds and other jurisdictions and either deposited in the County’s bank account or invested by the County. The King County Investment Pool (the Pool) functions essentially as a demand deposit account where Water Quality receives an allocation of its proportionate share of pooled earnings.

The County has deposit and investment policies addressing risks that have the potential to result in losses of deposits and investments. All deposits not covered by the Federal Depository Insurance Corporation (FDIC) are covered by the Public Deposit Protection Commission of the State of Washington (PDPC), a statutory authority established under chapter 39.58 RCW. To the extent that uninsured public deposits of a financial institution exceed the PDPC’s total value, equivalent proportions of the County’s deposits in those institutions are exposed to custodial credit risk because they are uninsured and uncollateralized. The custodial credit risk for deposits is the risk that Water Quality’s deposits may not be returned to it in the event of a bank failure. Assessing Water Quality’s risk exposure, \$19.9 million and \$5.8 million of Water Quality’s bank balance of \$255.4 million and \$224.4 million (as of December 31, 2007 and December 31, 2006, respectively) was exposed to custodial credit risk as uninsured and uncollateralized.

Statutes permit the Pool to enter into reverse repurchase agreements. Water Quality has been allocated a proportionate share of the pooled investments and liabilities associated with reverse repurchase

agreements based on total equity in the Pool. Reverse repurchase agreements are recorded as an increase to assets and an offsetting increase to liabilities. There were no reverse repurchase agreements outstanding as of December 31, 2007, and Water Quality's share of the reverse repurchase agreements was \$9.8 million as of December 31, 2006. The proceeds from the repurchase agreements are reinvested in other instruments with the same maturity as the collateral securities, resulting in a matched position.

The amount of cash received in reverse repurchase agreements is normally less than the market value of the underlying security. Should a third-party default on their obligations to resell these securities to the County, the County would be faced with an economic loss equal to the difference between the market value of the underlying securities and the agreement obligation. During the fiscal years ended December 31, 2007 and 2006, no losses were incurred as a result of default.

Since late August 2007, there has been unprecedented volatility in the global credit markets, especially for asset-backed commercial paper which is an investment instrument utilized by the Pool. Due to this extreme uncertainty in the credit markets, the County halted all purchases of commercial paper in late August 2007. In early September 2007, the County commissioned an outside financial consultant, Public Financial Management (PFM), to review the Pool's remaining investments in commercial paper and make recommendations going forward. PFM validated the County's overall strategy of halting the purchase of any new commercial paper and recommended holding remaining assets to maturity dates, while monitoring new development in the commercial paper markets.

Using the PFM recommended strategy, the investment pool substantially reduced its exposure in commercial paper from 25 percent of the portfolio in August 2007 to 5 percent as of February 2008. During this seven month period, the Pool has received full payments on 24 holdings of commercial paper totaling \$831.0 million. The only commercial paper remaining in the Pool is associated with four impaired investments totaling \$207.0 million. Based on Water Quality's share of Pool assets, an unrealized loss of \$6.5 million was accrued for 2007.

3. RISK MANAGEMENT

Water Quality is exposed to a wide range of risks of loss, including those related to tort; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

Water Quality participates in three County internal service funds to account for and finance its (1) property/casualty, (2) workers' compensation and (3) employee medical and dental benefits, through self-insurance programs. The County contracts with a plan administrator to process medical and dental claims. County fund/claims managers, together with the Civil Division of the King County Prosecuting Attorney's Office, are responsible for processing all tort and workers' compensation claims.

Claims settlements and loss expenses are accrued in the three internal service funds for the estimated settlement value of both reported and unreported claims. These funds are responsible for collecting inter-fund premiums from insured funds and departments, for paying claim settlements, and for purchasing certain policies. The County's internal service funds assess premiums attributable to Water Quality on the basis of claims experience, actuarial evaluation of future claims risk, and adequacy of available reserves. Premiums are recorded as an expense in the year paid or accrued.

Water Quality retains all risk associated with environmental claims.

