

**Washington State Auditor's Office**  
**Financial Statements Audit Report**

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**City of Seattle**  
**King County**

Audit Period  
**January 1, 2009 through December 31, 2009**

**Report No. 1003916**

Issue Date  
**July 19, 2010**



WASHINGTON  
**BRIAN SONNTAG**  
STATE AUDITOR



**Washington State Auditor  
Brian Sonntag**

July 19, 2010

Mayor and City Council  
City of Seattle  
Seattle, Washington

***Report on Financial Statements***

Please find attached our report on the City of Seattle's financial statements.

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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King County  
January 1, 2009 through December 31, 2009**

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# Schedule of Audit Findings and Responses

City of Seattle  
King County  
January 1, 2009 through December 31, 2009

1. **The City of Seattle's internal controls over financial statement preparation are inadequate.**

## Background

City management including the Council and Mayor, the state Legislature, state and federal agencies, bondholders and other interested parties rely on the information in financial statements and reports to make decisions. The City Department of Executive Administration is responsible for the preparation of the Comprehensive Annual Financial Report (CAFR) that presents the City's financial position and results of its operations. The Department prescribes city-wide accounting policies and compiles the accounting information maintained by City departments. City management is responsible for designing and following internal controls that provide reasonable assurance regarding the reliability of financial reporting.

Our audit identified deficiencies in controls that adversely affect the City's ability to timely produce reliable financial statements. *Government Auditing Standards*, prescribed by the Comptroller General of the United States, require the auditor to communicate significant deficiencies, as defined below in the Applicable Laws and Regulations section, as a finding.

## Description of Condition

We identified internal control deficiencies over preparation of the City's financial statements that resulted in the City having to correct financial information in the CAFR and other required reports. These errors generally were caused by an insufficiently detailed review of the financial information provided by decentralized departments for preparation of city-wide financial statements.

- The City has year-end accounts payable cutoff procedures which, if consistently applied by all the City departments, would increase the likelihood of all expenditures being accurately included in the financial statements. To ensure expenditures are accounted for in the appropriate period, the Department of Executive Administration's Accounting Services Division identifies 2010 payments of more than \$100,000 potentially attributable to 2009 and requests the individual departments verify that they are charged to the correct year. However, we examined a selection of those transactions and noted the Division did not have sufficiently detailed information about the transactions to determine whether the departments are accurately accounting for them.
- Accounting Services Division's internal controls were not effective in preventing errors in reported capital assets of the Seattle Department of Transportation.

The Accounting Services Division provides general procedures to departments to account for capital assets, but has no processes to ensure they are effective. The Department of Transportation currently has different processes for determining reportable capital assets and Accounting Services Division has insufficient resources to do a detailed review of Transportation's year end capitalization procedures and results.

- The Accounting Services Division's internal controls over preparation of financial statement includes a review. The Division uses a checklist as part of the review. However, the review was performed at a level that was not detailed enough to be effective in identifying errors in classification of interfund loans and capital expenditures in the Governmental Funds Balance Sheet. Also, the review process did not identify several presentation and classification errors in the budgetary comparison information required by accounting standards.
- The Accounting Services Division's internal controls were not effective in preventing errors in the Schedule of Expenditures of Federal Awards required by the U.S Office of Management and Budget. The Division has procedures for City departments to identify and report federal assistance program expenditures, but does not monitor their use to ensure the procedures are followed. As a result, Accounting Services is unable to verify the accuracy of financial information received from the departments before entering it on the Schedule.

### **Cause of Condition**

Accounting Services Division employees do not have sufficiently detailed knowledge of some department-specific accounting practices and how some departmental information used for the City's financial statements is generated. This was especially apparent for the Transportation Fund and the utility funds, as the Division referred our inquiries regarding specific transactions to individual departments.

City-wide accounting procedures for reporting of federal grant expenditures were not fully communicated to and understood by Seattle Public Utilities project managers and accountants. The Division did not follow up with the Departments to ensure they understood accounting procedures and the method for determining current year federal grant expenditures.

### **Effect of Condition**

The financial statements the City submitted for audit contained undetected errors that required corrections. Financial statement users need accurate information in order to make informed decisions.

- Liabilities were reported in the wrong year and were underreported in the General Fund, Transportation Fund and the Parks Fund.
  - Errors in the General Fund liabilities were about \$747,000.
  - Transportation Fund's liabilities are understated by \$146,147.
  - Parks Fund underreported liabilities by \$67,907.

- Assets and liabilities of the Low Income Housing Fund were underreported by more than \$22 million because the once-a-year journal entry to record year-end balances was erroneous; the journal debit and credit lines were reversed.
- Expenditures of \$2.4 million in federal funds were inaccurately reported on the Schedule of Expenditures of Federal Awards. The information identifying the grant and the grant amount required correction.
- The Governmental Activities capital assets were misstated by about \$743,040 in the Statement of Net Assets.
- The classification of actual expenses and revenues in the budgetary comparison information did not match the same information presented in other statements.

The corrections have been included in the final financial statements. However, the deficiencies in internal controls over financial reporting make it reasonably possible that other errors could occur and not be detected and corrected by City management.

### **Recommendation**

Because the Accounting Services Division has responsibility for the accounting practices of the entire City, the Division should have more in-depth involvement in ensuring decentralized departments' practices are consistent with city-wide policies. In addition, we recommend that the Division's financial statement review process be performed promptly and at a more detailed level.

Specifically, the Accounting Services Division:

- Should periodically reconcile the asset management system and the general ledger to ensure accounting records are up to date. Accounting Services' review of capital asset journal entries should include a comparison to source documentation.
- Should confirm the departments are providing accurate federal grant information by reviewing the award information first hand.

### **City's Response**

*Regarding observance of year-end accounts payable cutoff: We appreciate the auditor's acknowledgment that our current procedures, if consistently applied, would increase the likelihood that all expenditures would be accurately included in the financial statements. We reviewed the specific transactions that the auditor determined should have been accrued to 2009 and found that departments actually flagged most of those items for review and that City staff decided to charge them to Budget Year 2010 as a result of their analysis or for specific reasons as discussed below:*

*General Fund Main Fund: Total = \$744 thousand*

- *\$551 thousand represents one invoice dated December 11, 2009 from the State Labor and Industries (L&I). The invoice contained a note stating that the L&I order to the City to pay pension reserves "will become final 60 days after receipt". The 60<sup>th</sup> day is February 11, 2010 and based on this information the City (Personnel) decided to book the expenditure to Budget Year 2010.*

- *\$104 thousand pertains to payment for architect services received in 2009. Although the invoice was dated December 31, 2009, it was received in the Fleets and Facilities accounts payable section on March 12, just after the cutoff for tracking of invoices for potential accrual into 2009. The amount represents less than 2% of the 2009 expenditures in the Cumulative Reserve Asset Preservation Subfund of the General Fund. Continuing to reopen the books to accommodate late accruals into individual subfunds would have delayed the completion of financial statements for the General Fund Main Fund, and consequently, the citywide financial statements. The negative impact on operations would have been too great. The fact that the department accrued into 2009 over \$5 million of payments processed in 2010 demonstrates substantial compliance with the accrual standards.*
- *\$89 thousand pertains to one invoice for litigation expenses paid by the Law Department on January 22, 2010. Although the invoice represents payment for 2009 costs, the amount was charged to Budget Year 2010 because it was processed after January 16 which was the Law department's early cut-off date for recording year-end expenses. This early cut-off date was agreed to by Law, Department of Executive Administration, City Light and Seattle Public Utilities to provide 2009 litigation costs used in the determination of amounts to be booked as year-end liabilities for judgments and claims. The calculations include current year costs, expected future costs of claims and lawsuits on record as of year-end, and other actuarially determined factors projected many years into the future. The Department of Executive Administration performs the citywide calculation using a method discussed and agreed to by the utilities, and the utilities use DEA's calculations to book their own liability amounts. Strict due dates so the utilities can have the information they need to meet deadlines for submitting utility financials to their own auditors. The City recognizes that observing early year-end cut-offs for Law department expenditures sacrifices a certain level of accuracy but that such risk is at a low and acceptable level.*

*Seattle Department of Transportation: Total = \$145 thousand*

- *\$137 thousand represents payment for a contractor invoice received in 2010 for costs incurred in December 2009 through January 2010. The detail back-ups did not provide a clear split between 2009 and 2010 costs. The City (SDOT) decided to not estimate a split and booked the total amount to Budget Year 2010. Booking of estimates is avoided especially when recorded costs are used as basis for billings to outside parties.*
- *We acknowledge that the remaining \$8 thousand of questioned costs was incorrectly charged to 2010. It represents a portion of one invoice for insurance costs totaling \$308 thousand that was paid in 2010 by DEA on behalf of SDOT.*

*Department of Parks and Recreation: Total = \$68 thousand*

- *\$68 thousand represents several invoices for utilities processed by the City's Department of Parks and Recreation. The Department receives hundreds of utility invoices regularly because they have so many meters in so many locations. Because of the volume, the amount per invoice, and the level of regularity in which these transactions occur, the department has determined that pro-rating invoices at year-end would require a lot of work but provide little extra benefit in terms of accuracy of amounts.*

*General comments: The above information demonstrates the City's high level of effectiveness in flagging invoices received in the new year for review and determination of potential proration of amounts to the old year. It also demonstrates substantial compliance with the accrual standards. However, we have considered the auditor recommendation with regard to the payment of L&I order notices and henceforth we shall process payments based on the effective date of underlying events that support the pension assessment instead of the end date of the appeal period. Going forward, we will also periodically reassess accrual practices for our varied types of transactions to ensure continued compliance with internal control standards.*

*Regarding controls to prevent errors in reported capital assets: The error pertains to capitalization of assets owned by the Seattle Department of Transportation (SDOT) which, compared to other departments, has more complex department-specific internal procedures designed to track the inflow and use of multiple sources of funds for their projects. The customized procedures include two extracts of capitalizable cost information from the City financial system. The Project Code is used for one extract, and the Account Code is used for the other extract. The two data sets contained an overlap of \$177 thousand equipment costs that was not detected and was subsequently over-reported. The other error was a misclassification of \$566 thousand as completed infrastructure assets instead of work in progress. The City will revisit and document the process, implement controls and clarify accountabilities among departmental and central accounting staff.*

*Regarding controls over preparation of financial statement: We acknowledge that some accounting transactions and report line items contained errors that were not detected by the preparers and the traditional reviewers. With regard to the \$22 million loans from the Low Income Housing Fund, those loans were properly reported in other monthly activity or budget monitoring reports during the year, and were therefore appropriately considered in operational decisions made during the year. The once-a-year updating of loan balances and corresponding (offsetting) balances in deferred revenues was in error due to one incorrect journal entry and the offsetting errors did not impact the fund balance. A correction was made before the financial statements were finalized. Central accounting will work with departments to assess risks related to the cited operational areas and will establish and document cost-effective controls.*

*Regarding controls to ensure accurate preparation of the Schedule of Expenditures of Federal Awards (SEFA): About \$1.8 million of the cited \$2.4 million grants were reported with the wrong Catalog of Federal Domestic Assistance (CFDA) Code due to an undetected typographical error in the CFDA code. \$250 thousand was at first reported as grant expenditure, then subsequently excluded after it was verified to be not belonging to the grant. The remaining \$296 thousand was excluded from the SEFA upon use of a reporting option to not include grant loans before the funds are received. All the corrections to the SEFA report have been made. Going forward, central accounting will work with departments to review grant awards with special reporting requirements. We will document risk areas and establish procedures and cost-effective controls. Grant award Codes will also be verified against actual award documents to prevent any typographical error in reporting grantor agency Codes in the SEFA.*

*Regarding submitting incomplete statements for audit: Like other City work teams, the Accounting Services Division is experiencing resource constraints while trying, at the same time, to keep up with essential functions and to forge ahead with special projects*

*that will ultimately provide solutions to existing scheduling and internal control issues. We acknowledge that the financial statements were not all ready for audit at the same time. However, all sections required to be audited were eventually submitted for review before completion of audit field work. Given the continuing resource constraints, central accounting will work departments earlier in the year to address scheduling issues.*

*Other General Comments:*

*In addition to addressing the specific risk areas mentioned above, the City is also undertaking to establish a more structured approach to sound financial management citywide. Among the areas currently being addressed are: 1) Centralization and oversight of consultant contracting citywide; 2) Implementing controls over direct-voucher purchases; 3) Updating documentation and standardizing the use of accounting data elements; and 4) Codifying accounting and reporting policies and standards. Other projects are being evaluated for future inclusion in the accounting division's work plan.*

### **Auditor's Remarks**

The City was very helpful during our audit, and we appreciate its commitment to strengthening its policies and procedures. We are committed to providing any help we can to ensure strong control systems are in place.

### **Applicable Laws and Regulations**

*Budgeting, Accounting and Reporting System, Vol 1, Part 3, Chapter 1* provides guidance for establishing effective internal controls. It states, in part:

Internal control is a process – affected by those charged with governance, management and other personnel designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations
- Compliance with applicable laws and regulations
- Reliability of financial reporting

Management and the governing body are responsible for the government's performance, compliance and financial reporting. Therefore, the adequacy of internal control to provide reasonable assurance of achieving these objectives is also the responsibility of management and the governing body. The governing body has ultimate responsibility for ensuring adequate controls to achieve objectives, even though primary responsibility has been delegated to management.

Controls are normally most effective when built into the government's infrastructure rather than being treated as supplemental or separate processes. In the same way, implementation and monitoring of internal controls should not be viewed as a singular event, but rather a continuous or iterative process.

