Washington State Auditor's Office

Financial Statements and Federal Single Audit Report

City of Seattle
King County

Audit Period
January 1, 2011 through December 31, 2011

Report No. 1008567

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WASHINGTON
BRIAN SONNTAG
STATE AUDITOR

Washington State Auditor
Brian Sonntag

October 31, 2012

Mayor and City Council
City of Seattle
Seattle, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on the City of Seattle's financial statements and compliance with federal laws and regulations.

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

Sincerely,

BRIAN SONNTAG, CGFM
STATE AUDITOR

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Federal Summary

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The results of our audit of the City of Seattle are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

FINANCIAL STATEMENTS

An unqualified opinion was issued on the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate discretely presented component units and remaining fund information.

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 no deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the City.

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 unqualified opinion on the City's compliance with requirements applicable to each of its major federal programs, with the exception of the Prevention and Wellness - Communities Putting Prevention to Work on which we issued an adverse opinion on compliance with applicable requirements, and the Supportive Housing program on which we issued a qualified opinion on compliance with applicable requirements.

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
14.218	CDBG – Entitlement Grants Cluster - Community Development Block Grant/Entitlement Grants
14.235	Supportive Housing Program
14.253	ARRA - CDBG – Entitlement Grants Cluster - Community Development Block Grant/Entitlement Grants
14.257	ARRA - Homelessness Prevention and Rapid Re-Housing Program
16.738	JAG Program Cluster - Edward Byrne Memorial Justice Assistance Grant (JAG) Program
16.800	ARRA – Internet Crimes Against Children Task Force Program
16.804	ARRA – JAG Program Cluster - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to Units of Local Government
20.205	Highway Planning and Construction
20.205	ARRA - Highway Planning and Construction
20.500	Transit Cluster - Federal Transit - Capital Investment Grants
20.507	Transit Cluster - Federal Transit - Formula Grants
20.507	ARRA - Transit Cluster - Federal Transit - Formula Grants
81.042	Weatherization Assistance for Low-Income Persons
81.042	ARRA - Weatherization Assistance for Low-Income Persons
81.086	ARRA - Conservation Research and Development
81.128	ARRA - Energy Efficiency and Conservation Block Grant
93.724	ARRA - Prevention and Wellness - Communities Putting Prevention to Work
97.056	Port Security Grant Program

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 City did not qualify as a low-risk auditee under OMB Circular A-133.

Schedule of Federal Audit Findings and Questioned Costs

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1. The City did not have processes to ensure it complied with Prevention and Wellness grant requirements.

CFDA Number and Title:	93.724 ARRA - Prevention and Wellness - Communities Putting Prevention to Work
Federal Grantor Name:	U.S. Department of Health and Human Services
Federal Award/Contract Number:	NA
Pass-through Entity Name:	King County
Pass-through Award/Contract Number:	D40208D
Questioned Cost Amount:	$516,459

In 2011 the City spent $799,241 from the federal Prevention and Wellness – Communities Putting Prevention to Work program, funded by the American Recovery and Reinvestment Act. The City received this grant in 2010, when King County passed through about $1.4 million in subawards to three City departments: Human Services, Planning and Development, and the Office of Economic Development.

The Office of Economic Development administered the *Healthy Foods Here* program with approximately $1 million of this money, $516,459 of which was spent in 2011, ($69,173 was spent in 2010, and about $414,000 was spent in 2012). The City used grant money to provide selected grocery stores with technical assistance, supplies, advertising and marketing to increase their ability to offer fresh produce and other healthy foods. It purchased equipment and made improvements to privately owned buildings and paid administrative costs with grant funds.

Federal grant rules require the City to have both appropriate internal controls and to comply with grant requirements. Auditors must report material noncompliance and must report lack of appropriate controls even if the grantee complies with the requirements.

Description of Condition

We examined the City's processes to ensure compliance with grant requirements. We found the City had deficiencies in internal controls over compliance with program requirements that, when taken as a whole, constitute a material weakness. This resulted in material noncompliance with grant requirements as described below.

Allowable activities
The Office of Economic Development paid an invoice in a way that is not consistent with City policies and practices. The Office's employees changed vendor invoice and split it into smaller amounts demonstrating inconsistent application of the City's purchasing rules. We found no documentation to show why this occurred. The Office staff also used a services contract rather than a purchasing contract, which caused purchases to be inappropriately accounted for as payments for services, rather than as supplies and equipment. This made the City's internal controls for equipment purchases less effective.

Allowable costs and cost principles
In order for the costs of the *Healthy Foods Here* program to be allowable, the City must take reasonable steps to ensure and document that program costs serve the purpose of the grant, which is to increase the availability of healthy foods and beverages in target areas. The City did not have contracts with the participating grocery stores to ensure they agreed to use the City-provided resources for the purpose of the grant, and could not provide documentation that the benefits the stores received served the purposes of the grant. Thus, the City spent federal money with inadequate documentation on how it would be used for grant-related purposes resulting in unallowable costs. Further, the cost of related administrative efforts would also be unallowable.

Equipment management
Grantees that purchase equipment with federal funds are required to use it for the grant's purpose. They also are required to keep equipment records that track the federal source of funding and demonstrate that equipment is used for grant purpose. If a grantee decides to transfer the equipment to another party or a different use, it is required to follow specific procedures. According to Office staff, the Office determined that it would not legally enforce the grocery stores to use the equipment for grant purposes. The Office also decided that it does not have the ability to recover equipment after the grant period is over and would not be able to monitor the grocery stores' use of the equipment. Additionally, once the Office purchased the equipment with federal funds, it did not create and maintain the records required by federal rules.

Procurement, suspension and debarment

Procurement
Governments are required to ensure competitive selection of all contractors and vendors used in federally funded programs. They can follow their own procurement procedures as long as they conform to federal rules and do not result in restriction to competition. Federal rules state that any arbitrary action in the procurement process restricts competition. To ensure compliance, the City of Seattle adopted purchasing rules and provides a Purchasing Manual so its departments can know and follow purchasing rules.

During the design phase of the *Healthy Foods Here* project, the Office of Economic Development anticipated purchasing up to $125,000 of grocery store supplies and equipment. According to City purchasing rules, the Office should have contacted the City Purchasing and Contracting Services Division of the Department of Finance and Administrative Services to arrange for competitive procurement of anticipated purchases. Instead, the Office made purchases from various vendors without any documented competitive process or contracts. As the project progressed, more and more purchases were from one local restaurant supply store. When the Office realized these payments exceeded the $44,000 threshold that allows no-contract purchases, the

Office had already made purchases of more than $100,000 from this store. Instead of contacting the Division to arrange for appropriate competitive purchasing process, the Office executed a service contract with the store and continued to inappropriately make purchases, which included equipment.

Suspension and Debarment
Governments are required to have processes to ensure they do not make payments to parties barred from participation in federally funded projects. Typically, this requirement is met when the City executes a contract with the contractor, vendor and/or subrecipient prior to making any payments. Because the Office of Economic Development did not execute a contract with the restaurant supply store before making payments, the City never followed any process related to suspension and debarment requirements prior to making payments to the store.

Cause of Condition

Office of Economic Development employees responsible for the administration of this grant-funded program did not consistently follow established City processes and did not ensure compliance with grant requirements. Office management did not adequately oversee the program manager and program activities. City management did not ensure the program manager received adequate training in City processes and grant compliance.

Effect and Questioned Costs

Overall effect

The Office of Economic Development has significant internal control deficiencies in the administration of this grant and did not comply with grant requirements for allowable activities, cost principles, equipment management, and procurement and suspension and debarment.

The cumulative effect of significant deficiencies detailed below represents material weakness in internal controls over grant requirements. Because noncompliance in the individual areas described below has a material effect on the City's compliance with grant requirements as a whole, we are issuing an adverse opinion on City's compliance with this grant's requirements

Allowable activities
Because City employees inaccurately accounted for some transactions, the true transactions are unclear in the accounting records. Auditors require accurate accounting records in order to plan the City's required annual grant compliance audits. Additionally, grantors rely on accurate accounting records to monitor the City's grant-funded activities. Because accounting records are not accurate, City management would not be able to generate accurate program expenditure reports for monitoring and/or reporting purposes. We are reporting a significant deficiency in internal controls over and noncompliance with the activities allowed or unallowed compliance requirement.

Allowable costs and cost principles
Because the City did not ensure private businesses' use of grant-funded assistance was only for grant purposes, we are reporting a significant deficiency in internal controls over and noncompliance with the allowable costs and cost principles compliance requirement.

We are questioning costs of $516,459, which could be subject to repayment to the grantor.

Equipment management
The City did not ensure equipment purchased with federal funds is used only for federal grant purposes and did not keep required equipment records. These conditions represent a significant deficiency in internal controls over and material noncompliance with federal grant requirements for equipment management.

Procurement, suspension and debarment
The City did not follow competitive procurement requirements when purchasing equipment and supplies. This noncompliance resulted from a significant deficiency in internal controls over procurement requirements.

Further, before making payments the City did not ensure vendors are not prohibited from participating in federal projects. This noncompliance resulted from a significant deficiency in internal controls over suspension and debarment compliance requirements.

Recommendation

We recommend the City provide adequate training to individuals responsible for making decisions that affect compliance with federal grant requirements. Managers should provide sufficient review of staff and program activities to prevent noncompliance.

City's Response

The Office of Economic Development appreciates the recommendations of the State Auditor's Office. The following actions will take place to meet compliance with federal grant requirements.

1. *Allowable Activities*

   When the contract used for equipment and supply purchases was entered into SUMMIT, the account code of 741190 was entered on the encumbrance, incorrectly documenting these contract disbursements as a professional service and not equipment or supplies. A review process will be established to prevent miscodings.

   By December 2012, internal contracting procedures will be amended to include specific reference to federal competitive procurement requirements and City Purchasing Policies and resources available when entering into any purchase contract that does not involve the purchase of services. These will include:

   - *The development, implementation and training of staff of a new contract management checklist tool that identifies key issues in management of federal funds. The checklist will incorporate consultation and input from the Department of Finance and Administrative Services as well as the State Auditor's Office and will include the following specific references.*

A. *Allowable Activities:*

- *Line item budgets for funding agreements are required supporting documentation prior to executing agreements with service providers and vendors.*

B. *Allowable Costs:*

- *Title 45 Code of Federal Regulations, Part 92.42*

  a) *Be necessary and reasonable for proper and efficient performance and administration of Federal awards.*

  b) *Be allocable to Federal awards under the provisions of 2 CFR part 225.*

  c) *Be authorized or not prohibited under State or local laws or regulations.*

  d) *Conform to any limitations or exclusions set forth in these principles, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.*

  e) *Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit.*

  f) *Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.*

  g) *Except as otherwise provided for in 2 CFR part 225, be determined in accordance with generally accepted accounting principles.*

  h) *Not be included as a cost or used to meet cost sharing or matching requirements of any other Federal award in either the current or a prior period, except as specifically provided by Federal law or regulation.*

  i) *Be the net of all applicable credits.*

  j) *Be adequately documented.*

C. *Equipment Management and Disposition:*

- *Title 45 Code of Federal Regulations, Part 92.42*

a) *Title. Subject to the obligations and conditions set forth in this section, title to equipment acquired under a grant or subgrant will vest upon acquisition in the grantee or subgrantee respectively.*

b) *States. A State will use, manage, and dispose of equipment acquired under a grant by the State in accordance with State laws and procedures. Other grantees and subgrantees will follow paragraphs (c) through (e) of this section.*

c) *Use.*

- *Equipment shall be used by the grantee or subgrantee in the program or project for which it was acquired as long as needed, whether or not the project or program continues to be supported by Federal funds. When no longer needed for the original program or project, the equipment may be used in other activities currently or previously supported by a Federal agency*

- *Management requirements. Procedures for managing equipment (including replacement equipment), whether acquired in whole or in part with grant funds, until disposition takes place will, as a minimum, meet the following requirements:*

- *Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.*

- *A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.*

- *A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft shall be investigated.*

- *Adequate maintenance procedures must be developed to keep the property in good condition.*

- *If the grantee or subgrantee is authorized or required to sell the property, proper sales procedures must be established to ensure the highest possible return.*

- *Disposition. When original or replacement equipment acquired under a grant or subgrant is no longer needed for the original project or program or for other activities currently* *or previously supported by a Federal agency, disposition of the equipment will be made as follows:*

- *Items of equipment with a current per-unit fair market value of less than $5,000 may be retained, sold or otherwise disposed of with no further obligation to the awarding agency.*

- *Items of equipment with a current per unit fair market value in excess of $5,000 may be retained or sold and the awarding agency shall have a right to an amount calculated by multiplying the current market value or proceeds from sale by the awarding agency's share of the equipment.*

- *In cases where a grantee or subgrantee fails to take appropriate disposition actions, the awarding agency may direct the grantee or subgrantee to take excess and disposition actions.*

D. Procurement:

- *Title 45 Code of Federal Regulations, Part 92.35*

  a) Grantees and subgrantees will use their own procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this section.

  b) Grantees and subgrantees will maintain records sufficient to detail the significant history of a procurement. These records will include, but are not necessarily limited to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.

  c) All procurement transactions will be conducted in a manner providing full and open competition consistent with the standards of §92.36. Some of the situations considered to be restrictive of competition include but are not limited to:

    - *Any arbitrary action in the procurement process.*

    - *Methods of procurement to be followed - (1) Procurement by small purchase procedures. Small purchase procedures are those relatively simple and informal procurement methods for securing services, supplies, or other property that do not cost more than the simplified acquisition threshold fixed at 41 U.S.C. 403(11) (currently set at $100,000). If small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources.*

- *Project implementation contractually stipulates the roles and responsibilities of collaborative partners.*

- *Training for OED contract staff related to identify the distinction between contracts that purchase goods or equipment compared to public service contracts and the specific procedures to be followed.*

2. Allowable Costs and Cost Principles

The Healthy Foods Here Program was a collaborative effort between Seattle King County Department of Public Health (SKCPH) and the City's Office of Economic Development (OED). Program participation, review of project plans, investment decision making, program implementation and outreach all occurred in a collaborative team environment involving all partners as evidenced in the monthly team meeting minutes. One component of the documentation supporting private businesses' participation in the program was an agreement signed by the business owners that investments made to their respective businesses were intended to promote increased access to and availability of healthy food options. The contract document between SKCPH and OED did not delineate individual budget line items as recommended by the auditor. In addition, the documentation developed for program materials such as the contracts with stores used the brand of Healthy Foods Here rather than identifying City of Seattle or OED or SKCPH as the funder. If OED takes a similar approach to a program in the future, it will more clearly specify budget line items and identify the agency relationships in all contract documents.

By December 2012 the City will:

- *Enter into a contract that clarifies the roles of partner organizations and clearly outlines their role as agents not only for the program, but also for the City in ensuring program outcomes.*

- *Execute a contract amendment with Seattle King County Public Health that includes budget line items for costs incurred in implementation of this program including equipment.*

3. Equipment Management

As mentioned above, SKCPH and OED believe that the agreements signed by business owners indicating that they would utilize supplies and equipment consistent with the purpose of the grant award partially satisfies the issue of noncompliance identified in this finding. OED acknowledges that federally required equipment records were not created at the time of the audit but as soon as this was pointed out, OED pulled together a list of all purchases meeting the federal definition of equipment.

By December, 2012 the City will:

- *Maintain an inventory of equipment purchased under this award including a depreciation schedule documenting the fair market value of specific equipment.*

4. Procurement, Suspension and Debarment

OED acknowledges failure to follow competitive procurement requirements for the vendor identified. In the 4th quarter of 2012, internal contracting procedures will be amended to include specific reference to federal competitive procurement requirements as documented in Title 45 Code of Federal Regulations, Part 92.36 and City Purchasing regulations and the course of action required and resources available when entering into any purchase contract that does not involve the purchase of services. This includes but is not limited to confirmation that vendors are not prohibited from participating in federal projects.

By December 2012:

- *The development and implementation of a new contract management checklist tool that identifies key issues in management of federal funds, including confirmation that vendors are not prohibited from participating in federal projects.*

Auditor's Remarks

We appreciate the City's commitment to resolve this finding and thank the City for its cooperation and assistance during the audit. We will review the corrective action taken during our next regular audit.

Applicable Laws and Regulations

Title 2 Code of Federal Regulations, Part 225, *Cost Principles for State, Local, and Indian Tribal Governments (OMB Circular A-87),* states, in part:

Appendix A - General Principles for Determining Allowable Costs:

Section A(2):

a. The application of these principles is based on the fundamental premises that:

(1) Governmental units are responsible for the efficient and effective administration of Federal awards through the application of sound management practices.

(2) Governmental units assume responsibility for administering Federal funds in a manner consistent with underlying agreements, program objectives, and the terms and conditions of the Federal award.

(3) Each governmental unit, in recognition of its own unique combination of staff, facilities, and experience, will have the primary responsibility for employing whatever form of organization and management techniques may be necessary to assure proper and efficient administration of Federal awards.

Section C:

1. Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria:

a. Be necessary and reasonable for proper and efficient performance and administration of Federal awards.

b. Be allocable to Federal awards under the provisions of 2 CFR part 225.

c. Be authorized or not prohibited under State or local laws or regulations.

d. Conform to any limitations or exclusions set forth in these principles, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.

e. Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit.

f. Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.

g. Except as otherwise provided for in 2 CFR part 225, be determined in accordance with generally accepted accounting principles.

h. Not be included as a cost or used to meet cost sharing or matching requirements of any other Federal award in either the current or a prior period, except as specifically provided by Federal law or regulation.

i. Be the net of all applicable credits.

j. Be adequately documented.

Title 45 Code of Federal Regulations, Part 92, *Uniform administrative requirements for grants and cooperative agreements to State, local and federally recognized Indian tribal governments*, states in part:

§ 92.20 Standards for financial management systems, states in part:

(b) The financial management systems of other grantees and subgrantees must meet the following standards:

(2) Accounting records. Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.

(3) Internal control. Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.

(5) Allowable cost. Applicable OMB cost principles, agency program regulations, and the terms of grant and subgrant agreements will be followed in determining the reasonableness, allowability, and allocability of costs.

(6) Source documentation. Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc.

§ 92.22 Allowable costs states in part:

(a) Limitation on use of funds. Grant funds may be used only for:

(1) The allowable costs of the grantees, subgrantees and cost-type contractors, including allowable costs in the form of payments to fixed-price contractors[.]

(b) *Applicable cost principles.* For each kind of organization, there is a set of Federal principles for determining allowable costs. Allowable costs will be determined in accordance with the cost principles applicable to the organization incurring the costs. …

§ 92.32 Equipment, states in part:

(a) Title. Subject to the obligations and conditions set forth in this section, title to equipment acquired under a grant or subgrant will vest upon acquisition in the grantee or subgrantee respectively.

(b) States. A State will use, manage, and dispose of equipment acquired under a grant by the State in accordance with State laws and procedures. Other grantees and subgrantees will follow paragraphs (c) through (e) of this section.

(c) Use.

(1) Equipment shall be used by the grantee or subgrantee in the program or project for which it was acquired as long as needed, whether or not the project or program continues to be supported by Federal funds. When no longer needed for the original program or project, the equipment may be used in other activities currently or previously supported by a Federal agency.

(d) Management requirements. Procedures for managing equipment (including replacement equipment), whether acquired in whole or in part with grant funds, until disposition takes place will, as a minimum, meet the following requirements:

(1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.

(2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.

(3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft shall be investigated.

(4) Adequate maintenance procedures must be developed to keep the property in good condition.

(5) If the grantee or subgrantee is authorized or required to sell the property, proper sales procedures must be established to ensure the highest possible return.

(e) Disposition. When original or replacement equipment acquired under a grant or subgrant is no longer needed for the original project or program or for other activities currently or previously supported by a Federal agency, disposition of the equipment will be made as follows:

(1) Items of equipment with a current per-unit fair market value of less than $5,000 may be retained, sold or otherwise disposed of with no further obligation to the awarding agency.

(2) Items of equipment with a current per unit fair market value in excess of $5,000 may be retained or sold and the awarding agency shall have a right to an amount calculated by multiplying the current market value or proceeds from sale by the awarding agency's share of the equipment.

(3) In cases where a grantee or subgrantee fails to take appropriate disposition actions, the awarding agency may direct the grantee or subgrantee to take excess and disposition actions.

§ 92.35 Subawards to debarred and suspended parties.

Grantees and subgrantees must not make any award or permit any award (subgrant or contract) at any tier to any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in Federal assistance programs under Executive Order 12549, "Debarment and Suspension."

§ 92.36 Procurement, states in part:

(a) Other grantees and subgrantees will follow paragraphs (b) through

(i) in this section.

(b) Procurement standards.

(1) Grantees and subgrantees will use their own procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this section . . .

(9) Grantees and subgrantees will maintain records sufficient to detail the significant history of a procurement. These records will include, but are not necessarily limited to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.

(c) Competition.

(1) All procurement transactions will be conducted in a manner providing full and open competition consistent with the standards of §92.36. Some of the situations considered to be restrictive of competition include but are not limited to:

(vii) Any arbitrary action in the procurement process.

(d) Methods of procurement to be followed - (1) Procurement by small purchase procedures. Small purchase procedures are those relatively simple and informal procurement methods for securing services, supplies, or other property that do not cost more than the simplified acquisition threshold fixed at 41 U.S.C. 403(11) (currently set at $100,000). If small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources.

§ 92.42 Retention and access requirements for records, states in part:

(a) Applicability.

(1) This section applies to all financial and programmatic records, supporting documents, statistical records, and other records of grantees or subgrantees which are:

(i) Required to be maintained by the terms of this part, program regulations or the grant agreement, or

(ii) Otherwise reasonably considered as pertinent to program regulations or the grant agreement.

U.S Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations,* states in part:

Section 105

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 Federal Audit Findings and Questioned Costs

City of Seattle
King County
January 1, 2011 through December 31, 2011

2. The City's internal controls were inadequate to ensure payments to subrecipients were supported and the subrecipients' activities were adequately monitored.

CFDA Number and Title:	14.235 Supportive Housing Program
Federal Grantor Name:	U.S. Department of Housing and Urban Development
Federal Award/Contract Number:	Multiple awards
Pass-through Entity Name:	NA
Pass-through Award/Contract Number:	NA
Questioned Cost Amount:	$3,297,189

During 2011, the City spent $9,634,226 of Supportive Housing Program grant funds. The Program is designed to assist homeless individuals and families in the transition from homelessness and to enable them to live as independently as possible. In 2011, the City paid more than 93 percent of these funds to 22 nonprofit subrecipient organizations to provide these services.

Federal regulations require recipients of federal funds to establish and follow internal controls to ensure program requirements are followed. These controls include monitoring subrecipients through reporting, site visits, regular contact, or other means to provide reasonable assurance that federal awards are administered in compliance with laws, regulations, and that provisions of contracts or grant agreements and performance goals are achieved. The City has the ultimate responsibility for compliance with federal regulations.

We reported control deficiencies and questioned costs in our 2010 audit of the City's Supportive Housing Program grant. These conditions persist.

Description of Condition

We found in most cases, service providers are providing sufficient documentation to allow the City to monitor their activities and to ensure federal funds were being spent on allowable costs and allowed activities.

However, we found the City paid $3,265,122 (or 34 percent of total Program funds) to four service providers in 2011 without receiving adequate supporting documentation. For these costs the City only received un-posted (not finalized) accounting entries (one provider) and/or summary invoices (three providers). This documentation is insufficient to allow the City to determine whether federal funds are paying only for allowable costs and activities. After paying the invoices, the City did not compare un-posted to posted entries to determine that payment was appropriate. The City did not enforce its contract requirement that detailed supporting documents be submitted to verify that payments were for allowable costs and allowable activities.

Additionally, the City did not actively monitor subrecipients to ensure they used grant money only for authorized purposes and in compliance with laws, regulations, and the provisions of contracts and grant agreements. The City's standard approach to monitoring service providers in this program was a desk review of reports of delivered services. It did not review whether the provider requests for funds were based on costs. Further, the City's cost monitoring focuses on whether providers stay within their contract amounts and within budgeted line item accounts. This approach does not ensure that the service providers are paid only for the cost of providing contracted services.

Cause of Condition

The City paid unsupported costs because employees responsible for monitoring service providers focused on paying invoices, rather than whether the payments were based on actual costs. About 40 Human Services Department employees are responsible for monitoring. Some of these employees rely on limited monitoring of the provider organization performed by a single individual to replace ongoing monitoring and review of cost support.

Effect of Condition and Questioned Costs

By reimbursing subrecipient service providers for costs claimed without receiving adequate supporting documentation or otherwise monitoring the subrecipients' use of the funding, the City is unable to ensure costs charged to the grant are allowable.

Because the City did not actively pursue compliance documentation for four subrecipients, we are questioning $3,265,122 of the total Program funds passed through to them in 2011. Additionally, we also question $32,067, the amount of two payments that were made to two other subrecipient service providers. These amounts are subject to recovery by the grantor.

Recommendation

We recommend the City enforce its requirement for adequate supporting documentation and review it before reimbursing subrecipient service providers. We further recommend the City actively monitor the activities of its subrecipients in compliance with federal grant requirements.

City's Response

Thank you for the opportunity to respond to the recommendation. The Human Services Department (HSD) will be taking two sets of actions:

1. Corrective action with the subrecipients.

HSD will inform the subrecipients in writing that beginning with the October 2012 invoices, only documentation of actual expenditures will be accepted with contract *invoices. Documentation will be expected to be detailed enough to ensure that only allowable costs and activities are being reimbursed. Payment to the subrecipients in question will be withheld if invoices are submitted without adequate supporting documentation.*

Agency Supportive Housing Program expenditure records for 2011 and 2012 (through September) will be examined by the assigned HSD Grants & Contract Specialists for compliance with federal requirements for supporting documentation based on actual costs and that all costs requested and paid were allowable. This review will be scheduled to occur prior to the end of 2012.

2. HSD's ongoing internal monitoring process changes:

In 2012, HSD continued implementation of the Department's strategic plan, "Healthy Families, Healthy Communities". As part of the related re-engineering of HSD's contract infrastructure and processes, HSD's agency fiscal and program monitoring process are being enhanced and coordinated to ensure that the agencies we contract with are fiscally and programmatically accountable to us and to our grant requirements. In late 2011 and early 2012, as part of this re-engineering effort, the Department implemented a portion of a more comprehensive, coordinated and proactive approach to agency monitoring. This included:

- *Review of subrecipient contract language to ensure appropriate federal or other funder regulations included in contract.*

- *Trainings on subrecipient monitoring (attended by more than 75 staff) in October, 2011. Training included a presentation by the State Auditor's Office on the importance of subrecipient monitoring and an overview of new Department tools for comprehensive agency fiscal monitoring.*

- *Enhanced Agency Comprehensive Fiscal Review process. New tool implemented in 2012 for HSD Fiscal Audit Specialist review of agency fiscal health and infrastructure. Criteria and process for selecting agencies for review implemented in early 2012.*

- *Subgroups on specific monitoring topics convened on an ad hoc basis, including discussions on subrecipient designation, and sessions on monitoring coordination and training needs.*

- *Staff workgroups convened in late 2011 through spring 2012 to discuss the roles, scope of work and training needs of staff. This included staff who perform contracting and monitoring functions with the department. The workgroups concluded in March 2012, and job descriptions and training plans are being developed for implementation in 2013.*

Moving forward, the Department will continue strengthening clarity of roles, as well as development of tools and processes that will improve our subrecipient monitoring efforts. Immediate next steps to occur by December 2012 include:

- *Developing a schedule for desk and site reviews for each agency contract*
- *Identifying verification process for services and expenses*
- *Establishing or reaffirming expectations for back-up documentation*

- *Identifying triggers for agency technical assistance, corrective action*
- *Agreeing upon monitoring tools to be used Departmentwide*
- *Determining supervisor expectations for monitoring/verification*
- *Tying monitoring expectations to staff job duties and evaluations*
- *Educating HSD staff, supervisors on difference between Fiscal Audit Specialist role and role of division contract staff.*

Auditor's Remarks

We appreciate the City's commitment to resolve this finding and thank the City for its cooperation and assistance during the audit. We will review the corrective action taken during our next regular audit.

Applicable Laws and Regulations

24 Code of Federal Regulations, Section 85, Administrative requirements for grants and cooperative agreements to State, local and federally recognized Indian tribal governments, states, in part:

> § 85.40 Monitoring and reporting program performance.
>
> > (a) Monitoring by grantees. Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity.
>
> § 85.21 Payment.
>
> > (a) Scope. This section prescribes the basic standard and the methods under which a Federal agency will make payments to grantees, and grantees will make payments to subgrantees and contractors.
> >
> > (d) Reimbursement. Reimbursement shall be the preferred method when the requirements in paragraph (c) of this section are not met. Grantees and subgrantees may also be paid by reimbursement for any construction grant. Except as otherwise specified in regulation, Federal agencies shall not use the percentage of completion method to pay construction grants. The grantee or subgrantee may use that method to pay its construction contractor, and if it does, the awarding agency's payments to the grantee or subgrantee will be based on the grantee's or subgrantee's actual rate of disbursement.

U.S Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations,* states in part:

> Section 105
>
> > Pass-through entity means a non-Federal entity that provides a Federal award to a subrecipient to carry out a Federal program.

Subrecipient means a non-Federal entity that expends Federal awards received from a pass-through entity to carry out a Federal program, but does not include an individual that is a beneficiary of such a program.

Section 300

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 the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

Section 400

(d) Pass-through entity responsibilities. A pass-through entity shall perform the following for the Federal awards it makes:

(2) Advise subrecipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity.

(3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

(4) Ensure that subrecipients expending $300,000 ($500,000 for fiscal years ending after December 31, 2003) or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.

(5) Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.
(6)Consider whether subrecipient audits necessitate adjustment of the pass-through entity's own records.

(7) Require each subrecipient to permit the pass-through entity and auditors to have access to the records and financial statements as necessary for the pass-through entity to comply with this part.

Section 405 - Management decision

(a) General. The management decision shall clearly state whether or not the audit finding is sustained, the reasons for the decision, and the expected auditee action to repay disallowed costs, make financial adjustments, or take other action. If the auditee has not completed corrective action, a timetable for follow-up should be given. Prior to issuing the management decision, the Federal agency or pass-through entity may request additional information or documentation from the auditee, including a request for auditor assurance related to the documentation, as a way of mitigating disallowed costs.

Schedule of Federal Audit Findings and Questioned Costs

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3. The City's internal controls were inadequate to ensure payments to subrecipients were supported and subrecipients' activities were adequately monitored.

CFDA Number and Title:	14.218 and 14.253 ARRA - Community Development Block Grant - Entitlement Grants Cluster
Federal Grantor Name:	U.S. Department of Housing and Urban Development
Federal Award/Contract Number:	Multiple awards
Pass-through Entity Name:	NA
Pass-through Award/Contract Number:	NA
Questioned Cost Amount:	$266,498 (non-ARRA) $0 (ARRA)

In 2011, the City spent $9,414,455 in federal Community Development Block Grant funds, $819,646 of which came from the American Recovery and Reinvestment Act. About $6.2 million was paid to area organizations that provide services such as housing and community and economic development.

Federal regulations require recipients of federal funds to establish and follow internal controls to ensure program requirements are met. These controls include monitoring subrecipients' use of federal money through reporting, site visits, regular contact or other means to provide reasonable assurance of compliance with laws, regulations and contracts and grant agreements and to determine if they are achieving performance goals. The City has the ultimate responsibility for compliance with federal regulations.

Description of Condition

We examined supporting documentation for randomly selected payments to service providers. We found that the City's monitoring is inadequate to ensure subrecipients are managing federal funds in compliance with laws, regulations and contracts and agreements. We also found instances of inadequate documentation and identified questioned costs.

Undocumented payments: We found City employees overseeing the providers did not have enough documentation to determine whether the City was paying only allowable costs.

Controls over allowable costs: City grants and contracts specialists are responsible for reviewing and approving payments to service providers. They are to ensure providers' invoices are supported with records of actual costs. We found some specialists were unaware of the general cost principles that require invoices to be based on costs, rather than on budgeted amounts.

Controls over allowable activities: To ensure federal funds pay only for allowable activities, grants and contracts specialists also are responsible for ensuring the providers deliver services required by the contract. We found that specialists do not perform the basic steps to verify services have been provided. In one case, an evaluation of whether a 2011 program reached its goals was not completed when we requested it in July 2012. Consistently, City staff told us they rely on information from the service providers; we found they do not verify it. We concluded that the grants and contract specialists are not performing adequate monitoring to ensure that only allowable activities are funded with federal money.

Subrecipient monitoring: It appears the City has a reasonable process in place to perform periodic fiscal monitoring which is a review of service providers' overall activities and fiscal health. However, grants and contracts specialists do not perform adequate ongoing monitoring.

- Ongoing monitoring: When asked about ongoing compliance-monitoring activities, grants and contracts specialists consistently pointed us to one individual responsible for the periodic fiscal monitoring of all service providers. Periodic fiscal monitoring is not a substitute for ongoing compliance monitoring even if it were performed for every service provider every year. Further, when the periodic fiscal monitoring identified issues with a service provider, monitoring efforts for that provider and other service providers who have similar characteristics were not consistently increased.

- Award identification controls and compliance: The City did not accurately identify federal awards in agreements with some subrecipients as required by grant rules. Specifically, the Catalog of Federal Domestic Assistance (CFDA) number was missing or incorrectly identified in some contracts. Correct identification of federal awards is crucial to subrecipients' compliance with federal grant requirements and to the City's ability to approve only allowable sub-award activities. We noted that individuals responsible for preparing subrecipient agreements did not update them with most current and relevant CFDA number, even though the name of the federal award (e.g. CDBG-R) was properly identified. As a result, some subrecipients received incorrect information and others received conflicting information about the federal awards the City sub-granted to them.

Cause of Condition

The City paid unsupported costs because responsible employees focus their attention on paying the service providers' invoices, rather than ensuring providers' invoices are adequately documented. Some of the grants and contracts specialists do not seem to know of or understand federal grant cost principles. Many specialists have also been assigned other tasks and duties which reduce the amount of time they have to spend on basic monitoring responsibilities.

About 40 Human Services Department employees are responsible for ongoing monitoring. Some of these employees mistakenly rely on periodic fiscal monitoring performed by a single individual to replace ongoing monitoring and obtaining actual cost support.

Further, it appears that some specialists are struggling to balance their (Same comments as above – thanks.) responsibilities for requiring adequate documentation and for performing ongoing monitoring with other duties, despite training on monitoring and other efforts by Department management.

Additionally, the templates used for sub-award agreements were not updated to include the most accurate award information. Contract review processes did not work to identify errors and omissions of award information.

Effect of Condition and Questioned Costs

By reimbursing subrecipients for costs claimed without adequate supporting documentation or otherwise adequately monitoring the subrecipient's use of the funding, the City is unable to ensure costs charged to the grant are allowable. Because the City did not actively enforce federal regulations regarding allowable costs, we are questioning $266,498 of the total amount of Block Grant funds passed through to one subrecipient in 2011. This amount is subject to recovery by the grantor.

One service provider received multiple findings from its external auditor for not maintaining adequate payroll documentation. We verified that the service provider's invoices to the City had no documentation of payroll costs. In 2010, we questioned costs paid to this service provider in connection with another federally funded grant and the service provider appropriately repaid unsupported payroll-related costs to the City. During this audit, the grants and contracts specialist told us that those findings were not related to the Block Grant-funded contract she monitors and therefore she did not take additional steps to ensure the service provider's reimbursements for payroll costs were supported. As a result, we are reporting both a control deficiency and questioned costs for this program.

Additionally, because subrecipients received incorrect federal award information, they may believe they are subject to inappropriate or incorrect compliance requirements, which can result in City's noncompliance.

Recommendation

We recommend the City perform the following:

- Reimburse subrecipient service providers for costs only after adequate supporting documentation has been obtained and reviewed.
- Actively monitor the activities of its subrecipients in compliance with federal grant requirements.
- Controls over subawards be strengthened to ensure correct information is provided to subrecipients.

City's Response

Thank you for the opportunity to respond to the recommendation. The Human Services Department (HSD) will be taking two sets of actions:

1. Corrective action with the subrecipient.

HSD will inform the subrecipient in writing that beginning with the October 2012 invoices, only documentation of actual expenditures will be accepted with contract invoices. Payroll and other documentation will be expected to be detailed enough to ensure that only allowable costs and activities are being reimbursed. Payment to the subrecipient in question will be withheld if invoices are submitted without adequate supporting documentation.

Agency Community Development Block Grant expenditure records for 2011 and 2012 (through September) will be examined by the assigned HSD Grants & Contract Specialist for compliance with federal requirements for supporting documentation based on actual costs and that all costs requested and paid, particularly payroll, were allowable. This review will be scheduled to occur prior to the end of 2012.

2. HSD's ongoing internal monitoring process changes:

In 2012, HSD continued implementation of the Department's strategic plan, "Healthy Families, Healthy Communities". As part of the related re-engineering of HSD's contract infrastructure and processes, HSD's agency fiscal and program monitoring process are being enhanced and coordinated to ensure that the agencies we contract with are fiscally and programmatically accountable to us and to our grant requirements. In late 2011 and early 2012, as part of this re-engineering effort, the Department implemented a portion of a more comprehensive, coordinated and proactive approach to agency monitoring. This included:

- *Review of subrecipient contract language to ensure appropriate federal or other funder regulations included in contract.*

- *Trainings on subrecipient monitoring (attended by more than 75 staff) in October, 2011. Training included a presentation by the State Auditor's Office on the importance of subrecipient monitoring and an overview of new Department tools for comprehensive agency fiscal monitoring.*

- *Enhanced Agency Comprehensive Fiscal Review process. New tool implemented in 2012 for HSD Fiscal Audit Specialist review of agency fiscal health and infrastructure. Criteria and process for selecting agencies for review implemented in early 2012.*

- *Subgroups on specific monitoring topics convened on an ad hoc basis, including discussions on subrecipient designation, and sessions on monitoring coordination and training needs.*

- *Staff workgroups convened in late 2011 through spring 2012 to discuss the roles, scope of work and training needs of staff. This included staff who perform contracting and monitoring functions with the department. The workgroups* *concluded in March 2012, and job descriptions and training plans are being developed for implementation in 2013.*

Moving forward, the Department will continue strengthening clarity of roles, as well as development of tools and processes that will improve our subrecipient monitoring efforts. Immediate next steps to occur by December 2012 include:

- *Developing a schedule for desk and site reviews for each agency contract*
- *Identifying verification process for services and expenses*
- *Establishing or reaffirming expectations for back-up documentation*
- *Identifying triggers for agency technical assistance, corrective action*
- *Agreeing upon monitoring tools to be used Departmentwide*
- *Determining supervisor expectations for monitoring/verification*
- *Tying monitoring expectations to staff job duties and evaluations*
- *Educating HSD staff, supervisors on difference between Fiscal Audit Specialist role and role of division contract staff.*

Auditor's Remarks

We appreciate the City's commitment to resolve this finding and thank the City for its cooperation and assistance during the audit. We will review the corrective action taken during our next regular audit.

Applicable Laws and Regulations

24 Code of Federal Regulations, Section 85, Administrative requirements for grants and cooperative agreements to State, local and federally recognized Indian tribal governments, states, in part:

> § 85.40 Monitoring and reporting program performance.
>
> > (a) Monitoring by grantees. Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity.
>
> § 85.21 Payment.
>
> > (a) Scope. This section prescribes the basic standard and the methods under which a Federal agency will make payments to grantees, and grantees will make payments to subgrantees and contractors.
> >
> > (d) Reimbursement. Reimbursement shall be the preferred method when the requirements in paragraph (c) of this section are not met. Grantees and subgrantees may also be paid by reimbursement for any construction grant. Except as otherwise specified in regulation, Federal agencies shall not use the percentage of completion method to pay construction grants. The grantee or subgrantee may use that method to pay its construction

contractor, and if it does, the awarding agency's payments to the grantee or subgrantee will be based on the grantee's or subgrantee's actual rate of disbursement.

U.S Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations,* states in part:

Section 105

Pass-through entity means a non-Federal entity that provides a Federal award to a subrecipient to carry out a Federal program.

Subrecipient means a non-Federal entity that expends Federal awards received from a pass-through entity to carry out a Federal program, but does not include an individual that is a beneficiary of such a program.

Section 300

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 the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

Section 400

(d) Pass-through entity responsibilities. A pass-through entity shall perform the following for the Federal awards it makes:

(2) Advise subrecipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity.

(3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

(4) Ensure that subrecipients expending $300,000 ($500,000 for fiscal years ending after December 31, 2003) or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.

(5) Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report

and ensure that the subrecipient takes appropriate and timely corrective action.

(6) Consider whether subrecipient audits necessitate adjustment of the pass-through entity's own records.

(7) Require each subrecipient to permit the pass-through entity and auditors to have access to the records and financial statements as necessary for the pass-through entity to comply with this part.

Section 405 - Management decision

(a) General. The management decision shall clearly state whether or not the audit finding is sustained, the reasons for the decision, and the expected auditee action to repay disallowed costs, make financial adjustments, or take other action. If the auditee has not completed corrective action, a timetable for follow-up should be given. Prior to issuing the management decision, the Federal agency or pass-through entity may request additional information or documentation from the auditee, including a request for auditor assurance related to the documentation, as a way of mitigating disallowed costs.

Schedule of Federal Audit Findings and Questioned Costs

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4. The City did not have processes to ensure it complied with Conservation Research and Development grant requirements.

CFDA Number and Title:	81.086 ARRA - Conservation Research and Development
Federal Grantor Name:	U.S. Department of Energy
Federal Award/Contract Number:	DE-EE0002020
Pass-through Entity Name:	Puget Sound Clean Air Agency
Pass-through Award/Contract Number:	Inter-local Agreement Nos. 2011010-0IAA and 2010000035
Questioned Cost Amount:	$0

In 2011 the City spent $592,476 in grant money from the federal American Recovery and Reinvestment Act's Conservation Research and Development program, including $423,756 for electric vehicle charging stations. The Puget Sound Clean Air Agency passed the money through to the City.

Federal grant rules require the City has both appropriate internal controls and complies with grant requirements. Auditors must report lack of appropriate controls even if the grantee complies with those requirements.

Description of Condition

We examined the City's processes to ensure compliance related to grant requirements. We found the City had deficiencies in internal controls over compliance requirements for the grant award that, when taken as a whole, constituted a significant deficiency:

Federal prevailing wages: The two public works contracts the City used to install electric vehicle charging stations did not have required Davis Bacon (prevailing wage) Act contract terms. We reviewed the amounts paid to workers and noted the contractor paid prevailing wages.

Procurement, Suspension and Debarment: The City used existing public works contracts to perform work that was partially funded by the grant. Two contracts did not have the Recovery Act-required "Buy American" contract terms. Further, for one contract, the City did not ensure compliance with Suspension and Debarment compliance requirements by comparing contractors to lists of contractors suspended or debarred from receiving federal money. We performed this comparison and noted that contractors were not suspended or debarred.

Recovery Act special provisions: The City's controls did not ensure compliance with grant provisions specifically related to the Recovery Act. The City separately tracked Recovery Act-related costs under an incorrect federal identification number. The incorrect number was entered when the City set up the accounting for this grant in its central accounting system. The City reported the correct amount of federal expenditures on the Schedule of Expenditures of Federal Awards under an incorrect number. Existing controls did not identify these errors before our audit.

Control deficiency related to equipment tracking: The City did not ensure staff knew of its responsibility to document in the citywide asset management record the portion of costs paid with federal grant funds. Current city procedures do not require this detail in the asset management systems. This can allow noncompliance with grant requirements if equipment purchased with grants is sold without notice or payment to the federal granting agency.

Cause of Condition

The program manager used existing contracts to perform work under this Recovery Act-funded program that were not tailored to conform to Recovery Act requirements.

Also, the City did not do a sufficiently detailed review of the Schedule of Expenditures of Federal Awards to ensure expenditures were reported under the correct federal number.

The program manager was not aware of the rules related to identification and disposition of assets purchased with federal funds.

Effect of Condition

The following summarizes control deficiencies and noncompliance described above:

	Control deficiency	Non-compliance	Effect
Prevailing wages	Yes	Yes	Two public works contracts did not contain required terms. We determined prevailing wages were paid and certified weekly payrolls were obtained.
Equipment tracking	Yes	No	City risks noncompliance when equipment is disposed as City currently does not require the grant funding details in City's asset systems.
Procurement	Yes	Yes	Two public works contracts did not contain required "Buy American" terms.
Suspension and debarment	Yes	Yes	City cannot demonstrate compliance. However, we determined the contractors are not suspended or debarred.
Recovery Act Tracking and Reporting	Yes	Yes	Errors in annual reporting.

Recommendation

We recommend the City establish internal controls to ensure:

- All contracts related to this grant are amended to include required terms and use this process for selecting contracts for federal grant-funded projects in the future.

- Accounting and reporting records are updated to ensure they accurately identify the source of federal funding and accurately report how they spend it.

- Project managers and accountants are aware of the need to include in the equipment records the portion of costs paid with federal grant funds.

- Schedule of Expenditures of Federal Awards reports the correct federal identification number.

City's Response:

The City agrees that the observations for the grant (CFDA# ***81.086)*** *referred above are true for the following areas:*

1. *Federal prevailing wages*
2. *Procurement, Suspension and Debarment*
3. *Recovery Act special provisions*
4. *Control deficiency related to equipment tracking*

To address the related grant compliance and internal control issues, the City has established additional controls to ensure grant requirements as follows:

- *The City has modified requisition forms to identify if federal funds are, or may be, used for the acquisition.*

- *The City has modified the Contract Summary Page to remind City users that general contracts are not appropriate for federally funded acquisitions.*

- *The City has revised the procurement documents to include the Davis Bacon requirements as a default in every solicitation and contract.*

- *Prevailing wage language is now included in every contract, and additional Davis Bacon wage requirements were added for all federal grant funded contracts.*

- *The City has made two changes to meet the debarment and suspension requirement. First: add an affirmation in the contractor documents that they (and all subcontractors) are not debarred; Second: add this requirement to the checklists for the contract execution to ensure staff to complete manual verification and maintain the evidence.*

  - *The City is currently in the process of reviewing and implementing additional controls to ensure that all CFDA numbers for grant reporting are accurately and properly reported. FAS Accounting has reviewed all CFDA numbers for current projects funded by federal grants and there is no other CFDA issues. FAS Accounting has a new requirement for the* *grant accountant 1) enter in Summit the correct CFDA numbers set up by Citywide Accounting based on the grant agreements, and 2) review the results in the Summit report.*

- *The City is currently in the process of reviewing and updating the City's Asset Policy to ensure that grant details are included in the asset records. FAS Accounting is committed to follow City's accounting policies and procedures. Currently, Citywide Accounting will be working in collaboration with City Department Accounting Units including FAS Accounting Unit to design and implement a process and practice for tracking assets acquired with grant monies in City's Asset Management Module (AM). The City's FAS Fleets Division has already revised the fleet management system to include grant details in the vehicle asset records.*

Auditor's Remarks

We appreciate the City's commitment to resolve this finding and thank the City for its cooperation and assistance during the audit. We urge the City to take steps to address all areas for which control deficiencies were identified above. We will review the corrective action taken during our next regular audit.

Applicable laws and Regulations

29 Code of Federal Regulations 5.5 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 Sec. 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.

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 the 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.

Title 2 Code of Federal Regulations, Section 180.220 states in part:

§180.220 Are any procurement contracts included as covered transactions?

(b) Specifically a contract for goods or services is a covered transaction if any of the following applies:

(1) The contract is awarded by a participant in a nonprocurement transaction that is covered under Sec 180.210 and the amount of the contract is expected to equal or exceed $25,000.

Title 2 Code of Federal Regulations Section 180.300 states:

§180.300 What must I do before I enter into a covered transaction with another person at the next lower tier?

When you enter into a covered transaction with another person at the next lower tier you must verify that the person with whom you intend to do business is not excluded or disqualified. You do this by:

(a) Checking the EPLS; or
(b) Collecting a certification from that person if allowed by this rule; or
(c) Adding a clause or condition to the covered transaction with that person.

The BUY AMERICAN provisions in Title XVI, Section 1605 of the American Recovery and Reinvestment Act of 2009 provide, in summary, that projects involving construction, alteration, maintenance or repair of public buildings or public works must be accomplished using iron, steel and manufactured goods produced in the United States. ARRA allows federal agencies to waive these requirements under specified circumstances. Grantees must include this Buy American provision in all public works contracts paid with ARRA funds.

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5. The City of Seattle's internal controls related to accounting for federal grants revenues and expenditures, including those over equipment purchased with federal funds, are inadequate.

Background

All governments that spend federal money must have internal controls that ensure they can identify transactions related to specific grants. These systems must accurately track receipts, expenditures, reports, etc. Specific grant management rules are described in detail in the Criteria section of this finding.

Most City of Seattle departments use the centralized financial management system known as Summit to track receipts and uses of federal grant funds. Departments can set up Summit projects and link them to known federal funding sources. These sources are identified for each grant award by the Catalog of Federal Domestic Assistance (CFDA) numbers. Grant receipts and charges are automatically linked to related funding sources. Summit allows the City to keep grant accounting records in a way that maintains control over grant compliance and reporting.

Our audit identified deficiencies in controls that adversely affect the City's ability to identify transactions related to federal grants, which in turn affects the City's ability to comply with grant requirements.

Description of Condition

Our audit identified the following deficiencies, that when taken together, represent a significant deficiency:

The City does not require all departments to use Summit consistently and has not established clear guidelines for accounting for all grant-related transactions. Some departments do not consistently use Summit to track federal grant activity. For example, three City departments do not set up Summit projects in the manner described above and are not able to generate a report of federal expenditures using Summit. These departments have manual systems and processes that rely heavily on lists kept outside of Summit, which can result in risk of reporting errors and in difficulty providing detailed information about receipts and expenditures of federal funds.

The City does not have an effective oversight process to review grant information that is reported on the Schedule of Expenditures of Federal Awards. When they set up grant accounting procedures, some departments incorrectly identified the funding source to which they linked Summit projects. When Citywide Accounting used Summit to generate the required annual Schedule of Expenditures of Federal Awards (SEFA), the incorrect funding source appeared. The City's process to review the accuracy of the SEFA did not identify the errors because the person performing the review does not have all the necessary information to determine whether the reporting is correct.

The City lacks procedures to ensure departments record all assets in the asset management system. As it is currently used, the City's asset management system does not maintain all of the required information, such as the federal share of the cost, how the asset is used for a federal purpose, etc. Instead of keeping records in the citywide asset management system, the City relies on project records maintained by departments. Additionally, some assets are not included in the Asset Management system at all. For example, the Fleet Services Division tracks the equipment it manages and provides to other departments in a separate system.

As a result, the person responsible for disposal of equipment does not have all pertinent equipment records and has to rely on others to communicate to him the federal grant-related nature of assets. Even if departments properly communicate this information, he has no efficient way to communicate to departments when sold or traded assets generate revenue, so that information can be reported to the original grantor.

Cause of Condition

The City is prioritizing providing departments' flexibility in using the Summit accounting system over ensuring consistency in accounting and reporting.

The City lacks centralized oversight of grants management, As a result, the City's corrective action to address prior grant issues were focused on individual departments, rather than on city-wide grants management controls, systems, and monitoring.

The Summit Asset Management system, as it is used by the City, is not able to maintain all the required information because that capability was not activated when the system was installed.

Effect of Condition

In some cases, the City's financial management processes and systems are not consistent with rules established for all recipients of federal funds. The risk of noncompliance with grant requirements increases when appropriate financial management controls are not consistently applied by all departments.

The City of Seattle's Schedule of Expenditures of Federal Awards, which is used to report the City's spending of each federal program's funds, contained errors undetected prior to our audit. Accurate reporting is also crucial to the City's compliance with grant audit requirements.

Reported Federal Program (Agency and CFDA)	Corrected Federal Program (Agency and CFDA)	Error Amount
81.129	81.086	$ 592,476
16.580	16.738	$ 566,732
81.128	81.087	$ 300,000
81.128	81.122	$ 16,300
20.507*	20.507*	*$ 522,750

*This amount was underreported in 2010 and included in 2011 SEFA.

Further, incomplete and decentralized recordkeeping represents a deficiency in controls over equipment management and results in increased risk that equipment purchased with grants could be repurposed, sold or otherwise disposed without notice or payment to the federal granting agency.

Recommendation

Grants management

We recommend the City establish clear guidelines and expectations for departments to use grant management accounting and recordkeeping systems, and appropriately prioritize grant management processes in its current design efforts for future accounting systems.
Further, we noted the City has a better grant reporting system today than it did before 2010. However, the recent improvements focused on grants funded by the American Recovery and Reinvestment Act. To ensure internal controls and compliance are consistent for all grants, we recommend the City establish centralized oversight of grants management.

- The individual responsible for this function would ensure departments use the correct program funding identification number by comparing it to source documents such as grant awards, cooperative agreements, etc.

- This individual would also review annual and other periodic reports for accuracy. A review of audits and studies related to City's federal funds should be done to coordinate a city-wide response to their conclusions. This person would be in best position to identify causes of noncompliance and recommend appropriate remedies such as additional training, system improvements, and process efficiencies.

- The individual would serve as a centralized expert on federal compliance and provide guidance and advice to managers across all City departments. Since this person would already have the grant documents to perform the first function, she/he could help coordinate consistent training and provide other knowledge resources to individual project managers. This person would also be able to monitor and report on the City's progress toward improved grant management and compliance.

Equipment management

We recommend the City use the centralized asset management system in a way that results in equipment recordkeeping consistent with federal requirements. All assets that are required to be tracked should be tracked in the centralized system at the required level of detail. This would allow managers at any City department to know when equipment purchased with federal funds is being moved, assigned or reassigned to specific uses, generates revenue when it is being sold or otherwise disposed, and allow them to report to federal grantor as required.

City's Response

The City appreciates the recommendations of the Washington State Auditor's Office.

The City recognizes that centralized oversight of grants management would be in the best interest of the City. The City will propose such a position in the 2014 budget process. The ultimate approval will lie with the Mayor's Office and the City Council.

Prior to this, the City will assess where interim steps can be taken to improve the internal controls relating to accurate identification of program funding identification numbers which will increase assurances that the appropriate grant compliance requirements are being met. The City will also assess training needs for departments that receive grant funding.

The City continues with our Citywide Financial Management and Accountability Program (FinMAP).

On November 21, 2011, the City Council and the Mayor signed a resolution affirming their support for the FinMAP program that creates common financial management policies and procedures in order to standardize the use of the financial system throughout the City. The resolution states that the Department of Finance and Administrative Services, in partnership with the FinMAP Advisory Group, is responsible for implementing and managing FinMAP for the City of Seattle. And, that the Department of Finance and Administrative services will develop and maintain standardized financial management policies and procedures resulting from FinMAP standardization and the upgrade of the financial system.

In 2012, the City embarked upon a Project Costing Standardization project under the umbrella of the FinMAP Program. This project is identifying business process changes, organizational impacts, changes to standards, policies and procedures to move towards citywide standard processes for project costing. Included in this process will be the analysis of the existing financial system and improvements which can be made through best practices.

The results of this work will address the recommendations of this audit to utilize the City's financial systems in a uniform manner to track federal grant activity. This will provide a more transparent and robust process for grant tracking. The current schedule for the completion of this project is in 2015.

The City plans to implement a citywide practice to track assets funded by grant monies in our centralized asset management system in a way that is consistent with federal requirements.

Auditor's Remarks

We appreciate the City's commitment to resolve this finding and thank the City for its cooperation and assistance during the audit. We will review the corrective action taken during our next regular audit.

Applicable Laws, Rules, and Regulations

The uniform grant management standards were set by Office of Management and Budget's Circular A-102 (the Common Rule) and later incorporated into Code of Federal Regulations (CFR) by each federal agency. For example, the US Department of Transportation adopted the grant management common rule into 49 CFR 18. Other federal agencies adopted the Common Rule in other CFR Titles. The Office of Management and Budget provides a schedule to help identify the most relevant rules at http://www.whitehouse.gov/omb/grants_chart/.

Because the City of Seattle receives grants directly from federal agencies and as pass-throughs from the state, all of the standards for financial management systems below are applicable.

Grants Management Common Rule, Standards for financial management systems:

(a) A State must expand and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to—

> (1) Permit preparation of reports required by this part and the statutes authorizing the grant, and
>
> (2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

(b) The financial management systems of other grantees and subgrantees must meet the following standards:

> (1) *Financial reporting.* Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.
>
> (2) *Accounting records.* Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.
>
> (3) *Internal control.* Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.
>
> (4) *Budget control.* Actual expenditures or outlays must be compared with budgeted amounts for each grant or subgrant. Financial information must be related to performance or productivity data, including the development

of unit cost information whenever appropriate or specifically required in the grant or subgrant agreement. If unit cost data are required, estimates based on available documentation will be accepted whenever possible.

(5) *Allowable cost.* Applicable OMB cost principles, agency program regulations, and the terms of grant and subgrant agreements will be followed in determining the reasonableness, allowability, and allocability of costs.

(6) *Source documentation.* Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc.

(7) *Cash management.* Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used. Grantees must establish reasonable procedures to ensure the receipt of reports on subgrantees' cash balances and cash disbursements in sufficient time to enable them to prepare complete and accurate cash transactions reports to the awarding agency. When advances are made by letter-of-credit or electronic transfer of funds methods, the grantee must make drawdowns as close as possible to the time of making disbursements. Grantees must monitor cash drawdowns by their subgrantees to assure that they conform substantially to the same standards of timing and amount as apply to advances to the grantees.

(c) An awarding agency may review the adequacy of the financial management system of any applicant for financial assistance as part of a preaward review or at any time subsequent to award

Grants Management Common Rule, Standards for Equipment:

(b) *States.* A State will use, manage, and dispose of equipment acquired under a grant by the State in accordance with State laws and procedures. Other grantees and subgrantees will follow paragraphs (c) through (e) of this section.