4. LONG-TERM LIABILITIES AND NOTES PAYABLE

Sewer Revenue Bonds—As of December 31, 2007, bonds outstanding include \$761.8 million of serial bonds maturing from January 1, 2008 through 2033, bearing interest at stated rates of 3.0% to 5.5% per annum, and \$962.4 million of term bonds maturing on January 1 in the years 2024 through 2047, bearing interest at stated rates of 4.38% to 5.25% per annum.

In 2007, Water Quality issued \$250.0 million of sewer revenue bonds maturing from January 1, 2017 to 2047. The new issues includes \$40.3 million of serial bonds maturing from January 1, 2017 through 2033, bearing interest at stated rate of 5.0%, and \$209.7 million of term bonds, maturing in the years 2037 through 2047, bearing interest at the stated rates of 5.0%.

Bond issues provide funding for Water Quality’s construction plan. Certain serial bonds may not be redeemed prior to maturity; other bonds may be redeemed at declining premiums after the lapse of specific periods of time. Amounts from the sewer revenue bond fund may be used to purchase term bonds prior to maturity.

The bonds are secured by a pledge of the revenue of the Sewer System subject to payment of all operating and maintenance expenses of the Sewer System. Payments from revenues of Water Quality are required to be made to the sewer revenue bond fund in annual amounts sufficient to retire serial or term bonds on or before maturity. At December 31, 2007 Water Quality designated restricted cash balances of \$83.4 million as amounts to repay principal and interest due on revenue bonds on January 1, 2008. Annual principal and interest payments on the bonds are expected to require less than 43% of net revenues. Principal and interest paid in the current year and total customer net revenues were \$96.0 million and \$172.7 million, respectively.

Additional amounts of \$67.2 million and \$68.0 million held in the bond fund as bond reserves, as of December 31, 2007 and 2006, respectively, have been designated as net assets restricted for future debt service. Water Quality met additional reserve requirements required by the issuance of Sewer Revenue Bonds, Series 2007, by purchase of a surety policy issued by a private insurer. The amount required in the cash reserves and surety policies are based on the highest year of debt service over the life of all outstanding revenue bonds. As of December 31, 2007, Water Quality is in compliance with the combined amount required for the reserve and surety policies.

The following table summarizes Water Quality’s revenue bonds (in thousands):

	<u>Final Maturity</u>	<u>Interest Rates</u>	<u>Original Issue Amount</u>	<u>Outstanding at 12/31/07</u>
1999 (2nd Series)	1/1/09	5.13-5.25%	\$ 60,000	\$ 2,270
2001A-B Jr. lien var. rate	1/1/32	(variable)	100,000	100,000
2001 Refunding	1/1/35	5.00-5.25%	270,060	229,925
2002A	1/1/35	5.50%	100,000	94,960
2002B Refunding	1/1/33	4.00-5.50%	346,130	291,715
2003A Refunding	1/1/35	3.00-5.50%	96,470	93,005
2004A	1/1/35	4.50-4.75%	185,000	185,000
2004B Refunding	1/1/35	3.00-5.00%	61,760	59,840
2006 Refunding	1/1/36	5.00%	124,070	124,070
2006A-B Jr. lien multi-modal	1/1/36	(variable)	100,000	100,000
2006 (2nd Series) Refunding	1/1/36	3.50-5.00%	193,435	193,435
2007	1/1/47	5.00%	250,000	250,000
			<u>\$ 1,886,925</u>	<u>\$ 1,724,220</u>

General Obligation Bonds—As of December 31, 2007, bonds outstanding include \$197.9 million of serial bonds maturing January 1, 2008 through 2031, bearing interest at stated rates of 4.5% to 5.25% per annum. General Obligation Bonds outstanding also include \$252.6 million of term bonds maturing on January 1, 2020 through 2035, bearing interest at stated rates of 4.6% to 5.25%. The bonds were issued to provide funding for Water Quality’s construction plan. Certain serial bonds cannot be redeemed prior to maturity; other bonds may be redeemed at declining premiums after the lapse of specific periods of time.

The following table summarizes Water Quality’s general obligation bonds (in thousands).