The Washington State Auditor's Office does not require specific controls to be implemented by entities. The State Auditor only requires that whatever controls entities choose to implement be adequate to provide

reasonable assurance regarding compliance and financial reporting risks. The burden of demonstrating the adequacy of internal controls rests on management, since management is responsible both for the achievement of objectives and the determination of the design and operation of controls.

Ultimately, providing reasonable assurance of achieving compliance and financial reporting objectives is within the government's control and depends primarily on how well controls are designed and operated. Achievement of operational performance objectives also depends in large part on effective internal controls. By implementing effective controls a government can have reasonable assurance that it is doing all it can to meet its objectives.

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

Statement on Auditing Standards No. 115, issued by the Auditing Standards Board of the American Institute of Certified Public Accountants, defines significant deficiency 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.

# Schedule of Audit Findings and Responses

City of Seattle  
King County  
January 1, 2009 through December 31, 2009

## 2. The Seattle City Employees Retirement System's internal controls over investments and financial reporting were inadequate.

### Background

The Seattle City Employees' Retirement System provides retirement income to thousands of former City employees and their beneficiaries. The System is led by a seven-member Board of Administration and an Executive Director appointed by the Board. The System manages about \$1.6 billion of investments and paid about \$108 million in benefits in 2009.

The Seattle City Employees' Retirement System's financial statements were audited by a certified public accounting firm that furnished reports on the System's statements to our Office. We are reporting on significant deficiencies in internal controls identified by the firm that have the potential to adversely affect the City's ability to prepare accurate financial statements. The description below is based largely on the firm's report with only minor clarifications when needed.

### Description of Condition

The firm noted internal control deficiencies in two areas: monitoring and valuation of alternative investments and the year-end financial closing and reporting process. The firm notes the following:

- **Monitoring and Valuation of Investments.** *For the majority of the year, the System did not maintain an adequate internal control structure governing its investments. This deficiency was addressed during the fourth quarter with the hiring of an Investment Strategy Advisor, and new procedures for monitoring investments were implemented. However, there was no formal documentation of monitoring and valuation processes in place during most of the year, particularly for the alternative investments held by the System.*
- **Interim Financial Close and Reporting Processes.** *During the year, the System did not maintain an adequate internal control structure governing the financial close and reporting processes. This deficiency was addressed at year end with the hiring of a Finance and Operations Manager, and the year end close was effective and timely. However, the lack of a robust financial close and reporting process during the year resulted in a lack of timely, accurate and complete financial information on a regular basis throughout the year.*

## **Cause of Condition**

The firm stated that throughout most of 2009, the System did not have key individuals to oversee its accounting and financial reporting functions. It further stated that prior to December 2009, the System did not have good monitoring and valuation processes for its alternative investments.

## **Effect of Condition**

The CPA firm stated the following in its communication:

### ***Monitoring and Valuation of Investments***

*For the majority of the year, the System did not maintain an effective internal control structure surrounding the monitoring of its investments, including alternative investments, held in the System's portfolio. There was an observed lack of understanding of the nature and extent of the alternative investments held by the System and the risks associated with such investments. In addition, there was a lack of understanding for securities lending transactions and other complex investment strategies that the System had pursued. The System did not have a comprehensive and updated policy on strategy and objectives for investing in alternative investments, given the volatile domestic and international markets during the last two years.*

*Alternative investments are defined as any investment in which a readily determinable fair value does not exist (investments not listed on national exchanges or over-the-counter markets or for which quoted market prices are not available). Alternative investments comprise approximately 25 percent of the System's investment portfolio at December 31, 2009.*

*This matter was previously identified by the firm as a material weakness in its Communication of Internal Control Matters dated July 15, 2009.*

*During the fourth quarter, the System hired a Strategic Investment Advisor and began to strengthen control processes to effectively monitor the existence and valuation of its investments, particularly its alternative investment holdings.*

### ***Financial Closing and Reporting Process***

*During the year, the System's financial close and reporting process did not encompass effective controls that allowed for accurate, reliable, and timely financial reporting. As a result, interim financial data may not have been properly supported or reported.*

*The System hired a Finance and Operations Manager near the end of the year who has implemented steps to formalize the financial close and reporting process and strengthen the internal control environment.*

## **Recommendation**

The firm made recommendations in the following areas:

## **Monitoring and Valuation of Investments**

We recommend that the System continue to refine and develop robust control processes to effectively monitor the existence and valuation of its investments, particularly its alternative investment holdings. We recommend updating and strengthening the investment policy to identify specific policies and requirements to address the risks associated with each class of investment, including alternative investments. The System should also ensure that senior management personnel and the Board of Administration have a clear understanding of the underlying risks and monitoring complex investment strategies, such as securities lending.

We recommend that the System continue to employ a qualified investment manager and create policies and procedures to aid in determining the fair value of investments on a timely and regular basis, selecting appropriate valuation methods, identifying and supporting significant assumptions used and ensuring that the presentation of the fair value measurements are in accordance with generally accepted accounting principles.

## **Financial Closing and Reporting Process**

We recommend that the System continue to develop and document an effective control environment surrounding the financial close and reporting process. Checklists and protocols should be developed to aid in effective and timely financial reporting for monthly or quarterly data in addition to the annual close.

## **Department's Response**

### ***Monitoring and Valuation of Investments***

#### *Investment Strategic Advisor*

*During the year, the Investment Strategic Analyst (ISA) was hired to focus on the investments. The ISA provided industry structure and definition to the controls surrounding investments, including the monitoring of investments and the managers engaged to invest the System assets.*

#### *Investment Manager Monitoring Policy*

*Through direction of the Executive Director, the Investment Strategic Advisor developed and implemented the Investment Manager Monitoring Policy. The policy was approved by the Investment Committee and requires that every investment manager, regardless of investment vehicle, undergoes regular and consistent monitoring.*

*Monitoring for this policy includes awareness of the manager and their style of investing, understanding of the manager's ownership and/or affiliated relationship, understanding of the manager's periodic performance, full awareness of the market valuation of the account and its periodic gain or loss, review of manager's required regulatory filings, and understanding manager's compliance with investment guidelines. The policy is executed and evidenced through formally defined procedures such as the Investment Manager Watchlist Procedure, Investment Manager Checklist and Investment Summary Report Process and through the execution of investment manager site visits. In light of recent Board changes, management will ensure the Board (and staff) have a clearer understanding of the the risks and investment strategies, such as securities lending.*

*In addition, the monitoring process includes the review by the Executive Director and then communication to the Investment Committee and Retirement Board. This includes recommendations of actions for underperforming managers.*

### **Financial Closing and Reporting Process**

*Finance and Operations Manager*

*Beginning third quarter 2009, SCERS first redefined and then filled the Finance and Operations Manager position to provide focus, control and oversight over the financial reporting process.*

*Since filling the position, additional definition and structure has been brought to the financial close and reporting process. Business practices (controls) have been defined and documented to support our continued ability to ensure reliable financial data and timely financial reporting. Tools have been developed to support the documentation of controls, communication of financial information and management of financial processes. In addition, on-going training of control and financial concepts is being provided to staff. Process improvement will continue to be an ongoing effort within our operations.*

### **City's Response**

*City central accounting will work with Retirement System management to ensure that actions initiated to improve and document policies and procedures and strengthen internal controls related to monitoring and valuation of investments and implementing effective financial close and reporting processes are addressed in a timely manner.*

### **Auditor's Remarks**

The City was very helpful during our audit, and we appreciate its commitment to strengthening its policies and procedures. We are committed to providing any help we can to ensure strong control systems are in place.

### **Applicable Laws and Regulations**

*Budgeting, Accounting and Reporting System, Vol 1, Part 3, Chapter 1 provides guidance for establishing effective internal controls. It states, in part:*

Internal control is a process – affected by those charged with governance, management and other personnel designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations
- Compliance with applicable laws and regulations
- Reliability of financial reporting

Management and the governing body are responsible for the government's performance, compliance and financial reporting. Therefore, the adequacy of internal control to provide reasonable assurance of achieving these objectives is also the responsibility of management and the governing body. The governing body has ultimate

responsibility for ensuring adequate controls to achieve objectives, even though primary responsibility has been delegated to management.

Controls are normally most effective when built into the government's infrastructure rather than being treated as supplemental or separate processes. In the same way, implementation and monitoring of internal controls should not be viewed as a singular event, but rather a continuous or iterative process.

The Washington State Auditor's Office does not require specific controls to be implemented by entities. The State Auditor only requires that whatever controls entities choose to implement be adequate to provide reasonable assurance regarding compliance and financial reporting risks. The burden of demonstrating the adequacy of internal controls rests on management, since management is responsible both for the achievement of objectives and the determination of the design and operation of controls.

Ultimately, providing reasonable assurance of achieving compliance and financial reporting objectives is within the government's control and depends primarily on how well controls are designed and operated. Achievement of operational performance objectives also depends in large part on effective internal controls. By implementing effective controls a government can have reasonable assurance that it is doing all it can to meet its objectives.

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

Statement on Auditing Standards No. 115, issued by the Auditing Standards Board of the American Institute of Certified Public Accountants, defines significant deficiency 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.

# Schedule of Audit Findings and Responses

City of Seattle  
King County  
January 1, 2009 through December 31, 2009

## 3. Seattle Public Utilities' internal controls over financial statement preparation are inadequate.

### Background

City management, the state Legislature, state and federal agencies and bondholders rely on information in financial statements and reports to make decisions. City management is responsible for designing and following internal controls that provide reasonable assurance regarding the reliability of financial reporting. *Government Auditing Standards*, prescribed by the Comptroller General of the United States, require the auditor to communicate significant deficiencies, as defined below in the Applicable Laws and Regulations section, as a finding.

The Seattle Public Utilities' financial statements, consisting of the Water, Drainage and Wastewater, and Solid Waste Funds were audited by a certified public accounting firm that furnished reports on utility funds' statements to our Office. We are reporting on significant deficiencies in internal controls identified by the firm that have the potential to adversely affect the City's ability to prepare accurate financial statements.

### Description of Condition

The firm noted the Utilities do not maintain an adequate internal control structure governing certain management estimation accounts as part of the financial closing and reporting process, including estimates affecting capital assets, environmental liabilities and deferred revenues. The Utilities adjusted its 2009 financial statements during the audit to properly record these account balances.

### Cause of Condition

The Utilities' operations are complex and many accounts within each utility require management estimation and judgment. The firm indicated it believed the Utilities should apply "more structure and rigor governing these estimates". It also stated it believed the cause of these weaknesses was "a lack of ownership of the financial statements and the related accounting estimates by each Fund's Principal Accountant."

### Effect of Condition

The firm stated, as quoted below, the control deficiencies it noted resulted in the following adjustments:

**Capital assets**, timely close of Construction in Progress. "Within the Water Fund, one of the projects selected for testing was expected to close in November 2009. At year-

end, the project was still classified as construction in progress (CIP). Based on follow up inquiry, it was determined the reservoir was in service and should have been removed from CIP prior to, or during, the year end close. The adjustment approximated \$47 million, which was roughly 35 percent of pre-adjusted CIP of \$133 million.”

**Environmental liabilities, Pollution Remediation Obligations.** “The Utilities implemented GASB 49, Pollution Remediation Obligations, during 2008, which included the netting of expected recoveries against expected cash outlays. The City's Department of Policy and Performance (the Department) owns the historical cost and projected cost tracking functions of this liability calculation due to the legal sensitivities, and the Fund's accounting group records the estimate at year end. During discussions with the Department and SPU management, it was determined that part of the liability estimate was being overlooked. SPU management then performed additional internal inquiry and determined that their method of estimation was incorrect. This, along with a re-estimation of recoveries, led to an additional expense recorded of \$4.7 million in the Drainage and Wastewater Fund. There was also a reclassification of \$792,000 made to the environmental deferral/liability accounts in the Solid Waste Fund.”

**Deferred charges.** “The Solid Waste Fund now calculates deferred revenue based on a 31 day billing cycle. The previous billing methodology had a longer cycle. When the billing methodology changed, the year end deferral estimate was not updated. Applying the proper methodology to the November and December 2009 customer billings resulted in an audit adjustment to increase deferred revenue by \$3,415,217.”

The Utilities included the corrections in its final financial statements. However, the deficiencies in internal controls over financial reporting make it reasonably possible that other errors could occur and not be detected and corrected by City management.

## **Recommendation**

The firm recommended “policies and procedures governing management estimate accounts be more formally documented. There should be a robust analysis and detailed support for each calculation. This function should be performed by the SPU Principal Accountants for each Fund with review and oversight by the General Ledger Supervisor. These accounts may lend themselves to quarterly or even monthly review.”

## **Utilities' Response**

*We agree and believe that estimations should be part of our routine analysis. We commit to putting procedures in place to ensure that we regularly conduct an analysis of these accounts for reasonableness.*

*The estimating deficiencies related to timely construction close out and solid waste deferred revenues were the result of unique circumstances, neither of which excuses the need for improved internal controls but are worth elaborating:*

- *The water reservoir covering projects have required ongoing cost tracking associated with construction claims. This process drew our attention away from our normal close out processes and has been resolved.*
- *The deferred solid waste revenue estimates were affected by the significant changes in our new collection contracts, this issue has also been resolved.*

*In the case of the Pollution Remediation Obligations (listed in your report as Environmental Liabilities) SPU worked particularly closely with Moss Adams in the initial implementation of GASB 49 in 2008 (the guidance document issued by the government accounting board for this type of obligation). At that time SPU discussed our implementation with the auditors and agreed upon the implementation strategy. In 2009 we used the same approach as in 2008, however, we then had the benefit of seeing how the 2008 approach affected the 2009 accounting. We identified a weakness in the approach and, with our auditors, made a change in the booking to correct the weakness.*

*In all cases SPU will be implementing tighter monitoring controls and measures to ensure that we are managing our accounts better.*

### **City's Response**

*City central accounting will coordinate with Department accounting managers to ensure that policies and procedures for analysis and documentation of reported account estimates are developed.*

### **Auditor's Remarks**

The City was very helpful during our audit, and we appreciate its commitment to strengthening its policies and procedures.