(c) *Use.* (1) Equipment shall be used by the grantee or subgrantee in the program or project for which it was acquired as long as needed, whether or not the project or program continues to be supported by Federal funds. When no longer needed for the original program or project, the equipment may be used in other activities currently or previously supported by a Federal agency.

(2) The grantee or subgrantee shall also make equipment available for use on other projects or programs currently or previously supported by the Federal Government, providing such use will not interfere with the work on the projects or program for which it was originally acquired. First preference for other use shall be given to other programs or projects supported by the awarding agency. User fees should be considered if appropriate.

(d) *Management requirements.* Procedures for managing equipment (including replacement equipment), whether acquired in whole or in part with grant funds, until disposition takes place will, as a minimum, meet the following requirements:

> (1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.
>
> (5) If the grantee or subgrantee is authorized or required to sell the property, proper sales procedures must be established to ensure the highest possible return.

(e) *Disposition.* When original or replacement equipment acquired under a grant or subgrant is no longer needed for the original project or program or for other activities currently or previously supported by a Federal agency, disposition of the equipment will be made as follows:

> (1) Items of equipment with a current per-unit fair market value of less than $5,000 may be retained, sold or otherwise disposed of with no further obligation to the awarding agency.
>
> (2) Items of equipment with a current per unit fair market value in excess of $5,000 may be retained or sold and the awarding agency shall have a right to an amount calculated by multiplying the current market value or proceeds from sale by the awarding agency's share of the equipment.
>
> (3) In cases where a grantee or subgrantee fails to take appropriate disposition actions, the awarding agency may direct the grantee or subgrantee to take excess and disposition actions.

Schedule of Audit Findings and Responses

City of Seattle
King County
January 1, 2011 through December 31, 2011

6. The City of Seattle lacks adequate internal controls over financial transactions, which increases the risk of errors in financial reports.

Background

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

Certified public accounting firms audited the fund financial statements of Seattle City Light and Seattle Public Utilities, consisting of the Water, Drainage and Wastewater, and Solid Waste Funds and provided their reports to our Office. We are responsible for reporting internal control deficiencies that affect the City's financial reporting.

Description of Condition

The certified public accounting firms' audits identified the following deficiencies in internal controls over financial reporting that, in those firms' judgment constituted significant deficiencies:

Seattle City Light

- The Department does not adequately monitor customer billing account adjustments that reduce amounts owed. The report stated an "overwhelming" number of employees are able to adjust customer billing rates and use with little or no review; make billing adjustments and alternative billing arrangements; make significant adjustments to customer bills as a result of keying errors; and adjust their own bills.
- The Department does not have adequate controls over systems in place to receive payments.
- At numerous points in the Department's payment processes, duties are not segregated, documentation is lacking and controls over money collected are inadequate.
- The Department has an elevated risk of misappropriation of funds due to the numerous individuals and departments handling payments prior to deposit.

Seattle Public Utilities

- No adequate detailed review of user access to the Consolidated Customer Service System.

- The Department does not have formal policies and procedures for reviewing, approving and monitoring billing adjustments.
- No system-enforced controls are in place to restrict users from making adjustments to their own accounts.
- Some computer system developers can make changes to the system without oversight.

Cause of Condition

Seattle City Light

City Light program managers and those who receipt cash do not cooperatively work to monitor the expected revenues to actual.

Customer billing control issues stem from inconsistent utility account adjustment policies and processes.

Seattle Public Utilities

Existing procedures and technical system capabilities were insufficient to provide the necessary controls over access to utility accounts by employees. Our audits have noted this before. The Department is working to correct the condition.

Effect of Condition

The significant deficiencies in internal controls described above make it reasonably possible that financial statement errors could occur and not be detected by the City.

Recommendation

Seattle City Light

We and the certified public accounting firms recommend the City:

- Require employees to disclose to Department management all accounts in which they have an interest.
- Closely monitor all adjustments, customer payment agreements and arrangements involving employees' accounts.
- Establish a computerized monitoring process to help identify account adjustments that represent the highest risk.
- Periodically evaluate the effectiveness of the monitoring process to ensure it is operating as intended.
- Consider reviewing historical billing adjustments made by City employees to their utility accounts.

- To ensure control over payment receipts, require all payments to be submitted directly to appropriate payment processing facilities such as designated lockboxes, neighborhood centers and utility service centers.

- Establish individual lockboxes specifically for payments for utility billings, escrow payments, surplus sales, conservation programs, rental properties and miscellaneous.

Seattle Public Utilities

We recommend that Utilities management periodically review user access rights and permissions to ensure access is appropriate and that access conflicts are addressed. The review should include:

- Verification that all user accounts are assigned to active employees.

- User account rights and permissions are directly aligned with the employee's position duties and responsibilities.

- User account rights and permissions are evaluated for conflicts that would prevent appropriate separation of critical business duties. Where conflicting duties cannot be separated, appropriate compensating controls should be identified and in place.

- A department manager or individual responsible for the functional data performs the review.

- User accounts with privileged or elevated access are limited to only those individuals with a proven need for this level of access.

Seattle Public Utilities management should develop formal policies and procedures for detail review of billing transactions. Documentation of review results should be maintained for audit. Effectiveness of controls should be regularly assessed.

Ability to make changes to computer systems should be segregated to unique users and be monitored.

City's Response

Seattle City Light

During June 2011, the Department conducted and concluded an internal review of the Department's billing adjustments for the period of July 2009 through December 2010. While the internal review found that the adjustments to customer bills made by the Department appeared to be well founded and appropriate, there were a number of recommendations to improve the overall management controls of the account adjustment process. Many of the recommendations address the audit issues listed above:

The Department began implementing the following recommended improvements in 2011.

- *Employees, both current and new, must sign a confidentiality agreement stating employees are not to work on their own accounts or that of family and friends. The Department has discussed new disclosure requirements with the Department's unions; however, current union requirements prohibit the Department from requiring employees to disclose accounts of interest.*

- *Weekly, a report of account adjustments over $250 and a report of account adjustments for accounts identified with employers of "Seattle City Light", "City of Seattle", and variations thereof, are prepared and reviewed by the Department's Customer Care management.*

- *Employees were trained on enhanced standards for the use and documentation of adjustment codes.*

- *Responsibilities by employee position and related CCSS access are currently in the process of evaluation by management. Access to CCSS functions will be reduced or eliminated, by employee as appropriate, based upon the new position requirements. This process will be completed by third quarter 2012.*

The Department will be implementing a new billing system scheduled for 2014. While the Department will continue to focus on strengthening and improving controls, many of the computerized internal controls will occur when the new system is implemented.

Seattle Public Utilities

- *SPU has made significant changes since the beginning of 2012 to control user access and will have a formally adopted procedure to centrally review and manage user access. This new procedure will address all of the bulleted recommendations made above by the State Auditor.*

- *SPU has been conducting numerous types of billing transaction reviews and is using informal procedures as we try out different methods for doing so. Testing of these methods should be complete by year-end of 2012 and formally adopted procedures will be developed and implemented in 2013.*

- *The customer billing system is being redesigned and discussions are ongoing regarding the computer user controls and segregation of duties.*

Auditor's Remarks

We appreciate the City's commitment to resolve this finding and thank the City for its cooperation and assistance during the audit. We will review the corrective action taken during our next regular 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.

AICPA Audit Guide: Government Auditing Standards and Circular A-133 Audits describes government auditing standards related to significant deficiencies reported by other auditors at Table 4-3 (AAG-SLA 4.47).

Schedule of Prior Federal Audit Findings

City of Seattle
King County
January 1, 2011 through December 31, 2011

This schedule presents the status of federal findings reported in prior audit periods. The status listed below is the representation of the City of Seattle. The State Auditor's Office has reviewed the status as presented by the City.

<table>
<tr><td>Audit Period:
1/1/2010-12/31/2010</td><td>Report Reference No: 1006529</td><td>Finding Reference No: 1</td><td>CFDA Number(s):
20.205</td></tr>
<tr><td colspan="2">Federal Program Name and Granting Agency:
Highway Planning and Construction, U.S. Department of Transportation</td><td colspan="2">Pass-Through Agency Name:
Department of Transportation</td></tr>
<tr><td colspan="4">Finding Caption:
The Seattle Department of Transportation's allocation of certain costs is not fully supported by documentation required for federal grants</td></tr>
<tr><td colspan="4">Background:
In 2010 the Department charged federal grants $122,011 mostly related to Intelligent Transportation System (ITS) work, using a funding plan that was developed based on the contractors' bid award which is an estimate of project costs. The allocations of certain Intelligent Transportation System costs are not fully supported by documentation required by federal cost principles prescribed by Office of Budget and Management and Circular A-87 which requires that allocations based on estimates, projections and budgets be compared to actual amounts and revised at least annually to actual costs to ensure the amounts charged are accurate and allowable.</td></tr>
<tr><td colspan="4">Status of Corrective Action: (check one)
☒ Fully Corrected ☐ Partially Corrected ☐ No Corrective Action Taken ☐ Finding is considered no longer valid</td></tr>
<tr><td colspan="4">Corrective Action Taken:
The ITS project was completed in 2011 and a final reconciliation was performed. The reconciliation confirmed that the amounts charged to the federal grants were accurate and allowable.

If the Department uses cost allocation plans based on estimates to allocate actual cost in the future, it will provide the documentation and reconciliations required by federal regulations.

The Department has continued its participation in the multi-year FinMap project.</td></tr>
</table>

Audit Period: 1/1/2010 – 12/31/2010	Report Reference No: 1006529	Finding Reference No: 2	CFDA Number(s): 14.241
Federal Program Name and Granting Agency: Housing Opportunities for Persons with Aids, U.S. Department of Housing and Urban Development		**Pass-Through Agency Name:** NA	

Finding Caption:
The City's internal controls were inadequate to ensure payments to a subrecipient were supported and the subrecipient's activities were adequately monitored.

Background:
In 2010, the Human Services Department (HSD) passed through $172,611 or 10.4 percent of total Housing Opportunities for Persons with AIDS program funds, to one subrecipient without receiving adequate supporting documentation. For these costs the City only received a summary invoice. The City did not receive detailed supporting documents to know whether the passed through money was used for authorized purposes. In addition the City did not adequately monitor the activities of the subrecipient. The City did not receive documents from the subrecipient that would allow it to monitor whether the activities of the subrecipient are consistent with grant requirements.

Status of Corrective Action: (check one)

☐ Fully Corrected	☒ Partially Corrected	☐ No Corrective Action Taken	☐ Finding is considered no longer valid

Corrective Action Taken:
HSD's corrective action involved three items.

Item One: Require the Agency (DESC) to submit invoices with supporting documents.

Status: HOPWA cost reporting from DESC is now in compliance with HSD contract specifications and HUD financial management guidelines. Each monthly invoice is now adequately supported with appropriate secondary documentation. That documentation is submitted along with the invoice. Invoices are no longer processed without supporting documentation.

Item Two: Review 2010 and 2011 Agency expenditure records to ensure supporting documentation is adequate and expenses were appropriately reimbursed. Follow up with HUD to reach a mutually agreeable resolution of the $172 thousand questioned costs.

Status: HSD's Fiscal Audit Specialist has reviewed DESC's financial records and its financial management system. Among the items covered were cost records related to the HOPWA reimbursement requests made in 2010 and 2011. Through this review we were able to verify, through appropriate source documentation, that the costs were appropriately attributable to the HOPWA program.

We will be relaying our findings from this review to US HUD within the next several weeks. At that time we anticipate that HUD will accept our determination that the $172 thousand in questioned costs were program-eligible and close the matter.

Item Three: Implement a comprehensive monitoring infrastructure.

Status: HSD has taken the following steps to implement a comprehensive monitoring structure and enhanced processes.

- *Subrecipient contract language reviewed and strengthened where needed to ensure appropriate federal or other funder regulations included in contract.*
- *Two trainings on subrecipient monitoring were attended by more than 75 staff on*

October 12 and 13, 2011. Training included a presentation by the State Auditor's Office on the importance of subrecipient monitoring and an overview of the content of new Department tools for monitoring and overall direction HSD will be taking on agency monitoring.

- *Agency Comprehensive Fiscal Review process enhanced. New tool implemented in 2012 for HSD Fiscal Audit Specialist review of agency fiscal health and infrastructure. Criteria and process for selecting agencies (approximately 20-25 annually) for comprehensive fiscal review strengthened and implemented in early 2012. Twenty-seven agencies selected for review in 2012.*
- *Communication across HSD strengthened in relation to Comprehensive Fiscal Review; staff across the department convened in advance of Fiscal Audit Specialist agency site visit to share any concerns; Fiscal Audit Specialist documents shared internally to ensure common understanding of agency strengths and areas for improvement.*
- *Subgroups on specific monitoring topics have been convened on an ad hoc basis, including discussions on subrecipient designation and a brainstorm session on specific items related to monitoring coordination and training needs.*
- *Two staff workgroups convened late 2011-spring 2012 by HSD Deputy Director included discussion of the roles, scope of work and training needs of staff who will be involved in funding, contracting and monitoring processes. Workgroups concluded in March 2012 and job descriptions and training plans being developed for implementation in 2013.*
- *Work ongoing to develop/strengthen agency program monitoring tools and process.*

Auditor Remarks:
We agree with the partially-corrected status of this finding. The Department's grants and contract specialists seem to need additional training to better understand the need for and importance of ongoing monitoring, and that HSD's existing periodic fiscal monitoring complements, rather than replaces, ongoing monitoring.

Audit Period: 1/1/2010-12/31/2010	**Report Reference No:** 1006529	**Finding Reference No:** 3	**CFDA Number(s):** 14.257
Federal Program Name and Granting Agency: ARRA - Homelessness Prevention and Rapid Re-Housing Program, U.S. Department of Housing and Urban Development		**Pass-Through Agency Name:** NA	
Finding Caption: The Department of Human Services had inadequate internal controls over subrecipient monitoring and allowability of costs paid with federal funds.			
Background: In 2010 the Human Services Department did not provide timely follow-up and fiscal monitoring to ensure that one subrecipient addressed conditions identified by its independent auditors. The subrecipient has received audit findings for inappropriately charging labor costs to the federal grants passed to it by the City of Seattle. Auditors reported that subrecipient's labor costs were based on budgets and without after-the-fact certifications performed by employees of actual hours spent on each program as required. The condition was reported in 2008, 2009 and 2010. The conditions reported by other auditors were not corrected and the Department did not sanction the subrecipient who repeatedly failed to take corrective action. Further, the Department did not ensure the subrecipient is using federal grant money to pay only for eligible costs that are fully supported.			

Status of Corrective Action: (check one)

☐ Fully Corrected ☒ Partially Corrected ☐ No Corrective Action Taken ☐ Finding is considered no longer valid

Corrective Action Taken:

<u>Item One</u>: Review subrecipient's 2010 audit and issue a management letter requesting corrective action. Review 2011 independent audit report to ensure findings are not repeated.

<u>Status</u>: A letter was issued to Wellspring Family Services in September of 2011. The agency's 2011 report from the independent auditor verifies that the agency is now in compliance with cost documentation (including labor cost documentation) requirements. We are currently reviewing the rest of the 2011 audit report to verify that no findings are repeated; and that if there are repeat findings, we will follow-up immediately with the agency.

<u>Item Two</u>: Implement new agency monitoring protocol.

<u>Status</u>: HSD has taken the following steps to implement a comprehensive monitoring structure and enhanced processes.

- *Subrecipient contract language reviewed and strengthened where needed to ensure appropriate federal or other funder regulations included in contract.*
- *Two trainings on subrecipient monitoring were attended by more than 75 staff on October 12 and 13, 2011. Training included a presentation by the State Auditor's Office on the importance of subrecipient monitoring and an overview of the content of new Department tools for monitoring and overall direction HSD will be taking on agency monitoring.*
- *Agency Comprehensive Fiscal Review process enhanced. New tool implemented in 2012 for HSD Fiscal Audit Specialist review of agency fiscal health and infrastructure. Criteria and process for selecting agencies (approximately 20-25 annually) for comprehensive fiscal review strengthened and implemented in early 2012. Twenty-seven agencies selected for review in 2012.*
- *Communication across HSD strengthened in relation to Comprehensive Fiscal Review; staff across the department convened in advance of Fiscal Audit Specialist agency site visit to share any concerns; Fiscal Audit Specialist documents shared internally to ensure common understanding of agency strengths and areas for improvement.*
- *Subgroups on specific monitoring topics have been convened on an ad hoc basis, including discussions on subrecipient designation, and a brainstorm session on specific items related to monitoring coordination and training needs.*
- *Two staff workgroups convened late 2011-spring 2012 by HSD Deputy Director included discussion of the roles, scope of work and training needs of staff who will be involved in funding, contracting and monitoring processes. Workgroups concluded in March 2012 and job descriptions and training plans being developed for implementation in 2013. Work ongoing to develop/strengthen agency program monitoring tools and process.*

Audit Period: 1/1/2010-12/31/2010	**Report Reference No:** 1006529	**Finding Reference No:** 4	**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 City's internal controls were not adequate to ensure that reports submitted to the federal government regarding the use of Recovery Act funds are accurate.

Background:
In 2010 the City received $4,046,504 in Recovery Act money from the U.S. Department of Energy's Energy Efficiency and Conservation program. The Recovery Act requires the City to report payments to vendors including a description of products and services received. We noted the City under-reported expenditures by $1,251,000 for consultant services. The error was made during the recording of total amounts paid to the vendor. The City did not detect the reporting error in subsequent reporting periods.

Status of Corrective Action: (check one)

☒ Fully Corrected	☐ Partially Corrected	☐ No Corrective Action Taken	☐ Finding is considered no longer valid

Corrective Action Planned:

1. *Correct the cited ARRA report as soon as possible.*

2. *Establish controls to ensure the ARRA reports filed online are accurate. The Department will assign at least two employees who will be responsible for ARRA reporting: one to prepare, and the other to review the report.*

3. *Ensure that controls over ARRA reporting are consistently followed. A checklist will be used to demonstrate the control activities are consistently performed.*

Corrective Action Taken:

1. *On September 7, 2011, OSE corrected the cited error in the ARRA 1512 report for the 2nd QTR 2011. The final 1512 report of 2010 was not corrected because Federalreporting.gov does not give grant recipients the option of correcting reports older than the previous quarter.*

2. *In 2001, the EECBG-Formula grant manager established a control to internally review the submitted EECBG-Formula 1512 reports. The control is demonstrated by a one page checklist that lists all the input fields of the 1512 report. Once the preparer and a reviewer confirm all the accuracy of the 1512 fields against the supporting documentation, they each initial every item of the checklist.*

Since the audit finding date, both the preparer and reviewer have consistently reviewed and completed the checklist for each quarter's 1512 report (beginning October 13, 2011 for 3rd QTR 2011 report).

Status of Prior Audit Findings

City of Seattle
King County
January 1, 2011 through December 31, 2011

The status of findings contained in the prior years' audit reports of the City of Seattle is provided below:

1. **The City of Seattle's internal controls are not adequate to ensure accurate and timely financial reporting.**

   Report No. 1006529, dated August 31, 2011; audit issue No. 5

   <u>Background</u>

   We identified internal control deficiencies over preparation of the City's 2010 financial statements that resulted in the City having to correct financial information in the annual financial report. Buildings and related debt were inappropriately excluded from being reported in an internal service fund. Capital outlay expenditures were being automatically capitalized each year without consideration of project completion. Some 2011 payments should have been reported as 2010 expenditures. A component unit was not reported. And financial reporting was not as timely as required by state law.

   <u>Status</u>

   The City continues to invest in improvements to its financial management systems, which should result in improved accuracy and timing of future financial reporting.

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

City of Seattle
King County
January 1, 2011 through December 31, 2011

Mayor and City Council
City of Seattle
Seattle, Washington

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate discretely presented component units and remaining fund information of the City of Seattle, King County, Washington, as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 26, 2012. During the year ended December 31, 2011, the City implemented Governmental Accounting Standards Board Statement No. 54*, Fund Balance Reporting and Governmental Fund Type Definitions*.

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. Other auditors audited the financial statements of the Light Fund, as described in our report on the City's financial statements. This report includes our consideration of the results of the other auditors' testing of internal controls over financial reporting and compliance and other matters that are reported on separately by those other auditors. However, this report, insofar as it relates to the results of those other auditors, is based solely on the reports of the other auditors. Other auditors also audited the financial statements of the Water, Drainage and Wastewater and Solid Waste funds, and the Seattle City Employees Retirement System, as described in our report on the City's financial statements. Those funds were not audited in accordance with *Government Auditing Standards*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the City'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 City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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 City's financial statements will not be prevented, or detected and corrected on a timely basis.

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 deficiencies, 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. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Audit Findings and Responses as Findings 5 and 6, that we consider to be significant deficiencies in internal control over financial reporting. 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 also noted certain additional matters that we will report to the management of the City in a separate letter dated October 26, 2012.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of the City'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*.

The City's responses to these findings identified in our audit are described in the accompanying Schedule of Audit Findings and Responses. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended for the information and use of management, the Mayor and City Council, federal awarding agencies and pass-through entities. 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.

BRIAN SONNTAG, CGFM
STATE AUDITOR

October 26, 2012

Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

City of Seattle
King County
January 1, 2011 through December 31, 2011

Mayor and City Council
City of Seattle
Seattle, Washington

COMPLIANCE

We have audited the compliance of the City of Seattle, 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, 2011. The City's major federal programs are identified in the Federal Summary. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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 City'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. Our audit does not provide a legal determination on the City's compliance with those requirements.

As described in Finding 1 in the accompanying Schedule of Federal Audit Findings and Questioned Costs, the City did not comply with requirements regarding activities allowed or unallowed, allowable costs/cost principles, equipment and real property management, procurement and suspension and debarment that are applicable to the Prevention and Wellness - Communities Putting Prevention to Work program. Compliance with such requirements is necessary, in our opinion, for the City to comply with requirements applicable to that program.

In addition, as described in Finding 2 in the accompanying Schedule of Federal Audit Findings and Questioned Costs, the City did not comply with requirements regarding activities allowed or unallowed, allowable costs/cost principles and subrecipient monitoring that are applicable to the Supportive Housing program. Compliance with such requirements is necessary, in our opinion, for the City to comply with requirements applicable to that program.

In our opinion, because of the effects of the noncompliance described above, the City did not comply in all material respects, with the requirements also referred to above that could have direct and material effect to its Prevention and Wellness – Communities Putting Prevention to Work program.

Also, in our opinion, except for the noncompliance described above related to the Supportive Housing program, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs for the year ended December 31, 2011. The results of our auditing procedures also 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 3 and 4.

INTERNAL CONTROL OVER COMPLIANCE

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance 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 City'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 significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be 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 Findings 3 and 4 to be significant deficiencies.

The City's responses to these findings identified in our audit are described in the accompanying Schedule of Federal Audit Findings and Questioned Costs. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended for the information of management, the Mayor and City Council, federal awarding agencies and pass-through entities. 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.

BRIAN SONNTAG, CGFM
STATE AUDITOR

October 26, 2012

Independent Auditor's Report on Financial Statements

City of Seattle
King County
January 1, 2011 through December 31, 2011

Mayor and City Council
City of Seattle
Seattle, Washington

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate discretely presented component units and remaining fund information of the City of Seattle, King County, Washington, as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements as listed on page 61. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of:

- The Light Fund, Water Fund, Drainage and Wastewater Fund, and Solid Waste Fund, which are major funds that collectively represent 99 percent, 100 percent, and 98 percent, respectively, of the assets, net assets, and revenues of the business-type activities.

- The Seattle City Employees' Retirement system, which represents 58 percent, 70 percent, and 13 percent, respectively, of the assets, net assets, and revenues of the aggregate discretely presented component units and remaining fund information.

Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the Light, Water, Drainage and Wastewater, and Solid Waste funds and the Seattle City Employees' Retirement System are based solely on the reports of the other auditors. The partial prior year comparative information has been derived from the City's 2010 financial statements and, in our report dated August 31, 2011, based on our audit and the reports of other auditors, we expressed unqualified opinions on the respective financial statements of the governmental activities, business-type activities, each major fund, and the aggregately discretely presented component units and remaining fund information.

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 of material misstatement. The financial statements of the Water, Drainage and Wastewater, and Solid Waste funds and the Seattle City Employees' Retirement System were not audited in accordance with Government Auditing Standards. 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 audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate discretely presented component units and remaining fund information of the City of Seattle, as of December 31, 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the year 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, 2011, the City implemented Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report on our consideration of the City'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 audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 62 through 82, budgetary comparison information on pages 190 through 193 and pension trust fund information on pages 194 through 196 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 the 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.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. 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 financial statements. The information has been subjected to the 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. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BRIAN SONNTAG, CGFM
STATE AUDITOR

October 26, 2012

Financial Section

City of Seattle
King County
January 1, 2011 through December 31, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Seattle (City) presents this Management's Discussion and Analysis (MD&A) of its financial activities for the fiscal year ended December 31, 2011. This discussion and analysis focuses on significant financial issues, provides an overview of the City's financial activity, highlights significant changes in the City's financial position, and identifies material variances between the approved budget and actual spending.

The City encourages readers to consider the information presented here in conjunction with additional information provided in its letter of transmittal.

FINANCIAL HIGHLIGHTS

- At the end of fiscal year 2011 the assets of the City of Seattle exceeded its liabilities by $4.482 billion. Net assets invested in capital assets, net of depreciation and related debt, account for 86.4 percent of this amount ($3.873 billion). The remaining net assets of $609.0 million may be used to meet the City's ongoing obligations to citizens and creditors.

- The City's net assets increased by $281.0 million (6.7 percent) during the fiscal year. The governmental net assets increased by $162.0 million (5.8 percent) over the amount reported in 2010. The business-type net assets increased $119.0 million (8.4 percent) in 2011.

- At the close of 2011 the City's governmental funds reported a combined ending fund balance of $623.5 million, an increase of $97.7 million (18.6 percent). Of the major funds, the fund balance of the General Fund increased $25.3 million, the Transportation Fund increased $28.2 million, the Low-Income Housing Fund increased $11.4 million, and the fund balances of the other nonmajor governmental funds increased $32.7 million. As the national and local economies continued to slowly recover from the worst recession since the Great Depression, the City saw improvement in revenues over 2010. The City's three major tax revenues sources, property taxes, business taxes, and sales taxes were up by $5.5 million, $8.1 million, and $11.6 million, respectively, year over year.

- At the end of 2011 the unassigned fund balance for the General Fund was $79.8 million or 10.3 percent of total General Fund expenditures of $775.2 million. The General Fund's unassigned fund balance increased by approximately $26.6 million from the prior year's amount of $53.1 million. Total revenues for the General Fund increased $40.8 million or 4.3 percent and expenditures decreased $15.5 million. Total other financing uses slightly increased $654 thousand.

- The City's total outstanding bonded debt increased by approximately $163.8 million (4.1 percent) to $4.149 billion during the current fiscal year. During the year, general obligation bonded debt for limited tax (LTGO) and unlimited tax (UTGO) increased by $19.2 million while the total revenue bonds also increased by $144.7 million. On the special assessment bonds the City issued in 2006 for the design and construction of the South Union Streetcar and backed by the collection of assessments from property owners within the local improvement district, has reduced by $1.4 million to $14.3 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is an introduction to the City of Seattle's basic financial statements which consist of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The report also contains other supplementary information in addition to the basic financial statements.

Government-Wide Financial Statements

The government-wide financial statements provide a broad overview of the City's finances in a manner similar to that of private-sector business.

The **Statement of Net Assets** presents information on all City assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of the City's financial health.

The **Statement of Activities** presents changes in net assets during the current reporting period. All changes to net assets are reported as of the date of the underlying event, rather than when cash is received or disbursed. Thus, some reported revenues and expenses result in cash flows in future periods. The Statement of Activities focuses on both the gross and the net cost of the various activities of the City. The report summarizes and simplifies analysis of the revenues and expenses of the various City activities and the degree to which activities are subsidized by general revenues.

The government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government activities, judicial activities, public safety, physical environment, transportation, economic environment, health and human services, and culture and recreation. The business-type activities of the City include an electric utility, a water utility, a waste disposal utility, a sewer and drainage utility, operations of regulatory and long-range planning and enforcement of policies and codes that include construction and land use, and parking facilities.

Fund Financial Statements

A fund is a group of related accounts used to maintain control over resources that are segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. There are three categories of City funds: **governmental** funds, **proprietary** funds, and **fiduciary** funds.

Governmental funds account for essentially the same functions reported as governmental activities in the government-wide financial statements. Most of the City's basic services are reported in the governmental funds. These statements, however, focus on cash and other assets that can readily be converted to available resources, as well as any balances remaining at year-end. Such information is useful in determining what financial resources are available in the near future to finance the City's programs.

Readers may better understand the long-term impact of the government's near-term financing decisions by comparing the information presented for the governmental funds with similar information presented for governmental activities in the government-wide financial statements. Both the governmental funds Balance Sheet and the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate the comparison.

The City maintains numerous governmental funds that are organized according to type (general, special revenue, debt service, capital projects, and permanent funds). Information for the three major governmental funds is presented separately in the governmental funds Balance Sheet and the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances; information for the nonmajor funds is presented in the aggregate. The City's major governmental funds are the General Fund, Transportation Fund, and Low-Income Housing Fund. Information for each of the nonmajor governmental funds is provided in the combining statements in this report.

Proprietary funds account for services for which the City charges outside customers and internal City departments. Proprietary funds provide the same information as shown in the government-wide financial statements, only in more detail. The City maintains the following two types of proprietary funds:

- **Enterprise funds** 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 Seattle City Light Fund, Water Fund, Drainage and Wastewater Fund, and Solid Waste Fund, which are considered to be major enterprise funds. Information for nonmajor enterprise funds is presented in the aggregate. Information for each of the nonmajor enterprise funds is provided in the combining statements in this report.

- **Internal service funds** report activities that provide supplies and services for various City programs and activities. The City uses internal service funds to account for its finance and administrative services and information technology services. Because these services largely benefit governmental rather than business-type functions, they have been included within the governmental activities in the government-wide financial statements. The internal service funds are combined into a single aggregated presentation in the proprietary funds financial statements. Information for each of the internal service funds is provided in the combining statements in this report.

Proprietary funds statements follow the governmental funds statements in this report.

Fiduciary funds account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support City programs. The accounting used for fiduciary funds is similar to that used for proprietary funds. The City's fiduciary funds include the Employees' Retirement Fund, the Firemen's Pension Fund, the Police Relief and Pension Fund, the S. L. Denny Private-Purpose Trust Fund, and various agency funds.

Notes to the Financial Statements

The notes to the financial statements are an integral part of the financial statements. They provide additional disclosures that are essential to a full understanding of the information provided in the government-wide and fund financial statements. The notes to the financial statements immediately follow the basic financial statements in this report.

Required Supplementary Information

This report also contains other required supplementary information (RSI) on budgetary comparisons for major governmental funds and pension plan funding.

Combining Statements

The combining statements referred to earlier in connection with the nonmajor funds, internal service funds, and fiduciary funds are presented immediately following the required supplementary information.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve as a useful indicator of a government's financial position. Table A-1 is a condensed version of the statement of net assets for the City of Seattle. At the close of the current fiscal year the City's total assets exceeded liabilities by $4.482 billion.

Statement of Net Assets

Table A-1 **CONDENSED STATEMENT OF NET ASSETS**

(In Thousands)

	Governmental Activities		Business-Type Activities		Total	
	2011	Restated 2010	2011	2010	2011	Restated 2010
Current and Other Assets	$ 1,262,420	$ 1,162,519	$ 1,206,400	$ 1,070,653	$ 2,468,820	$ 2,233,172
Capital Assets and Construction in Progress, Net of Accumulated Depreciation	3,350,476	3,238,858	4,234,734	4,039,155	7,585,210	7,278,013
Total Assets	4,612,896	4,401,377	5,441,134	5,109,808	10,054,030	9,511,185
Current Liabilities	242,171	247,394	349,425	307,934	591,596	555,328
Noncurrent Liabilities	1,421,374	1,366,672	3,559,316	3,388,459	4,980,690	4,755,131
Total Liabilities	1,663,545	1,614,066	3,908,741	3,696,393	5,572,286	5,310,459
Net Assets						
Invested in Capital Assets, Net of Related Debt	2,629,246	2,513,808	1,243,494	1,228,030	3,872,740	3,741,838
Restricted	420,052	372,289	81,904	79,372	501,956	451,661
Unrestricted	(99,947)	(98,786)	206,995	106,013	107,048	7,227
Total Net Assets	$ 2,949,351	$ 2,787,311	$ 1,532,393	$ 1,413,415	$ 4,481,744	$ 4,200,726

The largest portion of the City's net assets (86.4 percent) reflects an investment of $3.873 billion in capital assets, such as land, buildings, and equipment, less any related outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, the resources needed to repay the debt must be provided from other sources, as capital assets cannot be used to liquidate these liabilities.

An additional portion of the City's net assets, $502.0 million (11.2 percent), represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, $107.0 million (2.4 percent), may be used to meet the government's obligation to citizens and creditors. The governmental activities had a $99.9 million deficit in unrestricted net assets, due largely to employee and other postemployment benefit liabilities.

The net assets for the business-type activities increased between 2010 and 2011 from $1.413 billion to $1.532 billion. The increase in net assets is attributed primarily to the performance of the City Light Utility, which in 2011 generated $771.5 million in charges for services and other revenues. City Light generated an operating income of $113.5 million.

Table A-2 **CHANGES IN NET ASSETS RESULTING FROM CHANGES IN REVENUES AND EXPENSES**

(In Thousands)

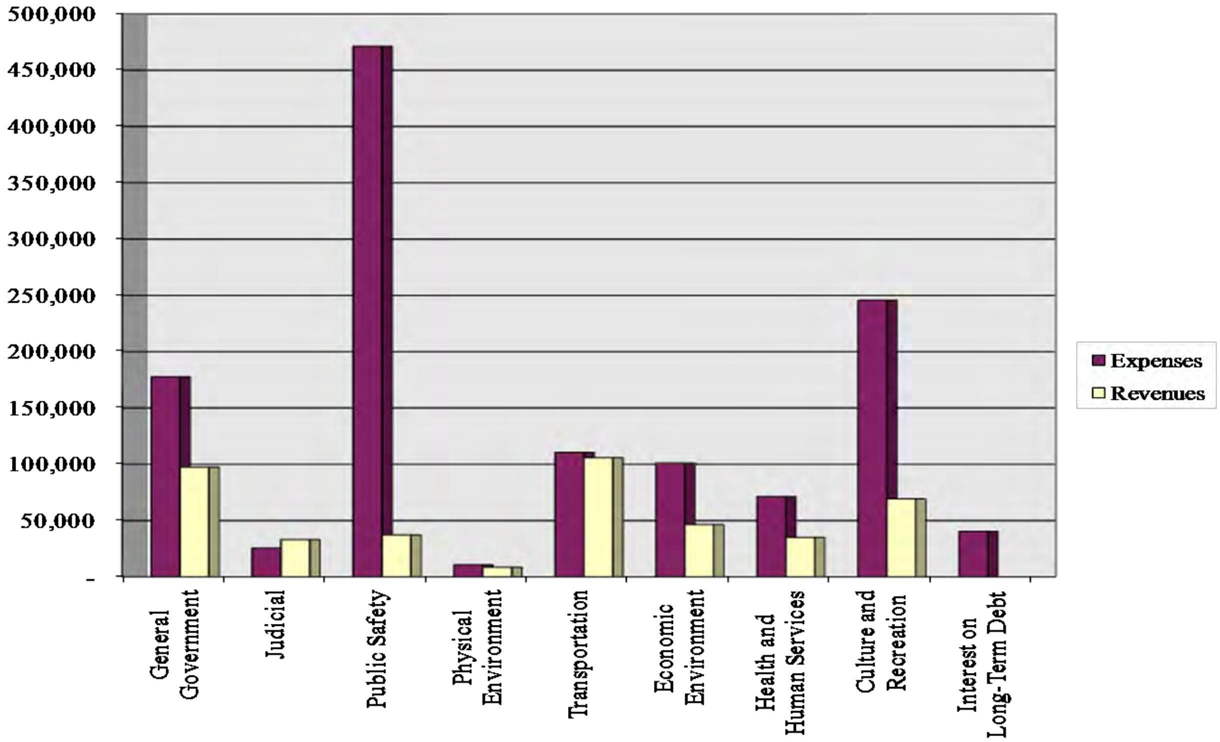
	Governmental Activities		Business-Type Activities		Total	
	2011	**Restated 2010**	**2011**	**2010**	**2011**	**Restated 2010**
Revenues						
Program Revenues						
Charges for Services	$ 249,128	$ 227,238	$ 1,432,794	$ 1,352,747	$ 1,681,922	$ 1,579,985
Operating Grants and Contributions	136,679	118,619	5,518	5,953	142,197	124,572
Capital Grants and Contributions	47,503	56,377	51,522	41,846	99,025	98,223
General Revenues						
Property Taxes	397,288	391,798	-	-	397,288	391,798
Sales Taxes	158,582	146,970	-	-	158,582	146,970
Business Taxes	339,703	331,570	-	-	339,703	331,570
Other Taxes	77,457	63,409	-	-	77,457	63,409
Other	19,760	44,780	12,002	8,994	31,762	53,774
Total Revenues	1,426,100	1,380,761	1,501,836	1,409,540	2,927,936	2,790,301
Expenses						
Governmental Activities						
General Government	177,765	182,058	-	-	177,765	182,058
Judicial	25,623	26,298	-	-	25,623	26,298
Public Safety	471,205	476,861	-	-	471,205	476,861
Physical Environment	10,697	8,346	-	-	10,697	8,346
Transportation	110,660	122,376	-	-	110,660	122,376
Economic Environment	101,242	119,595	-	-	101,242	119,595
Health and Human Services	71,399	72,680	-	-	71,399	72,680
Culture and Recreation	245,671	258,639	-	-	245,671	258,639
Interest on Long-Term Debt	40,425	38,929	-	-	40,425	38,929
Business-Type Activities						
Light	-	-	723,665	730,758	723,665	730,758
Water	-	-	198,929	209,554	198,929	209,554
Drainage and Wastewater	-	-	269,224	245,589	269,224	245,589
Solid Waste	-	-	149,157	141,852	149,157	141,852
Planning and Development	-	-	44,054	47,699	44,054	47,699
Downtown Parking Garage	-	-	7,740	7,648	7,740	7,648
Total Expenses	1,254,687	1,305,782	1,392,769	1,383,100	2,647,456	2,688,882
Excess Before Special Item and Transfers	171,413	74,979	109,067	26,440	280,480	101,419
Special Item - Environmental Remediation	-	-	538	(1,948)	538	(1,948)
Transfers	(9,373)	(10,100)	9,373	10,100	-	-
Changes in Net Assets	162,040	64,879	118,978	34,592	281,018	99,471
Net Assets - Beginning of Year	2,787,311	2,722,432	1,413,415	1,378,823	4,200,726	4,101,255
Net Assets - End of Year	$ 2,949,351	$ 2,787,311	$ 1,532,393	$ 1,413,415	$ 4,481,744	$ 4,200,726

Analysis of Changes in Net Assets

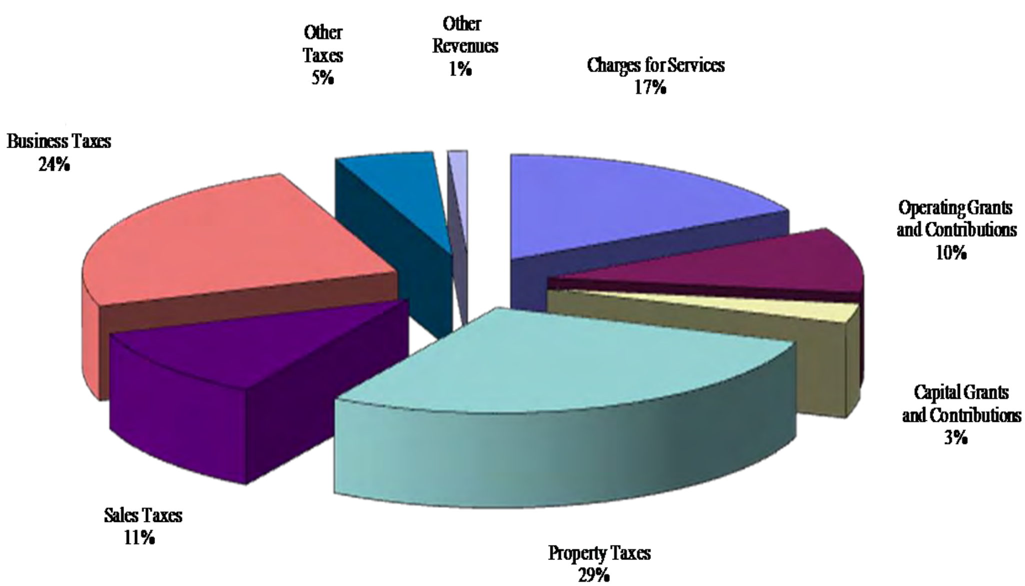
In 2011 the City's total net assets increased by $281.0 million (6.7 percent). The increase is explained in the following discussion of governmental and business-type activities.

Governmental Activities

EXPENSES AND PROGRAM REVENUES - GOVERNMENTAL ACTIVITIES
(In Thousands)



REVENUES BY SOURCE - GOVERNMENTAL ACTIVITIES



Total $1,426.1 Million

Governmental Activities. The charts on the previous page present the City's governmental expenses and revenues by function and its revenue by source. Public safety is the largest governmental expense of the City, followed by culture and recreation, general government, transportation, economic environment, health and human services, judicial, physical environment functions, and interest on long-term debt. General revenues such as the property, business, and sales taxes are not shown by function because they are used to support Citywide program activities. Governmental activities increased the City's net assets by $162.0 million in 2011 compared to an increase of $64.9 million in 2010. Key factors in the change are as follows:

- Tax revenues collected and used to support Citywide programs increased 4.2 percent, from $933.7 million to $973.0 million for 2011.

- Program generated revenues were supported by growth in the operating and capital grants, increasing 5.3 percent from $175.0 million to $184.2 million. Also total charges for services and other revenues grew from $227.2 million in 2010 to $249.1 million in 2011. The growth is attributed primarily to higher parking fee revenues and increased employee contributions for the City's employee benefit programs.

- Year over year expenses for the governmental activities decreased 3.9 percent, from $1.306 billion for 2010 to $1.255 billion for 2011.

The City Council authorized the acceptance of all grant funds. If a grant is not included as a part of the adopted budget, a separate ordinance is required except for grant funds under $15 thousand, which City departments can accept on their own behalf without having to be included in a separate ordinance. In 2011 over $25.0 million in additional grant funds were appropriated. The majority of the grant funds totaling $10.0 million was appropriated to the Police Department and $7.9 million to the Fire Department. Operating grants increased $18.1 million whereas capital grants decreased $8.9 million compared to 2010.

Property taxes, the largest source of revenue supporting governmental activities, increased by $5.5 million or 1.4 percent compared to 2010. Property tax is levied primarily on real estate owned by individuals and businesses. While stable in nature, state law limits growth in the amount of tax that a jurisdiction can collect but does allow for additional voter-approved lid lifts.

The retail sales and use tax is imposed on the sale of most goods and certain services in Seattle. The tax is collected and remitted to the state. The state provides the City with its share on a monthly basis. Sales tax revenues increased between 2010 and 2011 by $11.6 million (7.9 percent).

Business taxes are the second largest contributor to governmental revenues. The business and occupation (B&O) tax is levied by the City on the gross receipts of most business activities occurring in Seattle. The City also levies a B&O tax on the gross income derived from sales of utility services within Seattle. In 2011, B&O tax revenues increased slightly to $339.7 million, a 2.5 percent increase over 2010.

In 2011, total expenses for governmental activities were $1.255 billion compared to $1.306 billion, a 3.9 percent decrease over 2010 expenses. General government expenses went down $4.3 million, a 2.4 percent decrease over 2010. Overall general government expenses were 14.2 percent and 13.9 percent of total expenses for governmental activities in 2011 and 2010, respectively. The decrease is attributed mainly to reduction in capital contributions to the Pike Place Market Public Development Authority, which decreased from $23.8 million for 2010 to $17.8 million for 2011.

Judicial expenses remained stable, slightly decreased to $25.6 million from $26.3 million.

Public safety expenses were $471.2 million, a 1.2 percent decrease over 2010 expenses. The decrease is primarily due to reduction in capital spending.

Physical environment expenses were $10.7 million, a 28.2 percent increase over 2010. The increase is caused by a $5.1 million increase in professional service costs, which are supported by a $20 million Energy Efficiency and Conservation Block Grant.

Transportation expenses were down $11.7 million (9.6 percent) to $110.7 million for 2011. Change in estimated liabilities as well as ongoing effort to reduce employee costs and other operating expenses were the biggest drivers for the decrease.

The 2011 economic environment expenses totaled $101.2 million, a decrease of $18.4 million or 15.4 percent year over year. The primary contributing factor was reduction in program expenses for items such as funding for creating affordable rental housing, loans to low-income families, and consulting and contractor services to support the low-income housing programs.

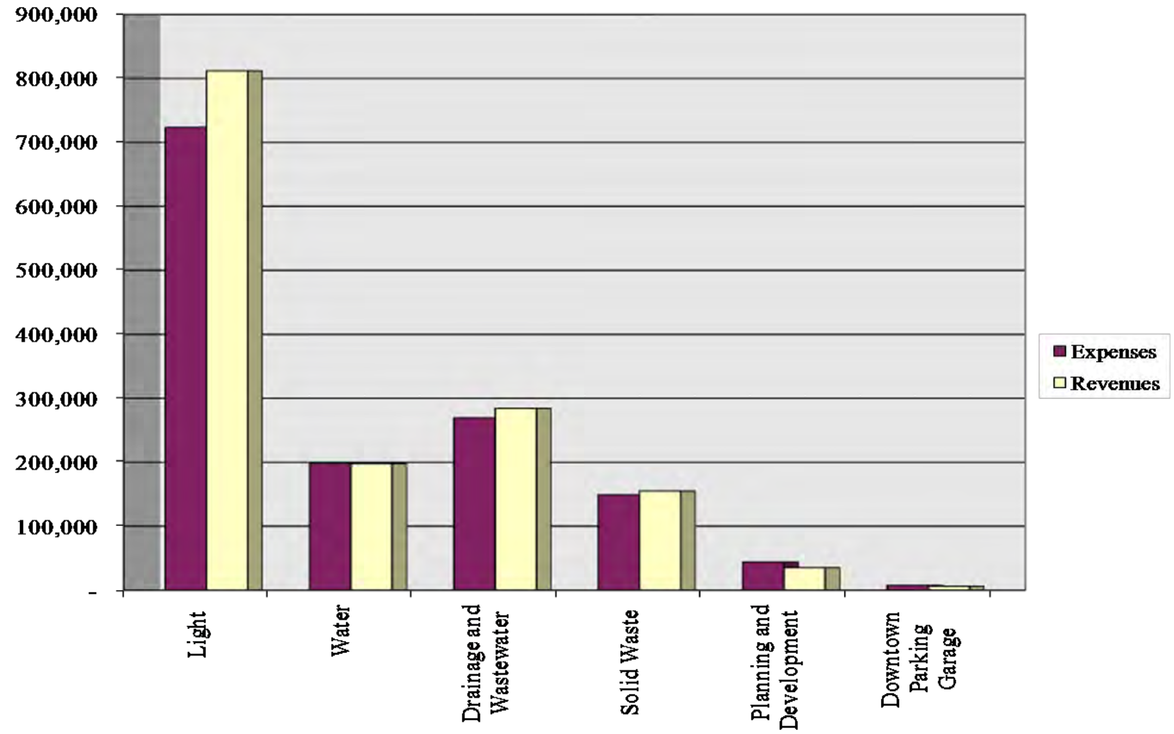
Health and human services expenses showed a decrease of $1.3 million or 1.8 percent to $71.4 million for 2011. The decrease is in line with the City's ongoing effort to bring down costs.

Culture and recreation expenses were down $13.0 million in 2011 or 5.0 percent lower than 2010. The decrease was caused by reduced capital spending and professional service costs. The City's Park and Recreation Fund accounts for 60.0 percent, or $148.2 million of the total culture and recreation expenses.

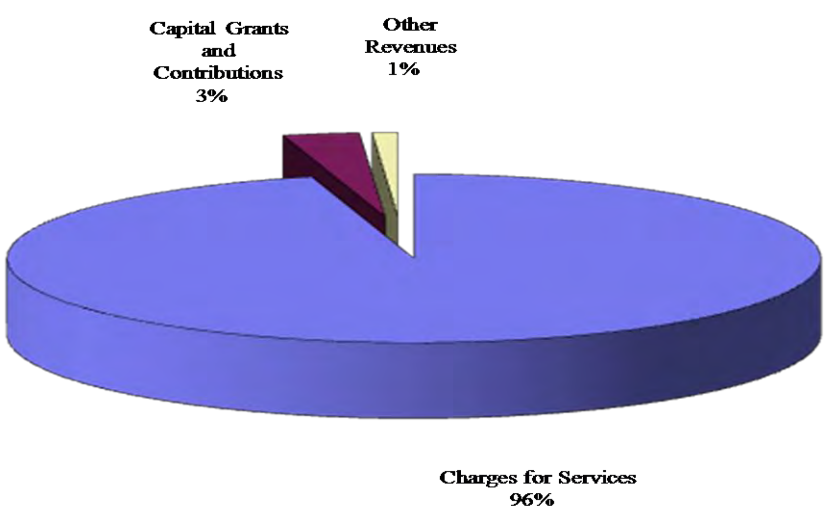
Interest on long-term debt was slightly up $1.5 million, rising from $38.9 million in 2010 to $40.4 million in 2011.

Business-Type Activities

EXPENSES AND PROGRAM REVENUES - BUSINESS-TYPE ACTIVITIES
(In Thousands)



REVENUES BY SOURCE - BUSINESS-TYPE ACTIVITIES



Total $1,501.8 Million

Business-Type Activities. Business-type activities increased the City's net assets by $119.0 million to $1.532 billion, an increase of 8.5 percent. The City's net assets increase included an adjustment of $2.7 million to reflect the consolidation of internal service fund activities related to enterprise funds. Key factors for the change were as follows:

The City Light Utility realized a net increase of $92.2 million in net assets in 2011. Total operating revenues increased by $38.5 million. Retail power revenues increased by $31.8 million and wholesale power revenues also increased by $28.1 million. Retail power revenues were higher as a result of the 4.3 percent rate increase effective January 1, 2011 and higher electricity consumption during the first seven months of the year due to colder weather. The 4.5 percent temporary rate surcharge implemented in May 2010 was terminated at the beginning of 2011. The additional contributors to the strong results in net assets were lower power costs and higher capital contributions and capital grants. These were offset by higher deferral of revenues for the Rate Stabilization Account, non-power operating expenses, and debt interest expense.

The Water Utility experienced an increase of $1.8 million in net assets in 2011. Operating revenues decreased by $0.6 million. The change was attributed to a total of $2.5 million decline in wholesale revenues and the revenue stabilization account. This decrease was offset by increases in direct service revenue of $1.0 million and other ancillary revenue of $0.9 million. Operating expenses decreased by $9.7 million primarily due to a reduction in City's business and occupation tax rate from 19.87 percent to 15.54 percent, resulting in a $6.2 million decrease in tax expenses. In addition, amortization of deferred charges decreased by $3.7 million mainly as a result of the fully-amortized fire hydrant lawsuit settlement in 2010. Total contributions and grants decreased by $8.7 million in 2011.

The Drainage and Wastewater Utility net assets increased $18.0 million in 2011. Operating revenues increased by $29.2 million primarily due to rate increases in 2011 for wastewater and drainage revenues. This increase was offset by a rise in operating expenses of $23.0 million. The increase in operating expenses was attributed to several factors, the most significant of which was an increase of $14.0 million in wastewater treatment expense imposed by King County in 2011. Additional increases in operating expenses include a project spending of $4.9 million related to abandonment of Densmore Basin project and unsuccessful Ballard rain gardens project; and an increase of $3.8 million in tax expenses due to overall increase in revenues. Total amount of contributions, grants, and special item increased by $7.2 million which was attributed to higher donated infrastructure assets and grants; and decrease in environmental remediation expenses.

The Solid Waste Utility net assets increased $5.9 million in 2011. Operating revenues increased by $7.2 million mainly due to a rate increase in 2011. This revenue increase was offset by an increase of $6.0 million in operating expenses which was primarily due to the purchase of $3.3 million in new solid waste containers, $1.5 million increase in amortization of deferred charges, and $1.2 million increase in tax expenses. Nonoperating revenues decreased by $0.8 million and interest expense increased by $0.5 million.

The Planning and Development Fund net assets increased $0.2 million in 2011 as compared to a decrease of $8.7 million in 2010. Operating revenues increased by $6.1 million while the operating expenses decreased by $3.3 million. The revenue increase was mainly due to a slow-but-steady recovery in building construction activities in 2011. Operating contributions and grants increased by $0.3 million. Transfers in from other City funds decreased by $0.7 million.

The Downtown Parking Garage Fund realized a decrease of $1.8 million in net assets. It continues to have insufficient revenues to fully cover its expenses including depreciation, which is not specifically included in its revenue structure. Due to continuous decline in downtown retail sales activities and poor economic conditions, Facilities Operations Division is evaluating the ways to increase revenues and decrease expenses for the fund.

FINANCIAL ANALYSIS OF CITY FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Table A-3 **REVENUE, EXPENDITURE, AND FUND BALANCE SUMMARY**

GOVERNMENTAL FUNDS

(In Thousands)

	Major Funds					
	General Fund		Transportation Fund		Low-Income Housing Fund	
	2011	2010	2011	2010	2011	2010
Revenues						
Taxes	$ 790,966	$ 761,170	$ 68,928	$ 64,581	$ 18,645	$ 18,621
Licenses and Permits	18,817	20,401	4,149	6,113	-	-
Grants, Shared Revenues, and Contributions	47,503	34,682	41,031	46,815	11,176	14,853
Charges for Services	53,844	67,253	65,403	60,215	19	107
Fines and Forfeits	33,992	32,235	36	9	-	-
Parking Fees and Space Rent	31,301	27,294	38	99	-	-
Program Income, Interest, and Miscellaneous Revenues	23,921	16,526	107	243	8,281	4,423
Total Revenues	1,000,344	959,561	179,692	178,075	38,121	38,004
Expenditures	775,224	790,767	247,377	254,108	26,433	41,581
Other Financing Sources and Uses						
Long-Term Debt Issued and Refunding Payments, Net	-	-	248	-	-	-
Sales of Capital Assets	21,326	21,309	19,800	-	15	-
Transfers In (Out)	(221,112)	(220,441)	75,860	75,085	(265)	3,568
Total Other Financing Sources and Uses	(199,786)	(199,132)	95,908	75,085	(250)	3,568
Fund Balances						
Nonspendable	572	401	228	60	-	-
Restricted	58,917	63,695	18,851	11,154	77,772	65,567
Committed	46,268	44,240	42,352	21,994	8,816	9,583
Assigned	19,253	17,958	-	-	-	-
Unassigned	79,765	53,147	-	-	-	-
Total Fund Balances	$ 204,775	$ 179,441	$ 61,431	$ 33,208	$ 86,588	$ 75,150

Table A-3 **REVENUE, EXPENDITURE, AND FUND BALANCE SUMMARY**

GOVERNMENTAL FUNDS (continued)

(In Thousands)

	Nonmajor Funds			
	Special Revenue Funds		Debt Service Funds	
	2011	2010	2011	2010
Revenues				
Taxes	$ 41,379	$ 37,011	$ 17,374	$ 16,362
Licenses and Permits	-	-	-	-
Grants, Shared Revenues, and Contributions	65,024	73,426	530	882
Charges for Services	48,378	43,934	-	-
Fines and Forfeits	38	56	-	-
Parking Fees and Space Rent	19,339	19,220	326	245
Program Income, Interest, and Miscellaneous Revenues	3,919	1,595	655	647
Total Revenues	178,077	175,242	18,885	18,136
Expenditures	319,041	334,935	70,176	65,180
Other Financing Sources and Uses				
Long-Term Debt Issued and Refunding Payments, Net	10,687	4,800	-	-
Sales of Capital Assets	20	1	-	-
Transfers In (Out)	135,306	143,744	51,150	45,635
Total Other Financing Sources and Uses	146,013	148,545	51,150	45,635
Fund Balances				
Nonspendable	436	337	-	-
Restricted	40,658	35,647	10,499	10,640
Committed	8,988	9,802	-	-
Assigned	8,816	7,910	-	-
Unassigned	(12,064)	(11,911)	-	-
Total Fund Balances	$ 46,834	$ 41,785	$ 10,499	$ 10,640

	Nonmajor Funds				Total Governmental Funds	
	Capital Projects Funds		Permanent Funds			
	2011	2010	2011	2010	2011	2010
Revenues						
Taxes	$ 35,889	$ 35,896	$ -	$ -	$ 973,181	$ 933,641
Licenses and Permits	-	-	-	-	22,966	26,514
Grants, Shared Revenues, and Contributions	2,549	9,184	-	-	167,813	179,842
Charges for Services	-	-	-	-	167,644	171,509
Fines and Forfeits	-	-	-	-	34,066	32,300
Parking Fees and Space Rent	-	-	-	-	51,004	46,858
Program Income, Interest, and Miscellaneous Revenues	2,804	2,586	19	17	39,706	26,037
Total Revenues	41,242	47,666	19	17	1,456,380	1,416,701
Expenditures	40,828	64,829	30	119	1,479,109	1,551,519
Other Financing Sources and Uses						
Long-Term Debt Issued and Refunding Payments, Net	73,679	83,810	-	-	84,614	88,610
Sales of Capital Assets	-	-	-	-	41,161	21,310
Transfers In (Out)	(46,302)	(53,680)	(10)	(10)	(5,373)	(6,099)
Total Other Financing Sources and Uses	27,377	30,130	(10)	(10)	120,402	103,821
Fund Balances						
Nonspendable	-	-	2,050	2,050	3,286	2,848
Restricted	211,187	183,396	120	141	418,004	370,240
Committed	-	-	-	-	106,424	85,619
Assigned	-	-	-	-	28,069	25,868
Unassigned	-	-	-	-	67,701	41,236
Total Fund Balances	$ 211,187	$ 183,396	$ 2,170	$ 2,191	$ 623,484	$ 525,811

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of resources available for spending. This information is useful in assessing the City's financing requirements. In particular, unassigned fund balance measures the City's net resources available for spending for any purposes at the end of the fiscal year. Governmental funds reported by the City include the General Fund, special revenue funds, debt service funds, capital project funds, and permanent funds.