	<u>Final Maturity</u>	<u>Interest Rates</u>	<u>Original Issue Amount</u>	<u>Outstanding at 12/31/07</u>
1996 Series C LTGO Refunding	1/1/08	5.25%	\$ 130,965	\$ 2,730
1998 Series B LTGO Refunding	1/1/34	4.75%	261,625	247,810
2005 LTGO	1/1/35	4.50-5.00%	200,000	200,000
			<u>\$ 592,590</u>	<u>\$ 450,540</u>

State Loans— Water Quality has received loans from the Washington Department of Ecology under the Water Pollution Control State Revolving Fund Loan Program and the Washington Public Works Trust Fund. The loans require annual payments of principal and interest from 2008 through 2029 and bear interest at stated rates from 0.5% and 1.5%. As of December 31, 2007, the balance due on all state loans is \$118.5 million. Water Quality maintains separate cash reserves of \$6.3 million. These reserves are treated as restricted, being required under the Revolving Fund Loan Program.

At December 31, 2007, the required principal and interest payments for all classes of long-term debt are as follows (in thousands):

Year(s) Beginning	Revenue Bonds		Variable Rate Revenue Bonds	
	Principal	Interest	Principal	Interest
January 1, 2008	\$ 26,315	\$ 69,637	\$ -	\$ 9,900
January 1, 2009	30,540	74,371	-	9,900
January 1, 2010	32,090	72,839	-	9,900
January 1, 2011	33,710	71,243	-	9,900
January 1, 2012	35,395	69,573	-	9,900
January 1, 2013–2017	191,645	320,150	-	49,500
January 1, 2018–2022	186,585	272,743	-	49,500
January 1, 2023–2027	238,305	222,029	-	49,500
January 1, 2028–2032	304,185	157,349	100,000	49,500
January 1, 2033–2037	261,525	76,906	100,000	19,800
January 1, 2038–2042	80,805	38,295	-	-
January 1, 2043–2047	103,120	15,971	-	-
	<u>\$ 1,524,220</u>	<u>\$ 1,461,106</u>	<u>\$ 200,000</u>	<u>\$ 267,300</u>

Year(s) Beginning	General Obligation Bonds		State Loans		Total
	Principal	Interest	Principal	Interest	
January 1, 2008	\$ 6,270	\$ 22,429	\$ 6,580	\$ 1,481	\$ 142,612
January 1, 2009	3,700	22,117	6,656	1,399	148,683
January 1, 2010	3,845	21,942	6,753	1,315	148,684
January 1, 2011	4,000	21,759	6,833	1,231	148,676
January 1, 2012	4,160	21,569	6,914	1,145	148,656
January 1, 2013–2017	33,030	104,715	35,763	4,391	739,194
January 1, 2018–2022	84,110	91,102	34,441	2,094	720,575
January 1, 2023–2027	106,140	68,118	14,537	324	698,953
January 1, 2028–2032	134,110	38,948	47	1	784,140
January 1, 2033–2037	71,175	6,458	-	-	535,864
January 1, 2038–2042					119,100
January 1, 2043–2047					119,091
	<u>\$ 450,540</u>	<u>\$ 419,157</u>	<u>\$ 118,524</u>	<u>\$ 13,381</u>	<u>\$ 4,454,228</u>

The future annualized interest payments for the variable rate revenue bonds are based on an interest rate of 4.95% which represents 90% of the Revenue Bond Index assumed by the County for financial planning purposes.

Commercial Paper (Notes Payable)—In December 1995, Water Quality initiated a commercial paper program that gives Water Quality the ability to issue up to \$100.0 million. The program is supported by an annually renewable line of credit that expires November 30, 2015. As of December 31, 2007, \$100.0 million was issued and outstanding under this program. The commercial paper has maturities ranging between 30 and 154 days and is classified as a current liability of Water Quality’s operating fund.

Variable Rate Revenue Bonds—The variable rate bonds are supported by an annually renewable letter of credit that expires December 31, 2015.