### **Applicable Laws and Regulations**

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Ultimately, providing reasonable assurance of achieving compliance and financial reporting objectives is within the government's control and depends primarily on how well controls are designed and operated. Achievement of operational performance objectives also depends in large part on effective internal controls. By implementing effective controls a government can have reasonable assurance that it is doing all it can to meet its objectives.

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# Status of Prior Audit Findings

## City of Seattle King County January 1, 2009 through December 31, 2009

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 over financial statement preparation are inadequate.**

Report No. 1001933, dated September 28, 2009

### **Background**

The Department of Transportation does not use the City's general ledger accounting system as the basis for its financial reporting, the Department of Executive Administration is not able to have consistent citywide internal controls over financial statement preparation and is left to develop transportation-specific, manual internal controls for which reliability depends on the specialized knowledge of its employees.

The finding focused on financial accounting at the Seattle Department of Transportation and reported the City's inability to perform an automated year-end closing process and directly produce consolidated financial statements as would normally be expected from such systems.

### **Status**

The City has started a project to standardize use of its citywide financial system to enhance, among other things, internal controls over preparation of financial statements. Until the project is completed, the Department has updated its internal procedures and implemented additional controls.

The State Auditor notes that the seemingly comprehensive project has suffered significant delays and we recommend giving sufficient priority to its completion.

**2. The Seattle Department of Transportation's internal controls over reporting grant revenue and expenses are inadequate.**

Report No. 1001933 dated September 28, 2009

### **Background**

The Department recorded federal expenditures before securing a grant. The Department also recorded related grant revenue and grant reimbursement receivables at the same time.

### **Status**

The Department has updated its accounting procedures to clarify conditions that must exist in order to accrue grant revenues and expenditures within the 60 day period. In addition, the Department has implemented quarterly reconciliation and review procedures and processes over grant revenues and expenditures to ensure accuracy of the year-end SEFA report.

### **3. The City inappropriately omitted federal funds from its Schedule of Expenditures of Federal Awards.**

Report No. 1001933 dated September 28, 2009

### **Background**

Employees responsible for reporting federal expenditures lacked a full understanding of Circular A-133 reporting requirements. In this case, loans were omitted because the SEFA preparation process does not include review of outstanding federal loans.

### **Status**

The City updated our procedures to include verification of federal loan transactions and balances to ensure proper reporting in the SEFA. HUD was informed about the omission of federal loans in the 2007 SEFA and the agency confirmed that they do not require a specific audit of those transactions.

The State Auditor again reports significant deficiency over financial statement preparation in the current audit.

### **4. The Seattle City Employees Retirement System's internal controls over investments and financial statements were inadequate.**

Report No. 1001933 dated September 28, 2009

### **Background**

Other auditors reported a material weakness in internal controls as the System did not accurately, reliably and timely account for the value of its investments in the general ledger. Further, the System does not maintain an adequate internal control structure governing the year-end financial closing and reporting processes.

### **Status**

The System created and filled two new management positions to augment the oversight and controls over investments, financial reporting and pension operations functions.

The other auditors again report significant deficiency in internal control. The State Auditor notes that one of the positions is now vacant and we recommend timely filling of the vacancy to avoid repeat of previously reported conditions.

**5. The Seattle City Light Department's internal controls over inventory are inadequate.**

Report No. 1001933 dated September 28, 2009

**Background**

Other auditors noted concerns related to the timeliness and accuracy of inventory adjustment documentation given to the Cost Accounting Unit and adjustments in the inventory system lack sufficient supporting documentation and appear to be recorded to merely reconcile the balance to the general ledger.

**Status**

City Light implemented a number of improvements to address inventory issues in 2009. A status review at the end of September noted that cycle count variances had been significantly reduced, salvage returns had improved and the need for inventory adjustments had been substantially reduced.

# **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, 2009 through December 31, 2009**

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 unit and remaining fund information of the City of Seattle, King County, Washington, as of and for the year ended December 31, 2009, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 30, 2010. Our report was modified to include a reference to other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 1, 2 and 3 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.

### **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 response to the finding identified in our audit is 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 and the Mayor and City Council. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

June 30, 2010

# **Independent Auditor's Report on Financial Statements**

**City of Seattle  
King County  
January 1, 2009 through December 31, 2009**

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, 2009, which collectively comprise the City's basic financial statements as listed on page 25. 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 following funds:

- The Light Fund, Water Fund and Drainage and Wastewater Fund, which are major funds that collectively represent 96 percent, 100 percent and 88 percent, respectively, of the assets, net assets and revenues of the business-type activities.
- The financial statements of the Solid Waste Fund, which represent 3 percent, 1 percent and 10 percent, respectively, of the assets, net assets and revenues of the business-type activities, and 6 percent, 1 percent and 15 percent, respectively, of the assets, net assets and revenues of the aggregate discretely presented component unit and remaining fund information.
- The financial statements of the Seattle City Employees' Retirement System, which represent 70 percent, 88 percent and 36 percent, respectively, of assets, net assets and revenues of the aggregate discretely presented component unit 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, Solid Waste, and Drainage and Wastewater 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 2008 financial statements and, in our report dated July 30, 2009, 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 aggregate discretely presented component unit 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, Solid Waste, and Drainage and Wastewater 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, based on our audit and on the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate discretely presented component units and remaining fund information of the City of Seattle, as of December 31, 2009, 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.

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.

The management's discussion and analysis on pages 26 through 46, pension trust fund information on pages 152 through 154, and budgetary comparison information on pages 148 through 151 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the 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 has been subjected to the auditing procedures applied by us in

the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

June 30, 2010

# **Financial Section**

**City of Seattle  
King County  
January 1, 2009 through December 31, 2009**

## ***REQUIRED SUPPLEMENTAL INFORMATION***

Management's Discussion and Analysis – 2009

## ***BASIC FINANCIAL STATEMENTS***

Statement of Net Assets – 2009  
Statement of Activities – 2009  
Balance Sheet – Governmental Funds – 2009  
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds – 2009  
Reconciliation of Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities – 2009  
Statement of Net Assets – Proprietary Funds – 2009  
Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Funds – 2009  
Statement of Cash Flows – Proprietary Funds – 2009  
Statement of Net Assets – Fiduciary Funds – 2009  
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds – 2009  
Notes to Financial Statements – 2009

## ***REQUIRED SUPPLEMENTAL INFORMATION***

Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund – 2009  
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Transportation Fund – 2009  
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Low-Income Housing Fund – 2009  
Pension Plan Information – Schedule of Funding Progress – 2009  
Pension Plan Information – Schedule of Employer Contributions – 2009

## ***SUPPLEMENTAL INFORMATION***

Schedule of Expenditures of Federal Awards – 2009  
Notes to Schedule of Expenditures of Federal Awards – 2009

# 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, 2009. 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 2009 the assets of the City of Seattle exceeded its liabilities by \$4.103 billion. Net assets invested in capital assets (net of depreciation and related debt) account for 86.7 percent of this amount (\$3.559 billion). The remaining net assets of \$544.0 million may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's net assets increased by \$94.0 million (2.3 percent) during the fiscal year. The governmental net assets increased by \$72.9 million (2.8 percent) over the amount reported in 2008. The business-type net assets increased \$20.9 million (1.5 percent) in 2009.
- At the close of 2009 the City's governmental funds reported a combined ending fund balance of \$556.8 million, a decrease of \$72.5 million (11.5 percent). Of the major funds, the fund balance of the General Fund decreased \$74.0 million, the Transportation Fund increased \$1.6 million, the Low-Income Housing Fund increased \$5.2 million, and the fund balances of the other nonmajor governmental funds decreased \$5.3 million. The economic hardships felt across the country were no different for Seattle in 2009. The most significant impact was in the City's retail sales tax revenues, which were down nearly \$21.4 million or 12.4 percent year over year. Approximately \$147.6 million (26.5 percent) of the combined ending fund balance is unreserved fund balance available to the City for discretionary spending.
- At the end of 2009 the unreserved fund balance for the General Fund was \$107.4 million or 14.6 percent of total General Fund expenditures of \$737.6 million. The General Fund's unreserved fund balance decreased by approximately \$23.7 million from the prior year's amount of \$131.1 million. Total revenues for the General Fund increased 3.0 percent or \$27.7 million from 2008 to 2009, mainly due to a 2009 change in recognizing 100.0 percent (90.0 percent for prior years) of the charter revenues while expenditures and other financing uses increased 4.9 percent or \$47.8 million year over year.
- The City's total outstanding bonded debt decreased by approximately \$114.6 million (3.0 percent) to \$3.715 billion during the current fiscal year. During the year general obligation bonded debt for limited tax (LTGO) and unlimited tax (UTGO) increased by \$48.7 million while the total revenue bonds decreased by \$163.3 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, a bond maturity and call payment of \$1.5 million (7.8 percent) in 2009 reduced the bonds outstanding further to \$17.7 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, construction and land use operations, 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, and the Drainage and Wastewater 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 fleets and facilities 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 \$4.103 billion.

## Statement of Net Assets

Table A-1

### CONDENSED STATEMENT OF NET ASSETS

(In Thousands)

	Governmental Activities		Business-Type Activities		Total	
	2009	Restated 2008	2009	Restated 2008	2009	Restated 2008
Current and Other Assets	\$ 1,176,783	\$ 1,220,441	\$ 1,029,775	\$ 1,392,641	\$ 2,206,558	\$ 2,613,082
Capital Assets and Construction in Progress, Net of Accumulated Depreciation	3,070,924	2,866,199	3,690,988	3,480,050	6,761,912	6,346,249
Total Assets	4,247,707	4,086,640	4,720,763	4,872,691	8,968,470	8,959,331
Current Liabilities	230,426	240,768	312,809	427,697	543,235	668,465
Noncurrent Liabilities	1,294,106	1,195,545	3,028,176	3,086,128	4,322,282	4,281,673
Total Liabilities	1,524,532	1,436,313	3,340,985	3,513,825	4,865,517	4,950,138
Net Assets						
Invested in Capital Assets, Net of Related Debt	2,351,307	2,184,161	1,207,445	1,128,319	3,558,752	3,312,480
Restricted	225,157	271,204	71,801	63,913	296,958	335,117
Unrestricted	146,711	194,962	100,532	166,634	247,243	361,596
Total Net Assets	\$ 2,723,175	\$ 2,650,327	\$ 1,379,778	\$ 1,358,866	\$ 4,102,953	\$ 4,009,193

The largest portion of the City's net assets (86.7 percent) reflects an investment of \$3.559 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, \$297.0 million (7.2 percent), represents resources that are subject to restrictions on how they may be used. The remaining balance of unrestricted net assets, \$247.2 million (6.0 percent), may be used to meet the government's obligation to citizens and creditors. Unrestricted net assets for governmental activities decreased 24.8 percent from \$195.0 million in 2008 to \$146.7 million in 2009.

The net assets for the business-type activities increased between 2008 and 2009 from \$1.359 billion to \$1.380 billion. The increase in net assets is attributed primarily to the performance of the City Light Utility, which in 2009 generated \$723.1 million in charges for services and other revenues. City Light generated an operating income of \$59.0 million.