As of the end of the current fiscal year the City's governmental funds reported combined ending fund balances of $623.5 million, an increase of $97.7 million in comparison to 2010. Approximately $67.7 million of this amount represents unassigned fund balance which is available for spending on any purposes; $28.1 million and $106.4 million of this amount are assigned and committed for specific purposes by the City's management and City Council, respectively. About 67.1 percent of the fund balances is restricted externally to specific purposes and the remainder of fund balance constitutes nonspendable items such as petty cash, inventories, and prepaid amounts.

Revenues for governmental funds overall totaled approximately $1.456 billion in the fiscal year ended December 31, 2011, which represents an increase of approximately $39.7 million or 2.8 percent from the prior fiscal year balance of $1.417 billion. Expenditures in governmental funds amounted to $1.479 billion, a decrease of approximately $72.4 million or 4.7 percent compared to $1.552 billion spent in 2010. In the aggregate, expenditures for governmental funds exceeded revenues by approximately $22.7 million.

The **General Fund** is the chief operating fund of the City. The Library Fund, previously reported as a special revenue fund, was determined to no longer meet the definition of a special revenue fund, as defined by GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. As a result, the Library Fund is now reported as part of the General Fund for the GAAP reporting. For comparability, all amounts presented for fiscal year 2010 and 2011 in this discussion and analysis reflect this change unless noted otherwise. Table A-4 provides a summary of the status for the General Fund subfunds at year-end 2011.

At the end of 2011 the total fund balance of the General Fund was $204.8 million. Fund balance increased by $25.3 million in 2011 compared to 2010.

Total revenues for the General Fund amounted to $1.000 billion, an increase of $40.8 million or 4.3 percent higher than 2010. The increase is mostly attributable to higher tax revenues, which increased by $29.8 million or 3.9 percent, between 2010 and 2011.

Revenues derived from charges for services decreased considerably in 2011, down $13.4 million. This was offset by the increased grants, shared revenues, and contributions, which increased by $12.8 million from 2010. Program income, interest, and miscellaneous revenues were up $7.4 million; parking fees and space rent were up $4.0 million; and license revenue was down $1.6 million.

General Fund expenditures decreased slightly in 2011 to $775.2 million, 2.0 percent lower than 2010. Public safety accounts for 58.0 percent of this amount in 2011. Public safety's two largest expenditures were for police and fire protection. For 2011 the Police Department incurred $259.3 million and the Fire Department incurred $163.6 million of expenditures.

The other financing uses slightly increased $654 thousand.

The **Transportation Fund**, a special revenue fund, develops, maintains, and operates the transportation system inclusive of streets, bridges, ramps, retaining walls, sea walls, bike trails, street lights, and other road infrastructure. At the end of the fiscal year the fund balance increased by $28.2 million. The revenues collected of $179.7 million include excess property tax levy, a commercial parking tax, employee hours tax, grants and contributions, and charges for services. Transportation's expenditures totaled $247.4 million for 2011, down $ 6.7 million or 2.6 percent from 2010.

The **Low-Income Housing Fund**, a special revenue fund and one of the major governmental funds of the City, manages activities undertaken by the City to preserve, rehabilitate, or replace low-income housing. It also accounts for seven-year housing levies approved by voters, most recently in 2009. The fund balance increased by $11.4 million from 2010. Revenues from 2010 to 2011 increased by $117 thousand or 0.3 percent. The expenditures decreased by $15.1 million or 36.4 percent year over year. The decrease in expenditures is attributed to the cyclical nature of the fund. Multifamily construction projects can span several years from acquisition to final construction. Further driving the variations is the cyclical nature of downtown construction and their associated costs.

In 2011 the other **special revenue funds** (SRF) showed a $5.0 million or 12.1 percent increase in fund balance as a result of operations. The increase in fund balance was primarily attributable to the Business Improvement Areas Fund, which its fund balance increased by $3.1 million to $3.8 million. New addition in fiscal year 2011 was the Seattle Transportation Benefit District Fund, which reported the ending fund balance of $1.0 million.

Total revenues for SRF were relatively stable, increasing 1.6 percent from $175.2 million to $178.1 million year over year.

SRF expenditures decreased $15.9 million, down 4.8 percent from 2010. The decrease is primarily caused by the Pike Place Market Renovation Fund, which its expenditure decreased $6.0 million from $23.8 million to $17.8 million. The expenditures in other special revenue funds were mostly down due to the continued budget reductions and expenditure management effort.

The other financing sources and uses category decreased $2.5 million, down 1.7 percent compared to 2010. The decrease is attributable to the Seattle Transportation Benefit District Fund, which reported $3.7 million in transfers out.

The total fund balances of the **debt service funds** seemingly unchanged. The fund balance decreased by $141 thousand (1.3 percent) to $10.5 million at the end of 2011.

The fund balance in the **capital projects funds** increased $27.8 million or 15.2 percent from $183.4 million to $211.2 million at the end of 2011. The increase was mainly due to the creation of the 2011 Multipurpose Long-Term General Obligation Bond Fund and the receipt of bond proceeds totaling $73.7 million, leaving a fund balance of $64.3 million. The fund balance in the capital projects funds is all restricted for the City's capital improvement programs.

The 2011 fund balances of the **permanent funds** decreased by $21 thousand, or 1.0 percent.

Table A-4 **REVENUE, EXPENDITURE, AND FUND BALANCE SUMMARY**

GENERAL FUND SUBFUNDS

(In Thousands)

	General	Judgment/ Claims	Municipal Jail	Arts Account	Cable Television Franchise
Revenues					
Taxes	$ 760,844	$ -	$ -	$ -	$ -
Licenses and Permits	11,427	-	-	-	7,390
Grants, Shared Revenues, and Contributions	34,861	-	-	-	-
Charges for Services	43,579	9,192	-	-	-
Fines and Forfeits	32,455	-	-	-	-
Parking Fees and Space Rent	30,215	-	-	-	-
Program Income, Interest, and Miscellaneous Revenues	4,057	-	30	10	38
Total Revenues	917,438	9,192	30	10	7,428
Expenditures	645,813	14,293	-	4,365	7,543
Other Financing Sources and Uses					
Sales of Capital Assets	3	-	-	-	-
Transfers In (Out)	(249,400)	1,191	-	4,176	(190)
Total Other Financing Sources and Uses	(249,397)	1,191	-	4,176	(190)
Fund Balances					
Nonspendable	178	-	-	-	-
Restricted	-	-	-	-	-
Committed	3,212	-	5	537	4,768
Assigned	2,427	12,445	3,633	-	-
Unassigned	23,696	-	-	-	-
Total Fund Balances	$ 29,513	$ 12,445	$ 3,638	$ 537	$ 4,768

	Cumulative Reserve	Neighborhood Matching	Bluefield Habitat Maintenance	Development Rights	Emergency
Revenues					
Taxes	$ 30,122	$ -	$ -	$ -	$ -
Licenses and Permits	-	-	-	-	-
Grants, Shared Revenues, and Contributions	8,522	-	-	-	-
Charges for Services	879	-	-	-	-
Fines and Forfeits	-	-	-	-	-
Parking Fees and Space Rent	316	-	103	-	-
Program Income, Interest, and Miscellaneous Revenues	350	-	1	-	-
Total Revenues	40,189	-	104	-	-
Expenditures	30,143	3,018	-	-	18
Other Financing Sources and Uses					
Sales of Capital Assets	21,323	-	-	-	-
Transfers In (Out)	(24,815)	2,693	-	-	(1,382)
Total Other Financing Sources and Uses	(3,492)	2,693	-	-	(1,382)
Fund Balances					
Nonspendable	1	-	-	-	-
Restricted	30,911	-	-	-	-
Committed	7,163	3,959	104	21	-
Assigned	-	-	-	-	-
Unassigned	11,968	-	-	-	44,101
Total Fund Balances	$ 50,043	$ 3,959	$ 104	$ 21	$ 44,101

Table A-4 **REVENUE, EXPENDITURE, AND FUND BALANCE SUMMARY**

GENERAL FUND SUBFUNDS (continued)

(In Thousands)

	Transit Benefit	Special Employment Program	Industrial Insurance	Unemployment Compensation	Health Care
Revenues					
Taxes	$ -	$ -	$ -	$ -	$ -
Licenses and Permits	-	-	-	-	-
Grants, Shared Revenues, and Contributions	-	-	-	-	-
Charges for Services	-	-	-	-	-
Fines and Forfeits	-	-	-	-	-
Parking Fees and Space Rent	-	-	-	-	-
Program Income, Interest, and Miscellaneous Revenues	-	36	6	2,245	12,180
Total Revenues	-	36	6	2,245	12,180
Expenditures	-	-	189	-	11,571
Other Financing Sources and Uses					
Sales of Capital Assets	-	-	-	-	-
Transfers In (Out)	-	-	-	-	-
Total Other Financing Sources and Uses	-	-	-	-	-
Fund Balances					
Nonspendable	-	-	317	-	69
Restricted	-	-	-	-	17,115
Committed	-	119	5,712	2,872	16,781
Assigned	-	-	-	-	-
Unassigned	-	-	-	-	-
Total Fund Balances	$ -	$ 119	$ 6,029	$ 2,872	$ 33,965

	Group Term Life Insurance	Library [a]	Total General Fund 2011 [a]	Total General Fund 2010 [a]
Revenues				
Taxes	$ -	$ -	$ 790,966	$ 761,170
Licenses and Permits	-	-	18,817	20,401
Grants, Shared Revenues, and Contributions	-	4,120	47,503	34,682
Charges for Services	-	194	53,844	67,253
Fines and Forfeits	-	1,537	33,992	32,235
Parking Fees and Space Rent	-	667	31,301	27,294
Program Income, Interest, and Miscellaneous Revenues	4,812	156	23,921	16,526
Total Revenues	4,812	6,674	1,000,344	959,561
Expenditures	4,801	53,470	775,224	790,767
Other Financing Sources and Uses				
Sales of Capital Assets	-	-	21,326	21,309
Transfers In (Out)	-	46,615	(221,112)	(220,441)
Total Other Financing Sources and Uses	-	46,615	(199,786)	(199,132)
Fund Balances				
Nonspendable	-	7	572	401
Restricted	-	10,891	58,917	63,695
Committed	437	578	46,268	44,240
Assigned	-	748	19,253	17,958
Unassigned	-	-	79,765	53,147
Total Fund Balances	$ 437	$ 12,224	$ 204,775	$ 179,441

Proprietary Funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements but in more detail.

[a] As result of GASB Statement No. 54, the Library Fund no longer meets the definition for a special revenue fund and is reported as part of the General Fund for the GAAP reporting. Reclassifications were made for the prior year to conform to the presentation in current year.

City Light Utility. The Utility realized net income of $92.2 million in 2011 compared to $30.4 million in 2010, or an increase of $61.8 million (203.3 percent). Higher retail power sales and net wholesale energy revenues contributed significantly to the strong results. Additional positive components of net income were lower power costs along with higher capital contributions and capital grants. These were offset by higher deferral of revenues for the Rate Stabilization Account (RSA), non-power operating expenses, and debt interest expense.

Net cash provided by operating activities increased by $90.8 million to $292.6 million in 2011 compared to $201.8 million in 2010. Restricted assets increased by $69.0 million to $209.2 million in 2011 compared to $140.2 million in 2010. During 2011, the RSA was additionally funded of $62.2 million in accordance with Ordinance 123260. Operating cash in the amount of $21.0 million was transferred at the beginning of the year to the RSA for 2011 debt service savings from the 2011 refunding bonds. In December 2011, operating cash in the amount of $40.5 million representing cash in excess of the estimated amount needed to achieve a debt service coverage ratio of 1.85 was also transferred in accordance with Ordinance 123757.

Capital assets, net of accumulated depreciation and amortization, were $2.200 billion and $2.073 billion in 2011 and 2010, respectively, a net increase of $127.0 million. The majority of the capital asset additions was in the distribution system, intangible assets, hydraulic production, and general plant. These increases were offset by a $73.0 million increase in accumulated depreciation and amortization. In 2010, the Utility adopted GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets.* The Utility has intangible assets that consist of easements, purchased and internally developed software, and transmission rights.

Total revenue bonds payables were $1.680 billion in 2011 and $1.537 billion in 2010, a net increase of $143.0 million. In February 2011, the Utility issued a total of $306.3 million of revenue and refunding revenue bonds. Interest expenses were $79.9 million in 2011 and $69.4 million in 2010. Including long-term debt, the total liabilities were $2.033 billion in 2011 and $1.815 billion in 2010.

Total net assets were $946.8 million in 2011 and $854.6 million in 2010.

Water Utility. The net operating income of the Water Utility increased by $9.1 million to $40.1 million in 2011 as compared to $31.0 million in 2010. Operating revenues decreased by $0.6 million while operating expenses decreased by $9.7 million between 2011 and 2010. The increase of net operating income was mostly attributed to reductions in tax expenses and amortization of deferred charges. The Utility realized a net income of $1.8 million in 2011 compared to $0.7 million in 2010.

Net cash provided by operating activities increased to $81.8 million in 2011 from $75.4 million in 2010, an increase of $6.4 million. Total operating and restricted cash and investments were $94.1 million in 2011 compared to $135.4 million in 2010, a decrease of $41.3 million. This decrease in cash and investments was primarily due to use of construction funds for capital improvement projects.

Utility plant, net of accumulated depreciation, and other capital assets for the year ended December 31, 2011, amounted to $1.204 billion. This represents a net decrease of approximately $1.0 million in 2011, which was mainly due to fewer additions to construction projects and retirements in computer systems and structures. Major capital assets additions in 2011 included improvements at the Cedar River Watershed, upgrades and replacements to distribution pipelines, and improvements to water tanks and pump stations. The Water Utility has $56.0 million in construction work in progress as of December 31, 2011.

The Water Utility had revenue bonds totaling $977.2 million in 2011 as compared to $1.006 billion in 2010. The decrease of $29.1 million was due to principal payments made in 2011.

Total net assets were $312.7 million in 2011 and $310.9 million in 2010.

Drainage and Wastewater Utility. The Utility realized an operating income of $25.9 million in 2011 as compared to $19.6 million in 2010. Operating revenue increased $29.2 million and operating expenses increased $23.0 million between 2011 and 2010. The Utility realized a net income of $18.0 million in 2011 and $5.9 million in 2010. The net income in 2011 was primarily due to increase in wastewater and drainage rates, capital contributions, and donated infrastructure assets.

Net cash provided by operating activities decreased to $37.1 million as compared to $48.3 million in 2010. Total operating and restricted cash and investments were $81.0 million in 2011 as compared to $121.7 million in 2010, a decrease of $40.7 million, primarily due to the spending on construction projects and assets placed in service.

Utility plant, net of accumulated depreciation, and other capital assets increased to $663.4 million in 2011 from $628.0 million in 2010, an increase of $35.4 million. Acquisition of new assets included completion of the Madison Valley Phase II project, installation of sewer pipes throughout several locations in the city, donated sewer and drainage pipes from the Seattle Department of Transportation, and storm water improvements in the Norfolk Basin. There were also emergency rehabilitation work on sewer mainlines; improvements at wastewater pump stations; reduced infiltration and enhanced capacity of the sewer at 12th Avenue NW; and installation of onsite generators at critical wastewater pump stations.

The Drainage and Wastewater Utility had $486.6 million outstanding revenue and refunding bond liabilities in 2011, as compared to $499.8 million in 2010. There were no new bonds issued in 2011. Total liabilities, including revenue bonds, were $572.0 million in 2011 and $586.8 million in 2010.

Total net assets were $270.3 million in 2011 and $252.3 million in 2010.

Solid Waste Utility. The Utility realized an operating income of $7.1 million in 2011 as compared to $5.9 million in 2010. Operating revenue increased by $7.2 million while operating expenses increased by $6.0 million between 2011 and 2010. The Utility realized a net income of $5.9 million in 2011 compared to $6.0 million in 2010. The net income in 2011 was primarily due to a rate increase effective January 2011.

Net cash provided by operating activities increased to $16.7 million in 2011 as compared to $10.3 million in 2010. Total operating and restricted cash and investments were $41.5 million and $22.1 million in 2011 and 2010, respectively. The increase of $19.4 million in operating and restricted cash and investments is primarily due to proceeds received from the bond issued in 2011.

Utility plant, net of accumulated depreciation, and other capital assets increased to $117.9 million in 2011 from $80.3 million in 2010, an increase of $37.6 million. The majority of this increase was related to a $40.1 million increase of construction in progress attributed to the South Transfer Station Rebuild project. Major assets placed into service in 2011 included heavy equipment purchases and information technology upgrades.

The Solid Waste Utility had $122.2 million outstanding revenue bond liabilities in 2011 as compared to $78.5 million in 2010. The increase of $43.7 million is mainly due to a new bond issuance in the amount of $45.8 million. Total principal payments of $2.1 million were made in 2011.

Total net assets were $21.4 million in 2011 and $15.4 million in 2010.

Fiduciary Funds

The City maintains fiduciary funds for the assets of the Seattle City Employees' Retirement System (SCERS), the Firemen's Pension Fund, the Police Relief and Pension Fund, the S.L. Denny Private Purpose Trust, and various agency funds. Total net assets of the combined fiduciary funds at the end of 2011 were $1.768 billion; SCERS represents 99.2 percent of this amount.

SCERS assets that are held in trust for the payment of future benefits do not exceed the estimate of actuarially accrued liabilities as of December 31, 2011. The fund uses the services of both active and index fund professional money managers. SCERS net fund assets decreased in valuation by $59.2 million (3.3 percent) during 2011. The primary drivers were a $118.6 million decrease in investment assets and a $10.4 million increase in retiree benefits. Total revenues (additions to net assets) for 2011 were $85.0 million, including plan member and employer contributions of $100.7 million, and loss from investment activities totaling $15.8 million. Plan member and employer contributions in 2011 increased $10.1 million over 2010. The fund experienced dividend and interest receipts of over $27.8 million during 2011. Total expenses (deductions from net assets) for 2011 increased by $12.5 million (9.6 percent) as compared to 2010; the increase was primarily due to a $10.4 million (9.2 percent) increase in retiree benefits and a $2.0 million increase in contribution refunds. In 2011, the net increase in the number of retirees receiving benefits was 2.8 percent.

At December 31, 2011, the net assets held in trust in the Firemen's Pension Fund and the Police Relief and Pension Fund for the payment of future benefits were $10.9 million and $3.7 million, respectively.

GENERAL FUND BUDGETARY HIGHLIGHTS

For the General Fund budgetary highlights, the Library Fund, which has its own legally adopted annual budget, is excluded from this discussion.

The General Fund's 2011 final appropriation budget, including support to other funds, was $1.132 billion. This amount differed from the original budget due to supplemental appropriations approved by the City Council during the year and carry forward budgets from the prior year. In fiscal year 2011 the General Fund's original budget was $1.105 billion. This was increased $27.2 million (2.5 percent) during 2011 for supplemental appropriation authority approved by the City Council.

The most significant budget activities are described below:

- At year-end 2011 actual expenditures and transfers were $135.84 million less than budgeted. Of this amount $99.3 million of the budget will be carried over into 2012 to cover outstanding encumbrances, grants, and capital spending.

- The total budget for the Real Estate Excise Tax (REET I and II) Cumulative Reserve Subfunds was $52.3 million of which $30.7 million of the budget was expended in 2011. The excess budget will be carried forward for capital appropriation in 2012.

- The majority of the carryforward budget is within the General Subfund, 39.9 percent, and the REET I and REET II Cumulative Reserve Subfunds at 15.1 percent and 6.6 percent, respectively. The amount of carryforward budgets from 2010 was $110.1 million; this amount decreased 9.8 percent to $99.3 million for 2011.

- In 2011 $22.7 million in additional grant funding was authorized in supplemental ordinances by the City Council. This includes $11.0 million under agreement with the U.S. Department of Homeland Security (DHS) for funds available under the Port Security Grant Program (PSGP).

- 2011 current expenditures of the general government were $169.0 million, which were 12.6 percent below the final budget of $193.4 million. The excess budget is primarily due to the actual health care and judgment/claim costs that came in much less than budgeted.

- Public safety expenditures in 2011 were $450.3 million, $31.7 million under the final budget of $482.0 million, which is also primarily due to the amount of available grant funding within the Fire and Police departments that will continue into 2012. Detail information follows:

  - The Police Department's 2011 budget was $275.7 million. This amount breaks into $0.9 million for continuing and capital programs, $22.8 million for grant programs, and the remaining $252.0 million for operations. The 2011 actual expenditures were $259.6 million, breaking down into grants of $9.3 million, expenditures for capital and continuing projects of $0.4 million, and the remaining $249.9 million for operations.

  - The Fire Department's 2011 budget was $174.8 million. This amount breaks into $4.0 million for capital continuing programs, $12.3 million for grant programs, and the remaining $158.5 million for operations. The 2011 actual expenditures were $164.0 million, breaking down into grants of $3.4 million, expenditures for continuing and capital projects of $3.0 million, and the remaining $157.6 million for operations.

- The capital outlay spending in the general government and the culture and recreation functions of the City are reported significantly under budget. This is to be expected with the City loading budgets for projects that span multiple operating cycles and reporting periods. In 2011 the general government expended 23.9 percent of the budget, only $5.5 million of the $22.9 million budgeted. This was consistent within culture and recreation which reported spending only $23.1 million of the $58.0 million budgeted, or 39.8 percent of the 2011 capital outlay budget.

- General Fund actual revenues came in at $993.7 million, $36.8 million (3.6 percent) less than budget. Tax revenues were over budget by $8.4 million (1.1 percent). Grants and contributions were $43.4 million as compared to a budget of $79.1 million because there are grants awarded that span multi-years and remaining budgets are carried over to the following year.

CAPITAL ASSETS

The following schedule shows the City's investment in capital assets.

Table A-5 **CAPITAL ASSETS AT YEAR END, NET OF DEPRECIATION**

(In Thousands)

	Governmental Activities		Business-Type Activities		Total	
	2011	Restated 2010	2011	2010	2011	Restated 2010
Land	$ 534,093	$ 530,894	$ 133,634	$ 160,118	$ 667,727	$ 691,012
Plant in Service, Excluding Land	-	-	3,688,841	3,508,899	3,688,841	3,508,899
Buildings and Improvements	1,531,852	1,569,118	34,074	36,079	1,565,926	1,605,197
Machinery and Equipment	124,097	116,831	2,447	4,001	126,544	120,832
Infrastructure	808,059	742,151	-	-	808,059	742,151
Construction in Progress	340,504	267,903	312,968	312,303	653,472	580,206
Other Capital Assets	11,871	11,961	62,770	17,755	74,641	29,716
Total Capital Assets	$ 3,350,476	$ 3,238,858	$ 4,234,734	$ 4,039,155	$ 7,585,210	$ 7,278,013

Capital assets, net of depreciation, for governmental activities increased by $111.6 million in 2011. The main driver for the increase is attributable to the following:

- The Department of Transportation capitalized $110.4 million for various infrastructure assets (roads, bridges, sidewalks, signs, illuminations, and others). Construction in progress increased $57.1 million over last year in support of ongoing capital projects.

Capital assets, net of depreciation, for business-type activities increased by $195.6 million in 2011. Major increases included the following:

- City Light capital assets, net of accumulated depreciation, increased by $127.2 million in 2011. This increase was primarily comprised of $120.7 million for distribution plant assets.

- Drainage and Wastewater Utility net capital assets increased by $35.4 million compared to last year. The major capital asset placed in service was for the completed Madison Valley Phase II project in the amount of $26.2 million.

- Solid Waste Utility net capital assets increased by $37.5 million for the year ended December 31, 2011. The Utility spent $43.4 million relating to ongoing construction projects, including $40.1 million spent for the South Transfer Station rebuild project.

More detailed financial information about the City's capital asset activities is presented in Note 6 to the financial statements.

DEBT ADMINISTRATION

At the end of the fiscal year 2011 the City had $4.149 billion in outstanding bonded debt that included general obligation and revenue bonds, compared to $3.985 billion in 2010. This represents an increase of approximately $163.8 million (4.1 percent). Additionally, the special assessments bonds that the City issued in 2006, without lending its full faith and credit but obligated in some manner for the design and construction of the South Lake Union Streetcar, decreased to $14.3 million. In 2011 LTGO bonds were issued to finance various capital improvement projects including Bridge Rehabilitation ($9.7 million), Bridge Seismic ($1.8 million), King Street Station ($3.8 million), Spokane Street Viaduct ($21.4 million), Seawall ($11.8 million), Parking/Program Management ($2.3 million), Mercer West ($7.7 million), Golf ($1.9 million), Pike Place Market ($10.0 million), Rainier Beach Community Center ($4.3 million), Seattle Center ($3.0 million), Facility Energy Retrofits-Facilities and Administrative Services ($0.6 million), Facility Energy Retrofits-Department of Parks and Recreation ($0.4 million), and Facility Energy Retrofits-Seattle Center ($0.5 million), for a total of $79.2 million. The City also issued revenue bonds: $306.3 million for the Light Fund to finance certain capital improvements and conservation programs and to advance refund certain higher-interest-bearing existing Municipal Light and Power parity bonds; and $45.8 million to finance certain capital improvement projects of the City's solid waste system. The City's bond ratings remained similar to the ratings for the previous year. The City's UTGO bonds are rated Aaa by Moody's Investors Service (Moody's), AAA by Fitch Ratings (Fitch), and AAA by Standard & Poor's (S&P). The City's LTGO bonds are rated Aa1 by Moody's, AA+ by Fitch, and AAA by S&P. The City maintained its high bond ratings on its Light, Water, Drainage and Wastewater, and Solid Waste revenue bonds by Moody's and S&P; these bonds are not rated by Fitch.

The City's limited and unlimited general obligation debt is capped at 7.5 percent of assessed value by state law. The 2012 assessed value of taxable properties for the City is $117.5 billion. At the end of 2011 the net outstanding general obligation debt of the City that includes bonds, compensated absences net of sick leave, and guarantees of indebtedness amounted to $1.020 billion, well below the limit of $8.813 billion, rendering the City's legal debt margin of $7.793 billion. Within the 7.5 percent limitation, state law restricts outstanding LTGO bonds to 1.5 percent of assessed value. At year-end 2011 the LTGO net outstanding debt was $908.8 million.

The City is self-insured for workers compensation and for most health care costs. The City carries general liability insurance with a self-insured retention. For these claims, including those incurred but not reported, the City recognized a total liability of $117.4 million ($86.9 million for governmental activities and $30.5 million for business-type activities) at the end of the year. In addition, City utilities and Department of Parks and Recreation recognized a combined $34.7 million in estimated environmental liabilities. Other obligations were accrued for compensation absences for sick leave and other notes and contracts. The other notes and contracts included draws from the State's Public Works Trust Loan (PWTL) Program which are serviced with revenues from two participating City departments, one with a governmental-type fund and one whose PWTL activities are reported in two of its business-type funds.

More detailed information about the City's long-term liabilities is presented in Note 9 to the financial statements.

ECONOMIC FACTORS

U.S. Economy. The worst recession in 80 years ended in June 2009, and the U.S. economy has been slowly recovering since then. The recovery has been led by business investment in equipment and software, a rise in exports, which has boosted the manufacturing sector, and a modest upturn in consumption. Housing has finally stabilized following the steep drop precipitated by the collapse of the housing bubble, but a housing recovery has yet to materialize. Since employment was at its lowest in February 2010, the economy has created 2.94 million jobs through December 2011, replacing a third of the jobs lost during the downturn.

The economy showed signs of a faster recovery in the fourth quarter of 2010 and entered 2011 with modest momentum. However, it was soon slowed by a sharp increase in gasoline prices caused by the disruption of oil supplies that resulted from popular uprisings in several Middle East nations, and by the slowdown in U.S. manufacturing production that was caused by the earthquake and tsunami that hit Japan in early March. Ongoing Eurozone debt troubles also weighed on the economy.

In late July and early August, the weakened economy was subjected to the federal government's debt ceiling debate, in which Congress delayed raising the nation's debt ceiling until the U.S. was on the brink of default. This caused a steep drop in consumer confidence, a sharp decline in the stock market, and rising fears of a double-dip recession. However, once the debate ended, the economy managed to bounce-back and ended the year on an upswing.

Looking to the future, economists expect the recovery to remain sluggish. History tells us that recessions caused by financial crises are followed by weak recoveries, and thus far the current recovery is unfolding as expected. Despite improvements in the financial markets, credit remains tight and consumers are under stress due to large declines in wealth, increases in energy and food prices, a weak job market, and sluggish income growth.

Seattle Metro Area Economy. The Seattle metro area has rebounded from the recession more strongly than the nation. Through December, Seattle metro area, King and Snohomish Counties, employment was up 4.1 percent from its post-recession low in February 2010, compared to a 2.3 percent gain in U.S. employment over the same period. Areas of strength in the local economy include aerospace; software publishing; professional, scientific, and technical services; health services; and mail order and internet retail. Boeing, which has a backlog of over 3,000 planes on order, is phasing in a series of production increases for its 737, 777, and 787 models in 2011-2014. The 787 model has been certified by the FAA to carry passengers, work on the Air Force tanker is ramping up, and a redesign of the 737 model that will add new fuel efficient engines has been approved recently by Boeing's board. Amazon, which is in the process of moving into its new South Lake Union office complex, has been hiring aggressively.

Despite a relatively healthy start, the region's recovery is expected to be weak by historical standards. The Puget Sound Economic Forecaster expects employment to increase at an average rate of 1.8 percent per year over the next five years. This is a much slower rate of growth than is typical during recoveries, and is lower than the 2.5 percent average annual growth rate posted over the past 40 years, which includes periods of recession. Housing will recover more slowly than the rest of the economy, with housing starts not expected to move comfortably above recession levels until 2016.

General Subfund. In 2011, general government revenue into the General Subfund totaled approximately $917.4 million. General Subfund revenue is projected to be $930.7 million in 2012, $945.8 million in 2013, and $986.4 million in 2014. The cash inflows in 2011 were artificially high due to a loan from the Museum of History and Industry (MOHAI) in the amount of $8.5 million.

The recession of 2007 through 2009 recession caused a severe contraction in retail sales and business and occupation tax revenues, with business and occupation tax revenue declining in 2008, and revenue from both taxes declining in 2009 and 2010. With the recovery, revenue growth turned positive in 2011, with the retail sales and business and occupation taxes posting gains of 8.2 percent and 6.7 percent, respectively. Leading the rebound have been construction; manufacturing; auto sales; and business and professional services. Sales tax revenue was boosted by a Washington State tax amnesty program, which yielded an estimated $2.6 million in additional sales tax revenue as well as approximately $250 thousand in criminal justice sales tax receipts for the City. Looking forward, revenue is expected to continue growing at a modest but gradually increasing pace.

On-street parking and parking enforcement continued to be an area of revenue volatility as the City accelerated its transition to a data-driven, performance based approach to managing on-street parking. The City also implemented a scofflaw booting program to improve payment compliance on parking citations. Overall, changes implemented in 2011 increased on-street parking revenues approximately $3.5 million over 2010 to $30.1 million. Further changes to rates, boundaries, and time limits are planned for 2012. The loss of parking spaces beginning in October 2011 due to the multi-year construction activity related to the Alaskan Way Viaduct replacement project are indicating significantly lower revenue growth in 2012. Revenues from the scofflaw booting program and the City's camera enforcement program performed as anticipated and total enforcement revenues increased to $31.3 million in 2011 from $29.8 million in 2010. The 2012 Adopted Budget recognized the Seattle Municipal Court's recommendation to increase various parking fines by $5.00, effective in late 2011.

Utilities. Utility tax receipts from both private and public utilities have held up fairly well through the recession and the following period of expansion. Public utilities have seen a number of general rate increases in 2011 as well as the creation of revenue stabilization accounts. These rate increases have led to higher tax revenues to the City which have served to counteract the muted growth rates in retail sales and business and occupation tax revenues. Cold weather in 2011 also had a positive impact on tax revenues from both Seattle City Light and natural gas suppliers. Some technological changes are having an effect on telecommunications and cable tax revenue streams as consumers change their behaviors. More cellular phones services are being used for internet access and other data services which are not part of the local tax structure. Similarly the competition between cable and satellite service providers along with an increased presence of television online has muted growth in cable tax revenues.

In 2011, Seattle City Light experienced an increase in retail power sales and net wholesale energy revenues. Retail power revenues were higher as a result of the 4.3 percent rate increase effective January 1, 2011 and higher electricity consumption during the first seven months of the year. The 4.5 percent temporary rate surcharge implemented in May 2010 was terminated at the beginning of 2011. Extremely wet hydro conditions in the Pacific Northwest region during 2011 produced abundant surplus power contributing to the higher wholesale energy sales, even with lower wholesale power prices compared to 2010. In 2010, the utility established, per City Ordinance 123260, a Rate Stabilization Account (RSA) to help mitigate future risks to fluctuations in wholesale revenue. In 2011, $40.5 million of operating revenues were transferred to the RSA to reduce both the likelihood and size of surcharges required to 2012 in anticipation of a shortfall in wholesale revenue.

Seattle Public Utilities (SPU). SPU is facing financial challenges. Revenues in all three lines of business have been impacted by the economic slowdown. This has led residents and businesses to create fewer tons of garbage and use less water than assumed in previous forecasts. The recession has heightened existing trends toward lower consumption and more efficient use of utility resources in Seattle. Total water demand has decreased by roughly 25.0 percent since peaking in the 1980s, for example, and is projected to continue decreasing by roughly 1.0 percent a year over the next few years. Solid waste rates were increased by 7.5 percent for residential services effective January 1, 2011. Wastewater revenues increased on average of 14.5 percent. Wastewater treatment costs rose due to an increase in the treatment rate imposed by King County in 2011.

Full Time-Equivalent (FTE) Positions. In the 2011 adopted budget, 278 net positions were eliminated citywide. The 2012 endorsed budget, presented with the 2011 adopted budget, included an additional 16 net positions to be eliminated.

Financial Contact

The City's financial statements are designed to provide users with a general overview of the City's finances as well as to demonstrate the City's accountability to its citizens, investors, creditors, and other customers. If you have a question about the report, please contact the City of Seattle, Department of Finance and Administrative Services, Citywide Accounting and Payroll Services Division, P.O. Box 94669, Seattle, WA 98124-4669 (Telephone 206-386-9124).

STATEMENT OF NET ASSETS
December 31, 2011
(In Thousands)

	Primary Government				
			Comparative Totals		
	Governmental Activities	Business-Type Activities	2011	Restated 2010	Component Units
ASSETS					
Current Assets					
Operating Cash and Equity in Pooled Investments	$ 593,700	$ 234,146	$ 827,846	$ 619,147	$ 3,377
Restricted Cash and Equity in Pooled Investments	14,294	1,639	15,933	9,325	-
Investments	-	-	-	-	45,207
Receivables, Net of Allowances	87,446	199,104	286,550	298,578	3,031
Internal Balances	15,746	(15,746)	-	-	-
Due from Other Governments	85,545	11,273	96,818	98,523	-
Inventories	2,980	33,996	36,976	32,620	-
Prepaid and Other Current Assets	921	1,907	2,828	3,958	14
Total Current Assets	800,632	466,319	1,266,951	1,062,151	51,629
Noncurrent Assets					
Restricted Cash and Equity in Pooled Investments	23,373	369,195	392,568	310,278	-
Restricted Investments	-	-	-	81,829	-
Restricted Investment Interest Receivable	-	-	-	131	-
Unamortized Debt Costs	4,298	19,532	23,830	23,701	-
Contracts and Notes	372,169	1,772	373,941	375,385	-
Deferred Conservation Costs, Net	-	220,448	220,448	208,006	-
Deferred Landfill Closure and Postclosure Costs, Net	-	17,656	17,656	18,772	-
Deferred Environmental Costs and Recoveries	-	7,421	7,421	10,238	-
Net Pension Asset	47,677	-	47,677	39,821	-
Other Deferred Charges and Noncurrent Assets	14,271	104,057	118,328	102,860	2,778
Capital Assets, Net of Accumulated Depreciation					
Land and Land Rights	534,093	133,634	667,727	691,012	-
Plant in Service, Excluding Land	-	3,688,841	3,688,841	3,508,899	-
Buildings and Improvements	1,531,852	34,074	1,565,926	1,605,197	-
Machinery and Equipment	124,097	2,447	126,544	120,832	-
Infrastructure	808,059	-	808,059	742,151	-
Construction in Progress	340,504	312,968	653,472	580,206	-
Other Capital Assets	11,871	62,770	74,641	29,716	-
Total Noncurrent Assets	3,812,264	4,974,815	8,787,079	8,449,034	2,778
Total Assets	4,612,896	5,441,134	10,054,030	9,511,185	54,407

The accompanying notes are an integral part of these financial statements.

STATEMENT OF NET ASSETS
December 31, 2011
(In Thousands)

	Primary Government				
			Comparative Totals		
	Governmental Activities	Business-Type Activities	2011	Restated 2010	Component Units
LIABILITIES					
Current Liabilities					
Accounts Payable	$ 76,053	$ 74,313	$ 150,366	$ 146,681	$ 2,009
Salaries, Benefits, and Taxes Payable	20,445	9,446	29,891	28,433	-
Contracts Payable	4,870	-	4,870	5,785	-
Due to Other Governments	10,277	10,339	20,616	18,419	-
Interest Payable	12,042	59,211	71,253	73,683	-
Taxes Payable	81	11,986	12,067	11,295	-
Deposits Payable	679	-	679	782	-
Deferred Credits	5,061	20,478	25,539	24,393	-
Current Portion of Long-Term Debt					
Bonds Payable	64,800	138,187	202,987	165,957	-
Deferred Bond Interest	-	1,213	1,213	1,058	-
Compensated Absences Payable	18,708	2,797	21,505	23,279	-
Notes and Contracts Payable	2,198	1,762	3,960	3,844	-
Claims Payable	26,525	16,432	42,957	48,657	-
Habitat Conservation Program Liability	-	533	533	527	-
Landfill Closure and Postclosure Liability	-	1,645	1,645	1,292	-
Arbitrage Rebate Liability	-	-	-	76	-
Other Current Liabilities	432	1,083	1,515	1,167	-
Total Current Liabilities	242,171	349,425	591,596	555,328	2,009
Noncurrent Liabilities					
Bonds Payable, Net of					
Unamortized Premiums, Discounts, and Other	794,904	3,267,758	4,062,662	3,917,883	-
Deferred Bond Interest	-	1,672	1,672	2,493	-
Special Assessment Bonds with Governmental Commitment	14,305	-	14,305	15,735	-
Compensated Absences Payable	65,904	26,902	92,806	88,995	-
Claims Payable	60,426	48,679	109,105	117,146	-
Notes and Contracts Payable	12,474	34,460	46,934	46,858	-
Landfill Closure and Postclosure Liability	-	18,317	18,317	19,362	-
Vendor Deposits Payable	64	14	78	657	-
Habitat Conservation Program Liability	-	4,515	4,515	3,784	-
Muckleshoot Liability	-	-	-	495	-
Deferred Credits	404,863	26,720	431,583	430,049	-
Deferred Revenue - Rate Stabilization Account	-	116,490	116,490	54,266	-
Arbitrage Rebate Liability	44	-	44	-	-
Unfunded Other Post Employment Benefits	59,786	11,569	71,355	55,158	-
Other Noncurrent Liabilities	8,604	2,220	10,824	2,250	-
Total Noncurrent Liabilities	1,421,374	3,559,316	4,980,690	4,755,131	-
Total Liabilities	1,663,545	3,908,741	5,572,286	5,310,459	2,009

The accompanying notes are an integral part of these financial statements.

STATEMENT OF NET ASSETS
December 31, 2011
(In Thousands)

	Primary Government				
			Comparative Totals		
	Governmental Activities	Business-Type Activities	2011	Restated 2010	Component Units
NET ASSETS					
Invested in Capital Assets, Net of Related Debt	$ 2,629,246	$ 1,243,494	$ 3,872,740	$ 3,741,838	$ -
Restricted for					
Debt Service	10,499	29,441	39,940	40,081	-
Capital Projects	242,096	-	242,096	214,826	-
Rate Stabilization Account	-	25,000	25,000	25,000	-
Education and Development Services	14,260	-	14,260	15,258	9,106
Special Deposits	-	428	428	129	-
Deferred Conservation and Environmental Costs	-	6,536	6,536	6,806	-
Bonneville Power Administration Projects	-	463	463	563	-
Deferred External Infrastructure Costs	-	7,114	7,114	7,514	-
Muckleshoot Settlement	-	294	294	348	-
Other Deferred Charges	-	12,628	12,628	9,571	-
Health Care Reserve	17,115	-	17,115	21,488	-
Transportation Programs	18,851	-	18,851	11,154	-
Low-Income Housing Programs	77,772	-	77,772	65,567	-
Other Purposes	37,409	-	37,409	31,306	-
Nonexpendable	2,050	-	2,050	2,050	26,889
Unrestricted	(99,947)	206,995	107,048	7,227	16,403
Total Net Assets	$ 2,949,351	$ 1,532,393	$ 4,481,744	$ 4,200,726	$ 52,398

The accompanying notes are an integral part of these financial statements.

STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2011
(In Thousands)

Functions/Programs	Program Expenses: Expenses	Program Expenses: Indirect Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
GOVERNMENTAL ACTIVITIES					
General Government	$ 179,351	$ (1,586)	$ 73,960	$ 15,077	$ 8,535
Judicial	25,623	-	33,048	157	-
Public Safety	472,262	(1,057)	18,939	17,800	524
Physical Environment	10,697	-	2	8,688	-
Transportation	109,827	833	64,331	13,131	28,306
Economic Environment	101,242	-	7,299	32,932	6,199
Health and Human Services	71,399	-	1,276	33,828	-
Culture and Recreation	245,671	-	50,273	15,066	3,939
Interest on Long-Term Debt	40,425	-	-	-	-
Total Governmental Activities	1,256,497	(1,810)	249,128	136,679	47,503
BUSINESS-TYPE ACTIVITIES					
Light	722,703	962	769,316	1,398	40,927
Water	198,619	310	194,342	435	3,096
Drainage and Wastewater	268,948	276	274,553	2,310	7,476
Solid Waste	149,049	108	154,159	718	23
Planning and Development	43,900	154	34,487	657	-
Downtown Parking Garage	7,740	-	5,937	-	-
Total Business-Type Activities	1,390,959	1,810	1,432,794	5,518	51,522
Total Government-Wide Activities	$ 2,647,456	$ -	$ 1,681,922	$ 142,197	$ 99,025
COMPONENT UNITS	$ 5,085	$ -	$ -	$ 5,634	$ -

The accompanying notes are an integral part of these financial statements.

STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2011
(In Thousands)

	Net Revenue (Expense) and Changes in Net Assets				
	Primary Government				
			Comparative Totals		
	Governmental Activities	Business-Type Activities	2011	Restated 2010	Component Units
GOVERNMENTAL ACTIVITIES					
General Government	$ (80,193)	$ -	$ (80,193)	$ (106,106)	
Judicial	7,582	-	7,582	5,008	
Public Safety	(433,942)	-	(433,942)	(443,122)	
Physical Environment	(2,007)	-	(2,007)	(3,825)	
Transportation	(4,892)	-	(4,892)	(19,749)	
Economic Environment	(54,812)	-	(54,812)	(72,013)	
Health and Human Services	(36,295)	-	(36,295)	(38,608)	
Culture and Recreation	(176,393)	-	(176,393)	(186,204)	
Interest on Long-Term Debt	(40,425)	-	(40,425)	(38,929)	
Total Governmental Activities	(821,377)	-	(821,377)	(903,548)	
BUSINESS-TYPE ACTIVITIES					
Light	-	87,976	87,976	28,241	
Water	-	(1,056)	(1,056)	(2,383)	
Drainage and Wastewater	-	15,115	15,115	5,449	
Solid Waste	-	5,743	5,743	5,874	
Planning and Development	-	(8,910)	(8,910)	(18,667)	
Downtown Parking Garage	-	(1,803)	(1,803)	(1,068)	
Total Business-Type Activities	-	97,065	97,065	17,446	
Total Government-Wide Activities	(821,377)	97,065	(724,312)	(886,102)	
COMPONENT UNITS					$ 549
General Revenues					
Property Taxes	397,288	-	397,288	391,798	-
Sales Taxes	158,582	-	158,582	146,970	-
Business Taxes	339,703	-	339,703	331,570	-
Excise Taxes	35,203	-	35,203	28,815	-
Other Taxes	39,014	-	39,014	31,119	-
Penalties and Interest on Delinquent Taxes	3,240	-	3,240	3,475	-
Unrestricted Investment Earnings	5,536	11,078	16,614	13,481	454
Gain on Sale of Capital Assets	14,224	924	15,148	40,293	-
Special Item - Environmental Remediation	-	538	538	(1,948)	-
Transfers	(9,373)	9,373	-	-	-
Total General Revenues (Loss), Special Item, and Transfers	983,417	21,913	1,005,330	985,573	454
Changes in Net Assets	162,040	118,978	281,018	99,471	1,003
Net Assets - Beginning of Year as Restated	2,787,311	1,413,415	4,200,726	4,101,255	51,395
Net Assets - End of Year	$ 2,949,351	$ 1,532,393	$ 4,481,744	$ 4,200,726	$ 52,398

The accompanying notes are an integral part of these financial statements.

MAJOR GOVERNMENTAL FUNDS

The **General Fund** is the primary operating fund of the City. It accounts for all financial resources except those required to be accounted for in another fund. It derives the majority of its revenues from property, sales, business, and utility taxes.

As described in Note 1, Summary of Significant Accounting Polices, GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* was implemented in fiscal year 2011. The Library Fund no longer met the definition for a special revenue fund and has been included in the General Fund financial statements.

The **Transportation Fund** accounts for revenues for construction, improvement, repair, or maintenance of City streets and waterways. Revenues include taxes on the sale, distribution, or use of motor vehicle fuel; property taxes, commercial parking taxes, and motor vehicle excise taxes designated for street purposes; and grants.

The **Low-Income Housing Fund** manages activities undertaken by the City to preserve, rehabilitate, or replace low-income housing. It also accounts for a seven-year housing levy approved by the voters in 2009 to provide, produce, and/or preserve affordable housing in Seattle and to assist low-income tenants in Seattle. Operating costs in the administration of the levy are accounted for in the Office of Housing Fund, a nonmajor special revenue fund.

Descriptions for the nonmajor governmental funds are provided in the Combining and Individual Fund and Other Supplementary Information section.

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BALANCE SHEET

GOVERNMENTAL FUNDS

December 31, 2011

(In Thousands)

	General	Transportation	Low-Income Housing
ASSETS			
Cash and Equity in Pooled Investments	$ 144,220	$ 36,395	$ 86,243
Receivables, Net of Allowances			
Taxes	56,860	2,812	478
Accounts	3,558	1,238	220
Special Assessments - Delinquent	-	-	-
Interest and Dividends	71	180	60
Unbilled and Others	925	95	-
Due from Other Funds	14,536	26,334	767
Due from Other Governments	44,272	25,775	975
Inventories	-	-	-
Prepaid and Other Current Assets	513	225	-
Deposits With Vendor	2	-	-
Contracts and Notes - Noncurrent	8,009	-	315,724
Advances to Other Funds	-	-	-
Deferred Charges and Other Assets	-	-	-
Total Assets	$ 272,966	$ 93,054	$ 404,467
LIABILITIES			
Accounts Payable	$ 22,557	$ 17,223	$ 1,664
Contracts Payable	123	3,847	-
Due to Other Funds	5,219	1,419	13
Due to Other Governments	3,915	-	-
Salaries, Benefits, and Taxes Payable	13,320	1,709	-
Interest Payable	759	24	-
Deposits Payable	88	326	94
Revenue Collected/Billed in Advance - Current	1,928	6	-
Other Current Liabilities	241	-	-
Advances from Other Funds	-	-	-
Deferred Revenues	20,041	7,069	316,108
Total Liabilities	68,191	31,623	317,879

The accompanying notes are an integral part of these financial statements.

BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2011
(In Thousands)

	Other Governmental	Comparative Totals 2011	Comparative Totals 2010
ASSETS			
Cash and Equity in Pooled Investments	$ 308,075	$ 574,933	$ 488,281
Receivables, Net of Allowances			
Taxes	2,218	62,368	62,450
Accounts	7,999	13,015	10,087
Special Assessments - Delinquent	195	195	154
Interest and Dividends	238	549	865
Unbilled and Others	1,101	2,121	1,910
Due from Other Funds	3,306	44,943	34,956
Due from Other Governments	13,933	84,955	87,934
Inventories	609	609	570
Prepaid and Other Current Assets	42	780	878
Deposits With Vendor	-	2	2
Contracts and Notes - Noncurrent	44,761	368,494	351,435
Advances to Other Funds	-	-	1,020
Deferred Charges and Other Assets	14,271	14,271	16,578
Total Assets	$ 396,748	$ 1,167,235	$ 1,057,120
LIABILITIES			
Accounts Payable	$ 23,822	$ 65,266	$ 75,344
Contracts Payable	901	4,871	5,785
Due to Other Funds	26,318	32,969	24,946
Due to Other Governments	6,355	10,270	9,168
Salaries, Benefits, and Taxes Payable	3,526	18,555	18,645
Interest Payable	3	786	951
Deposits Payable	170	678	782
Revenue Collected/Billed in Advance - Current	3,127	5,061	4,523
Other Current Liabilities	189	430	378
Advances from Other Funds	-	-	1,020
Deferred Revenues	61,647	404,865	389,767
Total Liabilities	126,058	543,751	531,309

The accompanying notes are an integral part of these financial statements.

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BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2011
(In Thousands)

	General	Transportation	Low-Income Housing
FUND BALANCES			
Nonspendable	$ 572	$ 228	$ -
Restricted	58,917	18,851	77,772
Committed	46,268	42,352	8,816
Assigned	19,253	-	-
Unassigned	79,765	-	-
Total Fund Balance	204,775	61,431	86,588
Total Liabilities and Fund Balance	$ 272,966	$ 93,054	$ 404,467

The accompanying notes are an integral part of these financial statements.

BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2011
(In Thousands)

	Other Governmental	Comparative Totals 2011	Comparative Totals 2010
FUND BALANCES			
Nonspendable	$ 2,486	$ 3,286	$ 2,848
Restricted	262,464	418,004	370,240
Committed	8,988	106,424	85,619
Assigned	8,816	28,069	25,868
Unassigned	(12,064)	67,701	41,236
Total Fund Balance	270,690	623,484	525,811
Total Liabilities and Fund Balance	$ 396,748		

	2011	2010
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	2,677,684	2,558,329
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	12,013	31,999
Internal service funds are used by management to charge the costs of Fleets and Facilities, Information Technology, and Engineering Services to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net assets. Adjustments to reflect the consolidation of internal service fund (ISF) activities related to enterprise funds and prior-year adjustment (B-6) are added back to ISF total net assets, and the latter amounts are included in governmental activities.	436,523	424,926
Net pension asset net of pension obligations	47,677	39,821
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.		
Claims Payable - Current	(27,431)	(27,964)
Accrued Interest Payable	(6,627)	(5,978)
Current Portion of Long-Term Debt	(49,569)	(47,171)
Compensated Absences Payable	(18,240)	(19,847)
General Obligation Bonds Payable	(509,409)	(476,927)
Less Bond Discount and Premium	(25,792)	(25,204)
Special Assessment Bonds	(14,305)	(15,735)
Unamortized Losses on Refunding	593	4,063
Deferred Credits	3,399	4,700
Notes and Other Long-Term Liabilities	(14,733)	(16,596)
Compensated Absences - Long-Term	(60,562)	(59,827)
Claims Payable - Long-Term	(43,985)	(46,023)
Workers' Compensation	(15,155)	(15,793)
Arbitrage	(44)	(76)
Unfunded Other Post Employment Benefits	(57,670)	(45,197)
MOHAI Liabilities	(8,500)	-
Net Adjustments	2,325,867	2,261,500
Net Assets of Governmental Activities	$ 2,949,351	$ 2,787,311

The accompanying notes are an integral part of these financial statements.

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STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2011
(In Thousands)

	General	Transportation	Low-Income Housing
REVENUES			
Taxes	$ 790,966	$ 68,928	$ 18,645
Licenses and Permits	18,817	4,149	-
Grants, Shared Revenues, and Contributions	47,503	41,031	11,176
Charges for Services	53,844	65,403	19
Fines and Forfeits	33,992	36	-
Parking Fees and Space Rent	31,301	38	-
Program Income, Interest, and Miscellaneous Revenues	23,921	107	8,281
Total Revenues	1,000,344	179,692	38,121
EXPENDITURES			
Current			
General Government	168,498	-	-
Judicial	25,855	-	-
Public Safety	445,170	-	-
Physical Environment	10,813	-	-
Transportation	12,529	77,377	-
Economic Environment	20,718	-	26,433
Health and Human Services	-	-	-
Culture and Recreation	58,098	-	-
Capital Outlay			
General Government	5,456	-	-
Public Safety	4,355	-	-
Transportation	-	167,590	-
Economic Environment	-	-	-
Culture and Recreation	23,727	-	-
Debt Service			
Principal	4	2,169	-
Interest	1	241	-
Bond Issuance Cost	-	-	-
Total Expenditures	775,224	247,377	26,433
Excess (Deficiency) of Revenues over Expenditures	225,120	(67,685)	11,688
OTHER FINANCING SOURCES (USES)			
Long-Term Debt Issued	-	248	-
Refunding Debt Issued	-	-	-
Premium on Bonds Issued	-	-	-
Payment to Refunded Bond Escrow Agent	-	-	-
Sales of Capital Assets	21,326	19,800	15
Transfers In	4,537	92,087	-
Transfers Out	(225,649)	(16,227)	(265)
Total Other Financing Sources (Uses)	(199,786)	95,908	(250)
Net Change in Fund Balance	25,334	28,223	11,438
Fund Balances - Beginning of Year	179,441	33,208	75,150
Fund Balances - End of Year	$ 204,775	$ 61,431	$ 86,588

The accompanying notes are an integral part of these financial statements.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2011
(In Thousands)

	Other Governmental	Comparative Totals 2011	Comparative Totals 2010
REVENUES			
Taxes	$ 94,642	$ 973,181	$ 933,641
Licenses and Permits	-	22,966	26,514
Grants, Shared Revenues, and Contributions	68,103	167,813	179,842
Charges for Services	48,378	167,644	171,509
Fines and Forfeits	38	34,066	32,300
Parking Fees and Space Rent	19,665	51,004	46,858
Program Income, Interest, and Miscellaneous Revenues	7,397	39,706	26,037
Total Revenues	238,223	1,456,380	1,416,701
EXPENDITURES			
Current			
General Government	25,199	193,697	203,607
Judicial	-	25,855	26,300
Public Safety	6,564	451,734	445,002
Physical Environment	377	11,190	9,058
Transportation	683	90,589	93,381
Economic Environment	59,083	106,234	123,430
Health and Human Services	73,100	73,100	73,956
Culture and Recreation	153,425	211,523	233,284
Capital Outlay			
General Government	8,406	13,862	16,799
Public Safety	3,965	8,320	21,815
Transportation	-	167,590	169,636
Economic Environment	-	-	5
Culture and Recreation	26,656	50,383	63,521
Debt Service			
Principal	45,736	47,909	45,826
Interest	26,512	26,754	24,596
Bond Issuance Cost	369	369	1,303
Total Expenditures	430,075	1,479,109	1,551,519
Excess (Deficiency) of Revenues over Expenditures	(191,852)	(22,729)	(134,818)
OTHER FINANCING SOURCES (USES)			
Long-Term Debt Issued	79,185	79,433	85,325
Refunding Debt Issued	-	-	115,185
Premium on Bonds Issued	5,181	5,181	13,270
Payment to Refunded Bond Escrow Agent	-	-	(125,170)
Sales of Capital Assets	20	41,161	21,310
Transfers In	195,600	292,224	298,519
Transfers Out	(55,456)	(297,597)	(304,618)
Total Other Financing Sources (Uses)	224,530	120,402	103,821
Net Change in Fund Balance	32,678	97,673	(30,997)
Fund Balances - Beginning of Year	238,012	525,811	556,808
Fund Balances - End of Year	$ 270,690	$ 623,484	$ 525,811

The accompanying notes are an integral part of these financial statements.