Financial Policy Reserves—In addition to bond reserves related to Sewer Revenue Bonds, Water Quality maintains liquidity and asset management reserves in noncurrent assets totaling \$29.6 million at December 31, 2007.

Compliance With Bond Resolutions—With respect to the year ended December 31, 2007, Water Quality complied with all covenants stipulated by its bond resolutions.

Changes in Long-Term Liabilities—Long-term liability activity for the years ended December 31, 2007 and 2006 was as follows (in thousands):

	Balance 1/1/2007	Additions	Reductions	Balance 12/31/2007	Due Within One Year
Bonds Payable	\$ 1,955,650	\$ 250,000	\$ (30,890)	\$ 2,174,760	\$ 32,585
Bond Premiums	31,520	5,950	(2,399)	35,071	2,531
Issuance Costs	(12,633)	(1,366)	824	(13,175)	(834)
Refunding Losses	(74,846)	(293)	8,720	(66,419)	(5,310)
Total bonds payable	<u>1,899,691</u>	<u>254,291</u>	<u>(23,745)</u>	<u>2,130,237</u>	<u>28,972</u>
State Loans	118,622	5,374	(5,472)	118,524	6,580
Compensated Absences	8,770	661	(620)	8,811	518
Other Post-Employment Benefits	-	134	-	134	-
Environmental Remediation	10,356	2,096	(659)	11,793	-
Rate Stabilization	14,500	8,250	-	22,750	-
Total long-term Liabilities	<u>\$ 2,051,939</u>	<u>\$ 270,806</u>	<u>\$ (30,496)</u>	<u>\$ 2,292,249</u>	<u>\$ 36,070</u>

	Balance 1/1/2006	Additions	Reductions	Balance 12/31/2006	Due Within One Year
Bonds Payable	\$ 1,737,845	\$ 417,505	\$ (199,700)	\$ 1,955,650	\$ 30,890
Bond Premiums	20,337	13,311	(2,128)	31,520	2,927
Issuance Costs	(11,447)	(1,819)	633	(12,633)	(695)
Refunding Losses	(71,462)	(9,151)	5,767	(74,846)	(5,311)
Total bonds payable	<u>1,675,273</u>	<u>419,846</u>	<u>(195,428)</u>	<u>1,899,691</u>	<u>27,811</u>
State Loans	111,483	10,618	(3,479)	118,622	5,850
Compensated Absences	8,310	971	(511)	8,770	605
Other Post-Employment Benefits	-	-	-	-	-
Environmental Remediation	6,964	3,465	(73)	10,356	-
Rate Stabilization	14,500	-	-	14,500	-
Total long-term Liabilities	<u>\$ 1,816,530</u>	<u>\$ 434,900</u>	<u>\$ (199,491)</u>	<u>\$ 2,051,939</u>	<u>\$ 34,266</u>

5. CHANGES IN CAPITAL ASSETS

Changes in capital assets for the years ended December 31, 2007 and 2006 are shown in the following table (in thousands):