Table A-2

**CHANGES IN NET ASSETS RESULTING FROM  
CHANGES IN REVENUES AND EXPENSES  
(In Thousands)**

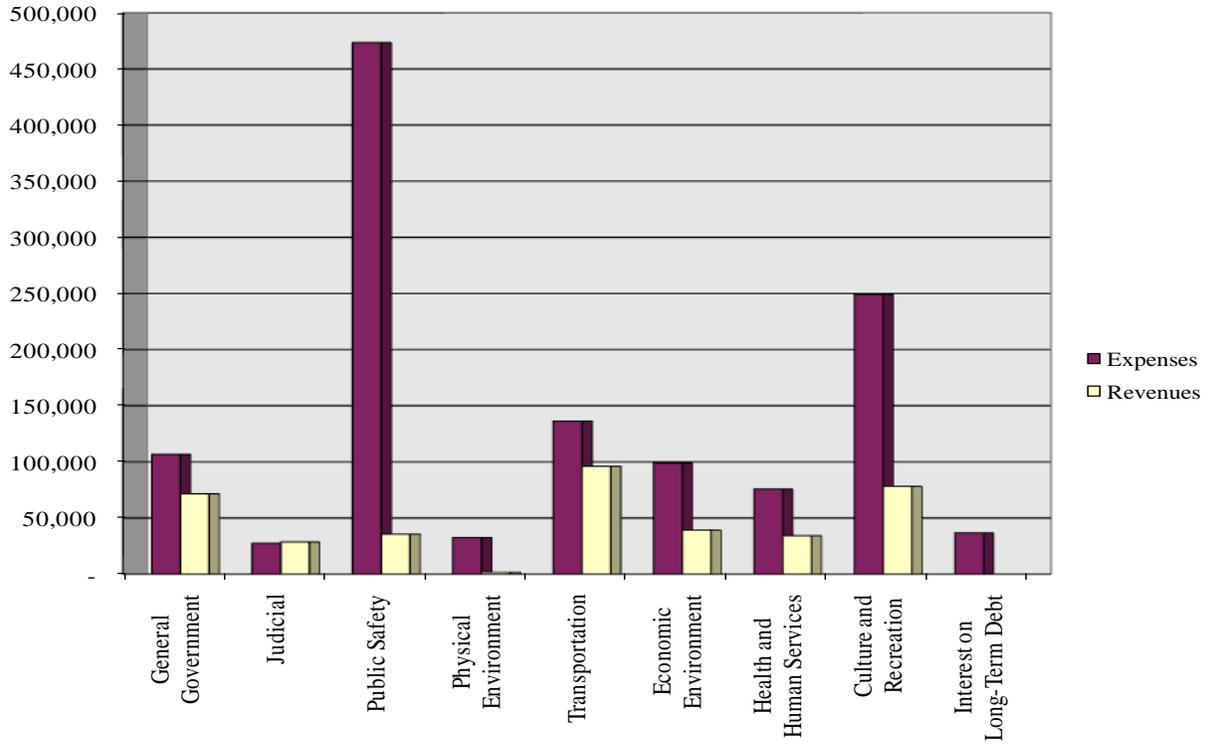
	Governmental Activities		Business-Type Activities		Total	
	2009	2008	2009	2008	2009	2008
Revenues						
Program Revenues						
Charges for Services	\$ 244,126	\$ 263,746	\$ 1,328,465	\$ 1,426,864	\$ 1,572,591	\$ 1,690,610
Operating Grants and Contributions	104,382	95,236	4,789	4,099	109,171	99,335
Capital Grants and Contributions	36,834	31,527	59,983	81,425	96,817	112,952
General Revenues						
Property Taxes	388,341	368,515	-	-	388,341	368,515
Sales Taxes	150,515	171,917	-	-	150,515	171,917
Business Taxes	329,572	330,369	-	-	329,572	330,369
Other Taxes	60,159	63,896	-	-	60,159	63,896
Other	6,476	39,601	9,332	15,238	15,808	54,839
Total Revenues	<u>1,320,405</u>	<u>1,364,807</u>	<u>1,402,569</u>	<u>1,527,626</u>	<u>2,722,974</u>	<u>2,892,433</u>
Expenses						
Governmental Activities						
General Government	106,732	143,855	-	-	106,732	143,855
Judicial	27,526	26,762	-	-	27,526	26,762
Public Safety	473,527	455,701	-	-	473,527	455,701
Physical Environment	32,543	7,707	-	-	32,543	7,707
Transportation	136,271	127,872	-	-	136,271	127,872
Economic Environment	98,940	104,660	-	-	98,940	104,660
Health and Human Services	75,788	69,181	-	-	75,788	69,181
Culture and Recreation	249,160	257,578	-	-	249,160	257,578
Interest on Long-Term Debt	36,825	39,336	-	-	36,825	39,336
Business-Type Activities						
Light	-	-	733,405	791,837	733,405	791,837
Water	-	-	200,921	180,855	200,921	180,855
Drainage and Wastewater	-	-	248,584	231,318	248,584	231,318
Solid Waste	-	-	145,526	120,941	145,526	120,941
Planning and Development	-	-	55,642	56,882	55,642	56,882
Downtown Parking Garage	-	-	7,824	8,545	7,824	8,545
Total Expenses	<u>1,237,312</u>	<u>1,232,652</u>	<u>1,391,902</u>	<u>1,390,378</u>	<u>2,629,214</u>	<u>2,623,030</u>
Excess Before Transfers	83,093	132,155	10,667	137,248	93,760	269,403
Transfers	(10,245)	(10,803)	10,245	10,803	-	-
Increase in Net Assets	<u>72,848</u>	<u>121,352</u>	<u>20,912</u>	<u>148,051</u>	<u>93,760</u>	<u>269,403</u>
Net Assets - Beginning of Year	2,650,327	2,528,975	1,358,866	1,210,815	4,009,193	3,739,790
Nets Assets - End of Year	<u>\$ 2,723,175</u>	<u>\$ 2,650,327</u>	<u>\$ 1,379,778</u>	<u>\$ 1,358,866</u>	<u>\$ 4,102,953</u>	<u>\$ 4,009,193</u>

### Analysis of Changes in Net Assets

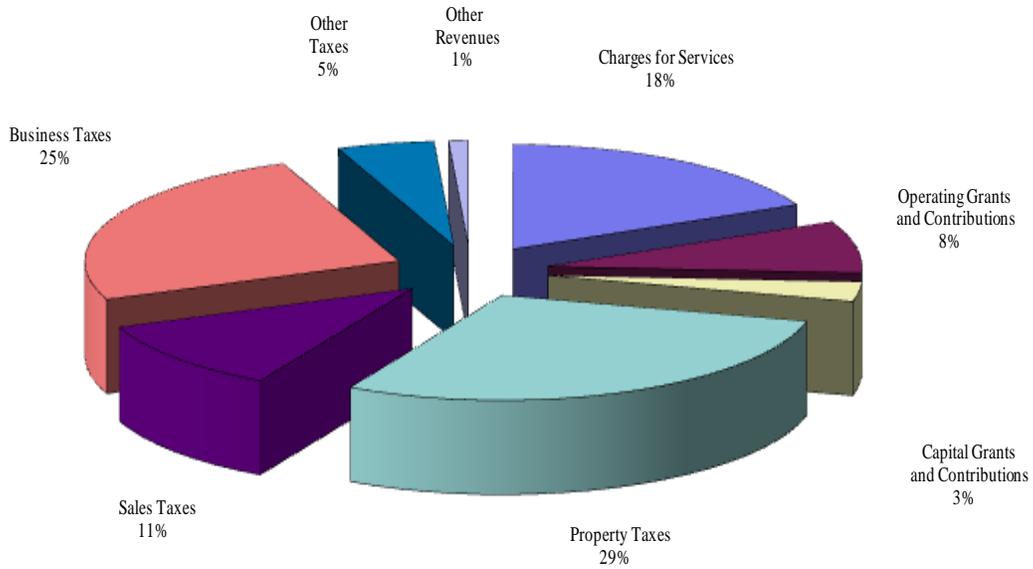
In 2009 the City's total net assets increased by \$93.8 million (2.3 percent). The increase is explained in the following discussion of governmental and business-type activities.

# Governmental Activities

**EXPENSES AND PROGRAM REVENUES - GOVERNMENTAL ACTIVITIES**  
(In Thousands)



**REVENUES BY SOURCE - GOVERNMENTAL ACTIVITIES**



**Total \$1,320.4 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, transportation, general government, economic environment, health and human services, physical environment, judicial 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 \$72.8 million in 2009 compared to an increase of \$121.4 million in 2008. Key factors in the change are as follows:

- Tax revenues collected and used to support Citywide programs decreased less than 1.0 percent, from \$934.7 million to \$928.6 million for 2009.
- Program generated revenues were supported by growth in the operating and capital grants, increasing 11.4 percent from \$126.8 million to \$141.2 million. This helped offset the City's 7.4 percent decrease in the revenue generated by the City's charges for services.
- Year over year expenses remained relatively stable, with direct expenses for the governmental activities increasing from \$1.232 billion for 2008 to \$1.237 billion for 2009.

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. In 2009 over \$48.1 million in additional grant funds were appropriated. The majority of grant awards totaling \$26.5 million was awarded to Seattle's Human Services Department, \$14.7 million went to the Police Department, and \$7.2 million was awarded to Department of Transportation. Revenue generated by grants and contributions increased by \$14.5 million in 2009 including \$3.0 million from the American Recovery and Reinvestment Act of 2009. Operating grants increased by 9.6 percent, and capital grants increased by 16.8 percent compared to 2008.

Property taxes, the largest source of revenue supporting governmental activities, increased by \$19.8 million or 5.4 percent compared to 2008. Property tax is levied primarily on real estate owned by individuals and businesses. 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 decreased significantly between 2008 and 2009 by \$21.4 million (12.4 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 2009, B&O tax revenues remained relatively constant at \$329.6 million, decreasing by only \$0.8 million or 0.2 percent.

In 2009, total expenses for governmental activities were \$1.237 billion compared to \$1.233 billion in 2008, a mere 0.4 percent increase over 2008 expenses. General government expenses went down \$37.1 million, a 25.8 percent decrease from 2008.

Judicial expenses remained relatively stable with a slight increase of \$0.8 million or 2.8 percent between 2008 and 2009. In order to offset the general inflation of yearly costs the City Attorney and the Municipal Court have reduced spending on administrative line items and adjusted some department-wide salaries to control necessary department costs.

Public safety expenses were \$473.5 million, a 3.9 percent increase over 2008 expenses. The increase is attributed to several factors: staffing increases at the Police and Fire Departments, a cost-of-living salary adjustment, increased overtime and employee benefit expenses, and cost increases for technical and professional services.

Physical environment expenses dramatically increased \$24.8 million between 2008 and 2009, reaching total expenses of \$32.5 million for 2009. The most significant change in the physical environment expenses is related to the City's involvement in the processing of the redevelopment levy proceeds and the related intergovernmental contributions made to the Pike Place Market Public Development Authority.

The 2009 transportation expenses totaled \$136.3 million, increasing \$8.9 million or 6.9 percent year over year. Changes in staffing levels accounted for the majority of the increase attributed to costs in administering the new Bridging the Gap City projects. The increased labor cost also reflects the increases in grant activity, and preliminary study and pre-planning project work.

The 2009 economic environment expenses totaled \$98.9 million, a decrease of \$5.8 million or 5.5 percent year over year. The primary contributing factor responsible for the change was the drop in the level of consulting expenses for the Low-Income Housing Fund from 2008 to 2009. In 2008 the City recognized several one-time expenses for items such as funding to create an affordable rental housing search website, consulting services to support the 2009 housing levy renewal efforts, consulting services and for neighborhood planning.

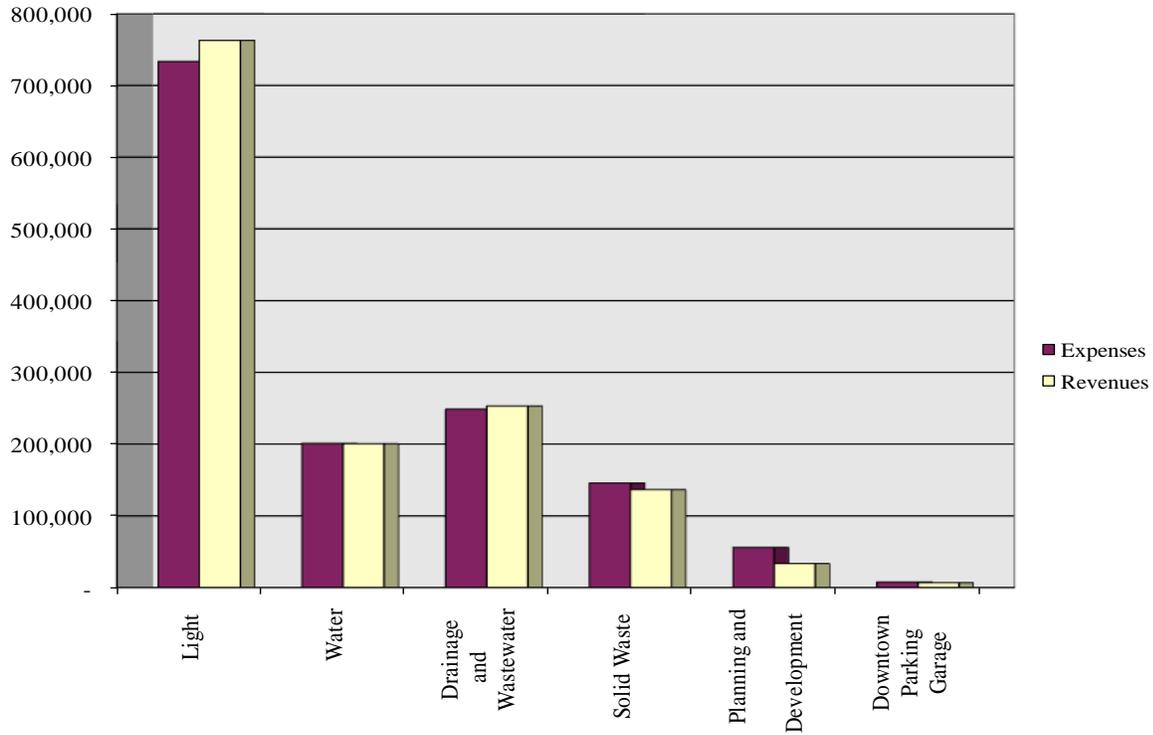
Health and human services expenses showed an increase of \$6.6 million or 9.6 percent rising to \$75.8 million for 2009. The impact on costs is related to increased services to homeless individuals and families, including outreach and shelter for those living in encampments, enhanced services through day center programs, and the creation of additional shelter capacity.

At \$249.2 million, culture and recreation expenses were down by \$8.4 million in 2009 or 3.3 percent lower than 2008. The City's Park and Recreation Fund accounts for 50.0 percent or \$124.5 million of the total culture and recreation expense. The 2009 appropriation in the adopted budget for parks operations was \$131.1 million for 1,003 full-time employees. Approximately 65.0 percent of the costs were funded by charter revenue received through the General Fund plus additional General Fund support, the other 35.0 percent was generated from fees collected for programs.