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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, 2011

(In Thousands)

	Comparative Totals 2011	Comparative Totals Restated 2010
Amounts reported for governmental activities in the statement of activities are different because:		
Net change in fund balance - total governmental funds	$ 97,673	$ (30,997)
Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of those assets is allocated over the estimated useful lives and reported as depreciation expense:		
Depreciation expense for the year	(87,150)	(85,108)
Capital outlay reported as expenditures	216,790	217,353
Retirement and sale of capital assets	(29,790)	(1,796)
Capital assets received as donations	(496)	(7,654)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(58)	(70)
The issuance of long-term debt (e.g. bonds, leases) 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, however, has any effect on net assets. Also, governmental funds report the effect of issuance cost, premium, discount, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. These amounts are the result of the differences in the treatment of long-term debt and related items:		
Proceeds of general obligation bonds	(79,185)	(85,326)
Premium on general obligation bonds	(5,181)	(14,105)
Proceeds from bond refunding	-	(115,186)
Proceeds of long-term loans	-	19,869
Principal payments bonds/notes	47,909	45,825
Bond interest	(1,033)	(1,402)
Remittance to refunding escrow using City funds	-	125,169
Bond issuance costs	376	1,361
Amortization of debt expense	(347)	(401)
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	873	(2,337)
Injury and damage claims	1,968	(1,947)
Workers' compensation	1,160	(2,767)
Arbitrage	32	129
Unfunded OPEB liabilities	(12,473)	(12,649)
Net pension asset	7,856	(42,809)
Environmental liability	19	(1,572)
MOHAI liability	(8,500)	-
Internal service funds are used by management to charge the cost of Fleets and Facilities, Information Technology, and Engineering Services to individual funds. Adjustments reflect the consolidation of internal service funds activities to governmental funds:		
Operating loss (income) allocated to enterprise funds	(2,675)	(1,432)
Net revenue of internal service funds activities reported with governmental activities	14,272	62,731
Change in Net Assets of Governmental Activities	$ 162,040	$ 64,879

The accompanying notes are an integral part of these financial statements.

MAJOR PROPRIETARY FUNDS

The **Light Fund** (City Light) accounts for the operations of the City-owned electric utility. City Light owns and operates generating, transmission and distribution facilities and serves approximately 400,000 customers in the Seattle area.

The **Water Fund** accounts for the operations of the City-owned water utility. It maintains three separate sources of water supply, namely the Tolt and Cedar River watersheds, and Seattle wellfields; approximately 182 miles of supply mains and distribution storage capacity of 339 million gallons in reservoirs, tanks, and standpipes. The distribution system serves a population of about 670,000 people. The utility also sells to 29 surrounding cities and water districts that provide water to an additional 634,000 people.

The **Drainage and Wastewater Fund** accounts for the operations of the City-owned sewer and drainage utility facilities and pumping stations. Those facilities and stations are necessary to collect the sewage of the City and discharge it into King County's treatment and disposal systems. The utility maintains about 1,893 miles of sewers and drainage mainlines, 75 percent of which are separate sanitary sewers and storm mainlines. In addition, the City manages 66 pumping stations.

The **Solid Waste Fund** accounts for the operations of two City-owned transfer stations and for the administration of contracts with private companies for the collection of residential refuse and commercial garbage. Private individuals and City-administered residential and commercial collectors bring solid waste to the transfer stations. Solid wastes collected at the transfer stations are compacted, loaded in containers, and hauled to the Argo cargo loading station. The containers at the Argo station are loaded on railcars and transported to a landfill in Arlington, Oregon, for final disposal.

Descriptions for the nonmajor enterprise funds and the internal service funds are provided in the Combining and Individual Fund and Other Supplementary Information section.

The accompanying notes are an integral part of these financial statements.

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STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
December 31, 2011
(In Thousands)

	Business-Type Activities - Enterprise Funds			
	Light		Water	
	2011	2010	2011	2010
ASSETS				
Current Assets				
Operating Cash and Equity in Pooled Investments	$ 165,411	$ 56,932	$ 7,298	$ 8,504
Restricted Cash and Equity in Pooled Investments	-	18	68	100
Receivables, Net of Allowances				
Accounts	51,930	72,229	13,532	13,628
Interest and Dividends	277	122	-	-
Unbilled	71,883	69,683	10,947	10,199
Energy Contracts, Notes, and Other Contracts	-	-	16	21
Due from Other Funds	565	2,849	911	1,606
Due from Other Governments	6,721	6,638	755	1,065
Materials and Supplies Inventory	29,463	24,829	3,821	4,075
Prepayments and Other Current Assets	567	1,709	1,211	1,185
Total Current Assets	326,817	235,009	38,559	40,383
Noncurrent Assets				
Restricted Cash and Equity in Pooled Investments	209,187	101,395	86,762	108,718
Restricted Investments	-	38,788	-	18,098
Restricted Investment Interest Receivable	-	-	-	5
Unamortized Bond Issue Costs, Net	9,931	9,768	4,918	5,181
Notes and Contracts Receivable	-	-	465	-
Deferred Conservation Costs, Net	190,543	178,437	29,905	29,569
Deferred Landfill Closure and Postclosure Costs, Net	-	-	-	-
Deferred Environmental Costs and Recoveries	2,625	-	-	-
Deferred External Infrastructure Costs	-	-	-	-
Other Deferred Charges	40,060	33,281	17,974	8,745
Capital Assets				
Land and Land Rights	63,128	90,531	41,554	40,635
Plant in Service, Excluding Land	3,424,798	3,205,420	1,664,690	1,627,959
Less Accumulated Depreciation	(1,457,324)	(1,384,291)	(559,487)	(522,031)
Buildings and Improvements	-	-	-	-
Less Accumulated Depreciation	-	-	-	-
Machinery and Equipment	-	-	-	-
Less Accumulated Depreciation	-	-	-	-
Construction in Progress	110,306	147,035	56,020	57,229
Other Property, Net	59,402	14,411	928	913
Total Noncurrent Assets	2,652,656	2,434,775	1,343,729	1,375,021
Total Assets	2,979,473	2,669,784	1,382,288	1,415,404

The accompanying notes are an integral part of these financial statements.

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
December 31, 2011
(In Thousands)

	Business-Type Activities - Enterprise Funds			
	Drainage and Wastewater		Solid Waste	
	2011	2010	2011	2010
ASSETS				
Current Assets				
Operating Cash and Equity in Pooled Investments	$ 29,122	$ 30,284	$ 18,567	$ 10,270
Restricted Cash and Equity in Pooled Investments	1,571	1,620	-	-
Receivables, Net of Allowances				
Accounts	19,951	16,983	11,702	11,868
Interest and Dividends	67	81	31	17
Unbilled	15,914	14,226	371	363
Energy Contracts, Notes, and Other Contracts	45	-	-	-
Due from Other Funds	1,871	2,411	58	109
Due from Other Governments	2,345	1,033	945	899
Materials and Supplies Inventory	570	609	142	139
Prepayments and Other Current Assets	21	12	108	12
Total Current Assets	71,477	67,259	31,924	23,677
Noncurrent Assets				
Restricted Cash and Equity in Pooled Investments	50,356	64,869	22,890	11,806
Restricted Investments	-	24,943	-	-
Restricted Investment Interest Receivable	-	126	-	-
Unamortized Bond Issue Costs, Net	3,089	3,228	1,403	964
Notes and Contracts Receivable	1,306	-	-	-
Deferred Conservation Costs, Net	-	-	-	-
Deferred Landfill Closure and Postclosure Costs, Net	-	-	17,656	18,772
Deferred Environmental Costs and Recoveries	7,399	7,181	6,270	7,938
Deferred External Infrastructure Costs	20,578	21,270	-	-
Other Deferred Charges	24,618	22,161	827	824
Capital Assets				
Land and Land Rights	14,280	14,280	1,791	1,791
Plant in Service, Excluding Land	831,909	776,878	76,636	74,200
Less Accumulated Depreciation	(246,247)	(228,849)	(46,134)	(40,387)
Buildings and Improvements	-	-	-	-
Less Accumulated Depreciation	-	-	-	-
Machinery and Equipment	-	-	-	-
Less Accumulated Depreciation	-	-	-	-
Construction in Progress	62,822	65,072	83,820	42,967
Other Property, Net	671	662	1,769	1,769
Total Noncurrent Assets	770,781	771,821	166,928	120,644
Total Assets	842,258	839,080	198,852	144,321

The accompanying notes are an integral part of these financial statements.

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STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
December 31, 2011
(In Thousands)

	Business-Type Activities - Enterprise Funds			
	Nonmajor Funds		Comparative Totals	
	2011	2010	2011	2010
ASSETS				
Current Assets				
Operating Cash and Equity in Pooled Investments	$ 13,748	$ 11,541	$ 234,146	$ 117,531
Restricted Cash and Equity in Pooled Investments	-	-	1,639	1,738
Receivables, Net of Allowances				
Accounts	2,396	3,113	99,511	117,821
Interest and Dividends	9	8	384	228
Unbilled	33	37	99,148	94,508
Energy Contracts, Notes, and Other Contracts	-	-	61	21
Due from Other Funds	524	643	3,929	7,618
Due from Other Governments	507	472	11,273	10,107
Materials and Supplies Inventory	-	-	33,996	29,652
Prepayments and Other Current Assets	-	-	1,907	2,918
Total Current Assets	17,217	15,814	485,994	382,142
Noncurrent Assets				
Restricted Cash and Equity in Pooled Investments	-	6	369,195	286,794
Restricted Investments	-	-	-	81,829
Restricted Investment Interest Receivable	-	-	-	131
Unamortized Bond Issue Costs, Net	191	202	19,532	19,343
Notes and Contracts Receivable	-	-	1,771	-
Deferred Conservation Costs, Net	-	-	220,448	208,006
Deferred Landfill Closure and Postclosure Costs, Net	-	-	17,656	18,772
Deferred Environmental Costs and Recoveries	-	-	16,294	15,119
Deferred External Infrastructure Costs	-	-	20,578	21,270
Other Deferred Charges	-	-	83,479	65,011
Capital Assets				
Land and Land Rights	12,881	12,881	133,634	160,118
Plant in Service, Excluding Land	-	-	5,998,033	5,684,457
Less Accumulated Depreciation	-	-	(2,309,192)	(2,175,558)
Buildings and Improvements	60,131	60,131	60,131	60,131
Less Accumulated Depreciation	(26,057)	(24,052)	(26,057)	(24,052)
Machinery and Equipment	15,169	15,169	15,169	15,169
Less Accumulated Depreciation	(12,722)	(11,168)	(12,722)	(11,168)
Construction in Progress	-	-	312,968	312,303
Other Property, Net	-	-	62,770	17,755
Total Noncurrent Assets	49,593	53,169	4,983,687	4,755,430
Total Assets	66,810	68,983	5,469,681	5,137,572

The accompanying notes are an integral part of these financial statements.

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
December 31, 2011
(In Thousands)

	Governmental Activities - Internal Service Funds	
	2011	Restated 2010
ASSETS		
Current Assets		
Operating Cash and Equity in Pooled Investments	$ 18,767	$ 13,336
Restricted Cash and Equity in Pooled Investments	14,294	7,587
Receivables, Net of Allowances		
Accounts	735	1,535
Interest and Dividends	42	33
Unbilled	84	-
Energy Contracts, Notes, and Other Contracts	-	-
Due from Other Funds	5,774	7,457
Due from Other Governments	592	482
Materials and Supplies Inventory	2,371	2,398
Prepayments and Other Current Assets	139	161
Total Current Assets	42,798	32,989
Noncurrent Assets		
Restricted Cash and Equity in Pooled Investments	23,373	23,484
Restricted Investments	-	-
Restricted Investment Interest Receivable	-	-
Unamortized Bond Issue Costs, Net	898	987
Notes and Contracts Receivable	-	-
Deferred Conservation Costs, Net	-	-
Deferred Landfill Closure and Postclosure Costs, Net	-	-
Deferred Environmental Costs and Recoveries	-	-
Deferred External Infrastructure Costs	-	-
Other Deferred Charges	-	-
Capital Assets		
Land and Land Rights	95,674	95,674
Plant in Service, Excluding Land	-	-
Less Accumulated Depreciation	-	-
Buildings and Improvements	650,307	644,036
Less Accumulated Depreciation	(164,519)	(149,157)
Machinery and Equipment	199,771	177,761
Less Accumulated Depreciation	(109,203)	(98,172)
Construction in Progress	763	9,584
Other Property, Net	-	-
Total Noncurrent Assets	697,064	704,197
Total Assets	739,862	737,186

The accompanying notes are an integral part of these financial statements.

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STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
December 31, 2011
(In Thousands)

	Business-Type Activities - Enterprise Funds			
	Light		Water	
	2011	2010	2011	2010
LIABILITIES				
Current Liabilities				
Accounts Payable	$ 50,220	$ 38,597	$ 5,127	$ 5,322
Salaries, Benefits, and Payroll Taxes Payable	5,192	4,636	1,466	1,359
Compensated Absences Payable	1,684	1,561	402	400
Due to Other Funds	8,305	7,129	4,553	6,959
Due to Other Governments	-	-	-	-
Interest Payable	31,173	34,376	18,172	18,553
Deferred Bond Interest	-	-	-	-
Taxes Payable	10,859	9,932	523	541
General Obligation Bonds Due Within One Year	-	-	-	-
Revenue Bonds Due Within One Year	88,850	58,685	31,425	29,140
Claims Payable	8,350	10,926	1,626	1,650
Notes and Contracts Payable	-	-	858	858
Habitat Conservation Program Liability	-	-	533	527
Landfill Closure and Postclosure Liability	-	-	-	-
Deferred Credits	7,373	5,098	1,980	2,287
Other Current Liabilities	1,054	632	-	-
Total Current Liabilities	213,060	171,572	66,665	67,596
Noncurrent Liabilities				
Compensated Absences Payable	14,502	13,980	4,347	4,418
Claims Payable	35,305	36,500	3,967	4,088
Public Works Trust Loan	-	-	16,766	17,624
Landfill Closure and Postclosure Liability	-	-	-	-
Vendor and Other Deposits Payable	-	-	-	13
Habitat Conservation Program Liability	-	-	4,515	3,784
Muckleshoot Liability	-	-	-	495
Deferred Credits	6,739	18,452	9,387	10,845
Deferred Revenue - Rate Stabilization Account	116,490	54,266	-	-
Unfunded Other Post Employment Benefits	5,884	4,441	2,033	1,551
Other Noncurrent Liabilities	156	114	4	201
General Obligation Bonds, Due Serially	-	-	-	-
Less Bonds Due Within One Year	-	-	-	-
Bond Discount and Premium, Net	-	-	-	-
Deferred Bond Interest	-	-	-	-
Less Accrued Interest Due Within One Year	-	-	-	-
Revenue Bonds	1,680,095	1,536,775	977,160	1,006,300
Less Bonds Due Within One Year	(88,850)	(58,685)	(31,425)	(29,140)
Bond Discount and Premium, Net	77,610	71,146	30,950	32,857
Deferred Loss on Advanced Refunding	(28,299)	(33,402)	(14,759)	(16,109)
Total Noncurrent Liabilities	1,819,632	1,643,587	1,002,945	1,036,927
Total Liabilities	2,032,692	1,815,159	1,069,610	1,104,523

The accompanying notes are an integral part of these financial statements.

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
December 31, 2011
(In Thousands)

	Business-Type Activities - Enterprise Funds			
	Drainage and Wastewater		Solid Waste	
	2011	2010	2011	2010
LIABILITIES				
Current Liabilities				
Accounts Payable	$ 8,638	$ 9,037	$ 10,671	$ 9,729
Salaries, Benefits, and Payroll Taxes Payable	1,401	1,266	534	498
Compensated Absences Payable	374	356	137	133
Due to Other Funds	4,697	6,604	1,139	1,471
Due to Other Governments	10,339	9,252	-	-
Interest Payable	6,452	6,587	2,693	1,594
Deferred Bond Interest	-	-	-	-
Taxes Payable	246	246	285	441
General Obligation Bonds Due Within One Year	-	-	-	-
Revenue Bonds Due Within One Year	13,695	13,175	2,960	2,075
Claims Payable	5,723	6,308	678	1,182
Notes and Contracts Payable	904	814	-	-
Habitat Conservation Program Liability	-	-	-	-
Landfill Closure and Postclosure Liability	-	-	1,645	1,292
Deferred Credits	3,284	4,420	7,841	8,065
Other Current Liabilities	-	-	-	-
Total Current Liabilities	55,753	58,065	28,583	26,480
Noncurrent Liabilities				
Compensated Absences Payable	4,051	3,927	1,482	1,473
Claims Payable	15,122	16,894	1,553	1,452
Public Works Trust Loan	17,694	14,810	-	-
Landfill Closure and Postclosure Liability	-	-	18,317	19,362
Vendor and Other Deposits Payable	14	527	-	-
Habitat Conservation Program Liability	-	-	-	-
Muckleshoot Liability	-	-	-	-
Deferred Credits	-	-	-	-
Deferred Revenue - Rate Stabilization Account	-	-	-	-
Unfunded Other Post Employment Benefits	1,895	1,379	693	517
Other Noncurrent Liabilities	151	72	1,909	307
General Obligation Bonds, Due Serially	-	-	-	-
Less Bonds Due Within One Year	-	-	-	-
Bond Discount and Premium, Net	-	-	-	-
Deferred Bond Interest	-	-	-	-
Less Accrued Interest Due Within One Year	-	-	-	-
Revenue Bonds	486,610	499,785	122,165	78,490
Less Bonds Due Within One Year	(13,695)	(13,175)	(2,960)	(2,075)
Bond Discount and Premium, Net	8,556	8,933	5,938	3,101
Deferred Loss on Advanced Refunding	(4,152)	(4,426)	(186)	(209)
Total Noncurrent Liabilities	516,246	528,726	148,911	102,418
Total Liabilities	571,999	586,791	177,494	128,898

The accompanying notes are an integral part of these financial statements.

B-6 **STATEMENT OF NET ASSETS**
Page 7 of 12 **PROPRIETARY FUNDS**
December 31, 2011
(In Thousands)

	Business-Type Activities - Enterprise Funds			
	Nonmajor Funds		Comparative Totals	
	2011	2010	2011	2010
LIABILITIES				
Current Liabilities				
Accounts Payable	$ 1,418	$ 1,031	$ 76,074	$ 63,716
Salaries, Benefits, and Payroll Taxes Payable	853	784	9,446	8,543
Compensated Absences Payable	200	472	2,797	2,922
Due to Other Funds	2,470	1,493	21,164	23,656
Due to Other Governments	-	-	10,339	9,252
Interest Payable	721	721	59,211	61,831
Deferred Bond Interest	1,213	1,058	1,213	1,058
Taxes Payable	73	86	11,986	11,246
General Obligation Bonds Due Within One Year	1,257	1,247	1,257	1,247
Revenue Bonds Due Within One Year	-	-	136,930	103,075
Claims Payable	55	61	16,432	20,127
Notes and Contracts Payable	-	-	1,762	1,672
Habitat Conservation Program Liability	-	-	533	527
Landfill Closure and Postclosure Liability	-	-	1,645	1,292
Deferred Credits	-	-	20,478	19,870
Other Current Liabilities	29	10	1,083	642
Total Current Liabilities	8,289	6,963	372,350	330,676
Noncurrent Liabilities				
Compensated Absences Payable	2,520	2,193	26,902	25,991
Claims Payable	114	123	56,061	59,057
Public Works Trust Loan	-	-	34,460	32,434
Landfill Closure and Postclosure Liability	-	-	18,317	19,362
Vendor and Other Deposits Payable	-	6	14	546
Habitat Conservation Program Liability	-	-	4,515	3,784
Muckleshoot Liability	-	-	-	495
Deferred Credits	10,594	10,810	26,720	40,107
Deferred Revenue - Rate Stabilization Account	-	-	116,490	54,266
Unfunded Other Post Employment Benefits	1,064	822	11,569	8,710
Other Noncurrent Liabilities	-	-	2,220	694
General Obligation Bonds, Due Serially	60,846	62,093	60,846	62,093
Less Bonds Due Within One Year	(1,257)	(1,247)	(1,257)	(1,247)
Bond Discount and Premium, Net	3,411	3,614	3,411	3,614
Deferred Bond Interest	2,885	3,552	2,885	3,552
Less Accrued Interest Due Within One Year	(1,213)	(1,058)	(1,213)	(1,058)
Revenue Bonds	-	-	3,266,030	3,121,350
Less Bonds Due Within One Year	-	-	(136,930)	(103,075)
Bond Discount and Premium, Net	-	-	123,054	116,037
Deferred Loss on Advanced Refunding	-	-	(47,396)	(54,146)
Total Noncurrent Liabilities	78,964	80,908	3,566,698	3,392,566
Total Liabilities	87,253	87,871	3,939,048	3,723,242

The accompanying notes are an integral part of these financial statements.

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
December 31, 2011
(In Thousands)

	Governmental Activities - Internal Service Funds 2011	Governmental Activities - Internal Service Funds Restated 2010
LIABILITIES		
Current Liabilities		
Accounts Payable	$ 9,026	$ 5,905
Salaries, Benefits, and Payroll Taxes Payable	1,890	1,243
Compensated Absences Payable	469	511
Due to Other Funds	511	1,424
Due to Other Governments	7	-
Interest Payable	4,629	4,921
Deferred Bond Interest	-	-
Taxes Payable	82	49
General Obligation Bonds Due Within One Year	15,230	14,464
Revenue Bonds Due Within One Year	-	-
Claims Payable	585	567
Notes and Contracts Payable	-	-
Habitat Conservation Program Liability	-	-
Landfill Closure and Postclosure Liability	-	-
Deferred Credits	-	-
Other Current Liabilities	2	148
Total Current Liabilities	32,431	29,232
Noncurrent Liabilities		
Compensated Absences Payable	5,343	3,177
Claims Payable	1,225	1,153
Public Works Trust Loan	-	-
Landfill Closure and Postclosure Liability	-	-
Vendor and Other Deposits Payable	64	111
Habitat Conservation Program Liability	-	-
Muckleshoot Liability	-	-
Deferred Credits	-	-
Deferred Revenue - Rate Stabilization Account	-	-
Unfunded Other Post Employment Benefits	2,116	1,251
Other Noncurrent Liabilities	104	1,556
General Obligation Bonds, Due Serially	263,133	277,596
Less Bonds Due Within One Year	(15,230)	(14,464)
Bond Discount and Premium, Net	12,393	13,563
Deferred Bond Interest	-	-
Less Accrued Interest Due Within One Year	-	-
Revenue Bonds	-	-
Less Bonds Due Within One Year	-	-
Bond Discount and Premium, Net	-	-
Deferred Loss on Advanced Refunding	-	-
Total Noncurrent Liabilities	269,148	283,943
Total Liabilities	301,579	313,175

The accompanying notes are an integral part of these financial statements.

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STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
December 31, 2011
(In Thousands)

	Business-Type Activities - Enterprise Funds			
	Light		Water	
	2011	2010	2011	2010
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	$ 732,940	$ 737,531	$ 290,542	$ 275,466
Restricted for				
Debt Service	-	-	16,684	16,684
Rate Stabilization Account	25,000	25,000	-	-
Special Deposits and Other	428	129	-	-
Deferred Conservation and Environmental Costs	-	-	6,089	5,865
Bonneville Power Administration Projects	-	-	463	563
Deferred External Infrastructure Costs	-	-	-	-
Muckleshoot Settlement	-	-	294	348
Other Deferred Charges	-	-	4,116	1,683
Unrestricted	188,413	91,965	(5,510)	10,272
Total Net Assets	$ 946,781	$ 854,625	$ 312,678	$ 310,881

The accompanying notes are an integral part of these financial statements.

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
December 31, 2011
(In Thousands)

	Business-Type Activities - Enterprise Funds			
	Drainage and Wastewater		Solid Waste	
	2011	2010	2011	2010
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	$ 223,132	$ 216,471	$ 15,340	$ 15,580
Restricted for				
Debt Service	12,757	12,757	-	-
Rate Stabilization Account	-	-	-	-
Special Deposits and Other	-	-	-	-
Deferred Conservation and Environmental Costs	-	-	447	941
Bonneville Power Administration Projects	-	-	-	-
Deferred External Infrastructure Costs	7,114	7,514	-	-
Muckleshoot Settlement	-	-	-	-
Other Deferred Charges	8,512	7,828	-	60
Unrestricted	18,744	7,719	5,571	(1,158)
Total Net Assets	$ 270,259	$ 252,289	$ 21,358	$ 15,423

The accompanying notes are an integral part of these financial statements.

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STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
December 31, 2011
(In Thousands)

	Business-Type Activities - Enterprise Funds			
	Nonmajor Funds		Comparative Totals	
	2011	2010	2011	2010
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	$ (18,460)	$ (17,018)	$ 1,243,494	$ 1,228,030
Restricted for				
Debt Service	-	-	29,441	29,441
Rate Stabilization Account	-	-	25,000	25,000
Special Deposits and Other	-	-	428	129
Deferred Conservation and Environmental Costs	-	-	6,536	6,806
Bonneville Power Administration Projects	-	-	463	563
Deferred External Infrastructure Costs	-	-	7,114	7,514
Muckleshoot Settlement	-	-	294	348
Other Deferred Charges	-	-	12,628	9,571
Unrestricted	(1,983)	(1,870)	205,235	106,928
Total Net Assets	$ (20,443)	$ (18,888)	1,530,633	1,414,330
Adjustment to Reflect the Consolidation of Internal Service Fund Activities Related to Enterprise Funds			1,760	(915)
Net Assets of Business-Type Activities			$ 1,532,393	$ 1,413,415

The accompanying notes are an integral part of these financial statements.

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
December 31, 2011
(In Thousands)

	Governmental Activities - Internal Service Funds	
	2011	Restated 2010
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	$ 398,917	$ 391,982
Restricted for		
Debt Service	-	-
Rate Stabilization Account	-	-
Special Deposits and Other	-	-
Deferred Conservation and Environmental Costs	-	-
Bonneville Power Administration Projects	-	-
Deferred External Infrastructure Costs	-	-
Muckleshoot Settlement	-	-
Other Deferred Charges	-	-
Unrestricted	39,366	32,029
Total Net Assets	$ 438,283	$ 424,011

The accompanying notes are an integral part of these financial statements.

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STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Year Ended December 31, 2011
(In Thousands)

	Business-Type Activities - Enterprise Funds			
	Light		Water	
	2011	2010	2011	2010
OPERATING REVENUES				
Charges for Services and Other Revenues	$ 771,465	$ 732,978	$ 194,573	$ 195,203
OPERATING EXPENSES				
Long-Term Purchased Power	206,853	223,591	-	-
Short-Term Wholesale Power Purchases	11,433	24,484	-	-
Generation	29,285	22,368	-	-
Transmission	47,878	46,254	-	-
Distribution	58,311	54,630	-	-
Energy Management and Other Power Expenses	38,353	52,082	-	-
Pre-Capital Planning and Development	-	-	1,331	2,059
Utility Systems Management	-	-	14,717	14,906
Field Operations	-	-	22,836	20,816
Project Delivery	-	-	4,311	6,420
Customer Services	43,152	36,137	7,454	7,667
Wastewater Treatment	-	-	-	-
Solid Waste Collection	-	-	-	-
Operations and Maintenance	-	-	-	-
General and Administrative	58,696	56,166	27,274	27,794
City Business and Occupation Taxes	40,008	38,649	23,280	29,455
Other Taxes	33,605	31,732	7,232	7,036
Amortization of Landfill and Postclosure Costs	-	-	-	-
Depreciation and Other Amortization	90,377	86,369	46,062	48,085
Total Operating Expenses	657,951	672,462	154,497	164,238
Operating Income (Loss)	113,514	60,516	40,076	30,965
NONOPERATING REVENUES (EXPENSES)				
Investment and Interest Income	4,944	2,690	2,888	3,207
Interest Expense	(79,930)	(69,369)	(46,589)	(47,577)
Amortization of Bonds Premiums and Discounts, Net	9,945	10,563	1,907	1,917
Amortization of Refunding Loss	(4,911)	(5,136)	(1,349)	(1,390)
Amortization of Debt Costs	(1,141)	(1,207)	(258)	(258)
Gain (Loss) on Sale of Capital Assets	304	81	544	153
Contributions and Grants	1,398	2,970	435	540
Others, Net	7,106	2,884	1,047	1,508
Total Nonoperating Revenues (Expenses)	(62,285)	(56,524)	(41,375)	(41,900)
Income (Loss) Before Capital Contributions and Grants, Transfers, and Special Items	51,229	3,992	(1,299)	(10,935)
Capital Contributions and Grants	40,927	26,379	3,096	11,644
Transfers In	-	-	-	-
Transfers Out	-	-	-	-
Environmental Remediation	-	-	-	-
Change in Net Assets	92,156	30,371	1,797	709
Net Assets - Beginning of Year	854,625	824,254	310,881	310,172
Prior-Year Adjustment	-	-	-	-
Net Assets - Beginning of Year as Restated	854,625	824,254	310,881	310,172
Net Assets - End of Year	$ 946,781	$ 854,625	$ 312,678	$ 310,881

The accompanying notes are an integral part of these financial statements.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Year Ended December 31, 2011
(In Thousands)

	Business-Type Activities - Enterprise Funds			
	Drainage and Wastewater		Solid Waste	
	2011	2010	2011	2010
OPERATING REVENUES				
Charges for Services and Other Revenues	$ 278,957	$ 249,734	$ 154,200	$ 146,980
OPERATING EXPENSES				
Long-Term Purchased Power	-	-	-	-
Short-Term Wholesale Power Purchases	-	-	-	-
Generation	-	-	-	-
Transmission	-	-	-	-
Distribution	-	-	-	-
Energy Management and Other Power Expenses	-	-	-	-
Pre-Capital Planning and Development	2,565	1,133	134	86
Utility Systems Management	16,574	14,476	2,734	1,562
Field Operations	18,874	18,554	7,572	7,762
Project Delivery	11,368	8,589	781	569
Customer Services	5,207	4,739	6,071	7,181
Wastewater Treatment	125,252	111,282	-	-
Solid Waste Collection	-	-	90,248	90,851
Operations and Maintenance	-	-	-	-
General and Administrative	17,368	18,938	12,914	9,528
City Business and Occupation Taxes	32,449	29,177	15,051	14,183
Other Taxes	3,582	3,099	2,789	2,459
Amortization of Landfill and Postclosure Costs	-	-	1,341	1,609
Depreciation and Other Amortization	19,832	20,131	7,423	5,307
Total Operating Expenses	253,071	230,118	147,058	141,097
Operating Income (Loss)	25,886	19,616	7,142	5,883
NONOPERATING REVENUES (EXPENSES)				
Investment and Interest Income	2,820	2,595	321	213
Interest Expense	(21,130)	(22,608)	(3,012)	(2,512)
Amortization of Bonds Premiums and Discounts, Net	377	377	195	135
Amortization of Refunding Loss	(274)	(274)	(23)	(23)
Amortization of Debt Costs	(139)	(139)	(52)	(42)
Gain (Loss) on Sale of Capital Assets	13	(27)	64	(9)
Contributions and Grants	2,310	1,256	718	782
Others, Net	93	3,181	559	1,559
Total Nonoperating Revenues (Expenses)	(15,930)	(15,639)	(1,230)	103
Income (Loss) Before Capital Contributions and Grants, Transfers, and Special Items	9,956	3,977	5,912	5,986
Capital Contributions and Grants	7,476	3,823	23	-
Transfers In	-	-	-	-
Transfers Out	-	-	-	-
Environmental Remediation	538	(1,948)	-	-
Change in Net Assets	17,970	5,852	5,935	5,986
Net Assets - Beginning of Year	252,289	246,437	15,423	9,437
Prior-Year Adjustment	-	-	-	-
Net Assets - Beginning of Year as Restated	252,289	246,437	15,423	9,437
Net Assets - End of Year	$ 270,259	$ 252,289	$ 21,358	$ 15,423

The accompanying notes are an integral part of these financial statements.

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STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Year Ended December 31, 2011
(In Thousands)

	Business-Type Activities - Enterprise Funds			
	Nonmajor Funds		Comparative Totals	
	2011	2010	2011	2010
OPERATING REVENUES				
Charges for Services and Other Revenues	$ 42,404	$ 36,992	$ 1,441,599	$ 1,361,887
OPERATING EXPENSES				
Long-Term Purchased Power	-	-	206,853	223,591
Short-Term Wholesale Power Purchases	-	-	11,433	24,484
Generation	-	-	29,285	22,368
Transmission	-	-	47,878	46,254
Distribution	-	-	58,311	54,630
Energy Management and Other Power Expenses	-	-	38,353	52,082
Pre-Capital Planning and Development	-	-	4,030	3,278
Utility Systems Management	-	-	34,025	30,944
Field Operations	-	-	49,282	47,132
Project Delivery	-	-	16,460	15,578
Customer Services	-	-	61,884	55,724
Wastewater Treatment	-	-	125,252	111,282
Solid Waste Collection	-	-	90,248	90,851
Operations and Maintenance	36,430	38,940	36,430	38,940
General and Administrative	10,984	11,564	127,236	123,990
City Business and Occupation Taxes	13	14	110,801	111,478
Other Taxes	28	31	47,236	44,357
Amortization of Landfill and Postclosure Costs	-	-	1,341	1,609
Depreciation and Other Amortization	3,558	3,636	167,252	163,528
Total Operating Expenses	51,013	54,185	1,263,590	1,262,100
Operating Income (Loss)	(8,609)	(17,193)	178,009	99,787
NONOPERATING REVENUES (EXPENSES)				
Investment and Interest Income	105	91	11,078	8,796
Interest Expense	(3,273)	(3,352)	(153,934)	(145,418)
Amortization of Bonds Premiums and Discounts, Net	203	202	12,627	13,194
Amortization of Refunding Loss	-	-	(6,557)	(6,823)
Amortization of Debt Costs	(11)	(11)	(1,601)	(1,657)
Gain (Loss) on Sale of Capital Assets	-	-	925	198
Contributions and Grants	657	405	5,518	5,953
Others, Net	-	-	8,805	9,132
Total Nonoperating Revenues (Expenses)	(2,319)	(2,665)	(123,139)	(116,625)
Income (Loss) Before Capital Contributions and Grants, Transfers, and Special Items	(10,928)	(19,858)	54,870	(16,838)
Capital Contributions and Grants	-	-	51,522	41,846
Transfers In	9,373	10,100	9,373	10,100
Transfers Out	-	-	-	-
Environmental Remediation	-	-	538	(1,948)
Change in Net Assets	(1,555)	(9,758)	116,303	33,160
Net Assets - Beginning of Year	(18,888)	(9,130)	1,414,330	1,381,170
Prior-Year Adjustment	-	-	-	-
Net Assets - Beginning of Year as Restated	(18,888)	(9,130)	1,414,330	1,381,170
Net Assets - End of Year	$ (20,443)	$ (18,888)	1,530,633	1,414,330
Accumulated Adjustment to Reflect the Consolidation of Internal Service Fund Activities Related to Enterprise Funds			1,760	(915)
Net Assets of Business-Type Activities			$ 1,532,393	$ 1,413,415
Change in Net Assets as above			116,303	33,160
Current Year Adjustment to Reflect the Consolidation of Internal Service Fund Activities Related to Enterprise Funds			2,675	1,432
Adjusted Change in Net Assets of Business-Type Activities			$ 118,978	$ 34,592

The accompanying notes are an integral part of these financial statements.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Year Ended December 31, 2011
(In Thousands)

	Governmental Activities - Internal Service Funds	
	2011	Restated 2010
OPERATING REVENUES		
Charges for Services and Other Revenues	$ 186,072	$ 156,330
OPERATING EXPENSES		
Long-Term Purchased Power	-	-
Short-Term Wholesale Power Purchases	-	-
Generation	-	-
Transmission	-	-
Distribution	-	-
Energy Management and Other Power Expenses	-	-
Pre-Capital Planning and Development	-	-
Utility Systems Management	-	-
Field Operations	-	-
Project Delivery	-	-
Customer Services	-	-
Wastewater Treatment	-	-
Solid Waste Collection	-	-
Operations and Maintenance	131,844	94,131
General and Administrative	12,010	11,165
City Business and Occupation Taxes	4	4
Other Taxes	337	328
Amortization of Landfill and Postclosure Costs	-	-
Depreciation and Other Amortization	32,655	31,939
Total Operating Expenses	176,850	137,567
Operating Income (Loss)	9,222	18,763
NONOPERATING REVENUES (EXPENSES)		
Investment and Interest Income	485	344
Interest Expense	(12,638)	(13,339)
Amortization of Bonds Premiums and Discounts, Net	1,169	1,009
Amortization of Refunding Loss	-	-
Amortization of Debt Costs	(89)	(80)
Gain (Loss) on Sale of Capital Assets	2,853	581
Contributions and Grants	1,048	2,356
Others, Net	7,689	-
Total Nonoperating Revenues (Expenses)	517	(9,129)
Income (Loss) Before Capital Contributions and Grants, Transfers, and Special Items	9,739	9,634
Capital Contributions and Grants	8,533	57,097
Transfers In	-	-
Transfers Out	(4,000)	(4,000)
Environmental Remediation	-	-
Change in Net Assets	14,272	62,731
Net Assets - Beginning of Year	424,011	384,662
Prior-Year Adjustment	-	(23,382)
Net Assets - Beginning of Year as Restated	424,011	361,280
Net Assets - End of Year	$ 438,283	$ 424,011

The accompanying notes are an integral part of these financial statements.

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STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended December 31, 2011
(In Thousands)

	Business-Type Activities - Enterprise Funds			
	Light		Water	
	2011	2010	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash Received from Customers	$ 825,562	$ 734,185	$ 194,415	$ 193,875
Cash Paid to Suppliers	(261,132)	(271,388)	(27,068)	(29,811)
Cash Paid to Employees	(199,511)	(191,061)	(54,454)	(54,676)
Cash Paid for Taxes	(72,281)	(69,956)	(31,108)	(33,994)
Net Cash from Operating Activities	292,638	201,780	81,785	75,394
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Operating Grants Received	1,921	2,916	441	525
Rental Income	-	-	-	-
Transfers In	-	-	-	-
Transfers Out	-	-	-	-
Receipts for Energy Conservation Augmentation	9,901	10	-	-
Payments for Energy Conservation Augmentation	(27,670)	(29,732)	-	-
Proceeds from Interfund Loans	-	-	-	-
Principal Payments on Interfund Loans	-	-	-	-
Loans Provided to Other Funds	-	-	-	-
Payments for Environmental Liabilities	-	-	-	-
Other Cash Inflows	-	-	2,385	2,936
Other Cash Outflows	-	-	(229)	(39)
Net Cash from Noncapital Financing Activities	(15,848)	(26,806)	2,597	3,422
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from Sale of Bonds and Other Long-Term Debt	323,519	853,837	-	141,644
Principal Payments on Long-Term Debt and Refunding	(61,650)	(67,360)	(29,998)	(27,415)
Capital Expenditures and Deferred Charges Paid	(197,005)	(196,997)	(50,989)	(61,482)
Interest Paid on Long-Term Debt	(85,038)	(51,045)	(49,601)	(47,484)
Capital Fees and Grants Received	21,362	15,620	1,739	1,605
Payment to Trustee for Defeased Bonds	(104,165)	(595,557)	-	-
Interest Received for Suburban Infrastructure Improvements	1,303	1,323	-	-
Debt Issuance Costs	(1,452)	(3,415)	-	(231)
Proceeds from Sale of Capital Assets	315	95	267	559
Net Cash from Capital and Related Financing Activities	(102,811)	(43,499)	(128,582)	7,196
CASH FLOWS FROM INVESTING ACTIVITIES [a]				
Proceeds from Sale of Investments	234,522	136,164	18,100	60,400
Purchases of Investments	(195,652)	(175,034)	-	(78,500)
Interest Received on Investments	3,404	1,405	2,906	2,093
Net Cash from Investing Activities	42,274	(37,465)	21,006	(16,007)
Net Increase (Decrease) in Cash and Equity in Pooled Investments	216,253	94,010	(23,194)	70,005
CASH AND EQUITY IN POOLED INVESTMENTS				
Beginning of Year	158,345	64,335	117,322	47,317
End of Year	$ 374,598	$ 158,345	$ 94,128	$ 117,322
CASH AT THE END OF THE YEAR CONSISTS OF				
Operating Cash and Equity in Pooled Investments	$ 165,411	$ 56,932	$ 7,298	$ 8,504
Current Restricted Cash and Equity in Pooled Investments	-	18	68	100
Noncurrent Restricted Cash and Equity in Pooled Investments	209,187	101,395	86,762	108,718
Total Cash at the End of the Year	$ 374,598	$ 158,345	$ 94,128	$ 117,322

[a] Increases and decreases in the fair value of investments are treated as additions or deductions to cash and equity in pooled investments and long-term investments. Information on the increases or decreases in the fair value of long-term investments is shown in the Noncash Investing, Capital, and Financing Activities section of the Statement of Cash Flows.

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended December 31, 2011
(In Thousands)

	Business-Type Activities - Enterprise Funds			
	Drainage and Wastewater		Solid Waste	
	2011	2010	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash Received from Customers	$ 271,465	$ 251,066	$ 154,135	$ 148,782
Cash Paid to Suppliers	(148,850)	(126,923)	(98,761)	(102,193)
Cash Paid to Employees	(49,701)	(46,039)	(20,211)	(20,466)
Cash Paid for Taxes	(35,822)	(29,755)	(18,461)	(15,867)
Net Cash from Operating Activities	37,092	48,349	16,702	10,256
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Operating Grants Received	2,205	1,186	723	782
Rental Income	-	-	2	2
Transfers In	-	-	-	-
Transfers Out	-	-	-	-
Receipts for Energy Conservation Augmentation	-	-	-	-
Payments for Energy Conservation Augmentation	-	-	-	-
Proceeds from Interfund Loans	-	-	-	-
Principal Payments on Interfund Loans	-	-	-	-
Loans Provided to Other Funds	-	-	-	-
Payments for Environmental Liabilities	(2,848)	(2,794)	-	-
Other Cash Inflows	1,308	4,358	4,761	5,296
Other Cash Outflows	(15)	(27)	(3,535)	(3,111)
Net Cash from Noncapital Financing Activities	650	2,723	1,951	2,969
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from Sale of Bonds and Other Long-Term Debt	3,818	2,847	48,457	-
Principal Payments on Long-Term Debt and Refunding	(14,020)	(13,818)	(2,075)	(1,980)
Capital Expenditures and Deferred Charges Paid	(49,442)	(55,570)	(42,132)	(17,788)
Interest Paid on Long-Term Debt	(24,308)	(24,106)	(3,775)	(3,867)
Capital Fees and Grants Received	2,939	2,727	-	-
Payment to Trustee for Defeased Bonds	-	-	-	-
Interest Received for Suburban Infrastructure Improvements	-	-	-	-
Debt Issuance Costs	-	-	(166)	-
Proceeds from Sale of Capital Assets	112	49	112	66
Net Cash from Capital and Related Financing Activities	(80,901)	(87,871)	421	(23,569)
CASH FLOWS FROM INVESTING ACTIVITIES [a]				
Proceeds from Sale of Investments	24,600	108,600	-	-
Purchases of Investments	-	(34,400)	-	-
Interest Received on Investments	2,835	2,574	307	229
Net Cash from Investing Activities	27,435	76,774	307	229
Net Increase (Decrease) in Cash and Equity in Pooled Investments	(15,724)	39,975	19,381	(10,115)
CASH AND EQUITY IN POOLED INVESTMENTS				
Beginning of Year	96,773	56,798	22,076	32,191
End of Year	$ 81,049	$ 96,773	$ 41,457	$ 22,076
CASH AT THE END OF THE YEAR CONSISTS OF				
Operating Cash and Equity in Pooled Investments	$ 29,122	$ 30,284	$ 18,567	$ 10,270
Current Restricted Cash and Equity in Pooled Investments	1,571	1,620	-	-
Noncurrent Restricted Cash and Equity in Pooled Investments	50,356	64,869	22,890	11,806
Total Cash at the End of the Year	$ 81,049	$ 96,773	$ 41,457	$ 22,076

[a] Increases and decreases in the fair value of investments are treated as additions or deductions to cash and equity in pooled investments and long-term investments. Information on the increases or decreases in the fair value of long-term investments is shown in the Noncash Investing, Capital, and Financing Activities section of the Statement of Cash Flows.

The accompanying notes are an integral part of these financial statements.

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STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended December 31, 2011
(In Thousands)

	Business-Type Activities - Enterprise Funds			
	Nonmajor Funds		Comparative Totals	
	2011	2010	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash Received from Customers	$ 44,304	$ 39,682	$ 1,489,881	$ 1,367,590
Cash Paid to Suppliers	(22,772)	(24,553)	(558,583)	(554,868)
Cash Paid to Employees	(24,045)	(25,761)	(347,922)	(338,003)
Cash Paid for Taxes	(1,355)	(1,326)	(159,027)	(150,898)
Net Cash from Operating Activities	(3,868)	(11,958)	424,349	323,821
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Operating Grants Received	657	405	5,947	5,814
Rental Income	-	-	2	2
Transfers In	9,373	10,100	9,373	10,100
Transfers Out	-	-	-	-
Receipts for Energy Conservation Augmentation	-	-	9,901	10
Payments for Energy Conservation Augmentation	-	-	(27,670)	(29,732)
Proceeds from Interfund Loans	2,250	1,130	2,250	1,130
Principal Payments on Interfund Loans	(1,130)	(500)	(1,130)	(500)
Loans Provided to Other Funds	-	-	-	-
Payments for Environmental Liabilities	-	-	(2,848)	(2,794)
Other Cash Inflows	-	-	8,454	12,590
Other Cash Outflows	-	-	(3,779)	(3,177)
Net Cash from Noncapital Financing Activities	11,150	11,135	500	(6,557)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from Sale of Bonds and Other Long-Term Debt	-	-	375,794	998,328
Principal Payments on Long-Term Debt and Refunding	(1,247)	(1,226)	(108,990)	(111,799)
Capital Expenditures and Deferred Charges Paid	-	(49)	(339,568)	(331,886)
Interest Paid on Long-Term Debt	(3,940)	(3,806)	(166,662)	(130,308)
Capital Fees and Grants Received	-	-	26,040	19,952
Payment to Trustee for Defeased Bonds	-	-	(104,165)	(595,557)
Interest Received for Suburban Infrastructure Improvements	-	-	1,303	1,323
Debt Issuance Costs	-	-	(1,618)	(3,646)
Proceeds from Sale of Capital Assets	-	-	806	769
Net Cash from Capital and Related Financing Activities	(5,187)	(5,081)	(317,060)	(152,824)
CASH FLOWS FROM INVESTING ACTIVITIES [a]				
Proceeds from Sale of Investments	-	-	277,222	305,164
Purchases of Investments	-	-	(195,652)	(287,934)
Interest Received on Investments	106	99	9,558	6,400
Net Cash from Investing Activities	106	99	91,128	23,630
Net Increase (Decrease) in Cash and Equity in Pooled Investments	2,201	(5,805)	198,917	188,070
CASH AND EQUITY IN POOLED INVESTMENTS				
Beginning of Year	11,547	17,352	406,063	217,993
End of Year	$ 13,748	$ 11,547	$ 604,980	$ 406,063
CASH AT THE END OF THE YEAR CONSISTS OF				
Operating Cash and Equity in Pooled Investments	$ 13,748	$ 11,541	$ 234,146	$ 117,531
Current Restricted Cash and Equity in Pooled Investments	-	-	1,639	1,738
Noncurrent Restricted Cash and Equity in Pooled Investments	-	6	369,195	286,794
Total Cash at the End of the Year	$ 13,748	$ 11,547	$ 604,980	$ 406,063

[a] Increases and decreases in the fair value of investments are treated as additions or deductions to cash and equity in pooled investments and long-term investments. Information on the increases or decreases in the fair value of long-term investments is shown in the Noncash Investing, Capital, and Financing Activities section of the Statement of Cash Flows.

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended December 31, 2011
(In Thousands)

	Governmental Activities - Internal Service Funds 2011	Restated 2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers	$ 188,361	$ 155,970
Cash Paid to Suppliers	(71,334)	(57,023)
Cash Paid to Employees	(68,174)	(48,575)
Cash Paid for Taxes	(309)	(376)
Net Cash from Operating Activities	48,544	49,996
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Operating Grants Received	1,048	2,357
Rental Income	-	-
Transfers In	-	-
Transfers Out	(4,000)	(4,000)
Receipts for Energy Conservation Augmentation	-	-
Payments for Energy Conservation Augmentation	-	-
Proceeds from Interfund Loans	-	-
Principal Payments on Interfund Loans	-	-
Loans Provided to Other Funds	-	(1,130)
Payments for Environmental Liabilities	-	-
Other Cash Inflows	-	-
Other Cash Outflows	-	-
Net Cash from Noncapital Financing Activities	(2,952)	(2,773)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from Sale of Bonds and Other Long-Term Debt	-	-
Principal Payments on Long-Term Debt and Refunding	(15,633)	(12,195)
Capital Expenditures and Deferred Charges Paid	(9,108)	(20,277)
Interest Paid on Long-Term Debt	(12,747)	(13,030)
Capital Fees and Grants Received	593	348
Payment to Trustee for Defeased Bonds	-	-
Interest Received for Suburban Infrastructure Improvements	-	-
Debt Issuance Costs	-	-
Proceeds from Sale of Capital Assets	2,853	581
Net Cash from Capital and Related Financing Activities	(34,042)	(44,573)
CASH FLOWS FROM INVESTING ACTIVITIES [a]		
Proceeds from Sale of Investments	-	-
Purchases of Investments	-	-
Interest Received on Investments	477	348
Net Cash from Investing Activities	477	348
Net Increase (Decrease) in Cash and Equity in Pooled Investments	12,027	2,998
CASH AND EQUITY IN POOLED INVESTMENTS		
Beginning of Year	44,407	41,409
End of Year	$ 56,434	$ 44,407
CASH AT THE END OF THE YEAR CONSISTS OF		
Operating Cash and Equity in Pooled Investments	$ 18,767	$ 13,336
Current Restricted Cash and Equity in Pooled Investments	14,294	7,587
Noncurrent Restricted Cash and Equity in Pooled Investments	23,373	23,484
Total Cash at the End of the Year	$ 56,434	$ 44,407

[a] Increases and decreases in the fair value of investments are treated as additions or deductions to cash and equity in pooled investments and long-term investments. Information on the increases or decreases in the fair value of long-term investments is shown in the Noncash Investing, Capital, and Financing Activities section of the Statement of Cash Flows.

The accompanying notes are an integral part of these financial statements.

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STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended December 31, 2011
(In Thousands)

	Business-Type Activities - Enterprise Funds			
	Light		Water	
	2011	2010	2011	2010
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES				
Operating Income (Loss)	$ 113,514	$ 60,516	$ 40,076	$ 30,965
Adjustments to Reconcile Net Operating Income (Loss) to Net Cash from Operating Activities				
Depreciation and Amortization	90,377	86,369	46,062	48,085
Depreciation Charged to Operations and Maintenance Accounts	1,920	1,803	-	-
Amortization of Deferred Power Costs	12,373	9,174	-	-
Changes in Operating Assets and Liabilities				
Accounts Receivable	5,746	(21,788)	86	(2,156)
Unbilled Receivables	(2,200)	(9,484)	(748)	(1,090)
Bad Debt Expense	14,091	8,030	-	-
Power Revenue and Expense	(9,155)	416	-	-
Other Receivables	1,107	(419)	(460)	22
Due from Other Funds	2,284	(1,269)	705	(129)
Due from Other Governments	(82)	(2,188)	572	647
Materials and Supplies Inventory	(3,542)	550	254	97
Accounts Payable	2,026	5,512	(196)	(2,157)
Salaries, Benefits, and Payroll Taxes Payable	556	330	107	14
Compensated Absences Payable	646	751	(69)	(40)
Due to Other Funds	1,176	210	(2,406)	2,842
Due to Other Governments	-	-	-	(79)
Claims Payable	2,433	(3,094)	(145)	380
Taxes Payable	927	(134)	(18)	85
Deferred Credits	-	-	(1,437)	(2,863)
Other Deferred Assets and Charges	(6,426)	(1,810)	-	-
Other Assets and Liabilities	2,642	14,039	(598)	771
Rate Stabilization Deferred Revenue	62,225	54,266	-	-
Total Adjustments	179,124	141,264	41,709	44,429
Net Cash from Operating Activities	$ 292,638	$ 201,780	$ 81,785	$ 75,394
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES				
In-Kind Capital Contributions	$ 9,817	$ 6,804	$ -	$ -
Amortization of Debt Related Costs, Net	3,893	4,220	-	-
Change in Valuation of Deferrals on Power Exchange	181	914	-	-
Allowance for Funds Used During Construction	4,280	5,145	-	-
Power Exchange Revenues	7,378	28,933	-	-
Power Exchange Expenses	(7,568)	(29,002)	-	-
Power Revenue Netted against Power Expenses	6,330	17,426	-	-
Power Expense Netted against Power Revenues	(13,494)	(15,877)	-	-
Fair Value Adjustment of Long-Term Investments	-	-	8	(8)
Contributed Infrastructure	-	-	1,095	10,039
Settlement from Nextel	-	-	-	-
Total Noncash Investing, Capital, and Financing Activities	$ 10,817	$ 18,563	$ 1,103	$ 10,031

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended December 31, 2011
(In Thousands)

	Business-Type Activities - Enterprise Funds			
	Drainage and Wastewater		Solid Waste	
	2011	2010	2011	2010
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES				
Operating Income (Loss)	$ 25,886	$ 19,616	$ 7,142	$ 5,883
Adjustments to Reconcile Net Operating Income (Loss) to Net Cash from Operating Activities				
Depreciation and Amortization	19,832	20,131	8,764	6,916
Depreciation Charged to Operations and Maintenance Accounts	-	-	-	-
Amortization of Deferred Power Costs	-	-	-	-
Changes in Operating Assets and Liabilities				
Accounts Receivable	(2,968)	(2,391)	166	323
Unbilled Receivables	(1,688)	343	(8)	(206)
Bad Debt Expense	-	-	-	-
Power Revenue and Expense	-	-	-	-
Other Receivables	(1,351)	-	-	-
Due from Other Funds	540	(833)	51	130
Due from Other Governments	(984)	854	(45)	156
Materials and Supplies Inventory	38	(61)	(4)	16
Accounts Payable	(399)	3,972	942	2,049
Salaries, Benefits, and Payroll Taxes Payable	135	145	36	15
Compensated Absences Payable	142	458	13	(48)
Due to Other Funds	(1,907)	1,676	(331)	(84)
Due to Other Governments	1,087	(4)	-	-
Claims Payable	(312)	901	(37)	69
Taxes Payable	1	(66)	(157)	(67)
Deferred Credits	(1,032)	3,368	(229)	1,399
Other Deferred Assets and Charges	-	-	-	-
Other Assets and Liabilities	72	240	399	(6,295)
Rate Stabilization Deferred Revenue	-	-	-	-
Total Adjustments	11,206	28,733	9,560	4,373
Net Cash from Operating Activities	$ 37,092	$ 48,349	$ 16,702	$ 10,256
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES				
In-Kind Capital Contributions	$ -	$ -	$ -	$ -
Amortization of Debt Related Costs, Net	-	-	-	-
Change in Valuation of Deferrals on Power Exchange	-	-	-	-
Allowance for Funds Used During Construction	-	-	-	-
Power Exchange Revenues	-	-	-	-
Power Exchange Expenses	-	-	-	-
Power Revenue Netted against Power Expenses	-	-	-	-
Power Expense Netted against Power Revenues	-	-	-	-
Fair Value Adjustment of Long-Term Investments	4	43	-	-
Contributed Infrastructure	4,209	1,096	23	-
Settlement from Nextel	-	-	-	-
Total Noncash Investing, Capital, and Financing Activities	$ 4,213	$ 1,139	$ 23	$ -

The accompanying notes are an integral part of these financial statements.

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STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended December 31, 2011
(In Thousands)

	Business-Type Activities - Enterprise Funds			
	Nonmajor Funds		Comparative Totals	
	2011	2010	2011	2010
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES				
Operating Income (Loss)	$ (8,609)	$ (17,193)	$ 178,009	$ 99,787
Adjustments to Reconcile Net Operating Income (Loss) to Net Cash from Operating Activities				
Depreciation and Amortization	3,558	3,636	168,593	165,137
Depreciation Charged to Operations and Maintenance Accounts	-	-	1,920	1,803
Amortization of Deferred Power Costs	-	-	12,373	9,174
Changes in Operating Assets and Liabilities				
Accounts Receivable	717	533	3,747	(25,479)
Unbilled Receivables	3	7	(4,641)	(10,430)
Bad Debt Expense	-	-	14,091	8,030
Power Revenue and Expense	-	-	(9,155)	416
Other Receivables	-	-	(704)	(397)
Due from Other Funds	120	255	3,700	(1,846)
Due from Other Governments	(35)	(159)	(574)	(690)
Materials and Supplies Inventory	-	8	(3,254)	610
Accounts Payable	386	153	2,759	9,529
Salaries, Benefits, and Payroll Taxes Payable	69	(113)	903	391
Compensated Absences Payable	55	(210)	787	911
Due to Other Funds	(143)	92	(3,611)	4,736
Due to Other Governments	-	(11)	1,087	(94)
Claims Payable	(15)	37	1,924	(1,707)
Taxes Payable	(13)	-	740	(182)
Deferred Credits	(197)	858	(2,895)	2,762
Other Deferred Assets and Charges	-	-	(6,426)	(1,810)
Other Assets and Liabilities	236	149	2,751	8,904
Rate Stabilization Deferred Revenue	-	-	62,225	54,266
Total Adjustments	4,741	5,235	246,340	224,034
Net Cash from Operating Activities	$ (3,868)	$ (11,958)	$ 424,349	$ 323,821
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES				
In-Kind Capital Contributions	$ -	$ -	$ 9,817	$ 6,804
Amortization of Debt Related Costs, Net	-	-	3,893	4,220
Change in Valuation of Deferrals on Power Exchange	-	-	181	914
Allowance for Funds Used During Construction	-	-	4,280	5,145
Power Exchange Revenues	-	-	7,378	28,933
Power Exchange Expenses	-	-	(7,568)	(29,002)
Power Revenue Netted against Power Expenses	-	-	6,330	17,426
Power Expense Netted against Power Revenues	-	-	(13,494)	(15,877)
Fair Value Adjustment of Long-Term Investments	-	-	12	35
Contributed Infrastructure	-	-	5,327	11,135
Settlement from Nextel	-	-	-	-
Total Noncash Investing, Capital, and Financing Activities	$ -	$ -	$ 16,156	$ 29,733

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended December 31, 2011
(In Thousands)

	Governmental Activities - Internal Service Funds 2011	Governmental Activities - Internal Service Funds Restated 2010
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES		
Operating Income (Loss)	$ 9,222	$ 18,763
Adjustments to Reconcile Net Operating Income (Loss) to Net Cash from Operating Activities		
Depreciation and Amortization	32,655	31,939
Depreciation Charged to Operations and Maintenance Accounts	-	-
Amortization of Deferred Power Costs	-	-
Changes in Operating Assets and Liabilities		
Accounts Receivable	800	(816)
Unbilled Receivables	(84)	2
Bad Debt Expense	-	-
Power Revenue and Expense	-	-
Other Receivables	-	-
Due from Other Funds	1,683	760
Due from Other Governments	(110)	(49)
Materials and Supplies Inventory	27	27
Accounts Payable	3,121	(2,140)
Salaries, Benefits, and Payroll Taxes Payable	647	29
Compensated Absences Payable	2,124	(122)
Due to Other Funds	(913)	(182)
Due to Other Governments	7	-
Claims Payable	90	238
Taxes Payable	33	(45)
Deferred Credits	-	-
Other Deferred Assets and Charges	-	-
Other Assets and Liabilities	(758)	1,592
Rate Stabilization Deferred Revenue	-	-
Total Adjustments	39,322	31,233
Net Cash from Operating Activities	$ 48,544	$ 49,996
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
In-Kind Capital Contributions	$ -	$ -
Amortization of Debt Related Costs, Net	1,080	929
Change in Valuation of Deferrals on Power Exchange	-	-
Allowance for Funds Used During Construction	-	-
Power Exchange Revenues	-	-
Power Exchange Expenses	-	-
Power Revenue Netted against Power Expenses	-	-
Power Expense Netted against Power Revenues	-	-
Fair Value Adjustment of Long-Term Investments	-	-
Contributed Infrastructure	-	-
Settlement from Nextel	7,688	-
Total Noncash Investing, Capital, and Financing Activities	$ 8,768	$ 929

The accompanying notes are an integral part of these financial statements.