	Balance 01/01/07	Increases	Decreases	Balance 12/31/07
Land	\$ 148,938	\$ 1,059	\$ -	\$ 149,997
Work in progress	743,045	377,819	(36,257)	1,084,607
Total nondepreciable assets	<u>891,983</u>	<u>378,878</u>	<u>(36,257)</u>	<u>1,234,604</u>
Building and land improvements	\$ 1,970,219	\$ 33,993	\$ (2,018)	\$ 2,002,194
Major equipment and vehicles	8,469	-	(28)	8,441
Shop and other equipment	492,300	9,983	(3,698)	498,585
Software development	7,722	176	-	7,898
Total depreciable assets	<u>2,478,710</u>	<u>44,152</u>	<u>(5,744)</u>	<u>2,517,118</u>
Accumulated depreciation and amortization:				
Building and land improvements	(605,557)	(45,129)	201	(650,485)
Major equipment and vehicles	(5,317)	(745)	28	(6,034)
Shop and other equipment	(316,190)	(28,937)	1,181	(343,946)
Software development	(7,718)	(128)	-	(7,846)
Total depreciation and amortization	<u>(934,782)</u>	<u>(74,939)</u>	<u>1,410</u>	<u>(1,008,311)</u>
Depreciable assets - net	<u>1,543,928</u>	<u>(30,787)</u>	<u>(4,334)</u>	<u>1,508,807</u>
Total capital assets - net	<u>\$ 2,435,911</u>	<u>\$ 348,091</u>	<u>\$ (40,591)</u>	<u>\$ 2,743,411</u>
	Balance 01/01/06	Increases	Decreases	Balance 12/31/06
Land	\$ 110,370	\$ 38,568	\$ -	\$ 148,938
Work in progress	525,865	286,175	(68,995)	743,045
Total nondepreciable assets	<u>636,235</u>	<u>324,743</u>	<u>(68,995)</u>	<u>891,983</u>
Building and land improvements	\$ 1,938,297	\$ 37,899	\$ (5,977)	\$ 1,970,219
Major equipment and vehicles	8,396	77	(4)	8,469
Shop and other equipment	490,281	7,900	(5,881)	492,300
Software development	7,721	1	-	7,722
Total depreciable assets	<u>2,444,695</u>	<u>45,877</u>	<u>(11,862)</u>	<u>2,478,710</u>
Accumulated depreciation and amortization:				
Building and land improvements	(560,799)	(44,911)	153	(605,557)
Major equipment and vehicles	(4,582)	(739)	4	(5,317)
Shop and other equipment	(286,133)	(30,522)	465	(316,190)
Software development	(7,717)	(1)	-	(7,718)
Total depreciation and amortization	<u>(859,231)</u>	<u>(76,173)</u>	<u>622</u>	<u>(934,782)</u>
Depreciable assets - net	<u>1,585,464</u>	<u>(30,296)</u>	<u>(11,240)</u>	<u>1,543,928</u>
Total capital assets - net	<u>\$ 2,221,699</u>	<u>\$ 294,447</u>	<u>\$ (80,235)</u>	<u>\$ 2,435,911</u>

6. REGULATORY DEFERRALS

The King County Council has taken various regulatory actions resulting in differences between the recognition of revenues for rate-making purposes and their treatment under generally accepted accounting principals for nonregulated entities. Changes to these balances and their inclusion in rates may occur only at the direction of the Council.

Rate Stabilization—In 2005, pursuant to the Financial Accounting Standards Board’s Statement of Financial Accounting Standards No. 71 (FAS 71), *Accounting for the Effects of Certain Types of Regulation*, the Council established a Rate Stabilization Reserve. This action created a regulatory liability which deferred \$14.5 million from 2005 operating revenue to be set aside in a reserve and recognized in subsequent years to maintain stable sewer rates. In 2007, \$8.3 million was added to the reserve. Since it was established it has not been necessary to transfer amounts from this reserve.

Pollution Remediation—In 2006, the Council approved the application of FAS 71 to treat pollution remediation obligations as regulatory assets, in lieu of current expense. In 2007 and 2006, based on annually revised cost estimates for pollution remediation obligations, \$2.1 million and \$3.5 million, respectively, were capitalized as regulatory assets, to be amortized over a period of 30 years.

7. EMPLOYEE BENEFIT PLANS

Defined Benefit Pension Plans—Substantially all full-time and qualifying part-time employees of Water Quality participate in either the Public Employees’ Retirement System (“PERS”) or the Seattle City Employees’ Retirement System (“SCERS”). PERS is a statewide governmental retirement system administered by the State of Washington’s Department of Retirement Systems.

Historical trend and other information regarding PERS are presented in the State of Washington Department of Retirement Systems’ 2007 Comprehensive Annual Financial Report. A copy of this report may be obtained from the Department of Retirement Systems, P.O. Box 48380, Olympia, Washington, 98504-8380.

Historical trend and other information regarding SCERS are presented in the Seattle City Employees’ Retirement System’s 2006 Comprehensive Annual Financial Report. A copy of this report may be obtained from the Seattle City Employees’ Retirement System, 801 Third Avenue, Suite 300, Seattle, Washington, 98104.