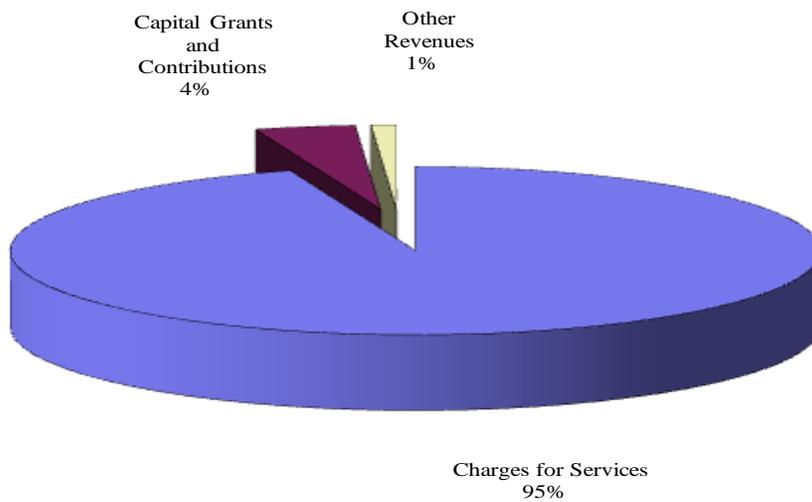
Interest on long-term debt decreased \$2.5 million from 2008 to 2009, falling from \$39.3 million to \$36.8 million. The primary reason for the decrease is due to the City's bond refunding and defeasance activities that occurred in 2008. Approximately \$58.0 million and \$32.0 million of debt was refunded and defeased respectively in that year.

## Business-Type Activities

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



**REVENUES BY SOURCE - BUSINESS-TYPE ACTIVITIES**



**Total \$1,402.6 Million**

**Business-Type Activities.** Business-type activities increased the City's net assets by \$26.0 million to \$1.380 billion, an increase of 1.9 percent. The City's net assets increase was offset by \$5.1 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 \$34.2 million in net assets in 2009 but significantly lower than 2008 by \$97.4 million. The primary reasons for the decline in net assets were lower net wholesale energy revenues plus higher Bonneville Power Administration (BPA) power costs. Additionally, higher non-power operating expenses and interest expense contributed to the lower net assets in 2009.

The Water Utility experienced an increase of \$5.9 million in net assets in 2009. Operating revenues increased by \$27.0 million mainly due to an increase in water rates, a surcharge related to the hydrant settlement, and higher water consumption. Operating expenses increased by \$17.6 million due to several factors, the most significant of which was an \$8.8 million increase in tax expense resulted from higher revenues. In addition depreciation expense increased by \$5.5 million for additional capital assets placed in service in 2008, and pre-capital planning and development expenses increased by \$3.8 million for the Tolt Levee project.

The Drainage and Wastewater Utility net assets increased \$6.3 million in 2009. Operating revenues increased by \$26.1 million primarily due to rate increases for both wastewater and drainage services. The increase was offset by a rise in operating expenses of \$13.3 million, including a \$13.1 million increase in wastewater treatment expense and a \$3.4 million increase in tax expense resulted from higher revenues. Contributions and grants funding decreased by \$16.2 million in 2009, mainly due to the absence of infrastructure assets donated by Sound Transit in 2008.

The Solid Waste Utility net assets decreased \$8.6 million in 2009. Operating revenues increased by \$11.3 million mainly due to rate increases in 2009. The revenue increase was offset by an increase of \$25.9 million in operating expenses due to an increase in contract costs for solid waste collection.

The Planning and Development Fund net assets decreased by \$10.8 million in 2009 as compared to a decrease of \$1.3 million in 2008. Operating revenues decreased by \$9.3 million while the operating expenses also decreased by \$1.7 million. The revenue decrease was mainly due to continuous decline in building construction activities in 2009. Operating contributions and grants decreased by \$0.4 million. Transfers in from other City funds decreased by \$0.6 million. Investment income declined by \$1.0 million in 2009.

The Downtown Parking Garage Fund experienced a decrease of \$1.0 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. Fleets and Facilities Department is restructuring the fund's revenue rates in 2010.

## 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)*

	<b>Major Funds</b>					
	<b>General Fund</b>		<b>Transportation Fund</b>		<b>Low-Income Housing Fund</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Revenues						
Taxes	\$ 756,909	\$ 745,455	\$ 63,321	\$ 54,787	\$ 11,660	\$ 11,725
Licenses and Permits	19,333	18,269	8,965	10,036	-	-
Grants, Shared Revenues, and Contributions	28,208	19,725	57,239	34,279	6,607	8,059
Charges for Services	69,018	62,547	37,647	25,336	72	35
Fines and Forfeits	28,519	22,110	3	10	-	-
Parking Fees and Space Rent	25,478	20,625	154	63	-	27
Program Income, Interest, and Miscellaneous Revenues	14,943	25,932	275	389	9,098	15,070
Total Revenues	<u>942,408</u>	<u>914,663</u>	<u>167,604</u>	<u>124,900</u>	<u>27,437</u>	<u>34,916</u>
Expenditures	737,604	714,897	277,816	196,988	23,287	30,606
Other Financing Sources and Uses						
Long-Term Debt Issued and Refunding Payments, Net	1,524	-	1,250	-	-	-
Proceeds of Capital Leases	-	-	-	-	-	-
Payments on Intergovernmental Agreements	-	-	-	-	-	-
Sales of Capital Assets	616	373	-	-	-	32
Transfers In (Out)	(280,908)	(255,757)	110,514	81,329	1,008	2,074
Total Other Financing Sources and Uses	<u>(278,768)</u>	<u>(255,384)</u>	<u>111,764</u>	<u>81,329</u>	<u>1,008</u>	<u>2,106</u>
Fund Balances						
Reserves Legally Segregated for Future Use	88,982	139,067	34,154	32,602	56,115	17,228
Reserves Not Available for Appropriation	1,080	1,258	2	2	-	-
Unreserved	107,384	131,085	-	-	19,044	52,773
Total Fund Balances	<u>\$ 197,446</u>	<u>\$ 271,410</u>	<u>\$ 34,156</u>	<u>\$ 32,604</u>	<u>\$ 75,159</u>	<u>\$ 70,001</u>

**Table A-3**

**REVENUE, EXPENDITURE, AND FUND BALANCE SUMMARY  
GOVERNMENTAL FUNDS (continued)**

*(In Thousands)*

	<b>Nonmajor Funds</b>			
	<b>Special Revenue Funds</b>		<b>Debt Service Funds</b>	
	<b>Restated</b>		<b>2009</b>	<b>2008</b>
	<b>2009</b>	<b>2008</b>		
Revenues				
Taxes	\$ 33,490	\$ 58,733	\$ 18,071	\$ 20,592
Licenses and Permits	-	786	-	-
Grants, Shared Revenues, and Contributions	72,890	64,606	2	2
Charges for Services	50,344	54,852	-	-
Fines and Forfeits	1,123	3,452	-	-
Parking Fees and Space Rent	16,425	16,771	228	248
Program Income, Interest, and Miscellaneous Revenues	3,458	52,598	1,379	1,088
<b>Total Revenues</b>	<u>177,730</u>	<u>251,798</u>	<u>19,680</u>	<u>21,930</u>
Expenditures	372,425	362,041	87,296	118,300
Other Financing Sources and Uses				
Long-Term Debt Issued and Refunding Payments, Net	12,000	-	42	246
Proceeds of Capital Leases	20	-	-	-
Payments on Intergovernmental Agreements	(16,928)	-	-	-
Sales of Capital Assets	8	3	-	-
Transfers In (Out)	198,036	116,138	64,519	95,232
<b>Total Other Financing Sources and Uses</b>	<u>193,136</u>	<u>116,141</u>	<u>64,561</u>	<u>95,478</u>
Fund Balances				
Reserves Legally Segregated for Future Use	32,774	11,862	12,049	15,104
Reserves Not Available for Appropriation	11,379	11,399	-	-
Unreserved	21,113	43,564	-	-
<b>Total Fund Balances</b>	<u>\$ 65,266</u>	<u>\$ 66,825</u>	<u>\$ 12,049</u>	<u>\$ 15,104</u>

	<b>Nonmajor Funds</b>				<b>Total Governmental Funds</b>	
	<b>Capital Projects Funds</b>		<b>Permanent Funds</b>		<b>2009</b>	<b>Restated 2008</b>
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>		
Revenues						
Taxes	\$ 43,836	\$ 43,252	\$ -	\$ -	\$ 927,287	\$ 934,544
Licenses and Permits	-	-	-	-	28,298	29,091
Grants, Shared Revenues, and Contributions	8,284	7,053	1	48	173,231	133,772
Charges for Services	-	27	-	-	157,081	142,797
Fines and Forfeits	-	-	-	-	29,645	25,572
Parking Fees and Space Rent	119	227	-	-	42,404	37,961
Program Income, Interest, and Miscellaneous Revenues	4,826	6,904	32	96	34,011	102,077
<b>Total Revenues</b>	<u>57,065</u>	<u>57,463</u>	<u>33</u>	<u>144</u>	<u>1,391,957</u>	<u>1,405,814</u>
Expenditures	67,493	54,066	50	75	1,565,971	1,476,973
Other Financing Sources and Uses						
Long-Term Debt Issued and Refunding Payments, Net	80,801	90,209	-	-	95,617	90,455
Proceeds of Capital Leases	-	-	-	-	20	-
Payments on Intergovernmental Agreements	-	-	-	-	(16,928)	-
Sales of Capital Assets	-	-	-	-	624	408
Transfers In (Out)	(71,001)	(21,194)	(10)	(10)	22,158	17,812
<b>Total Other Financing Sources and Uses</b>	<u>9,800</u>	<u>69,015</u>	<u>(10)</u>	<u>(10)</u>	<u>101,491</u>	<u>108,675</u>
Fund Balances						
Reserves Legally Segregated for Future Use	170,429	171,057	26	26	394,529	386,946
Reserves Not Available for Appropriation	-	-	2,176	2,183	14,637	14,842
Unreserved	-	-	101	121	147,642	227,543
<b>Total Fund Balances</b>	<u>\$ 170,429</u>	<u>\$ 171,057</u>	<u>\$ 2,303</u>	<u>\$ 2,330</u>	<u>\$ 556,808</u>	<u>\$ 629,331</u>

## 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, unreserved fund balance measures the City's net resources available for spending 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 \$556.8 million, a decrease of \$72.5 million in comparison to 2008. Approximately \$147.6 million of this amount constitutes unreserved fund balance which is available for spending at the City's discretion within the purposes specified for the City's funds. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has been committed for other purposes, including (1) payment on existing contracts and purchase orders, \$3.5 million; (2) funding of continuing projects and programs in future periods, \$346.2 million; (3) payment of debt service, \$31.8 million; and (4) a variety of other purposes, \$27.7 million.

Revenues for governmental funds overall totaled approximately \$1.392 billion in the fiscal year ended December 31, 2009, which represents a decrease of approximately \$13.8 million or 1.0 percent from the prior fiscal year balance of \$1.406 billion. Expenditures in governmental funds amounted to \$1.566 billion, an increase of approximately \$89.0 million or 6.0 percent compared to \$1.477 billion spent in 2008. In the aggregate, expenditures for governmental funds exceeded revenues by approximately \$174.0 million.

The **General Fund** is the chief operating fund of the City. It is comprised of fourteen subfunds: General, Judgment/Claims, Municipal Jail, Arts Account, Cable Television Franchise, Cumulative Reserve, Neighborhood Matching, Development Rights, Emergency, Special Employment Program, Industrial Insurance, Unemployment Compensation, Health Care, and Group Term Life Insurance. Table A-4 provides a summary of the status of the various subfunds at year-end 2009.

At the end of 2009 the total fund balance of the General Fund was \$197.5 million. Fund balance decreased by \$74.0 million in 2009 compared to 2008.

Total revenues for the General Fund amounted to \$942.4 million, an increase of \$27.7 million, 3.0 percent higher than 2008. Tax revenues increased by \$11.4 million, a 1.5 percent increase. A change in the process of recognizing charter revenues entirely in the General Fund, instead of recognizing the 10.0 percent in the Park and Recreation Fund, contributed to the overall increase in year over year revenues.

Program income, interest, and miscellaneous revenues were the only source of income that decreased in 2009, down \$11.0 million. Revenues derived from charges for services were up \$6.5 million, parking fees and space rent were up \$4.8 million, and license revenue was up \$1.1 million.

General Fund expenditures increased by \$22.7 million or 3.2 percent in 2009, from \$714.9 million to \$737.6 million. Public safety accounts for 58.0 percent of this amount in 2009. Public safety's two largest expenditures were for police and fire protection. For 2009 the Police Department incurred \$241.6 million and the Fire Department incurred \$160.8 million of expenditures.

The other financing sources and uses category decreased the General Fund's fund balance position by \$278.8 million in 2009 compared to \$255.4 million in 2008, an increase of 9.2 percent. One main for the increase was due to the change in recognizing charter revenues, as earlier discussed; the 10.0 percent became a transfer to the Park and Recreation Fund.

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 \$1.6 million. The revenues collected of \$167.7 million include excess property tax levy, an employee hours tax, a commercial parking tax, grants and contributions, and charges for services. Transportation's expenditures totaled \$277.8 million for 2009, up \$80.8 million or 41.0 percent from 2008.