FIDUCIARY FUNDS

PRIVATE-PURPOSE TRUST FUND

The **S. L. Denny Fund** holds a nonexpendable gift. The investment income is available for aid to disabled firemen.

Descriptions for the pension trust funds and agency funds are provided in the Combining and Individual Fund and Other Supplementary Information section.

The accompanying notes are an integral part of these financial statements.

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STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
December 31, 2011
(In Thousands)

	Pension Trust Funds	S. L. Denny Private-Purpose Trust	Agency Funds
ASSETS			
Cash and Equity in Pooled Investments	$ 18,639	$ 210	$ 23,585
Short-Term Investments	62,878	-	-
Securities Lending Collateral	3,490	-	-
Investments at Fair Value			
U.S. Government Obligations	82,664	-	-
Mortgage-Backed Securities	130,050	-	-
Government Related and Other	21,304	-	-
Domestic Corporate Bonds	137,745	-	-
Domestic Stocks	506,950	-	-
International Stocks	417,843	-	-
Real Estate	208,281	-	-
Alternative/Venture Capital	183,043	-	-
Total Investments at Fair Value	1,687,880	-	-
Receivables			
Employer - Other	3,648	-	278
Interest and Dividends	2,293	-	-
Total Receivables	5,941	-	278
Total Assets	1,778,828	210	23,863
LIABILITIES			
Accounts Payable	-	-	1,206
Refunds Payable and Other	3,770	-	-
Salaries, Benefits, and Payroll Taxes Payable	-	-	15,078
Deposits Payable	-	-	7,570
Claims/Judgments Payable	-	-	9
Securities Lending Collateral	6,911	-	-
Total Liabilities	10,681	-	23,863
Net Assets Held in Trust for Pension Benefits and Other Purposes	$ 1,768,147	$ 210	$ -

The accompanying notes are an integral part of these financial statements.

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STATEMENT OF CHANGES IN NET ASSETS
FIDUCIARY FUNDS
For the Year Ended December 31, 2011
(In Thousands)

	Pension Trust Funds	S.L. Denny Private-Purpose Trust
ADDITIONS		
Contributions		
Employer	$ 90,312	$ -
Plan Member	50,415	-
Total Contributions	140,727	-
Investment Income (Loss)		
From Investment Activities		
Net Appreciation (Depreciation) in Fair Value of Investments	(36,057)	-
Interest	8,665	2
Dividends	19,184	-
Total Investment Activities Income (Loss)	(8,208)	2
Investment Activities Expenses		
Investment Management Fees	6,984	-
Performance Measurement Fees	364	-
Investment Custodial Fees	144	-
Total Investment Activities Expenses	7,492	-
Net Income (Loss) from Investment Activities	(15,700)	2
From Securities Lending Activities		
Securities Lending Income	17	-
Borrower Rebates	43	-
Total Securities Lending Income	60	-
Securities Lending Expenses		
Management Fees	15	-
Total Securities Lending Expenses	15	-
Net Income (Loss) from Securities Lending Activities	45	-
Total Net Investment Income (Loss)	(15,655)	2
Other Income	2,343	-
Total Additions	127,415	2
DEDUCTIONS		
Benefits	163,368	-
Refund of Contributions	16,677	-
Administrative Expense	4,513	-
Total Deductions	184,558	-
Change in Net Assets	(57,143)	2
Net Assets - Beginning of Year	1,825,290	208
Net Assets - End of Year	$ 1,768,147	$ 210

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the City of Seattle are regulated by the Washington State Auditor's Office and conform to generally accepted accounting principles (GAAP) for governments as prescribed by the Governmental Accounting Standards Board (GASB). The City's significant accounting policies are described below.

REPORTING ENTITY

The City of Seattle (the primary government for financial reporting purposes) consists of the funds, departments, agencies, boards and commissions (referred to in this note as organizations) over which the City exercises financial accountability, and component units over which the City is not financially accountable but is required to be reported due to the nature and significance of its relationship with the City. Additional information on the component unit may be found in Note 12. The City does not have other relationships with organizations of such nature and significance that exclusion would render the City's financial statements incomplete or misleading.

Indicators of Financial Accountability

The financial statements include the organizations for which the elected officials of the City of Seattle are financially accountable. Criteria indicating financial accountability include, but are not limited to, the following:

- Appointment by the City of a majority of voting members of the governing body of an organization, and
  - Ability of the City to impose its will on the daily operations of an organization, such as the power to remove appointed members at will; to modify or approve budgets, rates, or fees; or to make other substantive decisions; or
  - Provisions by the organization of specific financial benefits to the City; or
  - Imposition by any organization of specific financial burdens on the City, such as the assumption of deficits or provision of support;
- Or, fiscal dependency by the organization on the City, such as from the lack of authority to determine its budget or issue its own bonded debt without City approval.

Joint Venture

A joint venture is an organization that results from a contractual arrangement and is owned, operated, or governed by two or more participants as a separate activity. In addition to joint control, each participant must have either an ongoing financial interest or an ongoing financial responsibility. The City participates in a joint venture with King County with regard to the Seattle-King County Work Force Development Council. Additional information on the existing joint venture may be found in Note 13.

ACCOUNTING STANDARDS

In 2011, the City implemented GASB Statement No.54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement establishes accounting and financial reporting standards for all governments that report governmental funds. It provides clearer fund balance classifications and clarifies the existing governmental fund type definitions. New fund balance classifications include nonspendable, restricted, committed, assigned, and unassigned. Details for the City’s fund balance classifications are found under the Fund Balances section of this note.

The Library Fund, previously a special revenue fund, was determined to no longer meet the definition of a special revenue fund, as defined by GASB Statement No. 54. As a result, the Library Fund is now reported as part of the General Fund for the GAAP reporting.

To allow comparative analysis of 2011 and 2010 fund balances, certain balances included in the 2010 balance sheets were reclassified to conform to the new requirements. Implementation of GASB Statement No. 54 in 2011, including reclassification of affected 2010 balances, did not have a significant impact on the City’s financial statements.

In 2010, the City implemented GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This statement establishes accounting and financial reporting standards for intangible assets. It provides guidance in the definition, recognition, and amortization of intangible assets, and requires intangible assets within its scope to be reported as capital assets. Implementation of GASB Statement No. 51 did not have a significant impact on the City's financial statements.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Government-wide financial statements consist of the Statement of Net Assets and the Statement of Activities. These statements report the financial position and activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely significantly on charges and fees for their services. Resources of fiduciary activities, which are not available to finance governmental programs, are excluded from the government-wide financial statements.

Statement of Net Assets

The Statement of Net Assets reports all financial and capital resources. The difference between assets and liabilities is net assets. Net assets are displayed in three components: invested in capital assets, net of related debt; restricted; and unrestricted.

The amount reported as invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Net assets are restricted when constraints placed on net asset use are either (1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or (2) imposed by law through constitutional provisions or enabling legislation.

For permanent endowments, net assets are displayed showing the nonexpendable and the expendable components separately. Nonexpendable net assets are those that are required to be retained in perpetuity and are reported as restricted net assets. Unrestricted net assets are those that are not "invested in capital assets, net of related debt" or "restricted."

Statement of Activities

The Statement of Activities displays the degree to which the direct expenses of a given function or segment is funded by program revenues. Direct expenses are those that are clearly identifiable to a specific function. Direct expenses include depreciation on capital assets that are clearly associated with a given function. In general, expenses related to personnel functions are reported as indirect expenses. Program revenues include charges for services, grants, and contributions that are restricted for specific purposes. Taxes and other revenues not included as program revenues are reported as general revenues.

Interfund activity within governmental funds of the City is eliminated, except for the effect of services provided by the business-type activities, such as the sale of utility services to the general government and to other funds. This avoids misstatement of program revenues of the selling function and expenses of the various users. Operating income or loss reported by internal service funds in the fund financial statements are allocated back to the City departments either as a reduction or addition to their expenses by function.

Fund Financial Statements

Separate fund financial statements are provided to report additional and detailed information for governmental funds, proprietary funds, and fiduciary funds. Even though fiduciary funds are excluded from the government-wide financial statements, these funds are reported in the fund financial statements under the Statement of Fiduciary Net Assets and the Statement of Changes in Fiduciary Net Assets. Major individual governmental funds and major individual enterprise funds are presented in separate columns in the fund financial statements.

The City reports the following major governmental funds:

The **General Fund** is the City'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 **Transportation Fund** accounts for revenues for construction, improvement, repair, or maintenance of City streets and waterways. Revenues include taxes on the sale, disposition, or use of motor vehicle fuel; motor vehicle excise taxes designated for street purposes; and grants.

The **Low-Income Housing Fund** accounts for activities undertaken by the City to rehabilitate, replace, and preserve low-income housing stock and to assist low-income tenants in Seattle. It is supported by a seven-year housing levy approved by the voters in 2009 and federal grants. The fund accounts for long-term housing loan assistance programs that are either deferred or amortized. Most of the loans are deferred and are payable in full on sale, on change of use, or at the end of the loan term. Terms will generally permit borrowers to further defer payment of principal, deferred interest, and contingent interest by extending the loan term. A majority of the current loans are deferred for 50 years and may be extended for an additional 25 years. Amortizing loans will be required if project budgets can afford repayment and meet required rent levels.

The City reports the following major proprietary funds:

The **Light Fund** (City Light) accounts for operating the City's electric utility which owns and operates generating, transmission, and distribution facilities. The Utility supplies electricity to approximately 400,000 customers in the Seattle area as well as to other city agencies.

The **Water Fund** accounts for operating the City's water utility. The Utility maintains more than 182 miles of water supply mains and 339 million gallons of distribution storage capacity in the Cedar and Tolt Rivers and Highline Well Field watersheds. The distribution system serves a population of about 670,000 people. The Utility also sells to 29 surrounding cities and water districts that provide water to an additional 634,000 people.

The **Drainage and Wastewater Fund** accounts for operating the City's sewer and drainage utility facilities and its pumping stations. These facilities, which consist of 1,893 miles of sewers and drainage mainlines and 66 pumping stations, are necessary to collect the sewage of the City and discharge it into the King County Department of Natural Resources Wastewater Treatment System for treatment and disposal.

The **Solid Waste Fund** accounts for the collection and disposal of residential and commercial garbage; collection and recycling of yard waste and other recyclable materials; operation of two transfer stations and hazardous waste facilities; and management of the post-closure maintenance and environmental monitoring of the City's two closed landfills. The collection and disposal or processing of garbage, yard waste, and recyclable materials is performed by private companies under contract with the Utility.

Additionally, the City reports the following fund types:

Permanent funds account for resources that are legally restricted to the extent that only earnings, and not principal, are available for disbursement. Earnings of the **H. H. Dearborn Fund** and the **Beach Maintenance Trust Fund** are used for charitable purposes and maintenance of public beaches, respectively.

Internal service funds account for support services provided to other City departments, such as motor pool, office space, financial services, managing the design and construction phases of capital improvement projects, telecommunications, data communications, radio systems, and the fiber optic network.

Fiduciary funds account for assets held in a trustee or agency capacity. The City has three pension trust funds:

The **Employees' Retirement Fund** receives employees' payroll deductions for retirement and the City's matching contributions. It pays pension benefits to retired City employees.

The **Firemen's Pension Fund** accounts for revenues from a portion of the state-levied fire insurance premium tax and significantly from pension and benefits contributions of the General Fund. It pays medical and pension benefits to sworn firemen.

The **Police Relief and Pension Fund** receives support almost entirely from the General Fund to pay for sworn police personnel's medical and pension benefits that are not covered by the state's Law Enforcement Officers' and Fire Fighters' Retirement System and/or industrial insurance.

The City uses **agency funds** to report assets that are held in a custodial relationship. Agency funds are not used to support the government's own programs and so these funds are excluded from the government-wide financial statements. The City reports the following as agency funds: Guaranty Deposits, Payroll Withholding, Multifamily Rental Housing Improvement, Salary, Voucher, and Pass-Through Grants Funds.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Government-wide Financial Statements

Government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Basis of accounting refers to the timing of when revenues and expenditures or expenses and transfers are recognized in the accounts and reported in the financial statements.

Governmental Fund Financial Statements

Financial statements for governmental funds are prepared using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter (generally 60 days) to pay current liabilities. Revenues that are measurable but not available are recorded as receivables and offset by deferred revenues. Property taxes, business and occupation taxes, and other taxpayer-assessed tax revenues that are due for the current year are considered measurable and available and are therefore recognized as revenues even though a portion of the taxes may be collected in the subsequent year. Special assessments are recognized as revenues only to the extent that those individual installments are considered as current assets. Intergovernmental revenues received as reimbursements for specific purposes are recognized when the expenditures are recognized. Intergovernmental revenues received but not earned are recorded as deferred revenues. Licenses, fines, penalties, and miscellaneous revenues are recorded as revenues when received in cash because they are generally not measurable until actually received. Investment earnings are accrued as earned.

Expenditures are recorded when the liability is incurred except for interest on long-term debt, judgments and claims, workers' compensation, and compensated absences, which are recorded when paid.

Proprietary Fund Financial Statements

Financial statements for proprietary funds are prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when incurred. Certain costs in the enterprise funds are deferred and expensed in future years as the utility rates recover these costs.

The revenues of the four utilities, which are based upon service rates authorized by the City Council, are determined by monthly or bimonthly billings to customers. Amounts received but not earned at year-end are reported as deferred revenues. Earned but unbilled revenues are accrued.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal activity. The principal operating revenues of the City's Light, Water, Solid Waste, Drainage and Wastewater Utilities, the Downtown Parking Garage, the Planning and Development Fund, and the City's internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of personnel services, contractual services, other supplies and expenses, and depreciation on capital assets. All other revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the City has chosen flexible application and reporting in accordance with the election of each fund. City Light elected to apply all GASB pronouncements as well as all FASB statements and interpretations except where they conflict with GASB pronouncements. All other enterprise funds elected to apply all GASB pronouncements and those FASB statements and interpretations issued on or before November 30, 1989, except when they contradict GASB pronouncements.

Fiduciary Fund Financial Statements

Financial statements for the pension trust and private-purpose trust funds are prepared using the economic resources measurement focus and the accrual basis of accounting. All assets, liabilities, and additions to and deductions from (including contributions, benefits, and refunds) plan net assets of the retirement funds are recognized when the transactions or events occur. Employee and employer contributions are reported in the period in which the contributions are due. Member benefits, including refunds, are due and payable by the plan in accordance with plan terms.

Agency funds, unlike the other types of fiduciary funds, report only assets and liabilities. Agency funds do not have a measurement focus since they do not report equity and cannot present an operating statement reporting changes in equity. They do, however, use the accrual basis of accounting to recognize receivables and payables.

BUDGETS AND BUDGETARY ACCOUNTING

Budgetary accounts are integrated in the fund database for all budgeted funds, including capital improvement projects funds and the Community Development Block Grant (CDBG) Fund. However, the annual financial report includes budgetary comparisons for annually budgeted governmental operating funds only. Note 2, Stewardship, Compliance, and Accountability, discusses in detail the City's budgetary policies and processes.

ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

Cash and Investments

The City is authorized to purchase U.S. Treasury and government agency securities, certificates of deposits, and other investment deposits issued by Washington State depositories that qualify under the Washington State Deposit Protection Act as defined by RCW 39.58, bankers' acceptances purchased in the secondary market, commercial paper purchased in the secondary market and having received the highest rating by at least two nationally recognized rating agencies, repurchase and reverse repurchase agreements with "primary dealers" that have executed master repurchase agreements, public funds in the local government investment pool (LGIP) in the State Treasury, and other securities as authorized by law.

The City and the City Employees' Retirement System are also allowed under state law to make securities lending transactions. Gross income from securities lending transactions, as well as the various fees paid to the institution that oversees the lending activity, is recorded in the operating statements. Assets and liabilities include the value of the collateral that is being held. Under the authority of RCW 41.28.005 and the Seattle Municipal Code 4.36.130, the System's Board of Administration adopted investment policies that define eligible investments, which include securities lending transactions. Securities lent must be collateralized with cash or securities having 102 percent of the market value of the loaned securities. The City and the Retirement System cannot pledge or sell collateral securities without a borrower default.

Under the City's investment policy all temporary cash surpluses are invested, either directly or through a "sweep account." Pooled investments are reported on the combined balance sheets as Cash and Equity in Pooled Investments. Interest earned on the pooled investments is prorated to individual funds at the end of each month on the basis of their average daily cash balances during the month when interest was earned.

Since the participating funds in the City's internal investment pool use the pool as if it were a demand deposit account, the proprietary fund equity in pooled investments is considered cash for cash flow reporting purposes.

Investments are recorded at fair value based on quoted market prices. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The City of Seattle has the following policies in managing its investments:

- The City seeks to preserve principal while maximizing income and maintaining liquidity to meet the City's need for cash.

- Investment decisions should further the City's social policies established by ordinance or policy resolutions of the City Council.

- A City social policy shall take precedence over furthering the City's financial objectives when expressly authorized by City Council resolution, except where otherwise provided by law or trust principles.

- Securities purchased shall have a maximum maturity of fifteen years, and the average maturity of all securities shall be less than five years.

- All transactions are done on a delivery-versus-payment basis.

- The standard of prudence to be used by investment personnel shall be the "Prudent Person Rule" and will be applied in the context of managing an overall portfolio.

- Securities shall not be purchased with trading or speculation as the dominant criterion for the selection of the security.

The Seattle City Employees' Retirement System has its investment management policies set by the Retirement Board. State law allows the System to invest in longer term maturities and in a broader variety of securities, such as real estate and equity issues. The Board policies require that investments in any one corporation or organization may not exceed five percent of net assets available for benefits. Less than five percent of plan assets can be invested in derivative securities. All derivatives are high quality non-leveraged securities consisting of collateralized mortgage obligations (CMOs), Treasury strips, convertible bonds, futures, options, etc. These derivatives cause little exposure to credit risk, market risk, or legal risk. Venture capital and real estate equities are reported at fair value that has been determined by independent appraisers.

Receivables

Customer accounts receivable consist of amounts owed by private individuals and organizations for goods delivered or services rendered in the regular course of business operations. Notes and contracts receivable arise from a written agreement or contract with private individuals or organizations. Receivables are shown net of allowances for uncollectible accounts.

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either interfund loans receivable/payable or advances to/from other funds. All other outstanding balances between funds are reported as due to/due from other funds.

Advances to other funds in governmental funds are equally offset by a fund balance reserve account, which indicates that they do not constitute available spendable resources since they are not a component of net current assets.

Inventories

Inventories are generally valued using the weighted-average cost method and consist of expendable materials and supplies held for consumption.

The costs are recorded as expenditures in governmental funds at the time individual inventory items are purchased. This is known as the purchase method. However, any significant inventories in a governmental fund may also be reported as assets, as allowed by GAAP, and are equally offset by a fund balance reserve to indicate that they do not constitute available spendable resources even though they are included in net current assets.

Inventories in the proprietary funds are expensed as consumed.

Capital Assets

The City classifies assets with an estimated useful life in excess of one year as capital assets. As a general rule, items with an initial individual cost of $5,000 or more are capitalized.

Governmental infrastructure assets include long-lived capital assets, such as roads, bridges, and tunnels that normally can be preserved for a significantly greater number of years than most capital assets. Estimated historical costs are established based on the City's street reports to the state. Works of art are valued at historical cost. In cases where the historical cost is not available, the method used is "backtrending," i.e., deflating the current replacement cost using the appropriate price index. Donated capital assets are valued at their estimated fair market value at the time of donation. For proprietary funds, contributions of capital assets are reported under Capital Contributions and Grants in the Statement of Revenues, Expenses, and Changes in Fund Net Assets.

Most capital assets are depreciated for the governmental funds. Annual depreciation is recorded in government-wide financial statements as an expense of the governmental function for which the assets are being used. Depreciation is computed using the straight-line method over estimated service lives as follows:

Utility plant in service	33 - 100 years
Buildings	25 - 50 years
Improvements other than buildings	25 - 50 years
Infrastructure	10 - 50 years
Machinery and equipment	2 - 25 years

Composite rates are used in the enterprise funds for depreciating asset groups. Consequently, when an asset is retired, its original cost together with removal costs less salvage is charged to accumulated depreciation. The cost of current maintenance and repairs is charged to expense, while the cost of renewals and betterments is capitalized.

Restricted Assets

In accordance with the utility bond resolutions, state law, or other agreements, separate restricted assets have been established. These assets are restricted for specific purposes including the establishment of bond reserve funds, financing the ongoing capital improvement programs of the various utilities, and other purposes.

Deferred Charges

Deferred charges may include preliminary costs of projects and information systems and programmatic conservation costs.

Costs for proposed projects incurred by the enterprise funds pending construction of the facility are deferred. Costs relating to projects ultimately constructed are transferred to utility plant; costs are charged to expense if a project is abandoned or deferred if the costs are to be recovered through future use. Conservation program costs in the Light and Water Utilities which result in long-term benefits and reduce or postpone other capital expenditures are capitalized and amortized over their expected useful lives due to the Utilities' capital financing plans and rate-setting methodology. Costs of administering the overall program are expensed as incurred.

In the proprietary funds the bond premium and discount are amortized using either straight-line or effective-interest method over the term of the bonds. The excess costs incurred over the carrying value of bonds refunded on early extinguishment of debt is amortized as a component of interest expense using either straight-line or effective-interest methods over the shorter of the remaining life of the old debt or the life of the new bond issue. Bond issue costs are amortized over the life of the bond. For all other funds, deferrals and amortizations are recognized and reported directly in the government-wide financial statements under governmental activities.

Prepaid Items

In governmental funds the City accounts for prepayments using the consumption method and, therefore, it recognizes expenditures as prepaid items expire. The City recognizes a reservation of fund balance for prepaid items only when the amount in the fund is materially significant.

Accumulated Compensated Absences

Compensated absences, including payroll taxes, are reported as current and noncurrent liabilities in the statement of net assets. Actual balances are accrued for all types of compensated absences except sick leave, the liability for which is generally estimated using the termination method.

Vacation Pay

Employees earn vacation based upon their date of hire and years of service and may accumulate earned vacation up to a maximum of 480 hours. Unused vacation at retirement or termination is considered vested and payable to the employee.

Sick Pay

Employees earn up to 12 days of sick leave per year and may accumulate sick leave balances without limit.

The City is mandated, upon retirement of a represented employee who is covered by an agreement between the City and an individual union, that is part of the Coalition of City Unions, that has been duly ratified by members and upon receipt of a signed hold harmless agreement and membership form, to contribute on behalf of such employee to the City's Health Reimbursement Arrangement - Voluntary Employees' Beneficiary Association (HRA-VEBA) program an amount equal to 35 percent of the member's unused sick leave balance. If the eligible employee fails to submit the signed hold harmless agreement and the membership enrollment form by their last working day of employment, their entire sick leave balance is forfeited.

Retiring employees who are not eligible to participate in the HRA-VEBA program may elect to either cash out 25 percent of the value of their sick leave balance or defer receipt of 35 percent of the value of their sick leave balance to the City's 457 Plan and Trust, subject to the year-to-date or life-to-date limitations on deferrals and contributions to such account. If the 35-percent value of the sick leave balance exceeds the maximum amount deferred to the City's 457 Plan and Trust, the employee shall receive a taxable cash payment equal to the amount, if any, by which the 25 percent of value of the sick leave balance exceeds the portion of the 35-percent amount that was allowed to be deferred.

Other Compensated Absences

Other compensated absences include compensatory time in lieu of overtime pay, merit credits earned by fire fighters, furlough earned by police, holiday earned by library and police employees, and other compensation earned by City employees under law or union contracts. Unused compensated absences are payable at retirement or termination.

Risk Management

A liability for claims is reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Claims liabilities are discounted at the City's average investment rate of return (Note 15).

Other Accrued Liabilities

Other accrued liabilities include deposits, interest payable on obligations, and lease-purchase agreements.

Interfund Activity and Contracts/Advances

Interfund activity and balances in the funds are eliminated or reclassified in the process of aggregating data for the Statement of Net Assets and the Statement of Activities.

Interfund debt is recorded in the appropriate funds even though such debt may result in a noncurrent liability for a governmental fund because the debt is not a general obligation of the City.

Deferred Revenues

Deferred revenues include amounts collected before revenue recognition criteria are met as well as amounts recorded as receivables, which under the modified accrual basis of accounting, are measurable but not yet available. The deferred items consist primarily of delinquent property taxes, contracts, mortgages receivable, grant funds received in advance of expenditures, portions of local improvement districts special assessments that are due in succeeding years in governmental funds, and the amounts loaned by the Housing and Community Development Revenue Sharing Fund, a special revenue fund, under authorized federal loan programs.

Deferred credits include deferred revenues and revenues collected or billed in advance.

Fund Balances

Fund balances are based on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds. Fund balances are classified according to these constraints as follows:

- Nonspendable fund balances are either not in spendable form or are legally or contractually required to remain intact;
- Restricted fund balances are restricted for specific purposes by the enabling legislation or external resource providers such as creditors, grantors, or laws or regulations of other governments;
- Committed fund balances can only be used for specific purposes ordained by the City Council. The Council can, by ordinance or resolution, establish, modify, or rescind constraints on restricted fund balances;
- Assigned fund balances are constraints imposed by City Management for specific purposes. Fund balances of special revenue funds that are neither considered restricted or committed are considered an assigned fund balance; and
- Unassigned fund balances represent balances that are available for any purpose. These balances are only reported in the City's General Fund unless a deficit occurs in any other fund.

A summary of governmental fund balances at December 31, 2011, is as follows:

Table 1-1 **GOVERNMENTAL FUND BALANCES**

(In Thousands)

Fund Balances	General	Transportation	Low-Income Housing	Other Governmental	Total
Nonspendable					
Petty Cash	$ 56	$ 3	$ -	$ 26	$ 85
Prepaid Items and Advances	516	225	-	41	782
Inventory	-	-	-	369	369
Permanent Funds	-	-	-	2,050	2,050
Restricted					
Capital and Continuing Programs	30,911	-	-	211,186	242,097
Health Care Reserve	17,115	-	-	-	17,115
Library	10,891	-	-	-	10,891
Transportation	-	18,851	-	-	18,851
Low-Income Housing	-	-	77,772	-	77,772
Debt Service	-	-	-	10,499	10,499
Educational and Developmental Services	-	-	-	14,260	14,260
Other Purposes	-	-	-	26,519	26,519
Committed					
Capital and Continuing Programs	13,715	-	-	-	13,715
Health Care Reserve	16,782	-	-	-	16,782
Employee Benefit Trust Funds	9,139	-	-	-	9,139
Transportation	-	42,352	-	-	42,352
Low-Income Housing	-	-	8,816	-	8,816
Seattle Center	-	-	-	7,631	7,631
Other Purposes	6,632	-	-	1,357	7,989
Assigned					
Judgement/Claims	12,445	-	-	-	12,445
Working Capital	2,427	-	-	-	2,427
Parks and Recreation	-	-	-	5,976	5,976
Other Purposes	4,381	-	-	2,840	7,221
Unassigned					
General	79,765	-	-	-	79,765
Transportation	-	-	-	(3,288)	(3,288)
Pike Place Market	-	-	-	(578)	(578)
Seattle Center	-	-	-	(8,198)	(8,198)
Total	$ 204,775	$ 61,431	$ 86,588	$ 270,690	$ 623,484

General Fund Stabilization and Other Reserves

The City created the Revenue Stabilization Account (RSA) to fund activities that would otherwise be reduced in scope, suspended or eliminated due to unanticipated shortfalls in the General Subfund revenues. Any use of the RSA shall be accompanied with an ordinance approved by the City Council. The City shall replenish the RSA through (1) transfers by ordinance from other city funds; (2) automatic transfer of 0.25 percent of forecasted tax revenues for 2012 and 0.5 percent thereafter; and (3) 50 percent of unanticipated excess fund balance of the General Subfund. At no time shall the maximum funding level exceed 5 percent of the General Subfund tax revenues forecast. At the end of fiscal year 2011, the RSA reported an ending fund balance of $12.0 million.

The City maintains the Emergency Subfund to pay for unanticipated or unplanned expenditures that occur during the course of the fiscal year. Any use of the Emergency Subfund shall be accompanied with an ordinance approve by three-fourths of the City Council. At the beginning of each year, sufficient funds shall be appropriated to the Emergency Subfund so that its balance equals thirty-seven and one-half cents per thousand dollars of assessed value, which is the maximum amount allowed by state law. The City may also choose to reimburse the Emergency Subfund during the year for any expenditure incurred, by transferring unexpended and unencumbered balance from another City fund or subfund, or from other reimbursements the City may receive. At the end of fiscal year 2011, the Emergency Subfund reported an ending fund balance of $44.1 million.

Program Revenues

Program revenues are revenues derived directly from the program itself. These revenues reduce the net cost of the function to be financed from the City's general revenues. The Statement of Activities separately reports three categories of program revenues: (1) charges for services, (2) operating grants and contributions, and (3) capital grants and contributions. Taxes and other revenues that do not meet the criteria of program revenues are reported as general revenues.

Prior-Year Comparative Data

The basic financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the City of Seattle's financial statements for the year ended December 31, 2010, from which the summarized information was derived.

(2) STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

BUDGETARY INFORMATION

The City budgets for the General Fund, the Library Fund, and some special revenue funds on an annual basis. The special revenue funds which have legally adopted annual budgets are the Park and Recreation Fund, the Transportation Fund, the Seattle Center Fund, the Human Services Operating Fund, the Office of Housing Fund, and the Low-Income Housing Fund.

The City Council approves the City's operating budget. In addition, the City Council annually approves two separate but related financial planning documents: the Capital Improvement Program (CIP) plan and the Community Development Block Grant (CDBG) program allocation.

The operating budget is proposed by the Mayor and adopted by the City Council at least 30 days before the beginning of the fiscal year. The budget is designed to allocate available resources on a biennial basis among the City's public services and programs and provides for associated financing decisions. The budget appropriates fiscal year expenditures and establishes employee positions by department and fund except for project-oriented, multiyear appropriations made for capital projects, grants, or endowments.

Table 2-1 **APPROPRIATION CHANGES – GENERAL FUND**

(In Thousands)

	2011
Annual Budget	$ 1,180,283
Carryovers	
Encumbrances	975
Continuing Appropriations	109,009
Intrafund	(185,356)
Budget Revisions	27,494
Total Budget	$ 1,132,405

The CIP plan is also proposed by the Mayor and adopted by the City Council at least 30 days before the beginning of the fiscal year. The CIP is a six-year plan for capital project expenditures and anticipated financing by fund source. It is revised and extended annually. The City Council adopts the CIP as a planning document but does not appropriate the multiyear expenditures identified in the CIP. These expenditures are legally authorized through the annual operating budget or by specific project ordinances during the year.

The CDBG planning process allocates the annual grant awarded by the federal government. Allocations are made to both City and non-City organizations. Legal authority is established each year by a separate appropriation ordinance for the Housing and Community Development Revenue Sharing Fund.

Budgetary control for the operating budget generally is maintained at the budget control level within departments with the following exceptions: the Library Fund has its total budget set at fund level by the City Council, but its actual expenditures are controlled by the Library Board; capital projects programmed in the CIP are controlled at the project or project-phase level or program depending on legal requirements; grant-funded activities are controlled as prescribed by law and federal regulations.

The City Council may by ordinance abrogate, decrease, or reappropriate any unexpended budget authority during the year. The City Council, with a three-fourths vote, may also increase appropriations. Emergency Subfund appropriations related to settlement of claims, emergency conditions, or laws enacted since the annual operating budget ordinance require approval by two-thirds of the City Council.

The City Budget Office may approve the transfer of appropriations. Beginning in 2003 the following restrictions to budget transfers within a budget year were imposed by ordinance. Total budget transfers into a budget control level may not exceed 10 percent of its original budgeted allowance, and in no case may they be greater than $500,000. Total transfers out may not exceed 25 percent of the original budgeted allowance. For capital items the affected budget is both the original appropriated budget for the current year and the unexpended budget carried over from prior years. Within a budget control level, departments may transfer appropriations without the City Budget Office's approval.

Budgetary comparisons for proprietary funds may be requested from the Department of Finance and Administrative Services. Budget figures consist of the adopted annual budget, which includes appropriation carryovers from previous years, and any revisions adopted by ordinance during the year. The budgetary basis is substantially the same as the accounting basis in all governmental fund types except for the treatment of encumbrances that do not lapse, those whose budgets were approved by the City Budget Office to carry over to the following year, and are included with expenditures.

DEFICITS IN FUND BALANCES AND NET ASSETS

The Downtown Parking Garage Fund has negative fund net assets of $24.1 million as of December 31, 2011. The negative fund equity is mostly attributable to cumulative depreciation expenses which were not planned to be covered by operating revenues. The management strategy for the Garage is to generate sufficient operating revenues to cover debt service payments and cash expenses. Accordingly, the negative fund equity will continue. In recent years, negative operating cash flow has also contributed to the negative fund equity. Ordinance 123694 authorizes the Garage to carry a cash loan of not more than $4.0 million at any given time until December 31, 2012. The City is currently addressing operating cash flow with a long-term plan which includes alternative parking rate strategies and may include City subsidies to the fund.

The Seattle Streetcar Fund has negative fund balance of $3.3 million as of December 31, 2011. The fund was created by Ordinance 122424 and later amended by Ordinance 123102 to increase the amount of the interfund loan which now allows a loan from the City's Consolidated (Residual) Cash Pool of up to $3.7 million. This loan is to be repaid no later than December 31, 2018, from the sale of surplus property, grants, donations, transfers, and other monies as authorized by ordinance.

The Pike Place Market Renovation Fund has a negative fund balance of $578 thousand at December 31, 2011. This was caused by the City's decision to use a loan from the City's cash pool in lieu of selling more bonds and to expedite the completion of construction projects. Ordinance 123470 permits this fund to use up to $7.5 million at any one time from the City's cash pool. Any loan amounts are to be repaid by December 31, 2014.

(3) CASH AND INVESTMENTS

CASH AND EQUITY IN POOLED INVESTMENTS

Cash resources of all City funds are combined into a cash pool that is managed by the Department of Finance and Administrative Services. Under the City's investment policy, all temporary cash surpluses in the pool are invested. Each fund's share of the cash pool is included in the participating fund's balance sheet under the caption "Cash and Equity in

Pooled Investments." The pool operates like a demand deposit account in that all City funds may deposit cash at any time and also withdraw cash up to their respective fund balance out of the pool without prior notice or penalty.

Custodial Credit Risk – Deposits. The custodial credit risk of deposits is the risk that in the event of bank failure for one of the City's depository institutions, the City's deposits may not be returned in a timely manner, or in the case of collateralized securities, the City may not be able to recover the collateral held in the possession of an outside party.

The City has very limited custodial credit risk of its deposits due to insurance provided by the Federal Deposit Insurance Corporation (FDIC) and the National Credit Union Association (NCUA) as well as protection provided by the Washington State Public Deposit Protection Commission (PDPC) as established in RCW 39.58. The PDPC makes and enforces regulations and administers a program to ensure public funds deposited in banks and thrifts are protected if a financial institution becomes insolvent. The PDPC approves which banks, credit unions, and thrifts can hold state and local government deposits and monitors collateral pledged to secure uninsured public deposits. This secures public treasurers' deposits when they exceed the amount insured by the FDIC or NCUA by requiring banks, credit unions, and thrifts to pledge securities as collateral.

As of December 31, 2011, the City held $95,000 in its cash vault. Additional small amounts of cash were held in departmental revolving fund accounts with the City's various custodial banks, all of which fell within the NCUA/FDIC's $250,000 standard maximum deposit insurance amount. Any of the City's cash not held in its vault, or a local depository, was held in the City's operating fund (investment pool), and at the close of every business day, any cash remaining in the operating fund is swept into an overnight repurchase agreement that matures the next day.

CITY TREASURY INVESTMENTS

Note 1 describes the investment policies of the City. Banks or trust companies acting as the City's agents hold all of the City's investments in the City's name. As of December 31, 2011, the City's investment pool held the following investments.

Table 3-1 **INVESTMENTS AND MATURITIES**

TREASURY RESIDUAL POOLED INVESTMENTS

(In Thousands)

Investments	Fair Value as of December 31, 2011	Weighted Average Maturity (Days)
Repurchase Agreements	$ 66,785	3
U.S. Treasury and U.S. Government-Backed Securities	37,994	816
U.S. Government Agency Securities	990,428	974
U.S. Government Agency Mortgage-Backed Securities	701	876
Commercial Paper	77,495	10
Municipal Bonds	105,403	513
Total	$ 1,278,806	
Weighted Average Maturity of the Treasury Residual Pooled Investments		823

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates over time will adversely affect the fair value of an investment. The City's investment policy limits the maturity of individual securities to fifteen years and limits the weighted average maturity of the total investment portfolio to no longer than five years which mitigates interest rate risk.

Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City mitigates credit risk in many ways as described below.

By state statutes and investment policy, the City may purchase securities that carry the highest credit ratings issued by Moody's Investors Service, Standard & Poor's, and/or Fitch Ratings. Securities purchased must have the following ratings at the time of purchase: Securities backed by issuers with long-term credit ratings of Aaa, Aa1, and Aa2 by Moody's Investors Service; AAA, AA+, and AA by Standard & Poor's; and AAA, AA+, and AA by Fitch Ratings; and securities backed by issuers having short-term ratings of MIG1, VMIG1, and P1 by Moody's Investors Service; A1+ and A1 by Standard & Poor's; and F1 and F1+ by Fitch Ratings.

The City invests in U.S. Treasury securities which are considered free of credit risk, and in securities backed by the full faith and credit of the U.S. government, such as bonds issued by the Department of Housing and Urban Development (HUD). These securities have the highest long-term and short-term credit ratings of Aaa, AA+, P1, A1+, and F1+. The City also invests in securities issued by U.S. government sponsored enterprises including Federal National Mortgage Association, Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, and Federal Farm Credit Bank. These securities were rated Aaa by Moody's Investors Service, AA+ by Standard & Poor's, and AAA by Fitch Ratings. Material credit risk in the City's investment portfolio resides in its holdings of commercial paper and municipal securities. In accordance with state statutes and its internal investment policy, the City manages that credit risk by purchasing securities backed by issuers having long-term and short-term credit ratings as noted above. The City also subscribes to asset-backed commercial paper research from Moody's Investors Service and Fitch Ratings, conducts internal due diligence of commercial paper and municipal issuers, and maintains an "approved list" of commercial paper issuers based upon internal and external credit research.

Concentration Risk. Concentration risk is the risk of loss attributed to the magnitude of investments in a single issuer. In accordance with its investment policy and state statutes, the City manages concentration risk by limiting its investments in any one issuer as follows: 10 percent of the portfolio per bank for certificates of deposit or bankers' acceptances; and 5 percent per commercial paper or municipal bond issuer. U.S. government agency collateralized mortgage obligations and pass-through securities are limited to a maximum asset allocation of 25 percent of the total portfolio. The City is not limited in its allocation to obligations of: the U.S. government, U.S. government agencies, or corporations wholly owned by the U.S. government. The City's investments in single issuers, including those maturing less than one year from date of purchase, and amounting to 5 percent or more of the total portfolio as of December 31, 2011, are shown in the following table.

Table 3-2 **CONCENTRATION OF CREDIT RISK**

(In Thousands)

Issuer	Fair Value	Percent of Total Investments
Federal Home Loan Mortgage Corporation (Freddie Mac)	$ 395,358	31 %
Federal National Mortgage Association (Fannie Mae)	317,741	25
Federal Home Loan Bank	194,321	15
Federal Farm Credit Bank	83,708	7

Custodial Credit Risk – Investments. The custodial credit risk for investments is the risk that, in the event of failure of the counterparty, the City will not have access to, or be able to recover, its investments or collateral securities that are in the possession of an outside party. The City minimizes custodial credit risk for its investments by having its investment securities held by the City's contractual custodial agent and not by the counterparty or the counterparty's trust department or agent. Additionally, the City mitigates custodial risk by settling its trades delivery-versus-payment through the City's contractual custodial agent.

By investment policy, the City maintains a list of approved securities dealers for transacting business. For repurchase agreements, the City transacts only with large primary dealers with investment grade credit ratings provided by at least two of the Nationally Recognized Statistical Rating Organizations (NRSROs). The City also conducts its own due diligence as to the financial wherewithal of its counterparties.

The City mitigates counterparty custodial risk from repurchase agreements by using a third-party custodian for tri-party repos. The City conforms with the industry standard requiring execution of a master repurchase agreement with each counterparty prior to transacting a repurchase agreement, execution of a third-party custodial agreement between the City, the broker, and the clearing bank, before transacting a third-party repurchase agreement, and over-collateralizing by a minimum of 102 percent. By investment policy, the underlying securities the City is willing to accept as collateral must have the highest credit ratings of at least two NRSROs. Throughout 2011, the collateral underlying the City's repurchase agreements excluded securities other than U.S. Treasury, agencies, and agency mortgage-backed pass-throughs.

Foreign Currency Risk. The City Treasury investment pool and securities held for dedicated funds portfolios do not invest in foreign currencies.

INVESTMENTS OF THE SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM (SCERS)

Investments of the Seattle City Employees' Retirement System are accounted for in the Employees' Retirement Fund, a fiduciary fund which is not included in the Citywide financial statements because its resources belong to the retirement system and do not support City programs.

The retirement fund investments are made in accordance with the Prudent Person Rule as defined by RCW 35.39.060.

Table 3-3

SCERS' INVESTMENTS

(In Thousands)

Investments	Amount
U.S. Government Obligations	$ 82,649
Domestic Corporate Bonds	137,745
Domestic Stocks	506,950
International Stocks	417,843
Other	
Short-Term Investment Funds	62,878
Securities Lending	3,490
Mortgage-Backed Securities	130,050
Government Related and Other	21,304
Real Estate	208,281
Alternative/Venture Capital	183,043
Total	$ 1,754,233

Credit Risk. In accordance with its policy the Retirement Board provides its investment managers with a set of investment guidelines that specify eligible investments and applicable restrictions necessary for diversification and risk control. Managers do not have authority to depart from those guidelines.

SCERS' fixed income portfolio is primarily managed by four external money management firms. SCERS' investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from interest rates.

Table 3-4

SCERS' FIXED INCOME PORTFOLIO

(In Thousands)

		Investment Maturities (In Years)			
Investment Type	**Fair Value**	**<1**	**1 - 5**	**6 - 10**	**>10**
U.S. Government					
Treasuries, Notes, and Bonds	$ 53,835	$ 12,579	$ 13,748	$ 1,633	$ 25,875
Treasury Inflation-Protected Securities	14,967	686	-	14,281	-
Agencies	13,847	6,038	3,470	3,080	1,259
Mortgage-Backed					
Government Pass-Throughs	102,253	-	32,068	7,564	62,621
Corporate Pass-Throughs	10,216	944	-	-	9,272
Government Collateralized Mortgage Obligations	17,580	4,423	473	585	12,099
Corporate					
Bonds	102,610	1,116	16,561	70,436	14,497
Asset-Backed	33,535	10,699	10,516	6,447	5,873
Private Placements	1,600	532	697	356	15
Government Related and Other					
Foreign Sovereign	16,151	794	-	-	15,357
Municipal	5,051	389	298	1,015	3,349
Other	102	69	-	-	33
Total Portfolio	$ 371,747	$ 38,269	$ 77,831	$ 105,397	$ 150,250

Interest Rate Risk. SCERS' investment policy requires the Retirement Board to provide its investment managers with a set of investment guidelines that specify eligible investments, minimum diversification standards, and applicable restrictions necessary for risk control. Managers do not have authority to depart from those guidelines.

SCERS' investment policy does not limit fixed income investments based on ratings by nationally recognized rating agencies. Speculative investments are avoided based on the Prudent Person Rule as defined by RCW 35.39, and the policy specifies target percentages for diversification in order to minimize risk of large losses.

Table 3-5 **SCERS' FIXED INCOME RATINGS BY STANDARD AND POOR'S**

(In Thousands)

Investment Type	AAA	AA	A	BBB	BB	B	CCC and Below	Not Rated
U.S. Government								
Treasury Notes and Bonds	$ -	$ 53,836	$ -	$ -	$ -	$ -	$ -	$ -
Treasury Inflation-Protected Securities	13,709	1,258	-	-	-	-	-	-
Agencies	-	12,786	1,061	-	-	-	-	-
Mortgage-Backed								
Government Pass-Throughs	32,068	35,348	-	-	-	-	-	34,838
Corporate Pass-Throughs	7,408	56	2,015	649	88	-	-	-
Government CMO's	2,341	12,306	202	365	380	145	1,703	139
Corporate								
Bonds	30	8,891	33,028	45,372	13,740	1,549	-	-
Asset-Backed	16,953	3,730	4,259	4,608	891	482	1,252	1,361
Private Placements	1,547	-	-	-	-	-	53	-
Government Related and Other								
Foreign Sovereign	-	9,613	794	-	-	5,743	-	-
Municipal	-	828	4,223	-	-	-	-	-
Other	-	-	-	-	96	-	-	7
Total Portfolio	$ 74,056	$ 138,652	$ 45,582	$ 50,994	$ 15,195	$ 7,919	$ 3,008	$ 36,345

Table 3-6 **SCERS' ASSET ALLOCATION**

Asset Class	Actual	Target
Cash and Cash Equivalents	3.9 %	0.0 %
Equities		
Domestic	28.9	25.0
International	23.8	27.0
Fixed Income	21.1	20.0
Alternative	10.4	11.0
Real Estate	11.9	11.0
Covered Calls	0.0	6.0
Total	100.0 %	100.0 %

Concentration of Credit Risk. The Investment Committee reviews its portfolio holdings quarterly with the Investment Consultant to ensure compliance with the specified targets and performance results. Rebalancing of the portfolio back to the target percentages is undertaken to ensure compliance with the specified targets. The Retirement Board provides its investment managers with a set of investment guidelines that specify eligible investments, minimum diversification standards, and applicable restrictions necessary for diversification. In general, these guidelines require that investments in any issuer may not exceed 5 percent of the net asset value of a manager's portfolio. Managers do not have authority to depart from these guidelines.

Custodial Credit Risk. SCERS mitigates custodial credit risk by having its investment securities held by SCERS' custodian and registered in SCERS' name.

Foreign Currency Risk. Foreign currency risk is the risk that changes in exchange rates that will adversely impact the fair value of an investment. SCERS' currency risk exposure or exchange rate risk primarily resides within the international equity holdings. SCERS' investment managers maintain adequately diversified portfolios to limit foreign currency and security risk.

SECURITIES LENDING TRANSACTIONS

The City cash pool and the Seattle City Employees' Retirement System are allowed to engage in securities lending transactions similar to that instituted by the Washington State Treasurer's Office and other municipal corporations in the State of Washington.

Under the authority of RCW 41.28.005 and the SMC 4.36.130, the Seattle City Employees' Retirement System Board of Administration adopted investment policies that define eligible investments, which include securities lending transactions whereby securities are lent for the purpose of generating additional income to SCERS. Gross income from securities lending transactions of SCERS as well as the various fees paid to the institution that oversees the lending activity is reported in the fund's operating statements. Assets and liabilities include the value of the collateral that is being held.

The market value of the required collateral must meet or exceed 102 percent of the market value of the securities loaned, providing a margin against a decline in the market value of the collateral, and is limited to a volume of less than $75.0 million. The contractual agreement with the SCERS' custodian provides indemnification in the event the borrower fails to return the securities lent or fails to pay SCERS' income distribution by the securities' issuers while the securities are on loan. Cash and U.S. government securities were received as collateral for these loans.

SCERS invests cash collateral received; accordingly, any investment made with cash collateral is reported as an asset. A corresponding liability is recorded as SCERS must return the cash collateral to the borrower upon the expiration of the loan. As of December 31, 2011, SCERS has no credit risk exposure to borrowers; amounts owed to borrowers exceed the amount the borrower owes.

Table 3-7 **SCERS' SECURITIES LENT AND COLLATERAL**

(In Thousands)

	2011		2010	
Type of Securities Lent	**Fair Values of Securities Lent**	**Collateral**	**Fair Values of Securities Lent**	**Collateral**
U.S. Government and Agencies	$ 100	$ 102	$ 14,338	$ 14,630
U.S. Corporate Fixed Income	1,660	1,705	2,867	2,937
U.S. Equities	4,970	5,104	19,275	19,728
Total Securities Lent	$ 6,730	$ 6,911	$ 36,480	$ 37,295

Collateral	**2011**	**2010**
U.S. Corporate Obligations	$ 3,500	$ 3,500
Repurchase Agreements	1,829	31,796
Asset-Backed Securities	1,582	1,999
Total Collateral	$ 6,911	$ 37,295
Fair Value of Collateral Held	$ $3,490	$ $33,896

REVERSE REPURCHASE AGREEMENTS

RCW 35.39.030 and City investment policy allow the investment of City moneys in excess of current City needs in reverse repurchase agreements. However, at this time, the City does not engage itself in this type of investment strategy.

(4) RECEIVABLES AND INTERFUND TRANSACTIONS

Table 4-1 **TAX REVENUES AND RECEIVABLES**

(In Thousands)

	December 31 2011 Revenues	**December 31 2011 Receivables**
Property Taxes	$ 397,288	$ 18,280
General Business and Occupation Taxes	339,703	51,987
Totals	$ 736,991	$ 70,267

TAXING POWERS AND LIMITATIONS

State law limits the regular property tax rate for general City operations to $3.60 per $1,000 of assessed value. This includes $3.375 for general municipal purposes and an additional $0.225 for the Firemen's Pension Fund and for general municipal purposes under conditions spelled out in state law. From 1997 through 2001 state law limited the annual growth in the City's regular property tax levy to the lesser of 106 percent or the annual rate of inflation. The passage of Initiative 747 in November 2001 reduced the 106 percent to 101 percent. In early November 2007, the State Supreme Court upheld a lower court ruling that Initiative 747 was unconstitutional. This decision would have returned the growth limit factor to 106 percent. On November 29, 2007, the legislature, in special session, passed and the governor signed into law language identical to that of Initiative 747. Thus, the limit factor remains 101 percent. The growth limit does not count tax revenues from new construction or property remodeled within the last year. With simple-majority voter approval, the City can levy additional property taxes above the 101 percent annual growth limit, as long as the City’s regular levy rate per $1,000 of assessed value does not exceed the $3.60 limit. Excess tax levies for capital purposes require a 60-percent approval by voters and do not fall under either of the limits. The City levied $1.87 per $1,000 for general operations and Firemen's Pension Fund in 2011. In addition, the levy included $1.18 per $1,000 of assessed value for debt service and other voter-approved levies. The total 2011 levy was $3.06 per $1,000 of assessed value. Not included in this total is the levy for Emergency Medical Services, which was renewed by voters at election in November 2007 at $0.30 per $1,000 of assessed value and remained at $0.30 per $1,000 of assessed value in 2011.

Property taxes are levied by the County Assessor and collected by the County Finance Director. Assessments are based on 100 percent of true and fair market value. They are levied and become a lien on the first day of the levy year. They may be paid in two equal installments if the total amount exceeds $30. The first half is due on April 30, or else the total amount becomes delinquent May 1. The balance is due October 31, becoming delinquent November 1. Delinquent taxes bear interest at the rate of one percent per month until paid and are subject to additional penalties of three percent and another eight percent on the total unpaid delinquent balance on June 1 and December 1, respectively. Foreclosure action is commenced on properties when taxes are delinquent for three years.

INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The City reports interfund balances between funds. The interfund balances are presented in the balance sheets for governmental funds and statements of net assets for proprietary funds.

The following table shows the current interfund balances at December 31, 2011, as reported in the fund financial statements.

Table 4-2 **DUE FROM AND TO OTHER FUNDS [a]**

(In Thousands)

Receivable Fund	Payable Fund(s)	Amount
General	Drainage and Wastewater	$ 2,905
	Nonmajor Enterprise	2,256
	Nonmajor Governmental	2,059
	Internal Service	83
	Transportation	333
	Light	4,481
	Solid Waste	406
	Water	2,011
	Total General Fund	14,534
Transportation	Drainage and Wastewater	434
	Nonmajor Enterprise	104
	General	2,448
	Nonmajor Governmental	22,161
	Internal Service	43
	Light	407
	Solid Waste	6
	Water	731
	Total Transportation Fund	26,334
Light	Drainage and Wastewater	235
	General	21
	Nonmajor Governmental	23
	Internal Service	(21)
	Transportation	12
	Solid Waste	142
	Water	153
	Total Light Fund	565
Water	Drainage and Wastewater	445
	General	62
	Nonmajor Governmental	2
	Internal Service	6
	Transportation	1
	Light	75
	Solid Waste	320
	Total Water Fund	911
Low-Income Housing	Light	767
Solid Waste	Drainage and Wastewater	13
	General	4
	Nonmajor Governmental	29
	Internal Service	5
	Light	7
	Total Solid Waste Fund	58
Drainage and Wastewater	Nonmajor Enterprise	3
	General	16
	Nonmajor Governmental	52
	Internal Service	32
	Transportation	33
	Light	1,086
	Solid Waste	12
	Water	638
	Total Drainage and Wastewater Fund	1,872

[a] Some amounts may have rounding differences with Balance Sheet or Statement of Net Assets.

Table 4-2 **DUE FROM AND TO OTHER FUNDS [a] (continued)**

(In Thousands)

Receivable Fund	Payable Fund(s)	Amount
Nonmajor Governmental	Drainage and Wastewater	$ 284
	Nonmajor Enterprise	8
	General	1,049
	Nonmajor Governmental	1,312
	Internal Service	100
	Low-Income Housing	13
	Transportation	49
	Light	239
	Solid Waste	181
	Water	72
	Total Nonmajor Governmental Funds	3,307
Nonmajor Enterprise	Drainage and Wastewater	263
	General	30
	Nonmajor Governmental	11
	Internal Service	7
	Transportation	98
	Light	88
	Solid Waste	1
	Water	25
	Total Nonmajor Enterprise Funds	523
Internal Service	Drainage and Wastewater	118
	Nonmajor Enterprise	99
	General	1,590
	Nonmajor Governmental	669
	Internal Service	256
	Transportation	893
	Light	1,155
	Solid Waste	71
	Water	923
	Total Internal Service Funds	5,774
Grand Total		$ 54,645

[a] Some amounts may have rounding differences with Balance Sheet or Statement of Net Assets.

The balances in Table 4-2 resulted from the time lag between the dates that (1) interfund goods and services were provided or reimbursable expenditures occurred, (2) transactions were recorded in the accounting system, and (3) payments between funds were made.

Table 4-3 **INTERFUND TRANSFERS**

(In Thousands)

	Transfers Out					
Transfers In	**General**	**Low-Income Housing**	**Nonmajor Governmental**	**Internal Service**	**Transportation**	**Total**
General Fund	$ -	$ -	$ 537	$ 4,000	$ -	$ 4,537
Nonmajor Enterprise	9,373	-	-	-	-	9,373
Nonmajor Governmental	171,701	265	7,407	-	16,227	195,600
Transportation	44,575	-	47,512	-	-	92,087
Total Transfers	$ 225,649	$ 265	$ 55,456	$ 4,000	$ 16,227	$ 301,597

Transfers are used to (1) move revenues from the fund wherein the statute or budget requires them to be collected to the fund wherein the statute or budget requires them to be expended, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) apply unrestricted revenues collected in the General Fund to various programs accounted for in other funds in accordance with budgetary authorizations.