Public Employees Retirement System—The Washington State Legislature (the “Legislature”) established PERS in 1947 under RCW chapter 41.40. PERS is a cost-sharing, multiple-employer defined benefit system.

The PERS plan contains three tiers. Participants who joined the system by September 30, 1977 are Plan I members. Those joining thereafter are enrolled in Plan II, unless the employee chooses Plan III. Retirement benefits for all plans are financed from employee and employer contributions and investment earnings. Retirement benefits are vested after various minimum periods of eligible service.

Plan I members are eligible for retirement after 30 years of service or at the age of 60 with 5 years of service, or at the age of 55 with 25 years of service. The annual pension is 2% of the final average salary per year of service, capped at 60%. If qualified, after reaching age 66, a limited cost of living allowance is granted.

Plan II members may retire at the age of 65 with 5 years of service or at 55 with 20 years of service, with an allowance of 2% per year of service of the final average salary. Plan II retirements prior to the age of 65 are actuarially reduced. There is no cap on years-of-service credit and a limited cost-of-living allowance is granted.

Plan III members may retire with 10 years of service or with 5 service years, including one year earned after age 54 and 5 service years under Plan II prior to transfer to Plan III. Plan III retirements prior to age 65 are actuarially reduced. With respect to the defined benefit portion of Plan III, there is no cap on years-of-service credit, and a limited cost of living allowance is granted.

Each biennium, the Legislature establishes Plan I employer contribution rates, Plan II employer and employee contribution rates and Plan III employer contribution rates. Employee contribution rates for Plan I are not necessarily adequate to fully fund the system. The employer and employee contribution rates for Plan II and the employer contribution rates for Plan III are developed by the Office of the State Actuary to fully fund future pension obligations. All employers are required to contribute at the level established by the Legislature.

Water Quality’s contribution rates expressed as a percentage of covered payrolls as of December 31, 2007, were as follows:

	PERS Plan I 1/1 - 6/30/07	PERS Plan I 07/1 - 12/31/07	PERS Plan II 1/1 - 6/30/07	PERS Plan II 07/1 - 12/31/07	PERS Plan III 1/1 - 6/30/07	PERS Plan III 07/1 - 12/31/07
Employer*	5.46 %	6.12%-6.13%	5.46 %	6.12-6.13%	5.46 %	6.12-6.13%
Employee	6.00 %	6.00 %	3.50 %	4.15 %	5% - 15%	5% - 15%

*The employer contribution rate was 6.12% from July 1, 2007 to August 31, 2007 and increased to 6.13% effective September 1, 2007.

Employer contributions to Plan III are the same as those required for Plan II. Employee contributions to Plan III are made to a separate defined contribution account and may vary from 5% to 15%.

Water Quality’s required employer contributions for the years ended December 31 were (in thousands):

	PERS Plan I	PERS Plans II and III
2007	\$ 269	\$ 4,419
2006	99	1,542
2005	66	881

Seattle City Employees’ Retirement System (“SCERS”)—SCERS is a cost-sharing, multiple-employer retirement plan administered in accordance with the Seattle Municipal Code Chapter 4.36. Water Quality employees who are former employees of Seattle Transit are covered by SCERS. 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 5 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%. The average salary for this plan is defined as the highest consecutive 24-month

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 and ranges from 1.2% at age 52 with 20 years of service to a maximum of 2% for each year of service. The maximum allowance a member can receive is the unmodified plan, which has no provision for a beneficiary, and under which all payments stop at the member's death. Several optional retirement benefit formulas exist that make provisions for beneficiaries with reduced monthly allowances.

Within SCERS, there were no material changes in benefit provisions in 2007.

The SCERS member contribution rate is 8.03% of compensation, except for members qualifying prior to June 1972 for lower rates. Water Quality is required to contribute at an actuarially determined rate. The current rate is 8.03% of annual covered payroll. The contribution requirements of plan members and Water Quality are established and may be amended by the Board of Administration. Both Water Quality and the employees made the required contributions. Water Quality's required employer contributions for the years ended 2007, 2006, and 2005 were \$1.9 thousand, \$3.2 thousand, and \$2.1 thousand, respectively.