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 the seven-year housing levy approved by voters in 1995 and an additional seven-year levy that was approved by the voters in November 2002. The fund balance of \$75.2 million, reflects an increase of \$5.2 million (7.4 percent). Revenues from 2008 to 2009 decreased by \$7.7 million (21.9 percent). The expenditures reflected the decrease in revenues by falling \$7.5 million (21.4 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 2009 the other **special revenue funds** (SRF) showed a \$1.6 million or 2.3 percent decrease in fund balance as a result of operations. The overall drain on fund balance was offset by the creation of the Pike Place Market Renovation Fund, which reported an ending fund balance of \$7.2 million. The Park and Recreation Fund was also able to increase its fund balance 44.8 percent or \$1.7 million. The most significant decreases in fund balances were in the Key Arena Settlement Proceeds Fund, \$2.7 million; the Seattle Center Fund, \$1.1 million; and the Seattle Street Car Fund, which increased its fund deficit by \$1.3 million to \$3.2 million.

Total revenues for SRF were down \$74.1 million, a 29.4 percent decrease from 2008. The 2009 change in the recognition of charter revenues entirely in the General Fund contributed to the overall decrease in year over year revenues by \$35.7 million; the 10.0 percent attributable to the Park and Recreation Fund is now recognized as transfers in from the General Fund. The other significant change was the absence of one-time revenues of \$45.0 million received by the Key Arena Settlement Proceeds Fund in 2008.

SRF expenditures increased \$10.4 million, up 2.9 percent from 2008. The Human Services Operating Fund accounted for nearly 70 percent of the SRF increase, with expenditures rising to \$105.6 million in 2009, up \$7.4 million. The majority of the increase in SRF was supported by grant funding for various services and programs which generated an additional \$8.3 million in grant revenues during 2009.

The other financing sources and uses category increased dramatically in 2009, up \$77.0 million or 66.3 percent compared to 2008. The same two items that significantly impacted revenues are also the main contributing factors to the change in other financing sources uses in 2009. The 10.0 percent reduction of charter revenues attributable to the Park and Recreation Fund increased transfer-in from the General Fund and the Key Arena Settlement Proceeds Fund recognized \$35.0 million less in transfers out than in 2008, which was a one-time transaction to satisfy the remaining debt service obligations for the Key Arena.

The fund balance in the **capital projects funds** remained relatively stable, falling only \$628 thousand to \$170.4 million. In 2008 twenty-five Capital Project Funds existed and activity within those funds decreased the overall capital fund balance by \$50.0 million in 2009. Offsetting this was the creation of the 2009 Multipurpose Long-Term General Obligation Bond Fund and the receipt of bond proceeds totaling \$80.8 million, leaving a fund balance of \$49.9 million. The reserves for capital improvement fell to \$163.8 million for 2009, down from \$170.8 million in 2008.

The total fund balances of the **debt service funds** decreased \$3.1 million (20.2 percent) to \$12.0 million at the end of 2009. The City, in 2009 started spending also from available fund balances in the funds to service its general long-term obligation.

The 2009 fund balances of the **permanent funds** decreased insignificantly by \$27 thousand, or 1.2 percent.

Table A-4

**REVENUE, EXPENDITURE, AND FUND BALANCE SUMMARY**  
**GENERAL FUND SUBFUNDS**  
*(In Thousands)*

	<u>General</u>	<u>Judgment/ Claims</u>	<u>Municipal Jail</u>	<u>Arts Account</u>
Revenues				
Taxes	\$ 734,109	\$ -	\$ -	\$ -
Licenses and Permits	12,732	-	-	-
Grants, Shared Revenues, and Contributions	20,949	-	-	105
Charges for Services	54,386	9,681	4,712	-
Fines and Forfeits	28,519	-	-	-
Parking Fees and Space Rent	25,295	-	-	-
Program Income, Interest, and Miscellaneous Revenues	3,591	142	647	15
Total Revenues	<u>879,581</u>	<u>9,823</u>	<u>5,359</u>	<u>120</u>
Expenditures	653,304	13,886	2,167	1,668
Other Financing Sources and Uses				
Long-Term Debt Issued and Premium on Bonds Issued	-	-	1,524	-
Sales of Capital Assets	29	-	-	-
Transfers In (Out)	(260,398)	-	-	-
Total Other Financing Sources and Uses	<u>(260,369)</u>	<u>-</u>	<u>1,524</u>	<u>-</u>
Fund Balances				
Reserves Legally Segregated for Future Use	10,557	11,227	4,233	537
Reserves Not Available for Appropriation	1,080	-	-	-
Unreserved	(2,862)	-	(490)	212
Total Fund Balances	<u>\$ 8,775</u>	<u>\$ 11,227</u>	<u>\$ 3,743</u>	<u>\$ 749</u>

	<u>Cable Television Franchise</u>	<u>Cumulative Reserve</u>	<u>Neighborhood Matching</u>	<u>Development Rights</u>
Revenues				
Taxes	\$ -	\$ 22,800	\$ -	\$ -
Licenses and Permits	6,601	-	-	-
Grants, Shared Revenues, and Contributions	-	7,155	-	-
Charges for Services	-	239	-	-
Fines and Forfeits	-	-	-	-
Parking Fees and Space Rent	-	183	-	-
Program Income, Interest, and Miscellaneous Revenues	81	761	-	-
Total Revenues	<u>6,682</u>	<u>31,138</u>	<u>-</u>	<u>-</u>
Expenditures	7,665	40,055	3,917	-
Other Financing Sources and Uses				
Long-Term Debt Issued and Premium on Bonds Issued	-	-	-	-
Sales of Capital Assets	-	587	-	-
Transfers In (Out)	-	(19,728)	(95)	-
Total Other Financing Sources and Uses	<u>-</u>	<u>(19,141)</u>	<u>(95)</u>	<u>-</u>
Fund Balances				
Reserves Legally Segregated for Future Use	-	45,249	4,132	-
Reserves Not Available for Appropriation	-	-	-	-
Unreserved	6,078	25,184	66	21
Total Fund Balances	<u>\$ 6,078</u>	<u>\$ 70,433</u>	<u>\$ 4,198</u>	<u>\$ 21</u>

Table A-4

**REVENUE, EXPENDITURE, AND FUND BALANCE SUMMARY**  
**GENERAL FUND SUBFUNDS (continued)**  
*(In Thousands)*

	<u>Emergency</u>	<u>Special Employment Program</u>	<u>Industrial Insurance</u>	<u>Unemployment Compensation</u>
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	-	-	289	(2,491)
Total Revenues	<u>-</u>	<u>-</u>	<u>289</u>	<u>(2,491)</u>
Expenditures	-	1	-	-
Other Financing Sources and Uses				
Long-Term Debt Issued and Premium on Bonds Issued	-	-	-	-
Sales of Capital Assets	-	-	-	-
Transfers In (Out)	(686)	-	-	-
Total Other Financing Sources and Uses	<u>(686)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances				
Reserves Legally Segregated for Future Use	-	-	-	-
Reserves Not Available for Appropriation	-	-	-	-
Unreserved	45,533	87	6,971	1,907
Total Fund Balances	<u>\$ 45,533</u>	<u>\$ 87</u>	<u>\$ 6,971</u>	<u>\$ 1,907</u>

	<u>Health Care</u>	<u>Group Term Life Insurance</u>	<u>Total General Fund</u>	
			<u>2009</u>	<u>2008</u>
Revenues				
Taxes	\$ -	\$ -	\$ 756,909	\$ 745,455
Licenses and Permits	-	-	19,333	18,269
Grants, Shared Revenues, and Contributions	-	-	28,209	19,725
Charges for Services	-	-	69,018	62,547
Fines and Forfeits	-	-	28,519	22,110
Parking Fees and Space Rent	-	-	25,478	20,625
Program Income, Interest, and Miscellaneous Revenues	11,892	15	14,942	25,932
Total Revenues	<u>11,892</u>	<u>15</u>	<u>942,408</u>	<u>914,663</u>
Expenditures	14,938	-	737,601	714,897
Other Financing Sources and Uses				
Long-Term Debt Issued and Premium on Bonds Issued	-	-	1,524	-
Sales of Capital Assets	-	-	616	373
Transfers In (Out)	-	-	(280,907)	(255,757)
Total Other Financing Sources and Uses	<u>-</u>	<u>-</u>	<u>(278,767)</u>	<u>(255,384)</u>
Fund Balances				
Reserves Legally Segregated for Future Use	13,045	-	88,980	139,067
Reserves Not Available for Appropriation	-	-	1,080	1,258
Unreserved	24,250	429	107,386	131,085
Total Fund Balances	<u>\$ 37,295</u>	<u>\$ 429</u>	<u>\$ 197,446</u>	<u>\$ 271,410</u>

## Proprietary Funds

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

**City Light Utility.** The Utility realized net income of \$34.2 million in 2009 compared to \$131.6 million in 2008, or a decrease of \$97.4 million (74.0 percent). Lower net wholesale energy revenues and higher BPA power costs were the primary reasons for the decline in net income. Additionally, higher non-power operating expenses and interest expense contributed to the lower net income in comparison to 2008; however, operating expenses were held below the budgeted amount in 2009.

Net cash provided by operating activities decreased by \$70.0 million to \$166.8 million in 2009 compared to \$236.8 million in 2008. Restricted assets decreased considerably by \$235.4 million to \$31.6 million in 2009 compared to \$267.0 million in 2008. No bonds were issued in 2009; \$72.0 million in variable rate bonds were paid in February 2009 and \$74.4 million of parity bonds were repaid during 2009. The contingency reserve account remained constant at \$25.0 million as established in 2005. Utility plant and other capital assets were \$1.798 billion and \$1.662 billion in 2009 and 2008, respectively, a net increase of \$135.7 million. The majority of the capital asset additions were in the distribution system, transmission, and hydraulic production.

Total revenue bonds payables were \$1.383 billion in 2009 and \$1.529 billion in 2008, a net decrease of \$146.3 million. Interest expenses were \$69.1 million in 2009 and \$61.1 million in 2008. Including long-term debt, the total liabilities were \$1.552 billion in 2009 and \$1.696 billion in 2008, as restated.

Total net assets were \$824.3 million in 2009 and \$790.1 million in 2008.

**Water Utility.** The net operating income of the Water Utility increased by \$9.4 million to \$27.1 million in 2009 as compared to \$17.7 million in 2008. Operating revenues increased by \$27.0 million, mainly due to a water rate increase, surcharge and higher water consumption in 2009. This increase was offset by a rise in operating expenses. Operating expenses increased by \$17.6 million due to several factors, the most significant of which was an increase in taxes of \$8.8 million that resulted from higher revenues. In addition, depreciation expense increased by \$5.5 million for additional capital assets placed in service in 2008, and pre-capital planning and development expenses increased by \$3.8 million due to expenses related to the Tolt Levee project. The Utility realized a net income of \$5.9 million in 2009 compared to \$0.5 million in 2008.

Net cash provided by operating activities increased to \$71.9 million in 2009 from \$59.7 million in 2008, an increase of \$12.2 million. Total operating and restricted cash and investments were \$47.3 million in 2009 compared to \$204.4 million in 2008, a decrease of \$157.1 million. This decrease in cash and investments is primarily due to refunding variable rate bonds and paying for capital improvements.

Utility plant, net of accumulated depreciation, and other capital assets for the year ended December 31, 2009, amounted to \$1.175 billion. This represents a net increase of approximately \$43.0 million in 2009. The most significant asset acquisition was the Beacon Reservoir covering project. The Water Utility has \$87.1 million in construction work in progress as of December 31, 2009.

The Water Utility had revenue bonds totaling \$904.0 million in 2009 as compared to \$1.025 billion in 2008. A portion of the proceeds from the 2008 Water System Revenue and Refunding Bonds issuance was used to refund all \$93.0 million of the 1995 and 2002 adjustable-rate revenue bonds in February 2009.

Total net assets were \$310.2 million in 2009 and \$304.3 million in 2008.

**Drainage and Wastewater Utility.** The Utility realized an operating income of \$15.1 million in 2009 as compared to \$2.3 million in 2008. Operating revenue increased \$26.1 million and operating expenses increased \$13.3 million between 2009 and 2008. The Utility realized a net income of \$6.3 million in 2009 and \$12.5 million in 2008. The net income in 2009 was primarily due to drainage and wastewater rate increases.

Net cash provided by operating activities increased to \$26.9 million in 2009 from \$26.3 million in 2008. Total operating and restricted cash and investments were \$156.7 million in 2009 as compared to \$72.4 million in 2008, an increase of \$84.3 million, primarily due to bonds issued in 2009.

Utility plant, net of accumulated depreciation, and other capital assets increased to \$593.7 million in 2009 from \$570.5 million in 2008, an increase of \$23.2 million. Acquisition of new assets included installation of drainage and sewer pipes and the development of an alternative street design for drainage and residential benefits at 3rd Avenue NW and NW 107th Street. In addition, there were improvements in water quality and a reduction in downstream flooding in the area

surrounding the north and south of NE 113th and 120th Streets and east and west of 16th and 23rd Avenues NE. Significant capital was spent on storm water and local drainage infrastructure as well as improvements to facilities and equipment.

The Drainage and Wastewater Utility had \$513.1 million outstanding revenue bond liabilities in 2009, as compared to \$402.0 million in 2008. In 2009 the City issued \$139.2 million of revenue bonds for its drainage and wastewater system. A portion of the proceeds from the issuance was set aside in the Utility's restricted cash to be used in January 2010 to refund the remaining portion of the 1998 Revenue Bonds, totaling \$18.4 million. Total liabilities, including revenue bonds, were \$586.3 million in 2009 and \$473.2 million in 2008.

Total net assets were \$246.4 million in 2009 and \$240.2 million in 2008.