(5) SHORT-TERM ENERGY CONTRACTS AND DERIVATIVE INSTRUMENTS

The Seattle City Light (SCL) engages in an ongoing process of resource optimization relating to short-term energy contracts, which involves the economic selection from available energy resources to serve the SCL's load obligations and using these resources to capture available economic value. SCL makes frequent projections of electric loads at various points in time based on, among other things, estimates of factors such as customer usage and weather, as well as historical data and contract terms. SCL also makes recurring projections of resource availability at these points in time based on variables such as estimates of streamflows, availability of generating units, historic and forward market information, contract terms, and experience. On the basis of these projections, SCL purchases and sells wholesale electric capacity and energy to match expected resources to expected electric load requirements and to realize earnings from surplus energy resources. These transactions can be up to 24 months forward. Under these forward contracts, SCL commits to purchase or sell a specified amount of energy at a specified time, or during a specified time in the future. Except for limited intraday and interday trading to take advantage of owned hydro storage, SCL does not take market positions in anticipation of generating revenue. Energy transactions in response to forecasted seasonal resource and demand variations require approval by SCL's Risk Oversight Council.

It is the City's policy to apply the normal purchase and normal sales exception of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, as appropriate. Certain forward purchase and sale of electricity contracts in SCL meet the definition of a derivative instrument, but are intended to result in the purchase or sale of electricity delivered and used in the normal course of operations. Accordingly, SCL considers these forward contracts as normal purchases and normal sales under GASB Statement No. 53. These transactions are not required to be recorded at fair value in the financial statements.

The following table presents (in thousands) the aggregate contract amounts, fair value, and unrealized gain (loss) of SCL's commodity derivative instruments qualifying as normal purchases and normal sales at December 31:

Year 2011	Aggregate Contract Amount	Aggregate Fair Value	Unrealized Gain (Loss)
Sales	$ 16,444	$ 16,861	$ (417)
Purchases	6,028	5,752	(276)
Total	$ 22,472	$ 22,613	$ (693)

Year 2010	Aggregate Contract Amount	Aggregate Fair Value	Unrealized Gain (Loss)
Sales	$ 8,028	$ 7,296	$ 732
Purchases	11,895	11,139	(756)
Total	$ 19,923	$ 18,435	$ (24)

Fair value measurements at December 31, 2011 and 2010 used an income valuation technique consisting of Platts M2M Power Curves and interest rates from HIS Global Insight that are used to calculate discount rates. Risk, such as for nonperformance and inactive markets, was evaluated internally resulting in no valuation adjustments to forward power contracts.

All derivative instruments not considered as normal purchases and normal sales are to be recorded within the financial statements using derivative accounting according to GASB Statement No. 53. In 2010, the City Council adopted a resolution granting SCL authority to enter into certain physical put and call options that would not be considered normal purchases and normal sales under GASB Statement No. 53. SCL did not have any such activity for 2011 and 2010. In addition, the City Council has deferred recognition of the effects of reporting the fair value of derivative financial instruments for rate-making purposes, and SCL maintains regulatory accounts to defer the accounting impact of these accounting adjustments in accordance with ASC 980-10-05, *Effect of Regulatory Accounting*.

Market Risk. Market risk is, in general, the risk of fluctuation in the market price of the commodity being traded and is influenced primarily by supply and demand. Market risk includes the fluctuation in the market price of associated derivative commodity instruments. Market risk may also be influenced by the number of active, creditworthy market participants, and to the extent that nonperformance by market participants of their contractual obligations and commitments affects the supply of, or demand for, the commodity. Because SCL is active in the wholesale energy market, it is subject to market risk.

Credit Risk. Credit risk relates to the potential losses that SCL would incur as a result of nonperformance by counterparties of their contractual obligations to deliver energy or make financial settlements. Changes in market prices may dramatically alter the size of credit risk with counterparties, even when conservative credit limits are established. SCL seeks to mitigate credit risk by entering into bilateral contracts that specify credit terms and protections against default, applying credit limits and duration criteria to existing and prospective counterparties, and actively monitoring current credit exposures. SCL also seeks assurances of performance through collateral requirements in the form of letters of credit, parent company guarantees, or prepayment.

SCL has concentrations of suppliers and customers in the electric industry including electric utilities, electric generators and transmission providers, financial institutions, and energy marketing and trading companies. In addition, SCL has concentrations of credit risk related to geographic location as it operates in the western United States. These concentrations of counterparties and concentrations of geographic location may impact SCL's overall exposure to credit risk, either positively or negatively, because the counterparties may be similarly affected by changes in conditions.

Other Operational and Event Risk. There are other operational and event risks that can affect the supply of the commodity, and SCL's operations. Due to SCL's primary reliance on hydroelectric generation, the weather, including spring time snow melt, runoff, and rainfall, can significantly affect SCL's operations. Other risks include regional planned and unplanned generation outages, transmission constraints or disruptions, environmental regulations that influence the availability of generation resources, and overall economic trends.

(6) CAPITAL ASSETS

Table 6-1 **CHANGES IN CAPITAL ASSETS** [a]

(In Thousands)

	Restated Balance January 1	Additions	Deletions	Balance December 31
GOVERNMENTAL ACTIVITIES [b]				
CAPITAL ASSETS NOT BEING DEPRECIATED				
Land	$ 530,894	$ 3,770	$ 571	$ 534,093
Construction in Progress	267,903	215,503	142,902	340,504
Total Capital Assets Not Being Depreciated	798,797	219,273	143,473	874,597
CAPITAL ASSETS BEING DEPRECIATED				
Buildings and Improvements	2,112,863	24,787	16,099	2,121,551
Machinery and Equipment	282,540	32,065	9,708	304,897
Infrastructure	1,315,012	107,794	-	1,422,806
Other Capital Assets	13,425	151	96	13,480
Total Capital Assets Being Depreciated	3,723,840	164,797	25,903	3,862,734
Accumulated Depreciation				
Buildings and Improvements	543,745	53,116	7,162	589,699
Machinery and Equipment	165,709	24,736	9,645	180,800
Infrastructure	572,861	41,886	-	614,747
Other Capital Assets	1,464	175	30	1,609
Total Accumulated Depreciation	1,283,779	119,913	16,837	1,386,855
Total Capital Assets Being Depreciated, Net	2,440,061	44,884	9,066	2,475,879
Governmental Activities Capital Assets, Net	$ 3,238,858	$ 264,157	$ 152,539	$ 3,350,476
BUSINESS-TYPE ACTIVITIES				
CAPITAL ASSETS NOT BEING DEPRECIATED				
Land	$ 160,117	$ 13,833	$ 40,316	$ 133,634
Construction in Progress	312,303	382,766	382,101	312,968
Total Capital Assets Not Being Depreciated	472,420	396,599	422,417	446,602
CAPITAL ASSETS BEING DEPRECIATED				
Plant in Service, Excluding Land	5,684,458	333,117	19,542	5,998,033
Buildings	60,131	-	-	60,131
Machinery and Equipment	15,169	-	-	15,169
Other Capital Assets	20,381	45,054	21	65,414
Total Capital Assets Being Depreciated	5,780,139	378,171	19,563	6,138,747
Accumulated Depreciation				
Plant in Service, Excluding Land	2,175,557	172,969	39,334	2,309,192
Buildings	24,052	2,004	-	26,056
Machinery and Equipment	11,168	1,554	-	12,722
Other Capital Assets	2,626	18	-	2,644
Total Accumulated Depreciation	2,213,403	176,545	39,334	2,350,614
Total Capital Assets Being Depreciated, Net	3,566,736	201,626	(19,771)	3,788,133
Business-Type Activities Capital Assets, Net	$ 4,039,156	$ 598,225	$ 402,646	$ 4,234,735

[a] Some amounts may have rounding differences with Statement of Net Assets.

[b] The capital assets for governmental activities include the capital assets of the internal service funds. Schedules H-1, H-2, and H-3 provide additional information on the capital assets of the governmental funds.

Table 6-2 **DEPRECIATION EXPENSE BY FUNCTION**

(In Thousands)

GOVERNMENTAL ACTIVITIES		
General Government	$	2,398
Public Safety		5,201
Transportation		42,599
Economic Environment		17
Culture and Recreation		36,935
Subtotal		87,150
Capital assets held by internal service funds are charged to the various functions based on their usage of the assets		32,763
Total Governmental Activities	$	119,913
BUSINESS-TYPE ACTIVITIES		
Light	$	106,155
Water		42,267
Solid Waste		6,233
Drainage and Wastewater		18,332
Planning and Development		1,554
Parking Garage		2,004
Total Business-Type Activities	$	176,545

(7) COMPENSATED ABSENCES

The following discussion on the general liabilities of the City and the tables for the other City funds present the accrued compensated absences at the end of 2011 and 2010. The tables show the accrued liabilities by group between governmental activities, business-type activities, and pension trust funds, and further by type of funds, as applicable.

GOVERNMENTAL ACTIVITIES

Governmental Funds

Unpaid compensated absences associated with governmental fund operations of $78.8 million and $79.7 million at December 31, 2011 and 2010, respectively, have been recorded in the government-wide financial statements. These amounts include unpaid holiday, compensatory, merit, and furlough time of $16.8 million and $17.3 million at the end of 2011 and 2010, respectively; accumulated unpaid vacation pay of $49.7 million and $50.7 million at the end of 2011 and 2010, respectively; and the balance for sick leave (estimated based on the termination method) of $12.3 million and $11.7 million at December 31, 2011 and 2010, respectively.

Internal Service Funds

Table 7-1 **COMPENSATED ABSENCES IN INTERNAL SERVICE FUNDS**

(In Thousands)

	2011		2010	
Finance and Administrative Services	$	4,077	$	1,891
Information Technology		1,734		1,797
Totals	$	5,811	$	3,688

BUSINESS-TYPE ACTIVITIES

Enterprise Funds

Table 7-2 **COMPENSATED ABSENCES IN ENTERPRISE FUNDS**

(In Thousands)

	2011	2010
Light	$ 16,186	$ 15,540
Water	4,749	4,818
Drainage and Wastewater	4,425	4,282
Solid Waste	1,619	1,606
Planning and Development	2,720	2,665
Totals	$ 29,699	$ 28,911

PENSION TRUST FUNDS

Table 7-3 **COMPENSATED ABSENCES IN PENSION TRUST FUNDS**

(In Thousands)

	2011	2010
Employees' Retirement	$ 121	$ 74
Firemen's Pension	30	29
Police Relief and Pension	39	49
Totals	$ 190	$ 152

Compensated absences in governmental activities and business-type activities are presented in the aggregate in Note 9, Long-Term Debt, Table 9-9, which also shows the amount estimated to be due within the year.

(8) LEASES

CAPITAL LEASES

The City leases certain office equipment under various capital lease agreements. The City's capital lease obligations and the related assets were recorded in the appropriate funds and government-wide financial statements. The net capital lease assets shown in the following table reflect those continuing to be financed through capital leases. The minimum capital lease payments reflect the remaining capital obligations on these assets.

Table 8-1 **CAPITAL LEASES**

(In Thousands)

Net Capital Lease Assets	Capital Assets Governmental Activities
Machinery and Equipment	$ 20
Less Accumulated Depreciation	(10)
December 31, 2011	$ 10

Minimum Capital Lease Payments	Long-Term Liabilities Governmental Activities
2012	$ 5
2013	5
2014	2
Total Minimum Lease Payments	12
Less Interest	(2)
Principal	$ 10

The outstanding principal portion of the minimum capital lease payments is also presented in Table 9-9 of Note 9, Long-Term Debt.

OPERATING LEASES

Governmental Activities

The City, through its Facilities Operations Division, manages buildings and facilities that are owned by the City and has operating lease commitments on real property owned by private entities. Many lease commitments on private properties are for a term of five years or longer and may be renewed as required by the City tenant departments. The lease agreements show a periodic schedule of rental amounts. Facilities Operations Division paid rentals of approximately $4.7 million and $4.8 million in 2011 and 2010, respectively, on the lease commitments. There are no projected rent increases apart from lease agreements entered into by the City.

In addition, Seattle Center leases a building for office space and workshop on a type of lease called a "triple net lease" for its Technical Facilities Management. The original lease agreement expired on July 30, 2010 but was renewed for another five years with new expiration date of July 30, 2015. The renewed lease agreement requires a fixed rent of $23,420 per month subject to increases on each July 1 beginning in 2011 and every year thereafter by the percentage of change, if any, in the Consumer Price Index (CPI) for All Urban Consumers, United States Average for All Items (1982 - 84 = 100) published by the Bureau of Labor Statistics, United States Department of Labor CPI from the CPI last published in the preceding year, but not to exceed five percent for any lease year. If there is a decline in the CPI, the fixed rent during the succeeding year will be equal to the fixed rent during the immediate preceding year. All other amounts required by the landlord to be paid by Seattle Center on the lease shall constitute additional rent. On a triple net lease Seattle Center will pay all impositions on the lease, insurance premiums, utilities, taxes, operating expenses, maintenance charges, repair costs, and other charges, costs, and expenses which arise or may be contemplated during the lease term. Seattle Center paid rent, including property taxes on the lease property, in the amount of $265,983 and $304,250 in 2011 and 2010, respectively, on the lease. Rents are paid as they become due and payable.

Minimum payments under the leases are:

Table 8-2

OPERATING LEASE COMMITMENTS

GOVERNMENTAL ACTIVITIES

(In Thousands)

Year Ending December 31	Minimum Lease Payments: Facilities Operations	Seattle Center	Total
2012	$ 4,503	$ 297	$ 4,800
2013	4,190	297	4,487
2014	2,772	297	3,069
2015	1,936	175	2,111
2016	1,277	-	1,277
2017	828	-	828
Total	$ 15,506	$ 1,066	$ 16,572

Business-Type Activities

In December 1994 the City entered into an agreement on behalf of the Seattle City Light Department for a ten-year lease of office facilities in downtown Seattle commencing February 1, 1996. In early 1996 the City purchased the building in which these facilities are located, thus becoming the Department's lessor. This lease extended through December 2006. Beginning in 2007 the Department made monthly lease payments to the City through the central cost allocation process, similar to all other payments for tenancy of the City property and through the budget process. The Department also leases office equipment and smaller facilities for various purposes through long-term operating lease agreements. Expense under all leases totaled $4.7 million and $1.1 million in 2011 and 2010, respectively.

The Seattle Public Utilities has non-cancelable operating lease commitments for real and personal property for its three funds: Water Fund, Drainage and Wastewater Fund, and Solid Waste Fund. The minimum payments made respectively in 2011 and 2010 were: $384,595 and $375,965 for the Water Fund; $108,115 and $105,887 for the Drainage and Wastewater Fund, and $177,747 and $171,300 for the Solid Waste Fund. Rents are paid as they become due and payable.

Minimum payments under the leases are:

Table 8-3

OPERATING LEASE COMMITMENTS

BUSINESS-TYPE ACTIVITIES

(In Thousands)

Year Ending December 31	Minimum Payments: City Light	Water	Drainage & Wastewater	Solid Waste	Total
2012	$ 1,103	$ 393	$ 110	$ 184	$ 1,790
2013	1,111	275	70	180	1,636
2014	1,009	248	60	176	1,493
2015	1,036	256	62	182	1,536
2016	982	221	53	156	1,412
2017 - 2021	847	54	-	-	901
2022 - 2026	-	54	-	-	54
2027	-	32	-	-	32
Total	$ 6,088	$ 1,533	$ 355	$ 878	$ 8,854

LEASE REVENUES - GOVERNMENTAL ACTIVITIES

The Facilities Operations Division collects occupancy charges from the various tenants occupying real property owned or leased by the City. These tenants include other City departments, other government offices, social service agencies, and private businesses. Social service agencies frequently pay occupancy charges at reduced rates in consideration of offsetting benefits accruing to the City as a result of the services they provide to the public. Rental revenues derived from these activities are accounted for in the Finance and Administrative Services Fund, an internal service fund, and are shown in the following table.

Table 8-4 MAJOR SOURCES OF RENTAL INCOME ON REAL PROPERTY MANAGED BY FACILITIES OPERATIONS DIVISION

(In Millions)

	2011	Restated 2010
Non-City Property Occupied by City Departments	$ 5.1	$ 5.3
City-Owned Property Occupied by City Departments	51.2	54.2
City-Owned Property Leased to Non-City Tenants	2.3	2.6
Total	$ 58.6	$ 62.1

Additionally, in 2011 the SeaPark Garage and the Seattle Municipal Tower Building generated $2.4 million total parking revenues, which were recorded in the Finance and Administrative Services Fund.

Also, in 2011 the City recognized $5.9 million in parking revenues in the Downtown Parking Garage Fund, an enterprise fund, from the operation of the garage at Pacific Place.

(9) LONG-TERM DEBT

GENERAL OBLIGATION BONDS

The City issues general obligation bonds to provide funding for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. The City issues two types of general obligation bonds, limited tax general obligation (LTGO) bonds and unlimited tax general obligation (UTGO) bonds.

The original amount of general obligation bonds issued for bonds outstanding at the end of 2010 was $1.388 billion. The amount of bonds outstanding at December 31, 2010 was $863.8 million. The following paragraphs discuss the general obligation bonds issued during 2011. No outstanding general obligation bonds were defeased in 2011.

On March 16, 2011, the City issued the $79.2 million LTGO Various Purpose Bonds, 2011, with an interest rate of 5.0 percent which mature serially from March 1, 2011 through March 1, 2031. The proceeds of these LTGO bonds are used to pay all or part of the costs of construction and acquisition of various City capital projects, including the Bridge Rehabilitation, Bridge Seismic, King Street Station, Spokane Street Viaduct, Seawall, Parking/Program Management, Mercer West, Golf, Pike Place Market, Rainier Beach Community Center, Seattle Center, Facility Energy Retrofits-Facilities and Administrative Services, Facility Energy Retrofits-Department of Parks and Recreation, and Facility Energy Retrofits-Seattle Center.

The City had no short-term general obligation debt at the end of 2011.

The following table presents the individual general obligation bonds outstanding as of December 31, 2011, and other relevant information on each outstanding bond issue.

Table 9-1 **GENERAL OBLIGATION BONDS**

(In Thousands)

Name and Purpose of Issue	Issuance Date	Maturity Date	Effective Interest Rate	Bond Issuance	Redemptions 2011	Redemptions To Date [a]	Bonds Outstanding December 31
LIMITED TAX GENERAL OBLIGATION (LTGO) BONDS - NON-VOTED							
Refunding - Various LTGO Bonds, 1998, Series B	03/17/98	09/01/98-12	4.493 %	$ 43,710	$ 3,170	$ 42,320	$ 1,390
Deferred Interest Parking Garage, 1998, Series E	11/12/98	12/15/01-14	4.714	13,042	1,247	9,826	3,216 [b]
Various Purpose - Civic Center, South Police Precincts, Training Facilities, Information Technology, Etc., 2001	08/21/01	08/01/02-31	4.908	129,760	3,580	129,760	-
Improvement (Various) and Refunding, 2002	01/30/02	07/01/02-32	4.778	125,510	4,380	93,965	31,545
Various Purpose and Refunding, 2003	02/26/03	08/01/04-23	3.469	60,855	1,085	53,230	7,625
Refunding, 2004	05/24/04	07/01/04-20	4.118	91,805	5,875	29,740	62,065
Various Purpose and Refunding, 2005	03/23/05	08/01/05-28	4.167	129,540	6,380	47,000	82,540
Various Purpose and Refunding, 2006	04/26/06	03/01/07-26	4.254	24,905	1,735	7,990	16,915
Various Purpose and Refunding, 2007	05/02/07	10/01/07-28	4.251	95,550	2,540	10,150	85,400
Various Purpose and Refunding, 2008	07/02/08	12/01/08-28	4.398	139,830	6,825	18,730	121,100
Various Purpose and Refunding, 2009	03/25/09	11/01/09-05/01/34	3.574	99,860	8,655	16,230	83,630
Improvement and Refunding, 2010, Series A [c]	03/31/10	08/01/10-30	4.394	66,510	-	-	66,510
Improvement and Refunding, 2010, Series B	03/31/10	08/01/10-31	4.394	135,395	2,710	3,220	132,175
Various Purpose, 2011	03/16/11	03/01/11-31	4.431	79,185	-	-	79,185
Total Limited Tax General Obligation Bonds				1,235,457	48,182	462,161	773,296
UNLIMITED TAX GENERAL OBLIGATION (UTGO) BONDS - VOTED							
Refunding-Various UTGO Bonds, 1998, Series A	03/17/98	09/01/98-17	4.470	53,865	1,370	50,500	3,365
Improvement (Library Facilities) and Refunding, 2002	09/26/02	12/01/03-21	3.892	117,025	4,660	58,620	58,405
Refunding, 2007	05/02/07	12/01/07-18	3.886	60,870	5,805	12,980	47,890
Total Unlimited Tax General Obligation Bonds				231,760	11,835	122,100	109,660
Total General Obligation Bonds				$ 1,467,217	$ 60,017	$ 584,261	$ 882,956

[a] Includes all bonds that matured to date and all called, refunded, and defeased bonds on issues that have outstanding balances at the beginning of the year.

[b] The accreted value of the outstanding bonds as of December 31, 2011, is $6,100,655. This amount is recognized as long-term accrued interest in the Downtown Parking Garage Fund, an enterprise fund, where the bond outstanding is also recorded.

[c] Issued as direct-pay Build America Bonds, created under Section 1531 of the American Recovery and Reinvestment Act of 2009 whereby state or local governmental issuers of this type of bonds receives a federal subsidy through Treasury Department and the Internal Revenue Service in an amount equal to 35 percent of the total coupon interest payable to investors or buyers of the bonds.

The requirements to amortize the general obligation bonds as of December 31, 2011, are presented in the following table. Debt service for the LTGO bonds is met by transfers generally from the General Fund and certain special revenue funds and by reimbursements from proprietary funds of the City. Debt service for the UTGO bonds is covered by property tax levies that authorized the bond issues and were approved by at least 60 percent of the voters in elections in which the number of voters exceeded 40 percent of the voters in the most recent election preceding the election to vote on the bond issue.

Table 9-2 ANNUAL DEBT SERVICE REQUIREMENTS TO MATURITY

GENERAL OBLIGATION BONDS

(In Thousands)

Year Ending December 31	Governmental Activities Principal	Governmental Activities Interest	Business-Type Activities Principal	Business-Type Activities Interest	Total
2012	$ 64,800	$ 37,835	$ 1,257	$ 4,094	$ 107,986
2013	68,250	34,837	1,262	4,259	108,608
2014	64,970	31,600	1,857	3,740	102,167
2015	53,950	28,779	2,950	2,824	88,503
2016	53,705	26,219	3,280	2,676	85,880
2017 - 2021	258,210	112,624	22,190	10,549	403,573
2022 - 2026	183,410	41,282	26,725	3,872	255,289
2027 - 2031	70,910	9,270	1,325	99	81,604
2032 - 2034	3,905	236	-	-	4,141
Total	$ 822,110	$ 322,682	$ 60,846	$ 32,113	$ 1,237,751

SPECIAL ASSESSMENTS BONDS WITH GOVERNMENTAL COMMITMENT

The bonds are special fund obligations of the City, the debt service of which will be paid from collections from related local improvement district (LID) assessments levied against the benefited properties located within the boundaries of the LID. Though guaranteed by the City's LID Guaranty Fund, this type of special assessment bonds does not constitute an obligation of any political subdivision thereof other than the City, and neither the full faith and credit nor the taxing power of the City is pledged to the payment of the bonds. The amount of special assessment bonds outstanding at the end of 2011 was $14.3 million. There were no new bond issues in 2011.

The following table shows more detail on the outstanding issue.

Table 9-3 SPECIAL ASSESSMENT BONDS WITH GOVERNMENTAL COMMITMENT

(In Thousands)

Name of Issue	Issuance Date	Maturity Date	Effective Interest Rate	Bond Issuance	Redemptions 2011	Redemptions To Date	Bonds Outstanding December 31
Local Improvement District No. 6750 Bonds, 2006	09/13/06	12/15/07-24	4.102	$ 21,925	$ 1,430	$ 7,620	$ 14,305

The requirements to amortize the special assessments with governmental commitment as of December 31, 2011, are shown below.

Table 9-4 ANNUAL DEBT SERVICE REQUIREMENTS TO MATURITY

SPECIAL ASSESSMENT BONDS WITH GOVERNMENTAL COMMITMENT

(In Thousands)

Year Ending December 31	Principal	Interest	Total
2012	$ -	$ -	$ -
2013	920	36	956
2014	1,220	48	1,268
2015	1,220	48	1,268
2016	1,220	49	1,269
2017 - 2021	6,080	252	6,332
2022 - 2024	3,645	155	3,800
Total	$ 14,305	$ 588	$ 14,893

NOTES AND CONTRACTS PAYABLE – GOVERNMENTAL ACTIVITIES

The Seattle Department of Transportation (SDOT) has outstanding notes drawn in several years from the Washington State's Public Works Trust Loan program administered by the Washington State Public Works Board, a division of the Department of Commerce (formerly Department of Community, Trade, and Economic Development). The notes were drawn at varying low annual interest rates ranging from 0.5 percent to 3.0 percent. The proceeds of the loan support City road and bridge improvements. Additional amount of $0.2 million was drawn against the notes in 2011 and the City paid $2.1 million and $0.3 million in principal and interest, respectively, in 2011. The outstanding balance on the notes at December 31, 2011, is $14.7 million. The following table presents the annual debt service requirements to maturity on the notes as of the end of 2011.

Table 9-5 **ANNUAL DEBT SERVICE REQUIREMENTS TO MATURITY**

SEATTLE DEPARTMENT OF TRANSPORTATION

PUBLIC WORKS TRUST LOAN NOTES

(In Thousands)

Year Ending December 31	Principal	Interest	Total
2012	$ 2,194	$ 239	$ 2,433
2013	2,071	201	2,272
2014	1,698	166	1,864
2015	1,560	136	1,696
2016	1,370	108	1,478
2017 - 2021	4,636	243	4,879
2022 - 2023	1,132	17	1,149
Total	$ 14,661	$ 1,110	$ 15,771

REVENUE BONDS

The City also issues revenue bonds to provide financing for the capital programs of the four utilities of the City, namely, City Light and the utilities grouped under Seattle Public Utilities, which are Water, Drainage and Wastewater, and Solid Waste. The City does not pledge its full faith and credit for the payment of debt service on revenue bonds. Payment of debt service on the bonds issued for each utility is derived solely from the revenues generated by the related utility. The original amount of revenue bonds issued for bonds outstanding at the end of 2010 was approximately $4.342 billion. The total outstanding amount at December 31, 2010, was $3.121 billion. During 2011 an additional $352.1 million of revenue bonds were issued.

City Light

On February 8, 2011, pursuant to City Ordinance 123483, the City issued $296.3 million Municipal Light and Power Improvement and Refunding Revenue Bonds, Series 2011A (tax-exempt), and $10.0 million Municipal Light and Power Improvement Revenue Bonds, Series 2011B (taxable Clean Renewable Energy Bonds). The proceeds of the Series 2011A bonds are used to advance refund $101.3 million of prior lien bonds, Series 2001, and to finance certain capital improvements and conservation programs. The proceeds of the Series 2011B bonds are used for capacity and efficiency improvements at the Boundary Hydroelectric Project. Further discussion on the refunding is shown in the Advance and Current Refundings section of this note.

Solid Waste

On June 22, 2011, pursuant to City Ordinance 123576, the City issued $45.8 million Solid Waste Revenue Bonds with an average coupon rate of 4.78 percent and maturing on August 1, 2036. The proceeds of the bonds are used to finance certain capital improvement projects of the City's solid waste system.

The business-type funds had no short-term debt at December 31, 2011.

The following table presents the individual revenue bonds outstanding as of December 31, 2011, and other pertinent information on each outstanding bond issue.

Table 9-6

REVENUE BONDS

(In Thousands)

Name and Purpose of Issue	Issuance Date	Maturity Dates	Effective Interest Rates	Bond Issuance	Redemptions 2011	Redemptions To Date [a]	Bonds Outstanding December 31
MUNICIPAL LIGHT AND POWER (ML&P) BONDS							
2001 Parity	03/29/01	03/01/04-26	5.082	$ 503,700	$ 106,830	$ 503,700	$ -
2002 Parity, Refunding	12/04/02	12/01/03-14	3.470	87,735	4,140	74,285	13,450
2003 Parity, Refunding	08/20/03	11/01/04-28	3.517	251,850	4,000	121,805	130,045
2004 Parity	12/23/04	08/01/05-29	4.159	284,855	23,030	63,150	221,705
2008 Parity	12/30/08	04/01/09-29	5.222	257,375	12,680	28,250	229,125
2010 Parity, Series A [b]	05/26/10	02/01/21-40	3.566	181,625	-	-	181,625
2010 Parity, Series B	05/26/10	02/01/11-26	3.413	596,870	9,350	9,350	587,520
2010 Parity, Series C [c]	05/26/10	02/01/11-40	3.112	13,275	-	-	13,275
2011 Parity, Series A, Refunding	02/08/11	02/01/11-36	4.544	296,315	2,965	2,965	293,350
2011 Parity, Series B [d]	02/08/11	02/01/11-27	1.957	10,000	-	-	10,000
Total Light Bonds				2,483,600	162,995	803,505	1,680,095
MUNICIPAL WATER BONDS							
2001 Parity	11/20/01	11/01/05-31	4.972	52,525	1,310	8,205	44,320
2003 Parity, Refunding	05/12/03	09/01/03-33	4.083	271,320	8,515	85,595	185,725
2004 Parity	10/25/04	09/01/05-34	4.580	84,750	1,695	11,015	73,735
2005 Parity, Refunding	12/28/05	09/01/06-29	4.482	138,040	4,600	15,040	123,000
2006 Parity, Refunding	10/23/06	02/01/08-37	4.424	189,970	4,445	12,315	177,655
2008 Parity, Refunding	12/15/08	12/15/09-38	4.753	205,080	3,740	14,935	190,145
2010 Parity, Series A [b]	01/21/10	08/01/19-40	5.700	109,080	-	-	109,080
2010 Parity, Series B, Refunding	01/21/10	08/01/10-27	4.403	81,760	4,835	8,260	73,500
Total Water Bonds				1,132,525	29,140	155,365	977,160
MUNICIPAL DRAINAGE AND WASTEWATER BONDS							
2001 Parity	06/22/01	11/01/02-31	5.260	60,680	1,400	11,800	48,880
2002 Refunding	12/17/02	07/01/03-32	4.751	78,550	2,145	15,875	62,675
2004 Parity	10/28/04	09/01/05-34	4.609	62,010	1,295	7,870	54,140
2006 Refunding	11/01/06	02/01/07-37	4.180	121,765	3,725	13,665	108,100
2008 Parity	04/16/08	06/01/09-38	4.830	84,645	1,455	4,195	80,450
2009 Parity, Series A [b]	12/17/09	11/01/10-39	3.450	102,535	-	-	102,535
2009 Parity & Refunding, Series B	12/17/09	11/01/10-27	3.000	36,680	3,155	6,850	29,830
Total Drainage and Wastewater Bonds				546,865	13,175	60,255	486,610
SOLID WASTE BONDS							
2007 Revenue & Refunding	12/12/07	02/01/08-33	4.505	82,175	2,075	5,760	76,415
2011 Revenue	06/22/11	08/01/11-36	4.780	45,750	-	-	45,750
Total Solid Waste Bonds				127,925	2,075	5,760	122,165
Total Utility Revenue Bonds				$ 4,290,915	$ 207,385	$ 1,024,885	$ 3,266,030

[a] Includes all bonds that matured to date and all called, refunded, and defeased bonds on issues that have outstanding balances at the beginning of the year.

[b] Issued as taxable direct-pay Build America Bonds, created under Section 1531 of the American Recovery and Reinvestment Act of 2009 whereby state or local governmental issuers of this type of bonds receives a federal subsidy through Treasury Department and the Internal Revenue Service in an amount equal to 35 percent of the total coupon interest payable to investors or buyers of the bonds.

[c] Issued as taxable Recovery Zone Economic Development Bonds, a third type of Build America Bonds which provides for a deeper federal subsidy through a refundable tax credit paid to state or local governmental issuers in an amount equal to 45 percent of the total coupon interest payable to investors or buyers of the bonds.

[d] Issued as taxable New Clean Renewable Energy Bonds.

The requirements to amortize the revenue bonds as of December 31, 2011, are presented below.

Table 9-7 **ANNUAL DEBT SERVICE REQUIREMENTS TO MATURITY**

REVENUE BONDS

(In Thousands)

Year Ending	Light		Water		Drainage and Wastewater		Solid Waste		
December 31	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Total
2012	$ 88,850	$ 83,095	$ 31,425	$ 48,104	$ 13,695	$ 23,589	$ 2,960	$ 6,079	$ 297,797
2013	88,120	79,319	32,795	46,709	14,290	23,043	3,330	5,708	293,314
2014	96,400	74,996	34,240	45,252	14,935	22,456	3,495	5,549	297,323
2015	98,140	70,143	35,810	43,676	15,590	21,848	3,665	5,371	294,243
2016	98,210	65,199	37,545	41,926	16,340	21,178	3,855	5,185	289,438
2017 - 2021	457,260	256,598	215,415	180,141	92,670	93,438	21,510	22,822	1,339,854
2022 - 2026	413,225	145,535	233,360	123,230	102,815	69,702	26,035	17,011	1,130,913
2027 - 2031	169,020	66,274	191,700	68,544	109,000	43,218	33,130	9,921	690,807
2032 - 2036	119,445	31,027	117,810	27,959	75,555	18,456	24,185	2,612	417,049
2037 - 2040	51,425	5,865	47,060	4,894	31,720	2,674	-	-	143,638
Total	$ 1,680,095	$ 878,051	$ 977,160	$ 630,435	$ 486,610	$ 339,602	$ 122,165	$ 80,258	$ 5,194,376

NOTES AND CONTRACTS PAYABLE – BUSINESS-TYPE ACTIVITIES

Seattle Public Utilities (SPU) has various construction projects that are financed by low-interest loans issued by the State of Washington. The loan agreements require that SPU finance a portion of these projects from other sources. SPU's Water Fund as well as its Drainage and Wastewater Fund have availed of these loans to enhance and protect the City's water, drainage, and wastewater systems.

Water

During 1993, the Fund entered into a loan agreement to borrow up to $2.2 million from the Washington State Department of Commerce under its Public Works Trust Loan program for the construction of certain capital improvements. Amounts borrowed under the agreement accrue interest at 1.0 percent per annum and are to be repaid in 19 annual installments plus interest. Proceeds from this loan were used to finance the Magnolia Manor Reservoir project. As of December 31, 2011, this loan has an outstanding balance of $0.2 million.

In 2008, the Fund entered into a loan agreement to borrow $8.1 million from the same program at 1.5 percent interest per year and a repayment period of 17 to 18 years. Proceeds from this loan were used to finance the Myrtle and Beacon Reservoir projects. As of December 31, 2011, this loan has an outstanding balance of $6.8 million.

In 2009, the Fund entered into a loan agreement to borrow $3.0 million from the same program at 1.5 percent per annum and payable in 18 years. Proceeds from this loan were used to finance the West Seattle Reservoir project. As of December 31, 2011, this loan has an outstanding balance of $2.6 million.

Also in 2009, the Fund entered into two loan agreements to borrow, totaling $9.1 million, from the same program to be used to finance the Maple Lead Reservoir project. The first loan, in the amount of $6.1 million, was funded with resources from the American Recovery and Reinvestment Act of 2009 (ARRA) at 1.0 percent annual interest and payable in 23 years. The second loan, in the amount of $3.0 million, bears interest of 1.5 percent per annum and a repayment period of 19 years. As of December 31, 2011, these loans have an outstanding balance of $8.0 million.

Amounts paid for all loans in 2011 totaled $858 thousand and $183 thousand, in principal and interest, respectively. The combined outstanding balance of the loans at December 31, 2011 is $17.6 million. The minimum debt service requirements to maturity are included in Table 9-8.

Drainage and Wastewater

During 2004, the Fund entered into a loan agreement to borrow up to $3.7 million from the Washington State Department of Commerce under its Public Works Trust Loan program for the construction of certain capital improvements. Amounts borrowed under the agreement accrue interest at 0.5 percent per annum and are to be repaid in 20 annual installments plus interest. Proceeds from this loan were used to finance the Thornton Creek Natural Drainage Systems. As of December 31, 2011, this loan has an outstanding balance of $2.5 million.

In 2005, the Fund entered into a loan agreement with the Washington State Department of Ecology under its Public Works Trust Loan program to borrow up to $2.7 million to support the construction of improvements of the High Point Natural Drainage Systems project. Amounts under this agreement accrue interest at 1.5 percent per annum and are to be repaid in 20 annual installments. As of December 31, 2011, the loan has an outstanding balance of $2.4 million.

In 2006, the Fund entered into a loan agreement with the Washington State Department of Commerce under its Public Works Trust Loan program to borrow up to $3.4 million to support the construction of the South Park Flood Control and Local Drainage program. Amounts borrowed under the agreement accrue interest at 0.5 percent per annum and are to be repaid over 20 years. As of December 31, 2011, the loan has an outstanding balance of $2.8 million.

In 2008, the Fund entered into a loan agreement with the Washington State Department of Ecology to borrow up to $7.0 million to support the construction and site improvements of the Thornton Creek Water Quality Channel. Amounts borrowed under this agreement accrue interest at 1.5 percent per annum and are to be repaid over 20 years beginning in 2010. As of December 31, 2011, the loan has an outstanding balance of $6.7 million.

In 2009, the Fund entered into a loan agreement with the Washington State Department of Ecology to borrow up to $1.4 million to support the Ballard Green Streets project. This loan was funded with resources from the ARRA which provides a 50-percent forgivable provision. In 2010, the Fund borrowed $0.7 million of which $0.4 million is forgivable. More draw downs are anticipated in the future. As of December 31, 2011, the loan has an outstanding balance of $0.6 million.

In 2011, the Fund was approved for a public works trust fund loan of $4.0 million from the Washington State Department of Commerce for construction and site improvements in the Midvale area of Seattle. Amounts borrowed under this agreement accrue interest at 0.5 percent per annum and are to be repaid by June 2032. As of December 31, 2011, the loan has an outstanding balance of $3.6 million.

Amounts paid to all loans in 2011 totaled $845 thousand in principal and approximately $210 thousand in interest; and the amount borrowed in 2011 totaled $3.8 million. Total loans outstanding as of December 31, 2011 are $18.6 million. The minimum debt service requirements to maturity are included in Table 9-8.

Table 9-8 **ANNUAL DEBT SERVICE REQUIREMENTS TO MATURITY**

SEATTLE PUBLIC UTILITIES

PUBLIC WORKS TRUST LOAN AND OTHER NOTES

(In Thousands)

Year Ending	Water		Drainage and Wastewater		
December 31	Principal	Interest	Principal	Interest	Total
2012	$ 858	$ 315	$ 904	$ 180	$ 2,257
2013	1,154	221	906	196	2,477
2014	1,036	206	1,093	176	2,511
2015	1,036	192	1,101	164	2,493
2016	1,036	178	1,110	152	2,476
2017 - 2021	5,181	679	5,614	583	12,057
2022 - 2026	4,956	327	4,941	303	10,527
2027 - 2031	2,070	75	2,928	71	5,144
2032	296	3	-	-	299
Total	$ 17,623	$ 2,196	$ 18,597	$ 1,825	$ 40,241

The following table shows the long-term liability activities during the year ended December 31, 2011.

Table 9-9 **CHANGES IN LONG-TERM LIABILITIES [a]**

(In Thousands)

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
GOVERNMENTAL ACTIVITIES					
Bonds Payable					
General Obligation Bonds	$ 801,695	$ 79,185	$ 58,770	$ 822,110	$ 64,800
Add (Deduct) Deferred Amounts					
Issuance Premiums	37,262	5,057	4,132	38,187	-
Issuance Discounts	(2)	-	-	(2)	-
On Refunding	(4,063)	3,470	-	(593)	-
Special Assessment Bonds with Governmental Commitment [b]	15,735	-	1,430	14,305	-
Total Bonds Payable	850,627	87,712	64,332	874,007	64,800
Notes and Contracts					
Capital Leases	14	-	4	10	4
Other Notes and Contracts	16,582	-	1,920	14,662	2,194
Total Notes and Contracts	16,596	-	1,924	14,672	2,198
Compensated Absences	83,362	77,269	76,019	84,612	18,707
Claims Payable					
Workers' Compensation	25,279	5,793	6,863	24,209	7,829
General Liability	60,964	6,927	6,973	60,918	16,932
Health Care Claims	3,684	3,684	5,604	1,764	1,764
Environmental Liability [c]					
General Contamination Cleanup	797	-	737	60	-
Total Claims Payable [d]	90,724	16,404	20,177	86,951	26,525
Arbitrage Rebate Liability	76	-	32	44	-
Total Long-Term Liabilities from Governmental Activities	$ 1,041,385	$ 181,385	$ 162,484	$ 1,060,286	$ 112,230
BUSINESS-TYPE ACTIVITIES					
Bonds Payable					
General Obligation Bonds	$ 62,093	$ -	$ 1,247	$ 60,846	$ 1,257
Revenue Bonds	3,121,350	352,065	207,384	3,266,031	136,930
Add (Deduct) Deferred Amounts					
Issuance Premiums	120,855	19,097	12,305	127,647	-
Issuance Discounts	(1,204)	(29)	(49)	(1,184)	-
On Refunding	(54,145)	(381)	(7,131)	(47,395)	-
Total Bonds Payable	3,248,949	370,752	213,756	3,405,945	138,187
Accrued Interest - Deferred Interest Bonds	3,552	471	1,139	2,884	1,213
Notes and Contracts - Other	34,107	3,817	1,702	36,222	1,762
Compensated Absences	28,912	2,807	2,020	29,699	2,797
Claims Payable					
Workers' Compensation	9,669	2,278	2,682	9,265	2,996
General Liability	21,849	2,021	2,648	21,222	5,899
Environmental Liability [c]					
General Contamination Cleanup	43,560	857	9,793	34,624	7,537
Total Claims Payable [d]	75,078	5,156	15,123	65,111	16,432
Muckleshoot Liability	495	-	495	-	-
Habitat Conservation Program Liability	4,312	1,685	949	5,048	533
Landfill Closure and Postclosure Costs	20,654	-	692	19,962	1,645
Total Long-Term Liabilities from Business-Type Activities	$ 3,416,059	$ 384,688	$ 235,876	$ 3,564,871	$ 162,569

[a] Some amounts may have rounding differences with the Statement of Net Assets.

[b] The Special Assessment Bonds carry neither premiums nor discounts.

[c] See Note 10, Environmental Liabilities for a detailed discussion.

[d] See Note 15, Contingencies, for a discussion of risk management, environmental, and other matters. The table in Note 15 also includes information on workers' compensation and health care.

The City's internal service funds predominantly serve governmental funds. For this reason the above totals in the governmental activities include the long-term liabilities for these funds. At the end of the year compensated absences and claims payable of these funds amounted to approximately $5.8 million and $1.8 million, respectively, and are liquidated from each fund's own resources. Notes and contracts (including public works trust loans), compensated absences, and workers' compensation other than those pertaining to the internal service funds are liquidated using the respective governmental funds of operating City departments, including those funded by the General Fund. General liability and health care claims relating to internal service funds are liquidated using the General Fund. Liabilities for compensated absences for governmental activities in governmental funds that have department operating budgets, though they are reported as a general obligation of the City, are paid from these funds when these compensated absences are used by the employees or cashed out by them at termination or retirement. Arbitrage rebate liabilities in governmental activities are paid as they become due and usually come from available resources in governmental funds that received the related bond proceeds and investment earnings from the proceeds.

In addition to paying for debt service on the bond issues for business-type City operations, each business-type fund liquidates its respective other long-term liabilities, with the exception of the Department of Planning and Development (DPD) for general liability. The General Fund pays for DPD's general liability, if any. Environmental liabilities of governmental activity funds are paid from the governmental funds while environmental liabilities of business-type activity funds are paid respectively from the utility funds. Purchased power obligations are obligations of City Light and therefore paid from the Light Fund. For further discussion on purchased power, see Note 14, Commitments.

ADVANCE AND CURRENT REFUNDINGS

In order to lower interest costs the City refunded and defeased certain bonds. To do so, the City issued new refunding bonds to refund certain prior bond issues and also used its own resources to defease certain prior bond issues. In most cases, City resources and the proceeds of refunding bonds are placed in irrevocable trusts for the purchase of federal, state, and local government securities to provide for all future debt service on the old bonds. As a result, the old bonds including those refunded are considered defeased, and the corresponding liabilities are not included in the statement of net assets. In some cases, like for City Light and Water bonds in the past three years, proceeds are kept with the City as restricted cash until the refunded bonds are called, usually within 90 days. The following paragraph discusses the advance and current refundings that occurred in 2011.

The refunding portion of the $306.3 million Municipal Light and Power Improvement and Refunding Revenue Bonds, Series 2011A, in the amount of $101.3 million were used to advance refund prior-lien bonds, Series 2001. The aggregate debt service on the refunding bonds requires a cash flow of $515.0 million, including $208.7 million in interest. The difference between the cash flows required to service the old and the new debt and to complete the refunding totaled $11.6 million, and the aggregate economic gain amounted to $9.8 million at net present value.

The following is a schedule of outstanding bonds that are either refunded or defeased.

Table 9-10 **REFUNDED/DEFEASED BONDS**

(In Thousands)

Name of Issue	Issuance Date	Maturity Date	Effective Interest Rate	Original Bond Issuance	Amount Transferred To Trustee	Trustee Redemptions To Date 2011	Defeased Outstanding December 31
GENERAL OBLIGATION BONDS							
Limited Tax (Non-Voted)							
Refunding - Various LTGO Bonds, 1998, Series B, Defeased 9/26/05	03/17/98	09/01/98-12	4.493 %	$ 43,710	$ 620	$ 520	$ 100
Improvement (Various), 2001, Refunded 3/31/10	08/21/01	08/01/02-31	4.908	129,760	85,890	81,635	4,255
Improvement (Various) and Refunding, 2002, Defeased 9/26/05	01/30/02	07/01/02-32	4.778	125,510	8,470	3,615	4,855
Improvement (Various) and Refunding, 2002, Refunded 3/31/10					30,275	-	30,275
Various Purpose and Refunding, 2002, Series B Defeased 12/17/08	09/26/02	10/01/03-14	3.127	64,560	24,730	11,685	13,045
Various Purpose and Refunding, 2003, Defeased 4/4/07	02/26/03	08/01/04-23	3.469	60,855	2,715	660	2,055
Various Purpose and Refunding, 2003, Defeased 8/30/07					3,180	610	2,570
Various Purpose and Refunding, 2003, Defeased 12/17/08					6,480	2,940	3,540
REVENUE BONDS							
Municipal Light and Power							
2001 Parity, Refunded 5/26/10	03/29/01	03/01/04-26	5.082	503,700	311,730	311,730	-
2001 Parity, Refunded 2/8/11					101,345	101,345	-
Total Refunded/Defeased Bonds				$ 928,095	$ 575,435	$ 514,740	$ 60,695

ARBITRAGE

Since 1995 the City has been reviewing arbitrage rebate liability on its outstanding tax-exempt bonds and certificates of participation under Section 148(f) of the Internal Revenue Code. For bonds that have reached their installment computation dates (bonds outstanding for five years initially and every five years thereafter until the last of the bond issue matures), the City paid no arbitrage rebate in 2010 on its general obligation bonds and revenue bonds. In 2011, the City paid arbitrage rebate of $19 thousand on its general obligation bonds and none on revenue bonds. As of December 31, 2011, arbitrage rebate liability on general obligation bonds and revenue bonds are $44 thousand and none, respectively.

(10) ENVIRONMENTAL LIABILITIES

Following is a brief description of the significant sites:

- The Harbor Island Superfund Site. Harbor Island was designated as a federal Superfund site by the Environmental Protection Agency (EPA) in 1983. The City and other entities are sharing costs of investigating contamination in the East Waterway alongside Harbor Island. The City's involvement stems from its sale of transformers to a company on Harbor Island, discharges from storm drains, and combined sewer outflows. In 2006 the EPA issued an Administrative Order on Consent (AOC) for a supplemental Remedial Investigation and Feasibility Study (RI/FS). Subsequent to an agreement between the EPA, the Port of Seattle (Port), King County, and the City, the Port alone signed the order. Both the City and King County signed a Memorandum of Agreement with the Port to participate as cost share partners in the work required by the EPA. No specific requirements for remediation by Potentially Responsible Parties (PRPs) have been made by the EPA as of the date of this note. The Remedial Investigation is anticipated to be completed by 2014.

- The Lower Duwamish Waterway Superfund Site. The site was designated as a federal Superfund site by the EPA in 2001 for contaminated sediments due to land ownership or use of property along the river, discharges from storm drains, and combined sewer outflows into the river. The City is one of four parties who signed an AOC with the EPA and Washington State Department of Ecology (DOE) to conduct a RI/FS to prepare a site remedy. No specific requirements for remediation by PRPs have been made by the EPA, except those related to specific early action sites. In order to manage the liability, the City is working with the EPA and other PRPs on a RI/FS to evaluate the risk to human health and the environment within the six-mile Superfund area, identify the possible early action cleanup sites, and generally evaluate the feasibility of cleanup options for use in the ultimate remedial actions that the EPA will require. The Feasibility Study is under review by the EPA. It is unknown what EPA's additional requirements would cost as of the date of this note. The City and other PRPs have voluntarily agreed to initiate cleanup of two early action sites identified during the Remedial Investigation under AOC for Slip 4 and T-117. The City filed suit in King County Superior Court against the Boeing Company to require Boeing to pay its fair share of costs. The case settled in 2010 with Boeing paying part of the City's past costs and agreeing to pay a specific percentage of future costs related to the cleanup.

- North Boeing Field/Georgetown Steam Plant. The City, King County, and Boeing have signed an Administrative Order issued by the DOE requiring them to investigate and possible removal of contamination in an area that encompasses North Boeing Field, the Georgetown Steam Plant, and the King County Airport. This site was also the subject of the lawsuit brought by the City against Boeing. Boeing agreed to pay a specific percentage of the costs for DOE's implementation of the order. Boeing and the City will pay remediation costs at their own facilities. During the cleanup an abandoned structure containing oil was discovered. The structure was partly on the City's property and partially underground on property the City sold to King County in the 1960s. The City removed the oil from the part of the structure on its own property. King County plans to remove the part of the structure on its property and is seeking some level of reimbursement from the City. At this time the costs of removal are unknown and it has not been determined whether the City will share those costs. It is also unknown whether the DOE will require further work.

- Gas Works Park Sediment Site. In 2002 the DOE named the City and Puget Sound Energy (PSE) as PRPs for contamination at the Gas Works Sediments Site in North Lake Union. The City and PSE signed an Agreed Order with the DOE in 2005 to initiate a City-led RI/FS in the western portion of the site and a PSE-led RI/FS in the eastern portion. The City is now working to complete the RI/FS for the western portion for submittal to the DOE. The RI/FS includes an evaluation of the nature and extent of contamination on the site, an evaluation of multiple alternatives for remediating the sediments, and a recommended preferred alternative. Recently the EPA has begun in-depth discussions with DOE. As a result, a Clean-up Action Plan is expected from the DOE in 2015 or 2016.

- 7th Avenue South Pump Station. The City acquired land in the South Park area of Seattle to construct the 7th Avenue South Pump Station. The land was determined to be contaminated subsequent to the purchase. The City has voluntarily agreed to clean up the contamination in order to continue with the planned construction of the pump station. The cleanup is anticipated to be completed in 2012.

- South Park. The DOE has indicated that it will require the cleanup and remediation of the historic South Park landfill sites under the State Model Toxics Control Act. No specific requirements for remediation by PRPs have been made by the DOE as of the date of this note. In order to manage the liability, the City is working with the DOE and other PRPs on a RI/FS to evaluate the risk to human health and the environment and to assess the feasibility of cleanup options for use in the ultimate remedial actions that the DOE may require. The RI/FS is anticipated to be completed in late 2012.

- South Park Bus Barn. The South Park Bus Barn, located near the South Park Landfill, was entered into the DOE's Voluntary Cleanup Program. This parcel of property was purchased by the City in 2008, and currently no other PRP has been named. The remedial action was substantially completed in 2010.

The City has included in its estimated liability those portions of the environmental remediation work that are currently deemed to be reasonably estimable. Cost estimates were developed using the expected cash flow technique in accordance with GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. Estimated outlays were based on current cost and no adjustments were made for discounting or inflation. Cost scenarios were developed for a given site based on data available at the time of estimation and will be adjusted for changes in circumstance. Scenarios consider the relevant potential requirements and are adjusted when benchmarks are met or when new information revises estimated outlays, such as changes in the remediation plan or operating conditions. Costs were calculated on a weighted average that was based on the probabilities of each scenario being selected and reflected cost-sharing agreements in effect. In addition, certain estimates were derived from independent engineers and consultants. The estimates were made with the latest information available; as new information becomes available, estimates may vary significantly due to price fluctuations, technology advances, or applicable laws or regulations.

The City is aggressively pursuing other third parties that may have contributed to the contamination of the sites noted above. The City's estimate for not-yet-realized recoveries from other parties for their share of remediation work that offset the City's estimated environmental liability was $0.3 million and $1.7 million, at December 31, 2011 and 2010, respectively. The City received an environmental cost recovery of $2.4 million from Boeing in 2010. The recovery represented settlement for prior legal costs incurred in defining their cost share in remediating the contaminated sites in the future. No cost recovery was received in 2011.

The changes in the provision for environmental liability, net of recovery (in thousands) at December 31, 2011 and 2010 are as follows:

	2011	2010
Environmental Liability – Beginning of Year	$ 44,357	$ 44,371
Payments or Amortization	(10,529)	(12,115)
Incurred Environmental Liability	857	12,101
Environmental Liability – End of Year	$ 34,685	$ 44,357

The provision for environmental liability (in thousands) included in current and noncurrent liability at December 31, 2011 and 2010, is as follows:

	2011	2010
Claims Payable, Current	$ 7,537	$ 11,022
Claims Payable, Noncurrent	27,148	33,335
Total	$ 34,685	$ 44,357

Information on the City's environmental liability is also presented in Note 9, Long-Term Debt, Table 9-9.

(11) PENSIONS, DEFERRED COMPENSATION, AND OTHER POSTEMPLOYMENT BENEFITS

City of Seattle employees are covered in one of the following defined benefit pension plans: Seattle City Employees' Retirement System (SCERS), Firemen's Pension Fund, Police Relief and Pension Fund, and Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF). The first three plans are considered part of the City's reporting entity and are reported as pension trust funds. The State of Washington through the Department of Retirement Systems (DRS) administers and reports LEOFF Plans 1 and 2.

Table 11-1 **PENSION PLAN INFORMATION**

	Employees' Retirement	Firemen's Pension	Police Relief and Pension	LEOFF Plan 1	LEOFF Plan 2
Actuarial Valuation Date	1/1/2011	1/1/2012	1/1/2012	6/30/2010	6/30/2010
Actuarial Cost Method	Entry Age	Entry Age	Entry Age	Entry Age	Aggregate [a]
Asset Valuation Method	5-Year Smoothing Method	Fair Value	Fair Value	8-Year Graded Smoothed Fair Value [b]	8-Year Graded Smoothed Fair Value [b]
Amortization					
Method	Level %	Level $	Level $	Level %/Level $ [c]	N/A
Period	Does Not Amortize [d]	30.0 years	30.0 years	13.5 years	N/A
Approach	Open	Closed	Closed	Closed	N/A
Actuarial Assumptions					
Inflation Rate (CPI)	3.50%	2.75% [e]	2.75% [e]	3.50%	3.00%
Investment Rate of Return	7.75%	4.00%	4.00%	8.00%	8.00%
Projected Salary Increases - General	4.00%	3.75% [e]	3.75% [e]	4.00%	4.50%
Projected Salary Increases - Step Merit	N/A	N/A	N/A	Varies [f]	Varies [f]
Postretirement Benefit Increases	1.50%	Varies [g]	Varies [g]	CPI Increase	CPI Increase (Maximum 3%)

[a] The aggregate cost method does not identify or separately amortize unfunded actuarial liabilities.

[b] The actuarial value of assets is calculated under an adjusted market value method by starting with the market value of assets. For subsequent years the actuarial value of assets is determined by adjusting the market value of assets to reflect the difference between the actual investment return and the expected investment return during each of the last eight years or, if fewer, the completed years since adoption.

[c] Funding is Level %; GASB is Level $.

[d] In 2011, the contribution rate (18.06%) is below the ARC computed January 1, 2011 actuarial valuation of 21.3%. If the contribution rate and ARC were to remain at these levels, the UAAL would not fully amortize in less than 30 years.

[e] Long-term assumption is listed. Specific short-term assumptions are used through 2010.

[f] For specific information, please refer to the 2010 Actuarial Valuation Report issued by the Washington Office of the State Actuary.

[g] Based upon salary increase assumptions for benefits that increased based on salary. Based upon CPI assumptions for benefits that increased based upon CPI.

SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM

Plan Description

The Seattle City Employees' Retirement System (SCERS) is a single-employer defined-benefit public employee retirement system established and administered by the City in accordance with Seattle Municipal Code (SMC) 4.36.

All employees of the City of Seattle are eligible for membership in the system with the exception of law enforcement officers and fire fighters who are covered under the statewide LEOFF plans administered by the state Department of Retirement Systems. Employees of METRO and the King County Health Department who established membership in the system when these organizations were City of Seattle departments were allowed to continue their membership. Current membership in SCERS consisted of the following at December 31, 2011:

Retirees and Beneficiaries Receiving Benefits	5,580
Terminated Plan Members Entitled To But Not Yet Receiving Benefits, Vested	2,051
Terminated Plan Members Who Have Restored Their Contributions Due to the Provisions of the Portability Statutes and May Be Eligible for Future Benefits, Vested	348
Active Plan Members, Vested and Non-vested	8,426

SCERS provides retirement, death, and disability benefits. Retirement benefits vest after 5 years of credited service, while death and disability benefits vest after 10 years of credited service. Retirement benefits are calculated as 2 percent multiplied by years of creditable service, multiplied by average salary, based on the highest 24 consecutive months. The benefit is actuarially reduced for early retirement. City employees may retire at any age with 30 years of service, at age 52 or older with 20-29 years of service, at age 57 or older with 10-19 years of service, and at age 62 or older with 5 to 9 years of service. These benefit provisions and all other requirements are established and may be amended by City ordinances.