8. OPERATING SUBSIDIES AND GRANT REVENUES

Various federal and state government agencies make grants to Water Quality to aid in financing construction costs (capital grants), including those on various projects included in the comprehensive plan, and for operating costs (operating subsidies). Operating subsidies are recorded as revenues in the statements of revenues, expenses, and changes in net assets. Capital grants amounted to \$1.2 million and \$2.3 million for the years ended December 31, 2007 and 2006, respectively.

9. OTHER POST-EMPLOYMENT BENEFITS

In 2007, the County implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension* (GASB No. 45), which requires the County to accrue other post-employment benefits (OPEB) expenses related to its post-retirement healthcare plan based on a computed annual required contribution (ARC) that includes the current period's service cost and an amount to amortize unfunded accrued liabilities. For the year ended December 31, 2007, the County recognized a liability of \$6.6 million for the difference between the actuarially calculated ARC and the estimated contributions made since the adoption of GASB No. 45, which resulted in an allocation of \$134 thousand to Water Quality. The liability is included in noncurrent liabilities on the statements of net assets for Water Quality.

Plan Description: The King County Health Plan (the Health Plan) is a single-employer defined benefit healthcare plan administered by the County. The Health Plan provides medical, prescription drug, vision, and other unreimbursed medical benefits to eligible employees. The Health Plan's actuary is Healthcare Actuaries and it 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. During 2007, Water Quality contributed an estimated \$97 thousand to the Health Plan. The contribution was entirely to fund "pay-as-you-go" costs and not to advance fund the cost of benefits.

Annual OPEB and Net OPEB Obligation: Water Quality’s allocated annual OPEB costs, the percentage of annual OPEB cost contributed to the Health Plan, and the net OPEB obligation for 2007 were as follows (in thousands):

Annual OPEB Cost	\$ 231
Contributions Made	(97)
Net OPEB Obligation at December 31, 2007	<u>\$ 134</u>
Percentage of annual OPEB cost contributed	42.0%

Funded Status and Funding Progress: The funded status of the Health Plan as of December 31, 2007 was as follows (in thousands):

Actuarial Value of Plan Assets	\$ -
Actuarial Accrued Liability (AAL)	141,893
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 141,893</u>
Funded Ratio (actuarial value assets / AAL)	0%
Covered Payroll (active plan members)	\$ 854,800
UAAL as a percentage of covered payroll (AAL less Actuarial Value of Assets / UAAL)	16.6%

The December 31, 2007 valuation used the unit credit actuarial cost method. The actuarial assumption included a 4.00% investment rate of return (net of administrative expenses) and an initial healthcare cost trend rate of 11.0% for KingCare medical, 8.5% for KingCare Rx, and 11.0% for HMIO medical/Rx, each reduced by decrements to an ultimate rate of 5.0% after 12 years. The vision trend rate is 1.0%, the miscellaneous trend rate is 7.0%, and the Medicare premium trend rate is 8.5%, for all years. All trend rates include a 3.0% inflation assumption, with the exception of vision trends. The remaining amortization period at December 31, 2007 was 29 years. The UAAL is recalculated each year and amortized as a level dollar amount on an open basis over 30 years.

10. TRANSFERS AND CAPITAL CONTRIBUTIONS

The King County Council approves ordinances and/or motions authorizing Water Quality to contribute and receive amounts to and from various County funds. These net amounts are reported as transfers on the statements of revenues, expenses, and changes in net assets. During 2007 and 2006, the net cash transfers to other funds from Water Quality were \$161.0 thousand and \$11.0 thousand, respectively.

11. COMMITMENTS AND CONTINGENCIES

Construction Program—The Federal Water Pollution Control Act requires that municipal sewage be subjected to secondary treatment. Major facilities have been included in Water Quality’s construction plan to meet this requirement, including five treatment plants that are being improved or modified to provide secondary treatment under compliance schedules that have been or will be established by permit, by court-approved consent decree, or by administrative order.