## **Fiduciary Funds**

The City maintains fiduciary funds for the assets of the City of Seattle 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 2009 were \$1.659 billion; SCERS represents 99.2 percent of this amount.

SCERS assets that are held in trust for the payment of future benefits exceeded current amounts owed as of December 31, 2009, by \$1.645 billion. SCERS net fund assets increased in valuation by \$167.9 million (11.4 percent) during 2009, primarily due to the increase in the diversified portfolio invested in the U.S. and equity markets abroad and in fixed income and alternative investments. The fund uses the services of both active and index fund professional money managers. The fund experienced dividend and interest receipts of over \$14.5 million during 2009. Employee and employer contributions in 2009 increased \$1.3 million over 2008 for total contributions of \$93.3 million. The largest part of the 2009 increase in total expenses (deductions) resulted from retiree benefits increasing by 5.3 percent to \$108.1 million.

At December 31, 2009, 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 \$13.3 million and \$0.3 million, respectively.

## **GENERAL FUND BUDGETARY HIGHLIGHTS**

The General Fund's 2009 final appropriation budget, including support to other funds, was \$1.117 billion. This amount differed from the original budget due to supplemental appropriations approved by the City Council during the year. In fiscal year 2009 the General Fund's budget including carryforward budgets was \$1.097 billion. This was increased \$80.5 million (7.5 percent) during 2009 for supplemental appropriation authority approved by the Council.

The most significant budget revisions are described below:

- At year-end 2009 actual expenditures were \$128.2 million less than budgeted. Of this amount \$92.4 million of the budget will be carried over into 2010 to cover outstanding encumbrances, grants, and capital spending.
- The Real Estate Excise Tax (REET I and II) Cumulative Reserve Subfunds had supplemental budget appropriations approved by the City Council that reduced the original budget by \$14.3 million. The majority of this amount was identified during a review of the capital projects with abandoned or excess budgets. The total budget for the City's REET subfunds was \$76.9 million of which \$42.8 million or 55.6 percent of the budget was expended in 2009. Of the excess budget, 99.0 percent will be carried forward for continuing grants (\$6.0 million) and capital appropriation (\$25.3 million) in 2010.
- The majority of the carryforward budget for capital and grant projects is within the General Subfund, 33.4 percent, and the REET I and REET II Cumulative Reserve Subfunds at 27.4 percent and 9.3 percent, respectively. The amount of carryforward budgets from 2008 was \$114.5 million; this amount decreased 19.0 percent to \$92.4 million for 2009. The budget carryforward for capital projects decreased 37.3 percent, from \$98.5 million to \$61.8 million. The opposite is true for the grant programs, the carryforward budget for grant obligations increased 90.6 percent, from \$16.0 million to \$30.5 million for 2009.
- 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. In 2009 \$48.1 million in additional grant funding was authorized by the City Council. This includes \$8.2 million under agreement with the U.S. Department of Housing and Urban Development (HUD) for funds available under the McKinney-Vento Homeless Assistance Act.
- 2009 current expenditures of the general government were \$186.0 million, which were 7.0 percent below the final budget of \$196.6 million. Grant budgets that will carryforward to 2010 contribute to the majority of the variation.

- Public safety expenditures in 2009 were 96.0 percent of the final budget or a \$19.3 million budget savings, which is also primarily due to the amount of available grant funding within the Police Department that will continue into 2010. Detail information follows:
  - The Police Department's 2009 budget was \$259.2 million. This amount breaks into \$1.2 million for capital programs, \$21.7 million for grant programs, and the remaining \$236.3 million for operations. The 2009 actual expenditures were \$241.6 million, breaking down into grants of \$5.3 million, capital expenditures for equipment of \$440 thousand, and the remaining \$235.9 million for operations.
  - The Fire Department's 2009 budget was \$160.6 million. This amount breaks into \$1.3 million for capital programs, \$4.1 million for grant programs, and the remaining \$155.2 million for operations. The 2009 actual expenditures were \$156.4 million, breaking down into grants of \$1.3 million, capital expenditures for equipment of \$650 thousand, and the remaining \$154.4 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 2009 the general government expended 32.0 percent of the budget, only \$16.0 million of the \$50.0 million budgeted. This was consistent within culture and recreation which reported spending only \$24.9 million of the \$53.3 million budgeted, or 47.0 percent of the 2009 capital outlay budget.

## 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	
	2009	Restated 2008	2009	2008	2009	Restated 2008
Land	\$ 512,043	\$ 436,123	\$ 147,718	\$ 100,800	\$ 659,761	\$ 536,923
Plant in Service, Excluding Land	-	-	3,154,652	3,017,123	3,154,652	3,017,123
Buildings and Improvements	1,515,118	1,490,857	38,083	40,088	1,553,201	1,530,945
Machinery and Equipment	124,099	122,506	5,585	7,290	129,684	129,796
Infrastructure	707,789	629,263	-	-	707,789	629,263
Construction in Progress	200,100	175,990	325,317	296,594	525,417	472,584
Other Capital Assets	11,775	11,460	19,633	18,155	31,408	29,615
Total Capital Assets	<u>\$ 3,070,924</u>	<u>\$ 2,866,199</u>	<u>\$ 3,690,988</u>	<u>\$ 3,480,050</u>	<u>\$ 6,761,912</u>	<u>\$ 6,346,249</u>

Capital Assets, net of depreciation, for governmental activities increased by \$204.7 million in 2009. Major increases included the following:

- Seattle Center capitalized improvements to various facilities amounting to \$3.0 million. Blue Train improvements cost \$3.5 million and the construction of the Skate Park cost \$2.5 million. Construction in progress amounted to \$4.8 million at the end of 2009, a decrease of \$1.5 million over last year.
- The Department of Parks and Recreation (DPR) capitalized various community parks improvements such as: South Lake Union Park II at \$7.8 million, Beacon Reservoir II at \$4.2 million, Lower Woodland Park at \$2.3million, Magnuson Park at \$2.5 million, Hiawatha Park Facilities Improvement at \$1.8 million, Miller Playfield at \$1.1 million, Japanese Garden entry at \$1.0 million, and other park facilities improvements at \$24.3 million. DPR spent \$15.1 million for the purchase of land, such as: the Northgate Urban Center at \$6.3 million, Crown Hill at \$4.6 million, University District at \$2.3 million, and other parcels at \$1.9 million. DPR received donations of parcels of land in the amount of \$4.7 million. Construction in progress at December 31, 2009, stood at \$1.4 million, a decrease of \$2.2 million over the last year.
- The Department of Transportation capitalized \$114.0 million for various infrastructure assets (roads, bridges, sidewalks, signs, illuminations, and others). \$56.0 million was spent for the purchase of land. Construction in progress at December 31, 2009, was \$136.3 million.
- The Fleets and Facilities Department incurred \$13.7 million to complete additional improvements of various City buildings. These buildings included: the Seattle Municipal Tower at \$7.7 million, Fire Station #31 at \$2.8 million,

various fire stations at \$1.5 million, and others at \$1.7 million. Construction in progress at December 31, 2009 was \$48.2 million, an increase of \$28.2 million over the last year.

- The Library capitalized various library buildings and improvements at \$5.2 million: the Central Library at \$2.5 million, Northeast Library at \$0.4 million, and others at \$2.3 million. There is no construction in progress amount remaining at December 31, 2009.

Capital assets, net of depreciation, for business-type activities increased \$210.9 million as follows:

- City Light capital assets net of accumulated depreciation increased by \$135.7 million in 2009. These increases occurred in the hydroelectric production plant, \$8.8 million; the transmission plant, \$16.6 million; the distribution plant, \$78.9 million (\$20.8 million for underground conduits, \$18.4 million for underground conductors, \$11.3 million for transformers, \$9.8 million for poles, and \$8.5 million for services); and the general plant, \$17.5 million. Land and land rights increased by \$41.0 million, primarily due to the purchase of two Greyhound properties in the amount of \$39.1 million for a proposed new substation and other properties amounting to \$1.4 million. Construction in progress increased by \$35.4 million over the last year.
- Drainage and Wastewater Utility net capital assets increased by \$23.2 million compared to last year. Major capital assets placed in service during 2009 included the following: \$5.6 million for the installation of drainage and sewer pipes at 4th South and South Trenton; \$5.4 million for development of an alternative street design for drainage and residential benefits at 3rd Avenue and NW 107th Street; \$5.2 million to improve water quality and reduce downstream flooding at 113th and 120th Streets and east and west of 16th and 23rd Avenues NE; \$3.6 million for the purchase of heavy equipment (vacuum trucks for sewer and drainage); \$3.4 million for damage sewer rehabilitation; \$3.2 million for High Point Redevelopment Project drainage infrastructure; \$3.1 million to prepare an update of the fund's Comprehensive Drainage Plan, including a long-term capital facilities plan guidance for operating programs; \$2.5 million for High Point drainage infrastructure feasibility study; and \$1.7 million for donated assets. Major construction projects in progress at the end of 2009 included the following: \$10.1 million for improvement to mitigate flooding and sewer backups at the storm water facility at Madison Valley, \$4.2 million to build a pump station and water quality facility in South Park, \$7.8 million for improvements to the Windermere combined-sewer-overflow storage, \$3.9 million for storm improvements to replace undersized pipes along Martin Luther King Way and Norfolk Street, \$2.9 million to replace the existing Alaskan Way Viaduct and seawall with an improved earthquake resistant structure, \$2.4 million for improvements to the South Henderson combined-sewer-overflow storage, \$1.7 million for improvements to the South Genesee combined-sewer-overflow, \$1.5 million for storm drain improvements at North 125th Street and Aurora Avenue North, and \$1.4 million for wastewater pump station improvements and rehabilitation.
- Water Utility net capital assets increased by \$43.0 million in the current fiscal year. Major capital assets placed in service during 2009 included the following: \$44.6 million for reservoir covering projects, \$6.8 million for new distribution pipelines, \$3.8 million for water conservation projects, \$1.3 million for operational facilities and security improvements, \$1.3 million for improvements at the Cedar River Watershed and rebuilding from emergency storm programs. Construction in progress as of December 31, 2009, included the following: \$44.1 million for water system rehabilitation, reservoir covering, and other agency projects; \$14.5 million for the Sound Transit project, water operations control center, and the control monitoring programs; \$9.4 million for water conservation projects; \$9.2 million for a sockeye hatchery and improvements at the Cedar River Watershed; \$5.2 million for water system improvements; and \$4.7 million for business and technology infrastructure upgrades.
- Nonmajor enterprise funds net capital assets increased by \$9.1 million. Increases are attributable to: \$9.3 million for the purchase of new solid waste containers, \$3.0 million for replacing the existing South and North Recycling and Disposal Stations, \$0.7 million for the purchase of a new scale and for environmental review for facilities master plan implementation. Construction in progress increased by \$5.0 million over the last year.

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 2009 the City had \$3.715 billion in outstanding bonded debt that included general obligation and revenue bonds, compared to \$3.830 billion in 2008. This represents a decrease of approximately \$114.6 million (3.0 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 \$17.7 million. A maturity and bond call payment of \$1.5 million occurred in 2009 using special assessment collections from property owners within Local Improvement District No. 6750.

In 2009 the City issued LTGO bonds to finance various capital improvement projects and improvements including the Spokane Street (\$20.7 million), King Street Station (\$1.6 million), Alaskan Viaduct (\$1.6 million), Bridge Rehab (\$13.5 million), Northgate Land/Park (\$9.9 million), North Precinct (\$1.4 million), Rainier Community Center (\$4.1 million), Trails (\$3.6 million), Arterial (\$13.6 million), Pike Place Renovation (\$11.2 million), IT Server/Migration

(\$8.9 million), Others (\$5.4 million) and refunding bonds (\$4.4 million) to payoff and redeem the 1996 Pike Place Market Development Authority Bonds totaling \$4.6 million on the date of the bond sale. The City also issued revenue bonds in the amount of \$139.2 million (\$102.5 million in Build America Bonds and \$36.7 million in tax exempt bonds) for the Drainage and Wastewater Fund to finance certain capital improvements and additions to the drainage and wastewater system and to refund the remaining portion of the 1998 Revenue Bonds, totaling \$8.4 million.

The City's bond ratings remained the same as in 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 2010 assessed value of taxable properties for the City is \$123.684 billion. At the end of 2009 the net outstanding general obligation debt of the City that includes bonds, leases, compensated absences net of sick leave, and guarantees of indebtedness amounted to \$822.1 million, well below the limit of \$9.276 billion, rendering the City's legal debt margin of \$8.454 billion. Within the 7.5 percent limitation, state law restricts outstanding LTGO bonds to 1.5 percent of assessed value. At year-end 2009 the net outstanding LTGO debt was \$689.5 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 \$114.6 million (\$85.0 million for governmental activities and \$29.6 million for business-type activities) at the end of the year. In addition, City utilities recognized \$46.9 million in estimated environmental liabilities. Other obligations were accrued compensation absences 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

The recession came late to the Puget Sound region but the local downturn has been as severe as the nation's. Although the current downturn is the worst in 75 years nationally, for the Puget Sound region this recession is dwarfed by the "Boeing bust" of 1969-1971 when Boeing laid off over 60,000 employees in a relatively short period of time. In that recession the unemployment rate in the 4-county region rose to 12.4 percent, compared to an expected peak of 9.7 percent during the current recession. Although the recession started late in the Puget Sound region, through July 2009 the Seattle metro area (King and Snohomish Counties) has lost 4.8 percent of its jobs, the same rate of loss as the nation. The housing downturn in the region has not been as severe as the national housing downturn. Single-family home prices in the region had fallen by 21.7 percent from their peak two years earlier, compared to a 30.5 percent peak-to-trough drop nationally, as measured by the Case-Shiller housing price index. Both locally and nationally price declines have moderated significantly and there has been a modest uptick in sales, suggesting that the housing market is beginning to stabilize. The Puget Sound economy is expected to turn around at the same time as the national economy, with employment expected to begin growing again in the second quarter of 2010. The state's chief economist thinks that recovery will be stronger in Washington than nationally, in part because Boeing and Microsoft have held up better during the downturn than have most of the nation's large employers. Once recovery takes hold, the economy's rate of growth will probably not return to pre-recession levels, because consumers need to pay down debt and rebuild savings and the federal government needs to get its budget under control. The Puget Sound Economic Forecaster expects employment to grow at a 2.0 percent annual rate from 2011 through 2019, which is a full percentage point slower than the 3.0 percent growth rate measured over the 35 years ending in 2008. Comparable figures for real (i.e., inflation adjusted) personal income are 3.2 percent annual growth for 2011-2019 compared to 4.3 percent growth for the period 1973-2008.