Refer to the Other Postemployment Benefits section of this note for discussion of the City's implicit rate subsidies to retirees for health care coverage.

The Seattle City Employees' Retirement System issues an independent financial report. A copy of the report is available from the Seattle City Employees' Retirement System at 720 Third Avenue, Suite 900, Seattle, WA 98104; by telephone at 206-386-1293; or by accessing the website http://www.seattle.gov/retirement/annual_report.htm.

Summary of Significant Accounting Policies

Basis of Accounting

The Seattle City Employees' Retirement System is accounted for as a pension trust fund. The financial statements were prepared using the economic resources measurement focus and the accrual basis of accounting as discussed in Note 1. All assets, liabilities, and additions to and deductions from (including contributions, benefits, and refunds) plan net assets are recognized when the transactions or events occur. Employee and employer contributions are reported in the period in which the contributions are due. Member benefits, including refunds, are due and payable by the plan in accordance with plan terms.

Investments, including securities lending transactions as discussed in Note 3, are reported at fair value. The fair value of investments in common stock, international equities, fixed income, international fixed income, and short-term investments is based on the quoted market price. The fair value of venture capital and real estate equities is determined by the investment sponsor. Securities and securities lending transactions are reflected in the financial statements on a trade-date basis. The Retirement Board provides its investment managers with a set of investment guidelines. In general, these guidelines require that investments with any one issuer do not exceed 5 percent of the net asset value of a manager's portfolio.

Contributions and Reserves

Member and employer contribution rates are established by SMC 4.36.

SCERS funding policy provides for periodic employee and employer contributions at actuarially determined rates expressed as percentages of annual covered payroll to accumulate sufficient assets to pay benefits when due. Funds accumulated and investment earnings are used to pay present and future benefit obligations and administrative expenses. The employer contribution rate is determined by the actuarial formula identified as the Entry-Age Actuarial Cost Method. The formula determines the amount of contributions necessary to fund the current service cost, representing the estimated amount necessary to pay for benefits earned by the employees during the current service year and the amount of contributions necessary to pay for prior service costs. Total necessary contributions, including amounts necessary to pay administrative costs, are determined through biennial actuarial valuations.

Actuarially determined contribution rates for 2011 were 9.03 percent for members and 9.03 percent for the employer. Plan member and employer contributions for 2011 are $50,415,119 and $50,301,263, respectively. There are no long-term contracts for contributions outstanding and no legally required reserves.

Historically, actuarial studies for SCERS were determined through biennial actuarial valuations. Commencing with the year ending December 31, 2010, actuarial studies are being performed annually. Based on this valuation, the actuarial value of plan net assets available for benefits was $2.014 billion, and the actuarial accrued liability was $2.709 billion. The unfunded actuarial accrued liability (UAAL) was $695.4 million and the funding ratio was 74.3 percent. The funding ratio had been 62.0 percent, based on the previous January 1, 2011 actuarial valuation. The increase in the current funding ratio is due mainly to the adoption of the asset smoothing method. The Contributions and Reserves section of this note and the financial statements for SCERS, G-1 and G-2, in the Fiduciary Funds section of this report reflect the year ending December 31, 2011.

The three-year trend information (in thousands) presented directly below and the annual pension cost and net pension obligation data in Table 11-2 cover the years 2008-2010.

Fiscal Year Ending December 31	Annual Pension Cost (APC)	Total Employer Contribution	Percentage of APC Contributed	Net Pension Obligation (NPO)
2008	$ 46,245	$ 45,961	99 %	$ (78,149)
2009	46,933	46,650	99	(77,866)
2010	93,924	45,225	48	(29,167)

Annual pension cost (APC) and net pension obligation (NPO) (in thousands) were:

Fiscal Year Ending December 31	Annual Required Contribution (ARC) at End of Year	Interest on NPO	ARC Adjustment	Annual Pension Cost (APC)	Total Employer Contributions	Change in NPO	NPO Beginning Balance	NPO Ending Balance
2010	$95,744	$(6,034)	$4,214	$93,924	$45,225	$48,699	$(77,866)	$(29,167)

Seattle City Employees' Retirement System's net pension asset decreased from $77.9 million to $29.2 million, a decrease of $48.7 million as calculated in the following table.

Table 11-2 **ANNUAL PENSION COST AND NET PENSION OBLIGATION**

SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM

For the Year Ended December 31, 2010

(In Thousands)

	2010	2009
Total Normal Cost Rate	15.23 %	13.32 %
Employee Contribution Rate	8.03	8.03
Employer Normal Cost Rate	7.20	5.29
Total Employer Contribution Rate	8.03 %	8.03 %
Amortization Payment Rate	0.83	2.74
Amortization Period (Year)	Does Not Amortize [a]	16.20
GASB 27 Amortization Rate	9.80	2.74
Total Annual Required Contribution (ARC) Rate [b]	17.00	8.03
Covered Employee Payroll [c]	$ 563,198	$ 580,948
ARC	$ 95,744	$ 46,650
Interest on Net Pension Obligation (NPO)	(6,034)	(6,056)
Adjustment to ARC	4,214	6,339
Annual Pension Cost (APC)	$ 93,924	$ 46,933
Employer Contribution	$ 45,225	$ 46,650
Change in NPO	$ 48,699	$ 283
NPO at Beginning of Year	(77,866)	(78,149)
NPO at End of Year	$ (29,167)	$ (77,866)

[a] In 2011, the contribution rate (18.06%) is below the ARC computed January 1, 2011 actuarial valuation of 21.3%. If the contribution rate and ARC were to remain at these levels, the UAAL would not fully amortize in less than 30 years.

[b] If the amortization period determined by the actual contribution rate exceeds the maximum amortization period required by GASB Statement No. 27, the ARC is determined using an amortization of the funding excess over 30 years.

[c] Covered payroll includes compensation paid to all active employees on which contributions were made in the year preceding the valuation date.

The funded status of the Plan as of the latest valuation study is presented below (in thousands). The Required Supplementary Information section, C-4, Pension Plan Information Schedule of Funding Progress, displays multiyear trend information as to the value of the plan assets decreasing or increasing over time relative to the AAL.

Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as Percentage of Covered Payroll
$2,013,700	$2,709,000	$695,400	74.3%	$563,197	123.5%

Authority to change benefit and contribution rates rests with the City Council. City ordinance does not permit a reduction in the employer contribution rate to less than the employee rate. Trend information on SCERS employer contribution is shown in the Required Supplementary Information section, C-5.

The City's contracts with all labor unions that represent members of SCERS describe how contribution rates would be changed in the event higher contributions are needed to improve the financial status of the Employees' Retirement Fund. Under these contracts, the City and employees will share any contribution rate increase equally, up to a maximum increase of 2 percent in the employee contribution (in other words, the employee contribution can increase from the current 9.03 percent to 11.03 percent). If a contribution rate increase is needed, the City intends to apply the same formula to non-represented employees.

FIREMEN'S PENSION AND POLICE RELIEF AND PENSION FUNDS

Plan Description

The Firemen's Pension and the Police Relief and Pension Funds are single-employer defined-benefit pension plans that were established by the City in compliance with the requirements of the Revised Code of Washington (RCW) 41.18 and 41.20.

Since the effective date of the state LEOFF on March 1, 1970, no payroll for employees was covered under these pension plans, and the primary liability for pension benefits for these plans shifted from the City to the state LEOFF. However, the City was still liable for all benefits in pay status at that time plus any future benefits payable to active law enforcement officers and fire fighters on March 1, 1970, under the old City plan in excess of current LEOFF benefits. Generally, benefits under the LEOFF system are greater than or equal to the benefits under the old City plan when payment begins. However, LEOFF retirement benefits increase with the consumer price index (CPI - Seattle) while some City benefits increase with wages of current active members. If wages go up faster than the CPI, the City becomes liable for this residual amount. Due to this leveraging effect, projection of the City of Seattle's liabilities is especially sensitive to the difference between wage and CPI increase assumptions.

All law enforcement officers and fire fighters of the City who served before March 1, 1970, are participants of these pension plans, and may be eligible for a supplemental retirement benefit plus disability benefits under these plans. Those officers and fire fighters hired between March 1, 1970, and September 30, 1977, are not eligible for a supplemental retirement benefit, but may be eligible for disability benefits under this plan. Eligible law enforcement officers may retire with full benefits after 25 years of service at any age and fire fighters at age 50 after completing 25 years of service. These pension plans provide death benefits for eligible active and retired employees. In addition, these plans provide medical benefits in accordance with state statutes and City ordinances to active and retired members from the City. Currently 920 fire and 964 police retirees meet these eligibility requirements. The City fully reimburses the amount of valid claims for medical and hospitalization costs incurred by active members and pre-Medicare retirees. The City also reimburses the full amount of premiums for part B of Medicare for each retiree eligible for Medicare. Total postemployment medical benefits for Firemen's Pension were $10.2 million in 2011 and $10.4 million in 2010; and for Police Relief and Pension, $11.7 million in 2011 and $12.0 million in 2010.

Refer to the Other Postemployment Benefits section of this note for discussion of the City's implicit rate subsidies to retirees for health care coverage as well as medical benefits for retirees under the Firemen's Pension and Police Relief and Pension plans.

The Firemen's Pension and Police Relief and Pension benefit provisions are established in the state statute, RCW 41.16, 41.18, and 41.20, and may be amended only by the state legislature. Retirement benefits are determined under RCW 41.18 and 41.26 for Firemen's Pension and RCW 41.20 and 41.26 for Police Relief and Pension. Medical benefit payments for both plans are based on estimates of current and expected experience.

Current membership in Firemen's Pension and Police Relief and Pension consisted of the following at December 31, 2011:

	Firemen's Pension	Police Relief and Pension
Retirees and Beneficiaries Receiving Benefits	804	813
Terminated Plan Members Entitled To But Not Yet Receiving Benefits	-	-
Active Plan Members, Vested	35	31
Active Plan Members, Nonvested	-	-

These pension plans do not issue separate financial reports.

Summary of Significant Accounting Policies

The Firemen's Pension and Police Relief and Pension Funds are accounted for as pension trust funds. The financial statements were prepared using the economic resources measurement focus and the full accrual basis of accounting as shown in Note 1. All assets, liabilities, and additions to and deductions from (including contributions, benefits, and refunds) plan net assets of the retirement funds are recognized when the transactions or events occur. Employer contributions are reported in the period in which the contributions are due. Member benefits, including refunds, are due and payable by the plan in accordance with the plan terms.

Investments are recorded at fair value as shown in Note 3. Fair value of investments is based on quoted market prices.

Contributions and Reserves

Since both pension plans were closed to new members effective October 1, 1977, the City is not required to adopt a plan to fund the actuarial accrued liability (AAL). An actuarial fund was established for the Firemen's Pension in July 1994 and is discussed in more detail below; the City funds the Police Relief and Pension Fund as benefits become due. Contributions are no longer required from plan members or the City departments they represent. Under state law, partial funding of the Firemen's Pension Fund may be provided by an annual tax levy of up to $0.225 per $1,000 of assessed value of all taxable property of the City. The Firemen's Pension Fund also receives a share of the state tax on fire insurance premiums. Additional funding through the General Fund adopted budget is provided to both pension funds as necessary. The Police Relief and Pension Fund also receives police auction proceeds of unclaimed property. Administrative costs for the Firemen's Pension are financed by the General Fund and fire insurance premium tax. Administrative costs for the Police Relief and Pension are financed by police auction proceeds and the General Fund. Contribution rates are not applicable to these plans.

Three-year trend information (in thousands) for the Firemen's Pension and the Police Relief and Pension Funds as of the January 1, 2012, actuarial valuation are:

Retirement System	Fiscal Year Ending December 31	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (NPO)
Firemen's Pension Fund	2009	$ 8,320	137 %	$ (6,566)
	2010	8,098	90	(5,723)
	2011	7,333	113	(6,652)
Police Relief and Pension Fund	2009	8,343	95	1,803
	2010	7,872	125	(167)
	2011	8,537	131	(2,825)

There are no securities held by the City for these pension funds except for the Firemen's Pension Actuarial Account described below. No loans are provided by the funds to the City or other related parties.

The funded status of the plans at the last valuation date is presented below (in thousands). The Required Supplementary Information section, C-4, displays multiyear trend information as to the value of the plan assets decreasing or increasing over time relative to the AAL.

	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as Percentage of Covered Payroll
Firemen's Pension Fund	$10,877	$138,611	$127,734	8.0%	N/A	N/A
Police Relief and Pension Fund	3,746	111,458	107,712	3.0	N/A	N/A

In July 1994 the City adopted a funding policy under Ordinance 117216 that is designed to fully fund the AAL of the Firemen's Pension Fund by the year 2018 plus additional contributions, if necessary, to fund benefit payments in excess of contributions to fully fund all retirement benefit liabilities by December 31, 2018. In 2006 the Board of Directors amended the fully funded date from 2018 to December 31, 2023. The level contributions were set aside in the Firemen's Pension Actuarial Account with a fund balance of $9.6 million as of December 31, 2011. The funding policy does not fund for future medical liabilities. No similar program has been established for the Police Relief and Pension Fund.

The AAL as of December 31, 2011, based on the actuarial valuation as of January 1, 2012, was $138.6 million for Firemen's Pension and $111.5 million for Police Relief and Pension. The Police Relief and Pension AAL is funded on a pay-as-you-go basis. Annual requirements are funded through the City's adopted budget, and any budget requirements exceeding the adopted budget are fully covered by supplemental appropriations.

Trend information on employer contributions for the Firemen's Pension and the Police Relief and Pension plans is presented in the Required Supplementary Information section, C-5.

The net pension obligation of the Firemen's Pension Fund is a $6.7 million net pension asset at December 31, 2011. The net pension obligation of the Police Relief and Pension Fund is a $2.8 million net pension asset at December 31, 2011.

Table 11-3 **ANNUAL PENSION COST AND NET PENSION OBLIGATION**

FIREMEN'S PENSION AND POLICE RELIEF AND PENSION FUNDS

For the Year Ended December 31, 2011

(In Thousands)

	Firemen's Pension			Police Relief and Pension		
	2011	**2010**	**2009**	**2011**	**2010**	**2009**
Annual Required Contribution (ARC)						
Annual Normal Cost - Beginning of Year	$ -	$ -	$ -	$ -	$ -	$ -
Amortization of UAAL - Beginning of Year	6,940	7,668	7,909	8,206	7,602	8,005
Interest to End of Year	278	307	356	328	304	360
ARC at End of Year	7,218	7,975	8,265	8,534	7,906	8,365
Interest on NPO	(229)	(263)	(156)	(7)	72	63
Adjustment to ARC	344	386	211	10	(106)	(85)
Annual Pension Cost (APC)	7,333	8,098	8,320	8,537	7,872	8,343
Employer Contribution	8,262	7,255	11,421	11,195	9,842	7,938
Change in NPO	(929)	843	(3,101)	(2,658)	(1,970)	405
NPO at Beginning of Year	(5,723)	(6,566)	(3,465)	(167)	1,803	1,398
NPO at End of Year	$ (6,652)	$ (5,723)	$ (6,566)	$ (2,825)	$ (167)	$ 1,803

Following are the Firemen's Pension and the Police Relief and Pension financial statements for fiscal year ending December 31, 2011.

Table 11-4

STATEMENT OF NET ASSETS
FIREMEN'S PENSION AND POLICE RELIEF AND PENSION FUNDS
December 31, 2011
(In Thousands)

	Firemen's Pension	Police Relief and Pension	2011	2010
ASSETS				
Cash and Equity in Pooled Investments	$ 12,040	$ 4,823	$ 16,863	$ 16,150
Investments at Fair Value				
U.S. Government Obligations	15	-	15	9
Receivables				
Employer - Other	1	-	1	5
Interest and Dividends	12	-	12	7
Total Receivables	13	-	13	12
Total Assets	12,068	4,823	16,891	16,171
LIABILITIES				
Refunds Payable and Other	1,191	1,077	2,268	3,636
Total Liabilities	1,191	1,077	2,268	3,636
Net Assets Held in Trust for Pension Benefits	$ 10,877	$ 3,746	$ 14,623	$ 12,535

Table 11-5

STATEMENT OF CHANGES IN PLAN NET ASSETS
FIREMEN'S PENSION AND POLICE RELIEF AND PENSION FUNDS
For Year Ended December 31, 2011
(In Thousands)

	Defined Benefit		Postemployment Healthcare			
	Firemen's Pension	Police Relief and Pension	Firemen's Pension	Police Relief and Pension	2011	2010
ADDITIONS						
Contributions						
Employer	$ 7,567	$ 10,593	$ 10,192	$ 11,659	$ 40,011	$ 39,833
Investment Income						
From Investment Activities						
Net Appreciation (Depreciation) in Fair Value of Investments	6	-	-	-	6	(75)
Interest	79	-	-	-	79	98
Total Net Investment Income	85	-	-	-	85	23
Other Income	1,257	1,086	-	-	2,343	981
Total Additions	8,909	11,679	10,192	11,659	42,439	40,837
DEDUCTIONS						
Benefits	8,901	8,554	10,192	11,659	39,306	40,667
Administrative Expense	562	483	-	-	1,045	1,188
Total Deductions	9,463	9,037	10,192	11,659	40,351	41,855
Change in Net Assets	(554)	2,642	-	-	2,088	(1,018)
Net Assets - Beginning of Year	11,431	1,104	-	-	12,535	13,553
Net Assets - End of Year	$ 10,877	$ 3,746	$ -	$ -	$ 14,623	$ 12,535

LAW ENFORCEMENT OFFICERS' AND FIRE FIGHTERS' RETIREMENT SYSTEM (LEOFF) PLANS 1 AND 2

Plan Description

LEOFF is a cost-sharing, multiple-employer retirement system comprised of two separate defined-benefit plans. LEOFF participants 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 was established in 1970 by the state legislature. Membership includes all full-time, fully compensated, local law enforcement officers and fire fighters. 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 a major exception. Effective July 1, 2003, the LEOFF Plan 2 Retirement Board was established by Initiative 790 to provide governance of Plan 2. The Board's duties include adopting contribution rates and recommending policy changes to the legislature for Plan 2. LEOFF retirement benefit provisions are established in state statute and may be amended only by the state legislature. The Washington State Department of Retirement Systems (DRS) administers LEOFF.

LEOFF 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. Employee contributions to Plans 1 and Plan 2 accrue interest at a rate specified by DRS. During fiscal year 2011 the DRS-established rate on employee contributions was 5.5 percent compounded quarterly. Employees in Plan 1 and 2 can elect to withdraw total employee contributions and interest earnings upon separation from LEOFF-covered employment.

Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement with 5 years of service at the age of 50. The benefit per year of service calculated as a percent of final average salary (FAS) is as follows:

Term of Service	Percent of FAS
20+	2.0 %
10 - 19	1.5
5 - 9	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, indexed to the Seattle Consumer Price Index. LEOFF Plan 1 members may purchase up to five years of additional service credit once eligible for retirement. The credit can only be purchased at the time of retirement and cannot be used to qualify for any retirement eligibility or benefit reductions based upon years of service. This credit is to be used exclusively to provide the member with a monthly annuity that is paid in addition to the member's retirement allowance.

Plan 2 retirement benefits are vested after an employee completes 5 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 5 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 retirements prior to the age of 53 are reduced 3 percent for each year that the benefit commences prior to age 53 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, indexed to the Seattle Consumer Price Index, capped at 3 percent annually. LEOFF Plan 2 members may purchase up to five years of additional service credit at retirement.

Plan 1 provides death and disability benefits. Death benefits for 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 surviving child, with a limitation on the combined allowances of 60 percent of the FAS; or (2) if no eligible spouse, 30 percent of FAS for the first child plus 10 percent for each additional child, subject to a 60-percent limitation of FAS. In addition, a duty death benefit of $150,000 is provided to Plan 1 and Plan 2 members.

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.

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.

Plan 2 members 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, Plan 2 members who leave service because of a line-of-duty disability may be eligible to receive a retirement allowance of at least 10 percent of final average salary and two percent per year of service beyond 5 years. The first 10 percent of the FAS is not subject to federal income tax.

The following changes to the LEOFF plans are the result of recent years' legislation:

Effective July 26, 2009:

- House Bill 1551 extends eligibility for an unreduced benefit to survivors of members who leave an employer and die during a period of war while honorably serving in the National Guard or military reserves. It applies to Public Employees' Retirement System (PERS), Teachers' Retirement System (TRS), School Employees' Retirement System (SERS), Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF), Washington State Patrol Retirement System (WSPRS), and Public Safety Employees' Retirement System (PSERS).

- House Bill 1616 gives domestic partners of LEOFF Plan 2 members the same pension rights and options as spouses.

Effective March 17, 2010:

- Senate Bill 6546 provides that the Director of Fire Protection, who was previously a member of LEOFF Plan 2, now has the choice to continue membership in LEOFF Plan 2 while employed in this role. This position is otherwise covered by PERS.

Effective June 10, 2010:

- House Bill 1679 provides that the payment of medical insurance premiums for qualifying LEOFF Plan 2 and WSPRS members who are catastrophically disabled in the line of duty, and their spouses and dependent children will now be made for LEOFF Plan 2 members and for WSPRS members.

- House Bill 2196 provides that PERS Plan 1 members who retired on or after January 1, 1998, can use any service transferred from LEOFF Plan 1 to qualify for military service credit at no cost.

- House Bill 2519 gives additional benefits are provided to survivors of police officers, fire fighters, and state patrol officers killed in the line of duty.

- Senate Bill 6453 provides that shared leave can now be treated as reportable compensation for LEOFF Plan 2 members. Earnings can be used in the calculation of a member's benefit and service credit will be earned according to hours reported.

Effective July 1, 2011:

- Department of Retirement Systems is required to include the qualifying foregone compensation that occurred during the 2011-2013 biennium in the benefits calculation of retiring government employees in LEOFF2, PERS, PSERS, SERS, TRS and WSPRS.

Effective January 1, 2014:

- Engrossed Second Substitute Senate Bill 5688 provides that domestic partners registered with the state will be treated the same as married spouses, to the extent that treatment is not in conflict with federal law. The bill's effective date is January 1, 2014.

There were no other material changes in benefit provisions for the fiscal year ended June 30, 2011. LEOFF pension benefit provisions have been established by RCW 41.26.

There are 62 participating employers in LEOFF Plan 1 and 374 participating employers in Plan 2 as of June 30, 2011. Membership in LEOFF consisted of the following as of the latest actuarial valuation date of June 30, 2010:

	Plan 1	Plan 2
Retirees and Beneficiaries Receiving Benefits	8,008	1,639
Terminated Members Entitled To But Not Yet Receiving Benefits	1	781
Active Plan Members, Vested	301	13,119
Active Plan Members, Nonvested	-	3,656
Total	8,310	19,195

All law enforcement officers and fire fighters of the City of Seattle participate in LEOFF. Current active members (vested and non-vested) are 59 under Plan 1 and 2,219 under Plan 2.

DRS prepares an independent financial report. A copy of the report that includes financial statements and required supplementary information for LEOFF may be obtained by writing to Washington State Department of Retirement Systems, PO Box 48380, Olympia, Washington 98504-8380; by calling 360-664-7000 in Olympia or 1-800-547-6657; or by accessing their website at http://www.drs.wa.gov.

Summary of Significant Accounting Policies

LEOFF plans are accounted for in pension trust funds of DRS using the economic resources measurement focus and the accrual basis of accounting. Plan member contributions are recognized as revenues in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plans.

Investments are presented at fair value. The fair value of investments is based on published market prices and quotations from national security exchanges and security pricing services or by the respective fund managers for securities that are not actively traded. Privately held mortgages are valued at cost which approximates fair market value. Certain pension trust fund investments, including real estate and private equity, are valued based on appraisals or by independent advisors. LEOFF pension plans contain no single investment (other than any issued or explicitly guaranteed by the U.S. government, or involving mutual funds or investment pools) that comprised more than five percent of DRS's net investments at the end of fiscal year 2011.

Contributions and Reserves

Funding Policy

The state legislature establishes laws pertaining to the creation and administration of LEOFF plans. Plan members together with their employers and the state provide funding for all costs of the system based upon actuarial valuations. The state establishes benefit levels and approves the actuarial assumptions used in determining contribution levels.

Starting on July 1, 2000, Plan 1 employers and employees will 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. Plan 2 employers and employees are required to pay at the level adopted by the Plan 2 Retirement Board in accordance with RCW 41.45. All employers are required to contribute at the level required by state law.

Required contribution rates for cities (expressed as a percentage of current year covered payroll) at the close of fiscal year 2011 are as follows:

	LEOFF Actual Contribution Rates	
	Plan 1	Plan 2
Employer (includes an administrative expense rate of 0.16 percent)	0.16 %	5.24 %
Employee	-	8.62
State of Washington Contributions	-	3.38

Administration of the LEOFF plans was funded by an employer rate of 0.16 percent of employee salaries.

The state legislature has the ability, by means of a special funding arrangement, to appropriate money from the state general fund to supplement the current service liability and fund the prior service costs of Plans 1 and 2 in accordance with the requirements of the Pension Funding Council and 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. For fiscal year 2011 the state contributed \$52.0 million to Plan 2.

Employer Contributions Required and Paid

LEOFF annual required contributions (in millions) and percentage contributed in accordance with the funding policy were:

	Plan 1		Plan 2	
Year	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed
2009	$ -	N/A	$ 105.3	122 %
2010	-	N/A	112.2	114
2011	-	N/A	84.0	157

The City of Seattle required and actual contributions (in thousands) are shown in the following table. Percentages contributed are not available.

	Plan 1	Plan 2
2009	$ 15	$ 11,520
2010	14	12,061
2011	12	11,728

There are no long-term contracts for contributions under the LEOFF retirement plans.

Reserves

Member Reserves. The member reserves reflect the total liability for all contributions made by members. These reserves are increased by employee contributions and interest earnings and are decreased by contributions refunded and contributions transferred to the benefit reserves for current year retirees. The member reserves are considered fully funded. Member reserves (in thousands) were:

	June 30, 2011	June 30, 2010
Plan 1	$ 43,400	$ 50,199
Plan 2	1,849,759	1,704,680

Benefit Reserves. The benefit reserves reflect the funded liability associated with all retired members. These reserves are increased by employer contributions, state contributions, investment earnings, and employee contributions which are attributable to current year retirees. These reserves are decreased by the amounts of pensions actually paid in the current year, interest payments transferred to the member reserves, and administrative expenses. Benefit reserves (in thousands) were:

	June 30, 2011	June 30, 2010
Plan 1	$ 5,141,273	$ 4,534,925
Plan 2	4,534,925	3,376,726

The funded status of each of the benefit reserves is the same as the funded status of each of the respective pension plans.

DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code (IRC) Section 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is payable to employees upon termination, retirement, death, or unforeseen emergency.

Beginning in 2006 the Deferred Compensation Plan (DCP) was amended to allow separating employees to cash out accrued vacation balances into their DCP accounts. Eligible retiring employees may also cash out up to 35 percent of their sick leave balances into their DCP accounts. Vacation and sick leave cash-outs made to the DCP are considered contributions and are subject to the maximum annual contribution limit.

It is the opinion of the City's legal counsel that the City has no liability for losses under the plan. Under the plan, participants select investments from alternatives offered by the plan administrator, who is under contract with the City to manage the plan. Investment selection by a participant may be changed from time to time. The City manages none of the investment selections. By making the selection, enrollees accept and assume all risks that pertain to the plan and its administration.

The City placed the deferred compensation plan assets into trust for the exclusive benefit of plan participants and beneficiaries in accordance with GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*.

The City has little administrative involvement and does not perform the investing function for the plan. The City does not hold the assets in a trustee capacity and does not perform fiduciary accountability for the plan. Therefore, the City employees' deferred compensation plan created in accordance with IRC 457 is not reported in the financial statements of the City.

OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description and Funding Policy

Health Care Blended Premium Subsidy. Employees retiring under City of Seattle or the LEOFF 2 retirement plans may continue their health insurance coverage under the City's health insurance plans for active employees. LEOFF 1 employees retiring under Washington State PERS are covered under the LEOFF 1 retiree health plan but are eligible to have their spouses and/or dependents covered under the City health insurance plans. When a retired participant dies, the spouse remains fully covered until age 65 and covered by the Medicare supplement plan thereafter. Employees that retire with disability retirement under the City of Seattle, Washington LEOFF 2 plan or Social Security may continue their health coverage through the City with same coverage provisions as other retirees. Eligible retirees self-pay 100 percent of the premium based on blended rates which were established by including the experience of retirees with the experience of active employees for underwriting purposes. The City provides implicit subsidy of the post-retirement health insurance costs and funds the subsidy on a pay-as-you-go basis. The postemployment benefit provisions are established and may be amended by City ordinances.

Firemen's Pension and Police Relief and Pension Plans. The Firemen's Pension and Police Relief and Pension plans provide medical benefits for eligible retirees. The benefits are authorized under state statute, RCW 41.18 and 41.26 for Firemen's Pension, and RCW 41.20 and 41.26 for Police Relief and Pension, and may be amended by the state legislature. The City funds these benefits on a pay-as-you go basis.

Annual OPEB Cost and Net OPEB Obligation

The amount of expected contributions and change in net obligation for the City of Seattle Healthcare Blended Premium Subsidy is based on an actuarial valuation date of January 1, 2010; this valuation is performed on alternate years. The actuarial valuation date of January 1, 2010 also included disclosure information for 2009 which was based on the January 1, 2008 valuation. The amount of expected contributions and changes in net obligation for Firemen's Pension and Police Pension and Relief are based on an actuarial valuation date of January 1, 2012.

Table 11-6 **ANNUAL OPEB COST AND NET OPEB OBLIGATION**

	Healthcare Blended Premium Subsidy	Firemen's Pension (LEOFF1)	Police Relief and Pension (LEOFF1)	Total
Annual Required Contribution	$ 10,709,000	$ 15,106,487	$ 16,332,593	$ 42,148,080
Interest on Net OPEB Obligation	898,000	615,520	486,293	1,999,813
Adjustment to Annual Required Contribution	(1,239,000)	(925,756)	(731,396)	(2,896,152)
Annual OPEB Cost (Expense)	10,368,000	14,796,251	16,087,490	41,251,741
Expected Contribution (Employer-Paid Benefits)	3,202,000	10,192,114	11,659,346	25,053,460
Increase in Net OPEB Obligation	7,166,000	4,604,137	4,428,144	16,198,281
Net OPEB Obligation – Beginning of Year	20,446,000	15,387,992	12,157,319	47,991,311
Net OPEB Obligation – End of Year	$ 27,612,000	$ 19,992,129	$ 16,585,463	$ 64,189,592

The City's annual OPEB cost, percentage of annual OPEB cost contributed, and the net OPEB obligation for each plan based on an actuarial valuation of January 1, 2010, for Healthcare Blended Premium Subsidy and January 1, 2012, for Firemen's Pension (LEOFF1) and Police Relief and Pension (LEOFF1) are displayed below for the current and latest two years. The January 1, 2010 valuation for the Healthcare Blended Premium Subsidy also included disclosure information for January 1, 2009 based on the January 1, 2008 valuation.

	Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
Healthcare Blended Premium Subsidy	12/31/2008	$ 8,628,329	26.1%	$ 14,353,000
	12/31/2009	9,047,000	32.7	20,446,000
	12/31/2010	10,368,000	30.9	27,612,000
Firemen's Pension (LEOFF1)	12/31/2009	13,996,040	65.0	11,189,996
	12/31/2010	14,674,740	71.0	15,387,992
	12/31/2011	14,796,251	69.0	19,992,129
Police Relief and Pension (LEOFF1)	12/31/2009	15,174,858	78.0	8,183,007
	12/31/2010	16,025,887	75.0	12,157,319
	12/31/2011	16,087,490	72.0	16,585,463

Funded Status and Funding Progress

Based on the actuarial valuation dates for each of the plans, the unfunded actuarial accrued liability (UAAL) was equal to the actuarial accrued liability (AAL) due to the City's pay-as-you-go policy. The January 1, 2010 valuation for the Healthcare Blended Premium Subsidy also included disclosure information for 2009 based on the January 1, 2008 valuation. The funded status for the Police Relief and Pension (LEOFF1) AAL and UAAL was adjusted 1.9 percent in 2009 due to a change in assumption for the long-term-care model; the 2010 amount was adjusted upward 0.003 percent. Following is the funded status (in thousands) for each of the plans for the last three years:

	Actuarial Valuation Date	Actuarial Value of Assets (a)	Entry Age Normal AAL (b)	UAAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a) / c)
Healthcare Blended Premium Subsidy	1/1/2008	-	$ 78,816	$ 78,816	-	$837,142	9.4%
	1/1/2009	-	84,096	84,096	-	903,263	9.3
	1/1/2010	-	93,519	93,519	-	869,116	10.8
Firemen's Pension (LEOFF1)	1/1/2010	-	242,493	242,493	-	N/A	N/A
	1/1/2011	-	241,443	241,443	-	N/A	N/A
	1/1/2012	-	236,301	236,301	-	N/A	N/A
Police Relief and Pension (LEOFF1)	1/1/2010	-	264,219	264,219	-	N/A	N/A
	1/1/2011	-	261,040	261,040	-	N/A	N/A
	1/1/2012	-	252,098	252,098	-	N/A	N/A

Actuarial Methods and Assumptions

Projections of benefits are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits in force at the time of the valuation and the pattern of sharing of benefit costs between the employer and plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of any assets. Significant methods and assumptions are as follows:

Table 11-7

OPEB INFORMATION

Description	Healthcare Blended Premium Subsidy	Firemen's Pension (LEOFF1)	Police Relief and Pension (LEOFF1)
Actuarial Valuation Date	1/1/2010	1/1/2012	1/1/2012
Actuarial Cost Method	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization Method	Level amount over past and future service	30-year, closed as of 1/1/2007	30-year, closed as of 1/1/2007
Remaining Amortization Period	30 years	25 years	25 years
Records and Data	City records	Supplied by the City	Supplied by the City
Replacement of Terminated Employees	Open to new retirees	Closed. No new members permitted.	Closed. No new members permitted.
Valuation of Assets	N/A. No assets as of valuation date.	N/A. No assets as of valuation date.	N/A. No assets as of valuation date.
Assumptions:			
Discount Rate	4.39%	4.0%	4.0%
Medical Inflation		7.0%, grading down to 4.6% in 2081 and beyond.	7.0%, grading down to 4.6% in 2081 and beyond.
Traditional and Preventive Plans	10.0%, decreasing by 0.5% each year for 10 years until it reaches an ultimate rate of 5.0%		
Group Health Standard and Deductible Plans	9.5% decreasing by 0.5% each year for 9 succeeding years until it reaches an ultimate rate of 5.0%		
Long-Term Care Inflation Rate	N/A	4.75%	4.75%
Dental Inflation Rate	N/A	Minimum of 5.0% of medical inflation.	Minimum of 5.0% of medical inflation.
Participation/Service Retirement	40% of actives who retire are assumed to participate.	All actives are assumed to retire at the valuation date.	All actives are assumed to retire at the valuation date.
Mortality	LEOFF employees are based on the actuarial 2000 Combined Health Table for Males and Females. Mortality assumptions for general service actives and retirees are based on the Group Annuity Mortality (GAM) 1994 Static Table (Final) with ages set forward one year for both males and females for actives; and ages set forward one year for males but with no age adjustment for females for retirees.	For active and service-retired members, RP-2000 Mortality Table (combined healthy) project to 2019 using 50% of Project Scale AA, with ages set back one year for males and forward one year for females. For disabled members, RP-2000 Mortality Table (combined healthy) projected to 2019 using 50% of Project Scale AA, with ages set forward two years.	For active and service-retired members, RP-2000 Mortality Table (combined healthy) project to 2019 using 50% of Project Scale AA, with ages set back one year for males and forward one year for females. For disabled members, RP-2000 Mortality Table (combined healthy) projected to 2019 using 50% of Project Scale AA, with ages set forward two years.
Marital Status	60% of members electing coverage are assumed to be married or to have a registered domestic partner. Male spouses are assumed to be two years older than their female spouses.	N/A	N/A

Table 11-7 **OPEB INFORMATION (continued)**

Description	Healthcare Blended Premium Subsidy	Firemen's Pension (LEOFF1)	Police Relief and Pension (LEOFF1)
Assumptions (continued):			
Morbidity Factors		N/A	N/A
Traditional Plan	Morbidity rate ranges assumed for ages 50 through 64 are as follows: 104.3% to 172.5% for male retirees, 76.8% to 127.1% for female retirees, 138.9% to 229.8% for male spouses, and 102.3% to 169.3% for female spouses.		
Preventive Plan	Morbidity rate ranges assumed for ages 50 through 64 are as follows: 112.6% to 186.4% for male retirees, 82.9% to 137.3% for female retirees, 138.6% to 229.4% for male spouses, and 102.1% to 168.9% for female spouses. For the above two plans, because the retirees' spouses pay a lower premium for their health care coverage than the retirees, the net cost to the City for the spouse coverage is greater than for a retiree of the same gender and age. The morbidity factors were adjusted to reflect this discrepancy.		
Group Health Standard and Deductible Plans	Morbidity rate ranges assumed for ages 50 through 64 for retirees and spouses are: 123.0% to 203.6% for males and 90.6% to 150.0% for females.		
Other Considerations	Active employees with current spouse and/or dependent coverage are assumed to elect the same plan and coverage. After retirement, it is assumed that children will have aged off of coverage and will have $0 liability.	N/A	N/A

(12) COMPONENT UNITS

DISCRETELY PRESENTED COMPONENT UNITS

Seattle Public Library Foundation

The Seattle Public Library Foundation (Foundation) is a Washington non-profit corporation, a public charity organized exclusively for educational, charitable, and scientific purposes to benefit and support the Seattle Public Library. The Foundation provides goods, services, and facilities above the tax-based funding of the Seattle Public Library. The Foundation is located in Seattle, governed by a Board of Directors, and possesses all the requisite corporate powers to carry out the purposes for which it was formed.

The City is not financially accountable for the Foundation. The Foundation is considered a nonmajor component unit in accordance with GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units—an amendment of GASB Statement No. 14*, and is presented discretely in the City's financial statements because (1) the economic resources received or held by the Foundation are entirely for the direct benefit of the Seattle Public Library; (2) the Seattle Public Library is legally entitled to access a majority of the economic resources received or held by the Foundation; and (3) the economic resources received or held by the Foundation are significant to the Seattle Public Library.

The Foundation reports on a fiscal year-end consistent with the City, the primary government. The Foundation issues its own audited financial statements. To obtain complete audited statements for all years, please contact: Seattle Public Library Foundation, 1000 Fourth Avenue, Seattle, WA 98104, phone 206-386-4130.

Seattle Investment Fund LLC

The Seattle Investment Fund LLC (SIF) was established by Ordinance 123146 for the purpose of implementing the U.S. Treasury Department's New Market Tax Credit (NMTC) program. The City is its sole and managing member. SIF is a qualified Community Development Entity (CDE) and the Primary Allocatee. Three subsidiaries have been established since the program's inception; detailed information on the program and complete audited financial statements are available by contacting the City's Office of Economic Development at 700 Fifth Avenue, Seattle, WA 98104 or by telephone at 206-684-8090.

SIF is a limited liability corporation in accordance with RCW 35.21.735. It has no employees and administrative work is performed by the staff of the City's Office of Economic Development. The members of its Investment Committee and Advisory Board are selected by the Mayor and confirmed by the City Council. The City is not financially accountable for SIF, but under this structure the City may impose its will upon the organization. In accordance with GASB Statement No. 39, SIF is presented as a nonmajor discrete component unit of the City.

The following presents condensed financial statements for each of the discretely presented component units:

Table 12-1 **CONDENSED STATEMENT OF NET ASSETS**

SEATTLE PUBLIC LIBRARY FOUNDATION AND

SEATTLE INVESTMENT FUND LLC

December 31, 2011

(In Thousands)

	Discretely Presented Component Units					
	Seattle Public Library Foundation		Seattle Investment Fund LLC		Total	
	2011	2010	2011	2010	2011	2010
ASSETS						
Cash and Other Assets	$ 8,224	$ 4,974	$ 976	$ 300	$ 9,200	$ 5,274
Investments	45,204	47,288	3	1	45,207	47,289
Capital Assets, Net	-	1	-	-	-	1
Total Assets	53,428	52,263	979	301	54,407	52,564
LIABILITIES						
Current Liabilities	1,672	1,168	337	1	2,009	1,169
Total Liabilities	1,672	1,168	337	1	2,009	1,169
NET ASSETS						
Invested in Capital Assets, Net of Related Debt	-	1	-	-	-	1
Restricted	35,995	37,666	-	-	35,995	37,666
Unrestricted	15,761	13,428	642	300	16,403	13,728
Total Net Assets	$ 51,756	$ 51,095	$ 642	$ 300	$ 52,398	$ 51,395

Table 12-2 **CONDENSED STATEMENT OF ACTIVITIES**

SEATTLE PUBLIC LIBRARY FOUNDATION AND

SEATTLE INVESTMENT FUND LLC

For Year Ended December 31, 2011

(In Thousands)

	Discretely Presented Component Units					
	Seattle Public Library Foundation		Seattle Investment Fund LLC		Total	
	2011	2010	2011	2010	2011	2010
PROGRAM REVENUES						
Contributions/Endowment Gain	$ 4,969	$ 6,708	$ -	$ -	$ 4,969	$ 6,708
Placement/Management Fee Income	-	-	665	300	665	300
Total Program Revenues	4,969	6,708	665	300	5,634	7,008
GENERAL REVENUES						
Investment Income	454	4,714	-	-	454	4,714
Total Program Support and Revenues	5,423	11,422	665	300	6,088	11,722
EXPENSES						
Support to Seattle Public Library	4,069	6,353	-	-	4,069	6,353
Management and General	404	384	323	-	727	384
Fundraising	289	340	-	-	289	340
Total Expenses	4,762	7,077	323	-	5,085	7,077
Change in Net Assets	661	4,345	342	300	1,003	4,645
NET ASSETS						
Net Assets - Beginning of Year	51,095	46,750	300	-	51,395	46,750
Net Assets - End of Year	$ 51,756	$ 51,095	$ 642	$ 300	$ 52,398	$ 51,395

BLENDED COMPONENT UNIT

Seattle Transportation Benefit District

The Seattle Transportation Benefit District (STBD), a quasi-municipal corporation, was established through City Ordinance 123397 in September 2010 pursuant to RCW 35.21.225 which grants cities the authority to establish such a district. Transportation benefit districts are able to acquire, construct, improve, provide, and fund transportation improvement within district boundaries consistent with any existing state, regional and local transportation plan. RCW 36.73.065 gives districts the authority to impose taxes, fees, charges and tolls to fund this work. Beginning May 1, 2011, the STBD began collecting a $20 vehicle registration fee on eligible vehicles registered within its boundaries which are the same as the City's. The STBD is governed by the Seattle City Council members acting in an ex-officio capacity, and maintains no employees. STBD's sole purpose is to finance the City's transportation improvements and although it is a legally separate entity, the operations of STBD are so closely related to those of the City that it is reported as if it were part of the primary government.

The Seattle Transportation Benefit District is reported as a special revenue fund in the City's financial statements. Financial reporting for this fund can be found in the nonmajor governmental funds combining statements located in this report. In addition, separate financial statements for the STBD are available from Seattle City Hall, 600 Fourth Avenue, 2nd Floor, Seattle, WA 98104 or by calling 206-233-5005.

(13) JOINT VENTURES

SEATTLE-KING COUNTY WORKFORCE DEVELOPMENT COUNCIL

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 (WIA) of 1998. It functions as the 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 (CEO) of the local area, have the joint power to appoint the members of the WDC board of directors and the joint responsibility for administrative oversight. An ongoing financial responsibility exists because the CEO is potentially liable to the grantor for disallowed costs. If expenditure of funds is disallowed by the grantor agency, the WDC can recover the funds in the following order: (1) the agency creating the liability; (2) the insurance carrier; (3) future program years; and (4) as a final recourse, King County and the City of Seattle who each will be responsible for one-half of the disallowed amount. As of December 31, 2011, there are no outstanding program eligibility issues that may lead to a City of Seattle liability.

The WDC contracts with the City of Seattle which provides programs related to the WIA Youth In-School Program and Seattle Conservation Corps Program. For the year 2011, WDC paid $1.1 million to the City of Seattle.

The WDC issues independent financial statements that may be obtained from its offices at 2003 Western Avenue, Suite 250, Seattle, WA 98121-2162, by accessing its website at http://www.seakingwdc.org/reports/reports-publications.html, or by telephone at 206-448-0474.

(14) COMMITMENTS

GENERAL

Capital Improvement Program

The City adopted the 2011-2012 Capital Improvement Program (CIP) which functions as a capital financing plan totaling $4.282 billion for the years 2011-2016. The adopted CIP for 2011 was $761.2 million, consisting of $463.9 million for City-owned utilities and $297.3 million for nonutility departments. The utility allocations are: $271.8 million for City Light, $74.3 million for Water, $79.8 million for Drainage and Wastewater, $27.8 million for Solid Waste, and $10.2 million for Seattle Public Utilities' technology projects. Expenditures may vary significantly based upon facility requirements and unforeseen events. A substantial portion of contractual commitments relates to these amounts.

CITY LIGHT

Energy received under long-term purchased-power agreements in average annual megawatts (aaMW) is shown in the following table.

Table 14-1 **LONG-TERM PURCHASED POWER**

(In Average Annual Megawatts)

	2011	2010
Bonneville Power Administration Block	247.6	237.3
Bonneville Power Administration Slice	461.9	361.1
Lucky Peak	44.4	32.6
British Columbia - High Ross Agreement	35.8	35.1
Renewable Energy - State Line Wind	47.2	39.8
Grant County Public Utility District	3.7	19.2
Grand Coulee Project Hydroelectric Authority	27.1	27.5
British Columbia - Boundary Encroachment	2.0	1.8
Renewable Energy - Other	9.7	9.7
Exchanges and Loss Returns Energy at fair value	17.7	17.0
Long-Term Purchased Power Booked Out	(36.6)	(16.9)
Total Long-Term Purchased Power	860.5	764.2

Purchased and Wholesale Power

Bonneville Power Administration

City Light (the Utility) purchased electric energy from the U.S. Department of Energy, Bonneville Power Administration (BPA), under the Block and Slice Power Sales Agreement, a ten-year contract that expired September 30, 2011. The agreement provided power equal to the Utility's annual net requirement, defined as the difference between projected load and firm resources declared to serve that load. The Block product provided fixed amounts of power per month. The Slice percentage was 4.6676 percent during the duration of the contract.

In December 2008 the Utility entered into a contract to purchase both Block and Slice energy from BPA for the period October 1, 2011 through September 30, 2028. Block quantities, Slice percentage, and BPA rates are expected to be recalculated periodically during the contract. Rates will be developed and finalized every two years. Accordingly, certain estimates and assumptions were used in the calculations in the estimated future payments table below.

The terms of the Slice product specify that the Utility will receive a percentage of the actual output of the Federal Columbia River Power System (the System). The percentage is adjusted annually with a Slice Adjustment Ratio no greater than 1.0 times the 3.65663 initial Slice percentage, no later than fifteen days prior to the first day of each BPA's fiscal year, beginning with fiscal year 2012. Effective October 1, 2011, this percentage was 3.63323. The cost of Slice power is based on the Utility's same percentage of the expected costs of the System and is subject to true-up adjustments based on actual costs with specified exceptions.

BPA's Residential Exchange Program (REP) was established as a mechanism to distribute financial benefits of the Federal Columbia River Power System to residential customers of the region's investor owned utilities (IOUs). In May 2007 the Ninth Circuit Court rulings found the 2000 REP Settlement Agreements with IOUs inconsistent with the Northwest Power Act. The Utility received $5.9 million and $6.0 million in 2011 and 2010, respectively in payments and billing credits related to both the Block and Slice agreements.

Lucky Peak

In 1984 the Utility entered into a purchased-power agreement with four irrigation districts to acquire 100 percent of the net surplus output of a hydroelectric facility that began commercial operation in 1988 at the existing Army Corps of Engineers Lucky Peak Dam on the Boise River near Boise, Idaho. The irrigation districts are owners and license holders of the project, and the Federal Energy Regulatory Commission (FERC) license expires in 2030. The agreement, which expires in 2038, obligates the Utility to pay all ownership and operating costs, including debt service, over the term of the contract, whether or not the plant is operating or operable.

British Columbia-High Ross Agreement

In 1984 an agreement was reached between the Province of British Columbia and the City of Seattle under which British Columbia will provide the Utility with energy equivalent to that which would have resulted from an addition to the height of Ross Dam. Delivery of this energy began in 1986 and is to be received for eighty years.

In addition to the direct costs of energy under the agreement, the Utility incurred costs of approximately $8.0 million in prior years related to the proposed addition and was obligated to help fund the Skagit Environmental Endowment Commission through four annual $1.0 million payments. These other costs were included in the Utility plant-in-service as an intangible asset as defined in GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, and are being amortized to purchased power expense over thirty five years through 2035.

Energy Exchange

Northern California Power Agency (NCPA) and the Utility executed a long-term Capacity and Energy Exchange Agreement in March 1993. The Utility delivers energy to NCPA from June through October 15. NCPA returns energy under conditions specified in the contract at a 1.2:1 ratio of exchange power from November through April. The agreement, which includes a financial settlement option, may be terminated effective May 31, 2014, or any May 31 thereafter with a seven-year advance written notice by either party. In a letter dated May 17, 2011 from NCPA, NCPA gave its seven-year advance written notice to the Utility terminating the agreement effective no later than May 31, 2018.

Renewable Energy Purchase and/or Exchanges

The Energy Independence Act, Chapter 19.285 Revised Code of Washington, requires all qualifying utilities in Washington State to meet certain annual targets of eligible new renewable resources and/or equivalent renewable energy credits as a percentage of total energy delivered to retail customers. The annual targets are: at least 3 percent by 2012, at least 9 percent by 2016, and at least 15 percent by 2020. The Utility's resource portfolio for 2011 met the 3 percent 2012 target. Long-term renewable purchase or exchange agreements were executed with the Sacramento Municipal Utility District in 2007, Waste Management Renewable Energy, LLC in 2009, the existing State Line Wind Project contract, assigned to JP Morgan in 2010, and the King County Wastewater Treatment Division in 2010.

Fair Value of Exchange Energy

Exchange energy receivable and the related deferred gains at December 31, 2011 and 2010, were based on a market valuation technique that utilized Platts M2M Power Curves, Dow Jones U.S. Daily Electricity Price Indexes for settled deliveries, and an income valuation technique that uses interest rate forecasts from HIS Global Insight that are used to calculate discount rates.

Estimated Future Payments under Purchased Power, Transmission, and Related Contracts

The Utility's estimated payments under its contracts with BPA, various public utility districts and irrigation districts, Lucky Peak Project, British Columbia – High Ross Agreement, JP Morgan (assigned from Iberdrola Renewables, Inc. in 2010) and PacifiCorp for wind energy and net integration and exchange services, and others, and for transmission with BPA, and others for the period from 2012 through 2065, undiscounted, are shown in the following table.

Table 14-2 **ESTIMATED FUTURE PAYMENTS UNDER PURCHASED POWER, TRANSMISSION, AND RELATED CONTRACTS**

(In Thousands)

Year Ending December 31	Estimated Payments [ab]
2012	$ 257,890
2013	261,576
2014	273,186
2015	278,592
2016	285,274
2017 - 2021	1,543,401
2022 - 2026 [c]	1,471,818
2027 - 2031 [d]	540,632
2032 - 2036	61,948
2037 - 2041 [e]	23,757
2042 - 2046	2,409
2047 - 2065	12,603
Total	$ 5,013,086

[a] 2012 to 2016 includes estimated REP recoveries from BPA.
[b] Effective 2011, SCL is including power-related contracts.
[c] BPA transmission contract expires July 31, 2025.
[d] BPA new Block and Slice contract expires September 30, 2028.
[e] Lucky Peak contract expires September 30, 2038.

Payments under these long-term power contracts totaled $215.4 million and $222.4 million in 2011 and 2010, respectively. Payments under the transmission agreements amounted to $38.9 million and $38.0 million in 2011 and 2010, respectively.

Skagit and South Fork Tolt Licensing Mitigation and Compliance

In 1995 FERC issued a license for operation of the Skagit hydroelectric facilities through April 30, 2025. On July 20, 1989, the FERC license for operation of the South Fork Tolt hydroelectric facilities through July 19, 2029, became effective. As a condition for both of these licenses, the Utility has taken and will continue to take required mitigating and compliance measures.

Total Skagit license mitigation costs from the effective date until expiration of the federal operating license were estimated at December 31, 2011, to be $121.4 million, of which $102.2 million had been expended. Total South Fork Tolt license mitigation costs were estimated at $1.7 million, of which $1.2 million was expended through 2011. In addition to the costs listed for South Fork Tolt mitigation, the license and associated settlement agreements required certain other actions related to wildlife studies and wetland mitigation for which no set dollar amount was listed. Requirements for these actions have been met, and no further expenditures need to be incurred for these items.

Capital improvement, other deferred costs, and operations and maintenance costs are included in the estimates related to the settlement agreements for both licenses. Amounts estimated are adjusted to 2011 dollars. Utility labor and other overhead costs associated with the activities required by the settlement agreements for the licenses are not included in the estimates.

Hydroelectric projects must satisfy the requirements of the Endangered Species Act (ESA) and the Clean Water Act in order to obtain a FERC license. ESA and related issues are discussed below.

Federal Energy Regulatory Commission Fees

Estimated federal land use and administrative fees related to hydroelectric licenses total $229.7 million through 2062; these estimates are subject to change. The estimated portion of fees attributed to the Skagit and South Fork Tolt licenses are excluded after 2025, at which time their current FERC licenses expire. The estimated portion of Boundary fees is included through 2062, although the new license has not yet been approved by FERC. Boundary FERC application process and related issues are discussed below.

Application Process for New Boundary License

The Utility's FERC license for the Boundary Project expired on September 30, 2011. The Utility timely filed an application for a new license in 2009, and FERC has automatically granted an annual license and will continue to do so as long as the application remains pending. The terms and conditions of this annual license are the same as those of the expired license.

While the Utility was preparing its initial license application, the Utility was also negotiating a settlement with external parties, such as owners of other hydroelectric projects, Indian tribes, conservation groups, and other government agencies. The proposed settlement seeks to preserve the Utility's operational flexibility at Boundary Dam while providing for natural resource protection, mitigation, and enhancement measures. FERC agreed to allow the settlement agreement and revised exhibit addenda, submitted on March 10, 2010, to replace the initial September 2009 application as the Utility's application. Implementation of the settlement will depend upon FERC's approval of the settlement terms as part of the new license. If the new FERC license is significantly different than the settlement terms, the settlement may be terminated.

Total application process costs are estimated at $48.5 million, of which $48.3 million had been expended and deferred as of December 31, 2011. A new license will require additional mitigation efforts for endangered species, including water quality standards. The cost projections for such mitigation over the expected fifty-year life of the license, included in the Utility's license application, are estimated to be $429.0 million, adjusted to 2011 dollars.

Endangered Species

Several fish species that inhabit waters where hydroelectric projects are owned by the Utility or where the Utility purchases power have been listed under the Endangered Species Act (ESA) as threatened or endangered. Although the species were listed after FERC licenses were issued for all of the Utility's hydroelectric projects, the ESA listings still affect operations of the Utility's Boundary, Skagit, South Fork Tolt, and Cedar Falls hydroelectric projects.

Federal regulations in response to the listing of species affect flow in the entire Columbia River system. As a result of these regulations, the Utility's power generation at its Boundary Project is reduced in the fall and winter when the region experiences its highest sustained energy demand. The Boundary Project's firm capability is also reduced.

The Utility, with the support of City Council, elected to take a proactive approach to address issues identified within the ESA. The Utility is carrying out an ESA Early Action program in cooperation with agencies, tribes, local governments, and watershed groups for bull trout, Chinook salmon, and steelhead in the South Fork Tolt and Skagit Watersheds. The ESA Early Action program is authorized by City Council but is separate from any current FERC license requirements. The program includes habitat acquisition, management, and restoration. The ESA Early Action has been successful in protecting listed species. Total costs for the Utility's share of the Early Action program from inception in 1999 through December 31, 2011 are estimated to be approximately $5.9 million, and approximately $0.8 million has been allocated for the program in the 2012 budget.

Project Impact Payments

Effective August 2010 the Utility renewed its contract with Pend Oreille County and committed to pay a total of $19.0 million over ten years ending in 2019 to Pend Oreille County for impacts on county governments from the operations of the Utility's hydroelectric projects. Effective February 2009, the Utility renewed its contract with Whatcom County committing to pay a total of $15.8 million over fifteen years ending in 2023. The payments compensate the counties and certain school districts and towns located in these counties for loss of revenues and additional financial burdens associated with the projects. The Boundary Project located on the Pend Oreille River affects Pend Oreille County, and Skagit River hydroelectric projects affect Whatcom County. The payments totaled $1.6 million and $1.4 million to Pend Oreille County in 2011 and 2010, respectively, and $0.9 million and $0.9 million to Whatcom County in 2011 and 2010, respectively.