Water Quality is continuing to design, acquire, and construct treatment facilities and conveyance lines within the guidelines of the construction plan. As of December 31, 2007, Water Quality plans to expend approximately \$1.8 billion through 2013 to complete the requirements of the construction plan. The majority of the expenditures will be used for construction of secondary treatment facilities (including an additional sewage treatment plant) and combined sewer overflow control facilities.

Contingencies and Claims— Water Quality has received claims from contractors involved in construction projects. The contractors have claimed amounts in excess of the original contract sums. Water Quality intends to defend its case in these actions and cannot assess the likelihood of an adverse outcome; however, management believes any adverse outcomes would not have a material impact on Water Quality.

In prior years, Water Quality agreed to pay a portion of remediation costs to clean up contaminated sediments and restore aquatic habitats in Elliott Bay and the Lower Duwamish River. Although the Department of Ecology has not mandated remediation of any of these sites, Water Quality has conducted a review and has identified seven areas near combined sewer overflows that may require sediment remediation. Due to the high level of regulatory review, approval requirements, and the environmental permitting associated with these projects, and the uncertainty related to the particular remediation alternative for each project, the schedule of required remediation and costs of remediation has not been fully determined. However, Water Quality has accrued \$11.0 million and \$8.9 million for the sediment remediation plan as of December 31, 2007 and 2006, respectively. Water Quality has accrued \$769.6 thousand and \$1.4 million for the Lower Duwamish Waterway remediation project as of December 31, 2007 and 2006, respectively.

Office Facilities— Water Quality currently rents office space from the Department of Construction and Facilities Maintenance of King County. Water Quality has not entered into a formalized legal contract for the use of these spaces but is expecting to continue to rent office space for future years. Rent expenses incurred in 2007 and 2006 were approximately \$1.3 million for each year.

12. SUBSEQUENT EVENT

In February 2008, Water Quality issued \$237.0 million of Limited Tax General Obligation (LTGO) Refunding bonds. The proceeds of the bonds were used to refund the 1998 Series B LTGO bond issue.

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KING COUNTY WATER QUALITY ENTERPRISE

SUPPLEMENTAL SCHEDULE OF NET REVENUES AVAILABLE FOR DEBT SERVICE FOR THE YEAR ENDED DECEMBER 31, 2007

Water Quality is obligated by applicable bond ordinances to set sewage disposal rates at a level adequate to provide net revenue equal to at least 1.15 times the annual debt service requirements for sewer revenue and general obligation bonds payable from revenues of Water Quality. It is adopted policy of Water Quality to achieve a debt service coverage ratio of 1.25.

Coverage (1.15 required by covenant, adopted policy 1.25) 1.39

In 2001, Water Quality adopted a new debt service target of 1.15 times the annual debt service for bonds, obligations, notes, and loans of Water Quality.

Coverage (1.15 adopted target) 1.19

Water Quality is required to generate revenues sufficient to pay all costs of operation of the sewage treatment system and debt service on obligations of Water Quality.

Coverage (1.00 required by covenant) 1.16

In 2001, Water Quality issued an additional tier of revenue bonds. The bond covenants of the Junior Lien Variable Rate Demand Sewer Revenue Bonds, Series 2001A and Series 2001B, require that sewage disposal rates provide net revenue equal to at least 1.10 times the annual debt service requirements for all Junior Lien obligations after payment of senior lien requirements.

Coverage (1.10 required by covenant) 5.38



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 in cooperation 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 has 300 employees who are located around the state to deliver our services effectively and efficiently. Approximately 65 percent of our staff are certified public accountants or hold other certifications and advanced degrees.

Our regular 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. We also perform fraud and whistleblower investigations. In addition, we have the authority to conduct performance audits of state agencies and local governments.

The results of our audits are widely distributed through a variety of reports, which are available on our Web site. We continue to refine our reporting efforts to ensure the results of our audits are useful and understandable.

We take our role as partners in accountability seriously. We provide training and technical assistance to governments and have an extensive program to coordinate audit efficiency and to ensure high-quality audits.

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