SEATTLE PUBLIC UTILITIES (SPU)

Water Fund

Habitat Conservation Program Liability

SPU prepared a comprehensive environmental management plan for its Cedar River Watershed. The purpose of the Habitat Conservation Plan (HCP) is to protect all species of concern that may be affected by the operation of SPU and City Light in the Cedar River Watershed while allowing the City to continue to provide high quality drinking water to the region. The federal government has accepted the HCP. The total cost of implementing the HCP is expected to be $101.6 million (in 2011 dollars) over a period of 50 years. Expenses are being funded from a combination of operating revenues and issuance of revenue bonds. The cost of HCP to SPU is $81.2 million thru 2011. The remaining cost of $20.4 million is comprised of a $5.0 million liability and an estimate of $15.4 million for construction and operating commitments. The construction activities will be capitalized and the operating activities will be expensed as incurred.

Distribution System Reservoirs

The Water Fund is required by the Washington State Department of Health (DOH) to complete a program to cover its open, above-ground distribution system reservoirs by the year 2020. The total cost of burying five reservoirs is expected to be approximately $123.2 million through the year 2016, and the cost beyond 2016 is not estimable. The total cost incurred in 2011 and 2010 were $112.4 million and $111.5 million, respectively.

Wholesale Water Supply Contracts

In 2011 SPU signed new water supply contracts with eight wholesale customers whose contracts expired in January 2011. Six of the customers signed full or partial requirements contracts that are very similar to the full and partial requirements contracts already in place with the majority of the Water utility's wholesale customers. These new full and partial requirements contracts do not change the City's obligation to supply water. All eight of these new contracts expire December 31, 2062.

Drainage and Wastewater Fund

Wastewater Disposal Agreement

SPU has a wastewater disposal agreement with the King County Department of Natural Resources Wastewater Treatment Division (the Division) expiring in 2036. The monthly wastewater disposal charge paid to the Division is based on the Division's budgeted cost for providing the service. The charges are determined by water consumption and the number of single-family residences as reported by SPU and other component agencies. The 2011 and 2010 payments to the Division were $123.7 million and $110.8 million, respectively.

Solid Waste Fund

Contractual Obligations

The City contracts with private companies for the collection of residential and commercial garbage, yard waste, and recycling. The residential and commercial collection contracts commenced in April 2000. The contracts were scheduled to end on March 31, 2007. In 2007 the City extended the contracts until March 29, 2009. Effective March 30, 2009, the City entered into new contracts with Waste Management and Cleanscapes for residential and commercial collection. The contracts are scheduled to end on March 31, 2019. Total payments under these contracts for residential collection during 2011 and 2010 were $40.4 million and $42.0 million, respectively. Commercial services paid under these contracts during 2011 and 2010 were $29.8 million and $34.1 million, respectively.

In 1990 the City signed a 38-year contract with Washington Waste Systems (WWS) for the disposal of non-recyclable City waste. WWS agreed to reduce the contract price in exchange for extending the contract to March 29, 2009. Effective March 30, 2009, a new contract was negotiated with WWS resulting in a reduced rate of $39.65 per ton. SPU paid WWS $12.8 million in 2011 and $13.5 million in 2010 under this contract.

The City also negotiated a long-term yard waste processing contract with Cedar Grove Composting, Inc. (CGC). The first opt-out date on the disposal contract was extended to March 29, 2009, in exchange for price reductions every two years beginning in 2003. The City renegotiated a new long-term yard waste processing contract with CGC in 2008 which became effective March 30, 2009. The new tonnage rate is $26.37 per ton and the first opt-out date is in 2013. The yearly payment to CGC was $2.4 million in 2011 and 2010.

Effective April 1, 2009, the City commenced a new contract for recycling processing with Rabanco, LTD. The company is responsible for processing recyclables, including food waste for both commercial and residential customers. The new contract includes the collection of compostable materials, which is a service not originally provided by the City. The contract is scheduled to end on March 31, 2013, with an option to extend the contract for a three-year period at that time. Total payment for recycling processing under this contract in 2011 and 2010 were $2.3 million and $2.5 million, respectively.

Landfill Closure and Postclosure Care

At December 31, 2011, accrued landfill and postclosure costs consisted primarily of monitoring, maintenance, and repair costs. It is the City Council's policy to include the Fund's share of all landfill closure and postclosure costs in the revenue requirements used to set future solid waste rates. Therefore, total estimated landfill closure and postclosure care costs are accrued and also reflected as deferred costs in the accompanying financial statements. These costs are being amortized as they are recovered from ratepayers. Actual costs for closure and postclosure care may be higher due to inflation, changes in technology, or changes in regulations. Such amounts would be added to the liability and deferred costs when identified. Landfill closure costs were fully amortized in 2009 and landfill postclosure costs will continue to amortize until 2024.

In prior years SPU delivered its refuse to two leased disposal sites: Midway and Kent-Highlands landfills. Subsequent to signing the original lease agreement, federal and state requirements for closure of landfill sites were enacted. SPU stopped disposing of municipal waste at the Midway site in 1983 and at the Kent-Highlands site in 1986.

(15) CONTINGENCIES

The City is exposed to the risk of loss from torts, theft of or damage to assets, business interruption, errors or omissions, law enforcement actions, contractual actions, natural disasters, failure to supply utilities, environmental regulations, and other third-party liabilities. The City also bears the risk of loss for job-related illnesses and injuries to employees. The City has been self-insured for most of its general liability risks prior to January 1, 1999, for workers' compensation since 1972, and for employees' health care benefits starting in 2000.

Since January 1, 1999, the City obtained excess general liability insurance coverage for occurrences on or after said date which covers losses over $2.5 million per occurrence self-insured retention, with a $25.0 million limit per occurrence and in the aggregate. Starting February 1, 2002 through 2006, the City's excess general liability insurance covers losses over $5.0 million per occurrence self-insured retention, with a $25.0 million limit per occurrence and in the aggregate. In June 2007 the limit was increased to $30.0 million over a $5.0 million self-insured retention. In June 2009 the self-insured retention was increased from $5.0 million to $6.5 million. Beginning in June 2011 the limit was increased to $40.0 million over a $6.5 million self-insured retention.

The City also purchased an all-risk comprehensive property insurance policy that provides $500.0 million in limits, subject to various deductible levels depending upon the type of asset and value of the building. This includes $100.0 million in earthquake and flood limits. Hydroelectric and other utility producing and processing projects owned by the City are not covered by the property policy. The City also purchased insurance for excess workers' compensation, fiduciary and crime liability, inland marine transportation, volunteers, and an assortment of commercial general liability, medical, accidental death and dismemberment, and miscellaneous policies. Bonds are purchased for public officials, notaries public, pension exposures, and specific projects and activities as necessary.

The City did not purchase any annuity contracts in 2011 to resolve litigation. No structured settlements were entered into by the City in 2011. No large liability settlements were received in 2011. No settlements made in 2011, 2010, or 2009 were in excess of insurance coverage.

Claims liabilities are based on the estimated ultimate cost of settling claims, which include case reserve estimates and incurred but not reported (IBNR) claims. Liabilities for lawsuits and other claims are assessed and projected annually using historical claims, lawsuit data, and current reserves. The Personnel Department estimates case reserves for workers' compensation using statistical techniques and historical experience. The ultimate cost of settling claims was estimated for lawsuits, workers' compensation, and other claims based on independent actuarial studies performed in 2011 on data as of year-end 2010 and for health care as of year-end 2011. IBNR undiscounted totaled $57.8 million and $48.2 million at December 31, 2011 and 2010, respectively. The $9.6 million increase in the IBNR amount in 2011 compared to 2010 was mainly due to the much lower City's liability reserves by $12.6 million while the estimated liabilities also decreased by $1.2 million. This increase of IBNR was offset by a decrease of $1.8 million in workers' compensation claims, which experienced lower liability estimates and reserves in 2011.

Estimated claims expenditures are budgeted by the individual governmental and proprietary funds. Actual workers' compensation claims are processed by the General Fund and reimbursed by the funds that incurred them. Operating funds pay health care premiums to the General Fund, and the latter pays for all actual health care costs. The General Fund originally pays for lawsuits, claims, and related expenses and receives reimbursements from City Light, Water, Drainage and Wastewater, Solid Waste, and the retirement funds for payments and expenses incurred by these funds.

Claims liabilities include claim adjustment expenditures if specific and incremental to a claim. Recoveries from unsettled claims, such as salvage or subrogation, and on settled claims are deposited in the General Fund and do not affect reserves for general government. Workers' compensation annual subrogation recoveries amounted to $0.3 million in 2011 and $0.2 million in 2010. All workers' compensation recoveries are deposited into the General Fund. Lawsuit and other claim recoveries of payments reimbursed for the utilities are deposited into the paying utility fund and do not affect the utility reserves.

Claim liabilities recorded in the financial statements are discounted at 0.824 percent for 2011 and 1.027 percent for 2010, the City's average annual rates of return on investments. The total discounted liability at December 31, 2011, was $117.4 million consisting of $82.1 million for general liability, $1.8 million for health care, and $33.5 million for workers' compensation.

Table 15-1

RECONCILIATION OF CHANGES IN AGGREGATE LIABILITIES FOR CLAIMS

(In Thousands)

	General Liability		Health Care		Workers' Compensation		Total City	
	2011	2010	2011	2010	2011	2010	2011	2010
UNDISCOUNTED								
Balance - Beginning of Fiscal Year	$ 85,476	$ 83,959	$ 3,721	$ 3,707	$ 36,238	$ 32,604	$ 125,435	$ 120,270
Less Payments and Expenses During the Year	(18,267)	(11,089)	(85,674)	(88,489)	(13,325)	(14,428)	(117,266)	(114,006)
Plus Claims and Changes in Estimates	17,014	12,606	83,731	88,503	11,568	18,062	112,313	119,171
Balance - End of Fiscal Year	$ 84,223	$ 85,476	$ 1,778	$ 3,721	$ 34,481	$ 36,238	$ 120,482	$ 125,435
UNDISCOUNTED BALANCE AT END OF FISCAL YEAR CONSISTS OF								
Governmental Activities	$ 62,462	$ 62,924	$ 1,778	$ 3,721	$ 24,936	$ 26,212	$ 89,176	$ 92,857
Business-Type Activities	21,760	22,551	-	-	9,545	10,026	31,305	32,577
Fiduciary Activities	1	1	-	-	-	-	1	1
Balance - End of Fiscal Year	$ 84,223	$ 85,476	$ 1,778	$ 3,721	$ 34,481	$ 36,238	$ 120,482	$ 125,435
DISCOUNTED/RECORDED BALANCE AT END OF FISCAL YEAR CONSISTS OF								
Governmental Activities	$ 60,917	$ 60,964	$ 1,764	$ 3,684	$ 24,209	$ 25,279	$ 86,890	$ 89,927
Business-Type Activities	21,222	21,849	-	-	9,266	9,669	30,488	31,518
Fiduciary Activities	1	1	-	-	-	1	1	2
Balance - End of Fiscal Year	$ 82,140	$ 82,814	$ 1,764	$ 3,684	$ 33,475	$ 34,949	$ 117,379	$ 121,447

Pending litigations, claims, and other matters are as follows:

- Boeing West Substation. In 2002 the Boeing Company discovered PCB contamination in soil adjacent to a City Light substation at Boeing's Plant 2. Boeing initially claimed the contamination came from City Light equipment and that City Light therefore was liable for more than $2.0 million that Boeing had spent and additional money Boeing was spending to investigate and remove contaminated material. City Light denied that its equipment was the source and considers its liability to be zero. Boeing has not reasserted its claim for several years. Whether or not City Light will ultimately be deemed liable is unknown.

- Storage Tanks. Seattle Public Utilities (SPU) has addressed lead-based paint and arsenic contamination surrounding several standing water tanks, and no longer anticipates further liability associated with water tanks or underground fuel tank replacements.

- City Light Energy Crisis Litigation. The City is involved in various legal proceedings relating to the enormous price spikes in energy costs in California and the rest of the West Coast in 2000 and 2001.

  California Refund Case, Appeals, and Related Litigation. In the proceeding before the Federal Energy Regulatory Commission (FERC) various public and private California entities sought refunds in markets that had been created by the State of California. City Light had sold energy in one of these markets. The City faced potential liability of approximately $6.5 million, plus interest, subject to offsets. In 2001 FERC ordered refunds to the extent that actual energy prices exceeded rates that FERC determined to be "just and reasonable." On appeal the Court of Appeals for the Ninth Circuit held that FERC has no authority to order governmental entities such as the City to pay refunds. Following this ruling the three major California investor-owned utilities sought refunds from City Light and other governmental entities in federal district court on a breach of contract theory. In March 2007 the court dismissed all claims on procedural grounds. The investor-owned utilities appealed the dismissal and also filed a lawsuit in state court in California against the same governmental entities and on the same theory as in the federal action. In April 2007 the three major California investor-owned utilities refiled their claims in state court. In December 2007 the trial court denied a request to dismiss the case. The defendants, including the City, later moved for summary judgment. In April 2010 the trial court issued a tentative ruling deferring ruling on the summary judgment motion and staying all proceedings pending a ruling from the Ninth Circuit Court of Appeals in a related case (to which the City is not a party). Ultimately, the trial court did not stay the case, but continued the trial date, which was set in the fall of 2010. In February 2011 the City agreed to a proposed settlement, which was approved by the trial court and FERC. Under the settlement, the City resolved the lawsuit for $9.0 million, none of which was immediately paid by the City. Instead, the City assigned its accounts receivable from the California Independent System Operator to the California Parties. The remaining balance of over $7.0 million was contingent upon City Light recovering monies in the Pacific Northwest Refund Case, discussed below. It is impossible to predict whether a material adverse outcome will result.

Pacific Northwest Refund Case and Appeal. In the proceeding before FERC various sellers of energy, including the City, sought refunds on energy sales in the Pacific Northwest between January 2000 and June 2001. City Light's refund claims currently are in excess of $100.0 million. In 2003 FERC declined to grant refunds on the grounds that there was no equitable way to do so. The City and other parties appealed to the Ninth Circuit. In August 2007 the Ninth Circuit held that FERC had abused its discretion in denying all refund relief in the Pacific Northwest and remanded the consideration of refunds to FERC. In December 2007 various sellers of energy filed petitions for rehearing in the Ninth Circuit. On April 9, 2009, the Ninth Circuit denied those petitions for rehearing and on April 16, 2009, the Ninth Circuit remanded the case to FERC. In September 2009 the sellers filed a Petition for a Writ of Certiorari in the United States Supreme Court. That petition was denied on January 11, 2010. FERC appointed a settlement judge who is overseeing a settlement process. The City is participating in the settlement process, and has to date entered into settlement agreements with five sellers. However, those settlements are still awaiting approval by FERC. On September 21, 2012, the City filed testimony in the FERC remand proceedings, and is continuing to participate in settlement negotiations. Per the settlement in the California Refund Case referenced above, half of any settlement proceeds must be paid to the California parties.

- Business Tax Refunds. Two cases involving potential tax refunds were filed as follows. (1) A telecommunications company challenged approximately $5.0 million, plus interest and penalties, in assessed utility and business and occupation taxes it paid into escrow, covering the period from January 1997 through March 2005. The Washington Supreme Court decided several issues affecting the claims in the case prior to the hearing date. The City settled with the company for approximately $2.5 million in 2010. The City recovered $2.5 million from the escrowed amount and the rest was refunded to the company. (2) A Seattle-based company appealed its business and occupation (B&O) tax assessment of $1.5 million in 2008. The issue on appeal is whether the company is allowed to allocate the income earned from its 450 Seattle-based employees to a California Limited Liability Company. The California company has no employees and no property. The company performs services in Seattle and, pursuant to a contract with the California company, sends out invoices in the California company's name. The Regulatory Services and Operations Division assessed the Seattle company for the income. If the Seattle company prevails, it is possible that other companies will attempt to use similar structures to avoid taxes and the Seattle company would be able to avoid paying the B&O tax it would otherwise owe for 2009. The City prevailed in a hearing before the City of Seattle Hearing Examiner in June 2009. The company then appealed to the King County Superior Court and the City prevailed on February 23, 2010. The company appealed to the Court of Appeals. Oral argument in the court of appeals was heard on March 2, 2011. The Court of Appeals ruled in favor of the City on September 12, 2011. The company petitioned the Washington Supreme Court for review, and the Court declined to review the case on February 12, 2012. The Court's denial of petition for review terminates the appeal. The Revenue Department for the City can release the assessed taxes from the holding account.

- Costs Charges to Ratepayers. The class action plaintiffs alleged that fire hydrant costs were improperly paid by the City's water utility ratepayers in Seattle and certain suburban cities. The plaintiffs sought refunds of the costs of fire hydrant service. Most of the issues in this case were resolved in prior years. In 2007 the City briefed and/or argued two issues on the appellate level: (1) the City's authority to increase an excise tax upon its water utility in the amount necessary for the General Fund to pay the ongoing costs of fire hydrants and (2) whether statutory interest or a significantly less expensive "cost of money" approach should be applied to refunds previously made by the City's water utility to ratepayers. In addition, the suburban cities appealed the trial court decision that their general funds should pay for fire hydrants.

  In October 2008 the Washington Supreme Court ruled in the City's favor on the excise tax issue, holding that the City had the authority to impose the tax on its water utility. However, the Court disagreed with the position taken by the City on the interest rate issue, holding that the City must pay the statutory rate of 12 percent interest on refund payments. The King County Superior Court entered final judgment in the case in December 2008. The judgment required the General Fund to pay Seattle Public Utilities (SPU) $13.6 million plus 3.18 percent interest from the date of the final judgment until paid. The judgment required SPU to pay $4.1 million to plaintiffs' counsel in attorneys' fees, $37,760 for reimbursement for plaintiffs' litigation expenses, and $5,000 to the class representative. The judgment further required SPU to make refunds to water utility ratepayers for fire hydrant expenses that had been included in water bills for the period March 1, 2002, through December 31, 2004, plus 12 percent interest until paid. The total amount to be refunded to ratepayers was $20.3 million plus 12 percent interest less the amounts listed above for attorneys' fees, litigation expenses, and class representative payments. Finally, the judgment required the City of Burien to pay SPU $131,533 and required the City of Lake Forest Park to pay SPU $74,171 plus interest on both payments of 3.18 percent interest from April 30, 2007, until paid. All outstanding payments in this matter were made in 2010.

- Leaks and Cracks in Reservoirs. The City discovered leaks in various reservoirs and cracks in a not-yet completed reservoir. Discussions with the designer and contractor have commenced to determine the cause of the leaks and cracks. Costs of repairs and/or damages are expected to exceed the material amount. The amount is indeterminable as of the date of this note.

- Other Miscellaneous Lawsuit and Claim. A lawsuit was filed due to a traffic accident involving a Seattle City Light vehicle. Another lawsuit involving alleged serious injuries from an electrical shock caused by a high voltage power line. The likelihood of material adverse outcomes in these lawsuits are indeterminate.

There may be other litigation or claims involving alleged substantial sums of money owing; however, the prospect of material adverse outcomes therein is remote. Other than the aforementioned cases and the claim liabilities recorded in the financial statements, there were and are no outstanding material judgments against the City.

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (HUD) SECTION 108 LOAN PROGRAM

The City of Seattle participates in the HUD Section 108 loan program. In the Section 108 program HUD obtains funds from private investors at a very low cost (i.e., low interest rate). Low-cost funds are available because HUD guarantees repayment to the private investors. HUD, in turn, provides the low-cost funds to jurisdictions nationwide including the City of Seattle. The City re-lends the funds to private borrowers. HUD deposits the funds directly with the City's loan servicing agent, the Bank of New York. The Bank of New York disburses funds on behalf of the City to the private borrowers.

The Brownfields Economic Development Initiative Grant (BEDI) program is a federal grant that is directly linked to the Section 108 loan program. The City uses BEDI grant funds as a loan loss reserve and interest subsidy on Section 108 loans. The U.S. Treasury deposits the grant funds with the City. The City then disburses the grant funds to the loan servicing agent.

Pursuant to RCW 35.21.735 the City is expressly authorized to participate in the Section 108 loan program. The state statute and the City's contracts/agreements with HUD clarify that the City never pledges its full faith and credit. Future block grant funds are pledged to HUD in the event of borrower default. Each loan is secured by a deed of trust and/or bank-issued letter of credit that provides the City with security in the event of borrower default. Additionally, the BEDI grant funds may be used by the City to protect against loan default.

On December 31, 2011, eleven accounts remained outstanding with a combined total amount of $28.5 million. BEDI grant funds amount to $3.75 million, of which a portion is being held as loan loss reserves for the eleven accounts.

GUARANTEES OF THE INDEBTEDNESS OF OTHERS

The City has contingent liability for the following bonds issued by public development authorities chartered by the City which are not component units of the City:

Museum Development Authority

Special obligation bonds issued on November 16, 2005, in the amount of $60,720,000, of which $54,845,000 was outstanding at December 31, 2011. The bonds will be fully retired by April 1, 2031.

Pike Place Market Preservation and Development Authority

Special obligation refunding bonds issued on March 28, 2002, in the amount of $5,925,000 of which $4,515,000 was outstanding on December 31, 2011. The bonds will be fully retired on November 1, 2017.

Seattle Chinatown-International District Preservation and Development Authority

Special obligation bonds, Series A, issued on December 12, 2002, in the amount of $7,700,000. The outstanding amount at December 31, 2011, was $2,630,000. The bonds will be fully retired by October 1, 2032.

Special obligation bonds, Series B, issued on December 12, 2002, in the amount of $2,790,000. The outstanding amount at December 31, 2011, was $2,375,000. The bonds will be fully retired by October 1, 2032.

Special obligation refunding bonds issued on September 26, 2007, in the amount of $7,355,000. The outstanding amount at December 31, 2011, was $6,465,000. The bonds will be fully retired by August 1, 2026.

Seattle Indian Services Commission

Special obligation refunding bonds issued on March 28, 2002, in the amount of $3,710,000. The amount outstanding at December 31, 2011, was $1,910,000. The bonds will be fully retired on November 1, 2017.

Special obligation revenue refunding bonds issued on November 1, 2004, in the amount of $5,210,000, of which $4,335,000 was outstanding as of December 31, 2011. The bonds will be fully retired on November 1, 2024.

(16) RESTATEMENTS, PRIOR-PERIOD ADJUSTMENTS, CHANGES IN ACCOUNTING PRINCIPLES, AND RECLASSIFICATIONS

In 2010, the City recognized its interpretation of GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments,* relating to financial statement presentation for internal service funds was incorrect. In 2010, a restatement to various fund statements was made based on estimates. In 2011, final amounts for 2010 were determined, requiring a restatement to the 2010 internal service fund statements and the corresponding proprietary fund statements. The result was a prior-period adjustment of $23.4 million on the Finance and Administrative Services fund statements incorporating the capital assets, net of the long-term debt associated with the fund's support services provided to other City departments for facilities. There was no impact to the government-wide financial statements for governmental activities.

Effective January 1, 2011, the City adopted GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, as discussed in Note 1. This statement establishes accounting and financial reporting standards for all governments that report governmental funds. To allow for comparative analysis of 2011 and 2010 fund balances, certain balances included in the 2010 balance sheets were reclassified to conform to the new requirements. Additionally, the Library Fund, previously a special revenue fund, was determined to no longer meet the definition of a special revenue fund, as defined by GASB Statement No. 54. As a result, the Library Fund is now reported as a part of the General Fund for GAAP reporting. The impact is an increase to the General Fund's fund balance of $12.2 million in 2011 and $12.4 million in 2010.

In 2010, the Department of Information Technology incorrectly recorded depreciation expense in the amount of $3.1 million. Therefore, a restatement to the 2010 government-wide statement of net assets and statement of activities for governmental activities was made.

In 2011, the City, in its Employees' Retirement Fund, changed its reporting practice regarding investment management fees. The investment management fees for investments other than securities lending transactions were previously netted against the net change in fair value investment income. In 2011, this expense was separated from the investment income classification and incorporated into the investment management fees expenses. To allow comparative analysis of 2011 and 2010, a reclassification was made to the 2010 combining statement of net assets of the fund in the amount of $3.8 million.

In 2011, the City recognized its interpretation of GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments,* relating to the financial statement classifications of net assets was incorrect. Therefore, a restatement to the 2010 government-wide statement of net assets for governmental activities was required. To allow comparative analysis of 2011 and 2010, a restatement of $147.2 million increased the net assets restricted for special purposes and decreased the unrestricted net assets.

Certain other reclassifications were made in the financial statements for the prior year to conform to the presentation in the current year.

(17) SUBSEQUENT EVENTS

Bond Issues. On May 16, 2012, pursuant to City Ordinance 121651, as amended by Ordinance 122286; Ordinance 123751; and City Council Resolutions 31376 and 31377, the City issued (1) $75.6 million of Limited Tax General Obligation (LTGO) Improvement and Refunding Bonds with an average coupon rate of 2.703 percent and a final maturity of September 1, 2032; and (2) $46.8 million of Unlimited Tax General Obligation (UTGO) Refunding Bonds with an average coupon rate of 1.276 percent and a final maturity of December 1, 2021. The proceeds of the LTGO Improvement and Refunding Bonds are used to pay for a share of the costs of various projects and to refund 2002, 2003, and 2005 LTGO bonds. The proceeds of the UTGO Refunding Bonds are used to refund 2002 UTGO bonds.

On May 30, 2012, pursuant to City Ordinance 121939, as amended, and City Council Resolution 31382, the City issued $238.8 million of Water System Refunding Revenue Bonds with an average coupon rate of 2.631 percent and a final maturity of September 1, 2034. The proceeds of the bonds are used to refund 2001, 2003, and 2004 Water System Revenue bonds.

On June 27, 2012, pursuant to City Ordinance 121938, as amended, Ordinance 123753, and City Council Resolution 31387, the City issued $222.1 million of Drainage and Wastewater Improvement and Refunding Revenue Bonds with an average coupon rate of 3.327 percent and a final maturity of September 1, 2042. The proceeds of the bonds are used to pay for a share of the costs of various projects and to refund 2001, 2002, and 2004 Drainage and Wastewater Revenue bonds.

On July 17, 2012, pursuant to City Ordinance 121941, as amended by Ordinances 122838 and 123752; and City Council Resolution 31390, the City issued (1) $293.3 million of Municipal Light and Power Improvement and Refunding Revenue Bonds, 2012A; (2) $9.4 million of Municipal Light and Power Refunding Revenue Bonds, 2012B (taxable); and (3) $43.0 million of Municipal Light and Power Improvement Revenue Bonds, 2012C (taxable New Clean Renewable Energy Bonds), with average coupon rates of 3.14757 percent, 0.749746 percent, and 0.58567 percent, respectively, and final maturities of June 1, 2041, December 1, 2041, and June 1, 2033, respectively. The proceeds of these bonds are used to pay a share of the costs of various projects and to refund 2002, 2003, and 2004 Municipal Light and Power Revenue bonds.

On April 17, 2012, Standard & Poor's revised its outlook on the City's general obligation bonds from negative to stable and affirmed the City's AAA rating.

City of Seattle Retirement Pension Actuarial Information. An actuarial study was issued on July 6, 2012 providing an actuarial valuation as of January 1, 2012. Actuarially determined contribution rates for 2012 are 10.03 percent for members and the employer, and are also estimated at 10.03 percent for 2013. Based on this new valuation, the actuarial value of plan net assets available for benefits has decreased by $59.4 million to $1.954 billion, and the actuarial accrued liability has increased by $150.3 million to $2.859 billion. The unfunded actuarial accrued liability (UAAL) is $905.0 million as compared to $695.4 million reported on the January 1, 2011 valuation. The funding ratio is currently 68.3 percent. Refer to Note 11, Pensions, Deferred Compensation, and Other Postemployment Benefits.

SCHEDULES OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

The schedules of revenues, expenditures, and changes in fund balances – budget and actual are presented on a budgetary basis (Non-GAAP). A reconciliation of the budgetary fund balance to the GAAP fund balance is shown on the face of each schedule.

The budgetary basis of accounting is substantially the same as the modified accrual basis of accounting in all governmental funds except for the treatment of encumbrances that do not lapse, those whose budgets were approved by the City Budget Office to carry over to the following year. These encumbrances are included with expenditures in the City's budgetary basis of accounting.

As described in Note 1, Summary of Significant Accounting Polices, GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* was implemented in fiscal year 2011; the Library Fund no longer meets the definition for a special revenue fund and is now reported as part of the General Fund for the GAAP reporting. Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual for the General Fund, C-1, is presented on the budgetary basis for the legally adopted budget of the General Fund.

C-1

GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
For the Year Ended December 31, 2011
(In Thousands)

	Budgeted Amounts Original	Budgeted Amounts Final	Actual	Variance
REVENUES				
Taxes				
General Property Taxes	$ 253,655	$ 253,655	$ 254,239	$ 584
Retail Sales and Use Taxes	151,390	151,390	158,582	7,192
Business Taxes	233,270	233,270	231,162	(2,108)
Excise Taxes	33,180	33,180	35,316	2,136
Other Taxes	-	-	3,126	3,126
Interfund Business Taxes	111,073	111,073	108,541	(2,532)
Total Taxes	782,568	782,568	790,966	8,398
Licenses and Permits	18,375	18,375	18,817	442
Grants, Shared Revenues, and Contributions	55,197	79,069	43,384	(35,685)
Charges for Services	48,189	52,169	53,650	1,481
Fines and Forfeits	35,870	35,870	32,455	(3,415)
Parking Fees and Space Rent	35,324	35,324	30,635	(4,689)
Program Income, Interest, and Miscellaneous Revenues	24,506	27,122	23,764	(3,358)
Total Revenues	1,000,029	1,030,497	993,671	(36,826)
EXPENDITURES AND ENCUMBRANCES				
Current				
General Government	189,648	193,375	169,039	24,336
Judicial	26,107	26,386	25,937	449
Public Safety	458,111	475,199	445,940	29,259
Physical Environment	21,446	21,511	11,055	10,456
Transportation	14,095	14,095	12,529	1,566
Economic Environment	27,615	27,773	21,348	6,425
Culture and Recreation	5,779	5,779	5,554	225
Capital Outlay				
General Government	23,046	22,851	5,456	17,395
Public Safety	1,859	6,816	4,355	2,461
Culture and Recreation	57,319	58,042	23,093	34,949
Total Expenditures and Encumbrances	825,025	851,827	724,306	127,521
Excess (Deficiency) of Revenues over (under) Expenditures and Encumbrances	175,004	178,670	269,365	90,695
OTHER FINANCING SOURCES (USES)				
Sales of Capital Assets	23,004	23,004	21,326	(1,678)
Transfers In	5,563	5,821	4,537	(1,284)
Transfers Out	(280,145)	(280,578)	(272,264)	8,314
Total Other Financing Sources (Uses)	(251,578)	(251,753)	(246,401)	5,352
Net Change in Fund Balance	$ (76,574)	$ (73,083)	22,964	$ 96,047
Fund Balance - Beginning of Year			165,249	
Encumbrances Continued from Last Year			976	
Changes in Unappropriable Reserves			247	
Fund Balance (Budgetary) - End of Year			189,436	
Adjustments to Conform to Generally Accepted Accounting Principles				
Reserves Not Available for Appropriation			564	
Encumbrances			2,551	
Reimbursements				
Budgeted as Revenues			158,820	
Budgeted as Expenditures			(158,820)	
Pass-Through Receipts				
Budgeted as Revenues			(1,125)	
Budgeted as Expenditures			1,125	
GASB Statement No. 54 Reporting Adjustment				
Library Fund Balances			12,224	
Fund Balance (GAAP) - End of Year			$ 204,775	

TRANSPORTATION FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
For the Year Ended December 31, 2011
(In Thousands)

	Budgeted Amounts Original	Budgeted Amounts Final	Actual	Variance
REVENUES				
Taxes				
General Property Taxes	$ 40,141	$ 40,141	$ 40,325	$ 184
Business Taxes	22,387	22,387	28,300	5,913
Other Taxes	-	-	303	303
Total Taxes	62,528	62,528	68,928	6,400
Licenses and Permits	1,917	1,917	4,149	2,232
Grants, Shared Revenues, and Contributions	48,228	60,213	43,326	(16,887)
Charges for Services	57,565	61,266	65,403	4,137
Fines and Forfeits	-	-	36	36
Parking Fees and Space Rent	-	-	38	38
Program Income, Interest, and Miscellaneous Revenues	-	-	107	107
Total Revenues	170,238	185,924	181,987	(3,937)
EXPENDITURES AND ENCUMBRANCES				
Current				
Transportation	220,133	223,255	79,722	143,533
Capital Outlay				
Transportation	316,633	331,283	167,590	163,693
Debt Service				
Principal	-	-	2,169	(2,169)
Interest	19,279	19,279	241	19,038
Total Expenditures and Encumbrances	556,045	573,817	249,722	324,095
Excess (Deficiency) of Revenues over (under) Expenditures and Encumbrances	(385,807)	(387,893)	(67,735)	320,158
OTHER FINANCING SOURCES (USES)				
Long-Term Debt Issued	4,200	4,200	248	(3,952)
Sales of Capital Assets	-	-	19,800	19,800
Transfers In	49,858	50,549	92,087	41,538
Transfers Out	-	-	(16,227)	(16,227)
Total Other Financing Sources (Uses)	54,058	54,749	95,908	41,159
Net Change in Fund Balance	$ (331,749)	$ (333,144)	28,173	$ 361,317
Fund Balance - Beginning of Year			33,206	
Fund Balance (Budgetary) - End of Year			61,379	
Adjustments to Conform to Generally Accepted Accounting Principles				
Reserves Not Available for Appropriation			2	
Encumbrances			50	
Pass-Through Receipts				
Budgeted as Revenues			(2,295)	
Budgeted as Expenditures			2,295	
Fund Balance (GAAP) - End of Year			$ 61,431	

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LOW-INCOME HOUSING FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
For the Year Ended December 31, 2011
(In Thousands)

	Budgeted Amounts			
	Original	Final	Actual	Variance
REVENUES				
Taxes				
General Property Taxes	$ 18,975	$ 18,975	$ 18,645	$ (330)
Grants, Shared Revenues, and Contributions	16,023	18,136	11,176	(6,960)
Charges for Services	3,685	3,685	19	(3,666)
Program Income, Interest, and Miscellaneous Revenues	15,785	15,785	8,281	(7,504)
Total Revenues	54,468	56,581	38,121	(18,460)
EXPENDITURES AND ENCUMBRANCES				
Current				
Economic Environment	36,908	39,651	26,494	13,157
Capital Outlay				
Economic Environment	82,175	81,545	-	81,545
Total Expenditures and Encumbrances	119,083	121,196	26,494	94,702
Excess (Deficiency) of Revenues over (under) Expenditures and Encumbrances	(64,615)	(64,615)	11,627	76,242
OTHER FINANCING SOURCES (USES)				
Sales of Capital Assets	-	-	15	15
Transfers Out	-	-	(265)	(265)
Total Other Financing Sources (Uses)	-	-	(250)	(250)
Net Change in Fund Balance	$ (64,615)	$ (64,615)	11,377	$ 75,992
Fund Balance - Beginning of Year as Restated			75,025	
Encumbrances Continued from Last Year			125	
Fund Balance (Budgetary) - End of Year			86,527	
Adjustments to Conform to Generally Accepted Accounting Principles				
Encumbrances			61	
Fund Balance (GAAP) - End of Year			$ 86,588	

PENSION PLAN INFORMATION

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Defined benefit pension plans are required to provide two schedules of long-term actuarial data, Schedule of Funding Progress and Schedule of Employer Contributions as of the plans' reporting dates for the past six consecutive fiscal years. The information presented in these schedules was part of the latest actuarial valuations at the dates indicated in Note 11, Table 11-1.

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PENSION PLAN INFORMATION
SCHEDULE OF FUNDING PROGRESS
December 31, 2011
(In Thousands)

Retirement System	Actuarial Valuation Date January 1	Actuarial Value of Assets	Actuarial Accrued Liabilities (AAL) [a]	Unfunded Actuarial Accrued Liabilities (UAAL) [b]	Funded Ratio	Covered Payroll [c]	UAAL as a Percentage of Covered Payroll
Seattle City Employees' Retirement System (SCERS)	2002	$ 1,383,700	$ 1,581,400	$ 197,700	87.5 %	$ 405,100	48.8 %
	2004	1,527,500	1,778,900	251,400	85.9	424,700	59.2
	2006	1,791,800	2,017,500	225,800	88.8	447,000	50.5
	2008	2,119,400	2,294,600	175,200	92.4	501,900	34.9
	2010	1,645,300	2,653,800	1,008,500	62.0	580,900	173.6
	2011	2,013,700	2,709,000	695,400	74.3 [d]	563,200	123.5
Firemen's Pension Fund	2007	10,045	154,518	144,473	7.0	N/A	N/A
	2008	9,005	168,384	159,379	5.0	N/A	N/A
	2009	11,498	141,621	130,123	8.0	N/A	N/A
	2010	13,273	143,499	130,226	9.0	N/A	N/A
	2011	11,430	126,794	115,364	9.0	N/A	N/A
	2012	10,877	138,611	127,734	8.0	N/A	N/A
Police Relief and Pension Fund	2007	1,327	119,280	117,953	1.0	N/A	N/A
	2008	805	138,897	138,092	1.0	N/A	N/A
	2009	423	132,118 [e]	131,695 [e]	0.0	N/A	N/A
	2010	280	129,393	129,113	0.0	N/A	N/A
	2011	1,105	137,497	136,392	1.0	N/A	N/A
	2012	3,746	111,458	107,712	3.0	N/A	N/A

[a] Actuarial present value of benefits less actuarial present value of future normal costs based on Entry Age Actuarial Cost Method for SCERS, Firemen's Pension, and Police Relief and Pension.

[b] Actuarial accrued liabilities less actuarial value of assets, funding excess if negative.

[c] Covered payroll includes compensation paid to all active employees on which contributions are calculated. Not applicable for Firemen's Pension and Police Relief and Pension plans. These plans primarily cover inactive participants and there are no current member contributions.

[d] The funding ratio had been 62.0%, based on previous, January 1, 2010 actuarial valuation. The increase in the funding ratio is due mainly to the adoption of the asset smoothing method.

[e] Reflects a $514,000 actuarial adjustment for the 2009 AAL and UAAL.

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PENSION PLAN INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS
December 31, 2011
(In Thousands)

Retirement System	Fiscal Year Ending December 31	Covered Employee Payroll [a]	Actual Employer Contribution [b]	Actual Employer Contribution Percentage [b]	Annual Required Contribution (ARC) [c]	Percentage of ARC Contributed
Seattle City Employees' Retirement System (SCERS)	2006	$ 472,500	$ 37,900	8.03 %	8.03 %	100 %
	2007	501,900	40,300	8.03	8.03	100
	2008	570,530	45,814	8.03	8.03	100
	2009	580,948	46,650	8.03	8.03	100
	2010 [d]	563,198	45,225	8.03	17.00	47
	2011	557,000	50,300	9.03	13.11	69
Firemen's Pension Fund	2006	N/A	9,385	N/A	$ 9,385	100
	2007 [e]	N/A	8,633	N/A	9,533	91
	2008	N/A	15,027	N/A	10,673	141
	2009	N/A	11,422	N/A	8,266	138
	2010	N/A	7,255	N/A	7,975	91
	2011	N/A	8,262	N/A	7,218	114
Police Relief and Pension Fund	2006	N/A	6,056	N/A	$ 6,056	100
	2007 [e]	N/A	5,885	N/A	7,783	76
	2008	N/A	9,723	N/A	9,248	105
	2009	N/A	7,939	N/A	8,635	95
	2010	N/A	9,843	N/A	7,907	124
	2011	N/A	11,195	N/A	8,534	131

[a] Computed as the dollar amount of the actual employer contribution made as a percentage of payroll divided by the contribution rate, expressed as a percentage of payroll for SCERS. Not applicable to the Firemen's Pension and Police Relief and Pension because these plans primarily cover inactive participants and there are no current member contributions.

[b] The actual and required employer contributions for SCERS are expressed as a percentage of payroll after first recognizing the $12 per employee assessment made for the death benefits. This assessment per employee is included in the actual employer contributions reported and has been previously recognized by the actuary in determining the ARC.

[c] The City makes employer contributions as a percentage of actual payroll for SCERS as set in City ordinance. Thus, as long as the percentage equals the percentage required by the most recent actuarial valuation, the dollar amount of the ARC is equal to the actual dollar amount of the employer contributions. The City ordinance does not permit a reduction in the employer contribution rate less than the employee contribution rate.

[d] The latest actuarial valuation for SCERS was completed as of January 1, 2011.

[e] Projected benefit payments and liabilities increased significantly between the 2005 actuarial valuation and the valuation completed in 2007. The primary contributing factor was the change in actuarial assumptions to reflect that long-run wages were expected to increase faster than the Consumer Price Index.

City of Seattle
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2011

Grantor Agency/Program	Passthru Agency	J/F	CFDA#	Grant Total	Notes
DEPARTMENT OF AGRICULTURE					
Wetlands Reserve Program		F	10.072	15,291.00	
Child and Adult Care Food Program	Department of Agriculture	J	10.558	1,193,882.04	
Summer Food Service Program for Children	Department of Social and Health Services	J	10.559	423,379.68	
Senior Farmers Market Nutrition Program	Department of Agriculture	J	10.576	34,369.69	
Sub Total				**1,666,922.41**	
DEPARTMENT OF COMMERCE					
Economic Adjustment Assistance		F	11.307	51,408.29	
Pacific Coast Salmon Recovery_Pacific Salmon Treaty Program	Washington State Recreation and Conservation Office (formerly the Office of the Interagency Committee)	J	11.438	180.45	
Public Safety Interoperable Communications Grant Program	Military Department	J	11.555	431,922.62	
Sub Total				**483,511.36**	
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT					
Community Development Block Grants/Entitlement Grants		F	14.218	8,594,808.57	
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	Department of Commerce	J	14.228	652,765.00	
Emergency Shelter Grants Program		F	14.231	552,924.47	5
Supportive Housing Program		F	14.235	9,239,050.19	
Supportive Housing Program	King County	J	14.235	395,176.20	
Home Investment Partnerships Program		F	14.239	6,198,565.75	
Housing Opportunities for Persons with AIDS		F	14.241	1,683,916.67	
CDBG/Brownfileds Economic Development Initiative		F	14.246	15,000.00	
CDBG_Section 108 Loan Guarantees		F	14.248	3,000,000.00	
ARRA - CDBG ARRA Entitlement Grants		F	14.253	819,646.01	
ARRA - Homelessness Prevention and Rapid Re-Housing Program		F	14.257	2,578,325.39	
Fair Housing Assistance Program_State and Local		F	14.401	185,380.00	
Sustainable Communities Regional Planning Grant Program	Puget Sound Regional Council	J	14.703	59,685.36	
Public and Indian Housing	Seattle Housing Authority	J	14.850	373,000.00	
Sub Total				**34,348,243.61**	
DEPARTMENT OF THE INTERIOR					
Fish and Wildlife Management Assistance	National Fish and Wildlife Foundation	J	15.608	10,159.16	
Sub Total				**10,159.16**	
DEPARTMENT OF JUSTICE					
Services for Trafficking Victims		F	16.320	180,148.49	
Juvenile Accountability Block Grants	King County	J	16.523	49,048.00	
Grants to Reduce Domestic Violence, Dating Violence, Sexual Assault, and Stalking on Campus		F	16.525	1,246.43	
Enhanced Training and Services to End Violence and Abuse of Women Later in Life	King County	J	16.528	10,658.43	
Part E - Developing, Testing and Demonstrating Promising New Programs		F	16.541	126,750.24	
Missing Children's Assistance		F	16.543	313,613.45	
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program		F	16.580	2,357.60	
Grants to Encourage Arrest Policies and Enforcement of Protection Orders		F	16.590	365,540.23	
Bulletproof Vest Partnership Program		F	16.607	52,608.50	
Public Safety Partnership and Community Policing Grants		F	16.710	351,155.86	
Transitional Housing Assistance for Victims of Domestic Violence, Dating Violence, Stalking, or Sexual Assault		F	16.736	92,893.00	
Edward Byrne Memorial Justice Assistance Grant Program		F	16.738	566,732.84	
Edward Byrne Memorial Justice Assistance Grant Program	Department of Commerce	J	16.738	224,747.95	
Paul Coverdell Forensic Sciences Improvement Grant Program		F	16.742	51,111.46	
ARRA - Recovery Act - Internet Crimes against Children Task Force Program		F	16.800	338,543.50	
ARRA - Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to Units of Local Government		F	16.804	1,031,678.02	
ARRA - Recovery Act - Edward Byrne Memorial Competitive Grant Program		F	16.808	54,522.41	
Sub Total				**3,813,356.41**	
DEPARTMENT OF LABOR					
Senior Community Service Employment Program	Department of Social and Health Services	J	17.235	355,669.40	
WIA Youth Activities	Workforce Development Council	J	17.259	907,700.53	
Sub Total				**1,263,369.93**	

City of Seattle
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2011

Grantor Agency/Program		Passthru Agency	J/F	CFDA#	Grant Total	Notes
DEPARTMENT OF TRANSPORTATION						
	Highway Planning and Construction	Department of Transportation	J	20.205	9,460,652.40	6
	ARRA - Highway Planning and Construction	Department of Transportation	J	20.205	9,277,940.95	
	Federal Transit_Capital Investment Grants		F	20.500	2,400,000.00	
	Federal Transit_Formula Grants		F	20.507	2,642,542.07	7
	ARRA - Federal Transit_Formula Grants		F	20.507	165,661.90	
	Capital Assistance Program for Reducing Energy Consumption and Greenhouse Gas Emissions		F	20.523	1,366,129.00	
	State and Community Highway Safety	Traffic Safety Commission	J	20.600	26,602.41	
	Alcohol Impaired Driving Countermeasures Incentive Grants I	Traffic Safety Commission	J	20.601	49,136.87	
	Sub Total				**25,388,665.60**	
EQUAL EMPLOYMENT OPPORTUNITY COMMISSION						
	Employment Discrimination_State and Local Fair Employment Practices Agency Contracts		F	30.002	54,590.00	
	Sub Total				**54,590.00**	
ENVIRONMENTAL PROTECTION AGENCY						
	Puget Sound Watershed Management Assistance		F	66.120	383,833.13	
	Puget Sound Watershed Management Assistance	Department of Commerce	J	66.120	30,527.00	
	Congressionally Mandated Projects		F	66.202	489,757.00	
	ARRA - Capitalization Grants for Clean Water State Revolving Funds	Washington State Department of Ecology	J	66.458	68,369.39	8
	ARRA - Capitalization Grants for Clean Water State Revolving Funds	Washington State Department of Ecology	J	66.458	68,369.39	8.1
	Office of Research and Development Consolidated Research/Training/Fellowships		F	66.511	72,518.26	
	Environmental Protection Consolidated Grants for the Insular Areas-Program Support		F	66.600	199,457.90	
	Sub Total				**1,312,832.07**	
DEPARTMENT OF ENERGY						
	State Energy Program	Department of Commerce	J	81.041	1,000,000.00	
	Weatherization Assistance for Low-Income Persons	DCTED	J	81.042	223,597.31	
	ARRA - Weatherization Assistance for Low-Income Persons	DCTED	J	81.042	2,757,145.98	
	ARRA - Conservation Research and Development	Puget Sound Clean Air Agency	J	81.086	592,476.06	
	ARRA - Renewable Energy Research and Development		F	81.087	379,897.30	
	ARRA - Electricity Delivery and Energy Reliability, Research, Development and Analysis	Centralia College	J	81.122	16,299.01	
	ARRA - Energy Efficiency and Conservation Block Grant Program		F	81.128	9,579,420.41	
	ARRA - Energy Efficiency and Conservation Block Grant Program	Department of Energy	J	81.128	39,444.32	
	Sub Total				**14,588,280.39**	
DEPARTMENT OF EDUCATION						
	TRIO_Upward Bound		F	84.047	418,335.45	
	Early Reading First		F	84.359	785,443.15	
	Sub Total				**1,203,778.60**	
NATIONAL ARCHIVES AND RECORDS ADMINISTRATION						
	National Historical Publications and Records Grants		F	89.003	32,674.46	
	Sub Total				**32,674.46**	
DEPARTMENT OF HEALTH AND HUMAN SERVICES						
	Special Programs for the Aging_Title VII, Chapter 3_Programs for Prevention of Elder Abuse, Neglect, and Exploitation	Department of Social and Health Services	J	93.041	22,327.00	
	Special Programs for the Aging_Title III, Part D_Disease Prevention and Health Promotion Services	Department of Social and Health Services	J	93.043	112,078.00	
	Special Programs for the Aging_Title III, Part B_Grants for Supportive Services and Senior Centers	Department of Social and Health Services	J	93.044	2,585,749.56	
	Special Programs for the Aging_Title III, Part C_Nutrition Services	Department of Social and Health Services	J	93.045	2,494,271.35	
	Special Programs for the Aging_Title IV_and Title II_ Discretionary Projects	Department of Social and Health Services	J	93.048	(1,150.00)	
	Alzheimer's Disease Demonstration Grants to States	Department of Social and Health Services	J	93.051	2,312.06	
	National Family Caregiver Support, Title III, Part E	Department of Social and Health Services	J	93.052	774,634.00	
	Nutrition Services Incentive Program	Department of Social and Health Services	J	93.053	507,181.25	
	Medicare Enrollment Assistance Program	Department of Social and Health Services	J	93.071	7,611.37	

Grantor Agency/Program		Passthru Agency	J/F	CFDA#	Grant Total	Notes
	Centers For Disease Control and Prevention_Investigations and Technical Assistance	Department of Health	J	93.283	13,495.61	
	Affordable Care Act - Medicare Improvements for Patients and Providers		J	93.518	18,184.08	
	Low-Income Home Energy Assistance	DCTED	J	93.568	1,370,536.37	
	Child Care and Development Block Grant	Department of Agriculture	J	93.575	31,681.94	
	ARRA - Strengthening Communities Fund		F	93.711	245,534.62	
	ARRA - Prevention and Wellness Communities Putting Prevention to Work Funding Opportunities Announcement (FOA)	King County	J	93.724	799,241.40	
	Medical Assistance Program	Department of Social and Health Services	J	93.778	16,645,247.73	
	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	Department of Social and Health Services	J	93.779	297.67	
	Sub Total				**25,629,234.01**	
DEPARTMENT OF HOMELAND SECURITY						
	State and Local Homeland Security Exercise Support	Military Department	J	97.006	(13,075.88)	9
	Boating Safety Financial Assistance	Department of Parks and Recreation	J	97.012	93,021.07	
	National Urban Search and Rescue (US&R) Response System	King County	J	97.025	26,697.00	10
	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	Military Department	J	97.036	85,657.84	11
	Hazard Mitigation Grant	Military Department	J	97.039	132,044.56	11
	Emergency Management Performance Grants	Military Department	J	97.042	361,816.98	
	Assistance to Firefighters Grant		F	97.044	1,127,108.35	
	Assistance to Firefighters Grant	Military Department	J	97.044	67,635.91	
	Port Security Grant Program (B)	Port of Seattle	J	97.056	3,506,406.01	
	Homeland Security Grant Program	Military Department	J	97.067	5,112,493.15	12
	Metropolitan Medical Response System	Military Department	J	97.071	153,661.47	
	Rail and Transit Security Grant Program	King County	J	97.075	37,925.33	
	Buffer Zone Protection Program	Military Department	J	97.078	53,687.85	
	Homeland Security Biowatch Program		F	97.091	240,044.21	
	Regional Catastrophic Preparedness Grant Program (RCPGP)	Military Department	J	97.111	1,292,255.99	
	Sub Total				**12,277,379.84**	
	Federal Grants				**122,072,997.85**	

CITY OF SEATTLE

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended December 31, 2011

NOTE 1 - BASIS OF ACCOUNTING

This schedule is prepared on the same basis of accounting as the City's financial statements. The City uses the modified accrual basis in its governmental funds and the full accrual basis of accounting in its proprietary funds.

NOTE 2 - PROGRAM COST

The amounts shown as expenditures represent only the federal grant portion of the program costs. Entire program costs, including the City's portion may be more than shown.

NOTE 3 - REVOLVING LOAN - PROGRAM INCOME

The City has revolving loan program for low income housing. Under this federal program, repayments to the City are considered program revenues and loans to eligible recipients are considered expenditures.

NOTE 4 - SECTION 108/BEDI PROGRAM

City of Seattle participates in the HUD Section 108 loan program. In the Section 108 loan program, HUD obtains funds from private investors at a very low cost (i.e., low interest rate). Low cost funds are available because HUD guarantees repayment to the private investors. HUD, in turn provides the low cost funds to jurisdictions nationwide including City of Seattle. The City re-lends the funds to private borrowers.

The City has used Section 108 loan funds in combination with proceeds from Federal Brownfields Economic Development Initiative (BEDI) grants. BEDI Grant funds have been applied to subsidize interest obligations on the Section 108 loans, provide loan loss reserves on the Section 108 loans and pay direct project costs.

The City established a $15.5 million Section 108 loan fund with a companion $1.75 million BEDI grant to finance six projects, known as 211 First Avenue, the Buttnick Building, the City Loan Building, Compass Center, the Cadillac Hotel and Northgate South Commons, LLC. Proceeds from this Section 108/BEDI loan fund were fully disbursed in 2008.

The City also established a $10.0 million Section 108 loan fund with a companion $2.0 million BEDI grant to finance four projects, known as 17th and Jackson, the Bush Hotel, Alpha Cine and Claremont Apartments. Proceeds from this Section 108/BEDI loan fund were fully disbursed in 2009.

The City did not establish a Section 108 loan fund in 2011 and 2010.

The Bank of New York serves as the City's Custodian, disbursing Section 108 and BEDI funds to borrowers, receiving loan repayments from the borrowers, and making the City's loan repayments to HUD.

NOTE 5 - GRANTS FROM DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT, EMERGENCY SHELTER GRANTS PROGRAM, CFDA # 14.231

Grant expenditure in the amount of $31,600 (Summit project id HCF40000) is not included in 2011 SEFA. The grant revenue was included in 2000 SEFA. In the past, Schedules of Expenditures of Federal Awards were prepared by using revenue amounts.

NOTE 6 - GRANTS FROM DEPARTMENT OF TRANSPORTATION, HIGHWAY PLANNING AND CONSTRUCTION, CFDA # 20.205

Expenditures include $442.80 for LTD true up costs for Summit project id TC365500.

NOTE 7 - GRANTS FROM DEPARTMENT OF TRANSPORTATION, FEDERAL TRANSIT FORMULA GRANTS, CFDA # 20.507

Expenditures exclude City match in the amount of $17,413.10 for Summit project id TG36627R.

NOTE 8 - GRANTS FROM ENVIRONMENTAL PROTECTON AGENCY, ARRA - CAPITALIZATION GRANTS FOR CLEAN WATER STATE REVOLVING FUND, CFDA # 66.458

The City was approved as a subrecipient by the Washington State Department of Ecology for an EPA loan in the amount of $1,394,678 to improve natural drainage systems. Of this amount $697,309 will be forgivable grant and the remaining $697,309 will be considered loan proceeds. The amount listed for this loan includes the proceeds used during the year. This loan was closed in 2011 and no further proceeds will be received.

NOTE 8.1 - GRANTS FROM ENVIRONMENTAL PROTECTON AGENCY, ARRA - CAPITALIZATION GRANTS FOR CLEAN WATER STATE REVOLVING FUND, CFDA # 66.458

The City was approved as a subrecipient by the Washington State Department of Ecology for an EPA loan in the amount of $1,394,678 to improve natural drainage systems. This is the piece of the 50% forgivable principal that is recorded as a grant. The Department of Ecology has allocated their budget between specific tasks. Due to this budget allocation, we were not fully reimbursed for our expenses; therefore, we have only reported the allowable expenses in which we were reimbursed.

NOTE 9 - GRANTS FROM DEPARTMENT OF HOMELAND SECURITY, STATE AND LOCAL HOMELAND SECURITY EXERCISE SUPPORT, CFDA # 97.006

Reduction of revenue in the amount of $13,075.88 is the disallowable costs that Seattle Fire Department was notified after 2010 year end. Therefore, this adjustment is included in 2011 SEFA.

NOTE 10 - GRANTS FROM DEPARTMENT OF HOMELAND SECURITY, NATIONAL URBAN SEARCH AND RESCUE (US&R) RESPONSE SYSTEM, CFDA # 97.025

Adjustment to revenue in the amount of $3,119.21 is the disallowable costs that Seattle Fire Department was notified after 2010 year end. Therefore, this adjustment is included in 2011 SEFA.

NOTE 11 - GRANTS FROM DEPARTMENT OF HOMELAND SECURITY, DISASTER GRANTS - PUBLIC ASSISTANCE (PRESIDENTIALLY DECLARED DISASTERS) AND HAZARD MITIGATION GRANT, CDFA NUMBERS 97.036 AND 97.039, RESPECTIVELY

The City reports these grants when grant proceeds were received rather than when expenditures were incurred for GEN business unit. The reason is that not all expenditures were approved for reimbursements.

NOTE 12 - GRANTS FROM DEPARTMENT OF HOMELAND SECURITY, HOMELAND SECURITY GRANT PROGRAM, CFDA # 97.067

Reduction of revenue in the amount of $1,667.44 is the disallowable costs that Seattle Fire Department was notified after 2010 year end. Therefore, this adjustment is included in 2011 SEFA.

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.

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Chief of Staff	**Ted Rutt**
Deputy Chief of Staff	**Doug Cochran**
Chief Policy Advisor	**Jerry Pugnetti**
Director of Audit	**Chuck Pfeil, CPA**
Director of Performance Audit	**Larisa Benson**
Director of Special Investigations	**James E. Brittain, CPA, CFE**
Director for Legal Affairs	**Jan Jutte, CPA, CGFM**
Director of Quality Assurance	**Ivan Dansereau**
Local Government Liaison	**Mike Murphy**
Communications Director	**Mindy Chambers**
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