General Subfund. In 2008, general government revenue into the General Subfund totaled approximately \$884.8 million. General Subfund revenue was projected to increase to \$891.1 million in 2009 and then to rise to \$904.8 million in 2010. 2009 and 2010 will see contributions from the Revenue Stabilization Account, or "Rainy Day Fund", in the amounts of \$8.9 million and \$11.3 million respectively. Without the use of the Rainy Day Fund and other transfers of fund balances, revenues would have fallen from \$884.8 million in 2008 to \$875.8 million in 2009, with a slight recovery of \$893.6 million in 2010. Tax revenues grew a weak 2.4 percent in 2008. As a result of the negative economic forecasts, tax receipts was projected to have a negative growth (-1.4 percent) in 2009, and rebound only slightly (1.8 percent) in 2010. The main cause of the slower growth rates are the business and occupation (B&O) and sales taxes. The economic downturn, while led by real estate, has also severely constrained consumer behavior, evident in the declining sales tax base. Construction activity has also declined, which is another source of pressure on sales tax receipts.

There are some revenue streams that are showing positive growth rates. Utility rates charged by the Seattle Public Utilities for drainage and wastewater, water, and solid waste services and by City Light for electric services to their respective customers were increased in the 2009 adopted budget. Because of these rate increases, tax revenues from these utilities are

expected to grow: for drainage and wastewater, a forecast growth of 11.0 percent in 2010 over 2009; for water, a growth of 45.9 percent in 2009 (due to a temporary rate and tax surcharge in response to a court judgment regarding fire hydrants) and 9.6 percent in 2010; for solid waste, a forecast growth at 17.6 percent and 12.9 percent for 2009 and 2010, respectively; for electric, it will increase 15.4 percent in 2010 over 2009 due to a rate increase of 13.8 percent. Revenues from on-street parking was projected to increase 30.0 percent in 2009 to \$25.2 million (primarily due to a 2008 City Council approved parking rate increase that became effective the following year) and to a lesser degree in 2010 by 13.0 percent to \$28.6 million.

Utilities. City Light's 2010 adopted budget includes spending reductions while maintaining the utility's capacity to service customers. These reductions in expenditures, some of which City Light began implementing in 2009, are necessary because unfavorable economic conditions have reduced projected retail and wholesale revenue in 2010 as well as the utility's 2009 end-of-year cash balances. Offsetting these spending reductions, which include 58 position abrogations, are increased expenditures to meet state and federal regulatory requirements, to enhance the reliability of the electrical system, to maintain and modernize streetlights, and to improve the management of the utility's valuable and varied capital assets. An across-the-board rate increase of approximately 13.8 percent was approved by the City Council effective January 1, 2010 along with the adoption of the 2010 adopted budget. Despite significant reductions in the 2010 adopted budget, the City continues its commitment to environmental protection, system reliability, and customer service.

The Seattle Public Utilities (SPU) saw significant revenue declines in all its operating funds in 2009 due to economic recession. SPU's 2010 adopted budget addresses the financial challenges it will continue to face in 2010. The downturn in the economy has significantly impacted the Water and Solid Waste Funds, while regulatory requirements are having a big impact on the Drainage and Wastewater Fund. To address these financial challenges, SPU is implementing efficiencies throughout the organization to minimize the need to reduce service levels. Some reductions, however, will be unavoidable. The 2010 budget continues to invest in basic infrastructure and operations that will enable SPU to provide reliable and high-quality water to customers, manage stormwater and wastewater properly, and provide Seattle residents with sufficient recycling and solid waste services

Full Time-Equivalent (FTE) Positions. While the 2009 adopted budget projected a net decrease of 34 FTE's, the 2010 adopted budget shows a net decrease of 107 FTE's Citywide, a 215.0 percent further decline in City employment. This evidently is an effect of the current economic downturn the region has been experiencing, negatively impacting the City's revenues that are needed to provide government services.

## **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 Executive Administration, Accounting Services Division, P.O. Box 94669, Seattle, WA 98124-4669 (Telephone 206-386-9124).

**STATEMENT OF NET ASSETS**  
**December 31, 2009**  
*(In Thousands)*

	Primary Government				Component Unit
			Comparative Totals		Seattle Public Library Foundation
	Governmental Activities	Business-Type Activities	2009	Restated 2008	
<b>ASSETS</b>					
<i>Current Assets</i>					
Operating Cash and Equity in Pooled Investments	\$ 569,378	\$ 85,872	\$ 655,250	\$ 794,224	\$ 1,612
Restricted Cash and Equity in Pooled Investments	-	4,688	4,688	38,004	-
Restricted Investments	-	-	-	60,274	-
Restricted Investment Interest Receivable	-	-	-	1,108	-
Investments	-	-	-	-	42,929
Receivables, Net of Allowances	89,492	186,497	275,989	269,918	208
Internal Balances	12,421	(12,421)	-	-	-
Due from Other Governments	77,109	9,419	86,528	81,873	-
Hydrant Settlement Receivable	-	-	-	10,088	-
Inventories	3,075	31,009	34,084	36,748	-
Prepaid and Other Current Assets	666	1,376	2,042	2,003	44
<b>Total Current Assets</b>	<b>752,141</b>	<b>306,440</b>	<b>1,058,581</b>	<b>1,294,240</b>	<b>44,793</b>
<i>Noncurrent Assets</i>					
Restricted Cash and Equity in Pooled Investments	68	127,433	127,501	261,209	-
Restricted Investments	-	99,859	99,859	198,472	-
Restricted Investment Interest Receivable	-	645	645	849	-
Unamortized Debt Costs	3,467	17,302	20,769	21,809	-
Contracts and Notes	320,447	22	320,469	285,037	-
Deferred Conservation Costs, Net	-	196,359	196,359	185,895	-
Deferred Landfill Closure and Postclosure Costs, Net	-	24,134	24,134	26,979	-
Deferred Environmental Costs, Net	-	15,563	15,563	16,861	-
Net Pension Asset	82,630	-	82,630	81,899	-
Other Deferred Charges and Noncurrent Assets	18,030	242,018	260,048	239,832	2,770
Capital Assets, Net of Accumulated Depreciation					
Land and Land Rights	512,043	147,718	659,761	536,923	-
Plant in Service, Excluding Land	-	3,154,652	3,154,652	3,017,123	-
Buildings and Improvements	1,515,118	38,083	1,553,201	1,530,945	-
Machinery and Equipment	124,099	5,585	129,684	129,796	1
Infrastructure	707,789	-	707,789	629,263	-
Construction in Progress	200,100	325,317	525,417	472,584	-
Other Capital Assets	11,775	19,633	31,408	29,615	-
<b>Total Noncurrent Assets</b>	<b>3,495,566</b>	<b>4,414,323</b>	<b>7,909,889</b>	<b>7,665,091</b>	<b>2,771</b>
<b>Total Assets</b>	<b>4,247,707</b>	<b>4,720,763</b>	<b>8,968,470</b>	<b>8,959,331</b>	<b>47,564</b>

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

## STATEMENT OF NET ASSETS

December 31, 2009

(In Thousands)

	Primary Government				Component
			Comparative Totals		Unit
	Governmental Activities	Business-Type Activities	2009	Restated 2008	Seattle Public Library Foundation
<b>LIABILITIES</b>					
<i>Current Liabilities</i>					
Accounts Payable	\$ 75,584	\$ 65,092	\$ 140,676	\$ 141,096	\$ 814
Salaries, Benefits, and Taxes Payable	18,022	8,151	26,173	56,394	-
Contracts Payable	5,079	-	5,079	7,404	-
Due to Other Governments	8,205	9,346	17,551	16,306	-
Interest Payable	11,619	45,068	56,687	50,243	-
Taxes Payable	93	11,430	11,523	9,484	-
Deposits Payable	813	-	813	963	-
Deferred Credits	3,961	16,290	20,251	22,947	-
Current Portion of Long-Term Debt					
Bonds Payable	56,500	122,651	179,151	269,285	-
Special Assessment Bonds with Governmental Commitment	660	-	660	940	-
Deferred Bond Interest	-	924	924	790	-
Compensated Absences Payable	17,737	2,499	20,236	18,232	-
Notes and Contracts Payable	2,126	1,477	3,603	2,997	-
Claims Payable	29,656	21,859	51,515	46,600	-
Habitat Conservation Program Liability	-	5,759	5,759	5,453	-
Landfill Closure and Postclosure Liability	-	1,338	1,338	1,115	-
Other Current Liabilities	371	925	1,296	18,216	-
Total Current Liabilities	230,426	312,809	543,235	668,465	814
<i>Noncurrent Liabilities</i>					
Bonds Payable, Net of					
Unamortized Premiums, Discounts, and Other	742,187	2,841,166	3,583,353	3,600,635	-
Deferred Bond Interest	-	3,081	3,081	3,467	-
Special Assessment Bonds with Governmental Commitment	17,045	-	17,045	18,265	-
Compensated Absences Payable	63,409	25,501	88,910	81,145	-
Claims Payable	55,320	54,656	109,976	105,520	-
Notes and Contracts Payable	16,746	22,383	39,129	36,981	-
Landfill Closure and Postclosure Liability	-	23,923	23,923	24,925	-
Vendor Deposits Payable	68	816	884	1,238	-
Habitat Conservation Program Liability	-	3,664	3,664	4,154	-
Muckleshoot Liability	-	495	495	495	-
Deferred Credits	365,273	45,514	410,787	376,374	-
Arbitrage Rebate Liability	205	-	205	445	-
Unfunded Other Post Employment Benefits	33,489	6,614	40,103	25,597	-
Net Pension Obligation	-	-	-	1,398	-
Other Noncurrent Liabilities	364	363	727	1,034	-
Total Noncurrent Liabilities	1,294,106	3,028,176	4,322,282	4,281,673	-
Total Liabilities	1,524,532	3,340,985	4,865,517	4,950,138	814

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

**STATEMENT OF NET ASSETS**  
**December 31, 2009**  
*(In Thousands)*

	<b>Primary Government</b>				<b>Component Unit</b>
			<b>Comparative Totals</b>		<b>Seattle Public Library Foundation</b>
	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>2009</b>	<b>Restated 2008</b>	
<b>NET ASSETS</b>					
Invested in Capital Assets, Net of Related Debt	\$ 2,351,307	\$ 1,207,445	\$ 3,558,752	\$ 3,312,480	\$ 1
Restricted for					
Debt Service	15,156	21,804	36,960	44,469	-
Contingency Reserve Account	-	25,000	25,000	25,000	-
Capital Projects	166,784	-	166,784	201,573	87
Education and Development Services	16,664	-	16,664	17,173	7,363
Special Deposits	24,250	920	25,170	21,167	-
Deferred Conservation and Environmental Costs	-	6,364	6,364	7,171	-
Bonneville Power Administration Projects	-	763	763	1,891	-
Deferred External Infrastructure Costs	-	8,019	8,019	8,255	-
Muckleshoot Settlement	-	460	460	542	-
Other Deferred Charges	-	8,471	8,471	5,546	-
Other Purposes	-	-	-	-	314
Nonexpendable	2,303	-	2,303	2,330	26,830
Unrestricted	146,711	100,532	247,243	361,596	12,155
<b>Total Net Assets</b>	<b>\$ 2,723,175</b>	<b>\$ 1,379,778</b>	<b>\$ 4,102,953</b>	<b>\$ 4,009,193</b>	<b>\$ 46,750</b>

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

**STATEMENT OF ACTIVITIES**  
**For the Year Ended December 31, 2009**  
*(In Thousands)*

Functions/Programs	Program Expenses		Program Revenues		
	Expenses	Indirect Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>GOVERNMENTAL ACTIVITIES</b>					
General Government	\$ 107,971	\$ (1,239)	\$ 58,127	\$ 13,501	\$ -
Judicial	27,526	-	28,376	191	-
Public Safety	474,572	(1,045)	22,740	12,872	-
Physical Environment	32,543	-	1,745	5	-
Transportation	136,271	-	62,230	13,118	20,848
Economic Environment	98,940	-	11,922	24,613	2,662
Health and Human Services	75,788	-	9	34,104	-
Culture and Recreation	249,160	-	58,977	5,978	13,324
Interest on Long-Term Debt	36,825	-	-	-	-
Total Governmental Activities	1,239,596	(2,284)	244,126	104,382	36,834
<b>BUSINESS-TYPE ACTIVITIES</b>					
Light	732,303	1,102	717,775	1,697	43,413
Water	200,505	416	190,283	2,001	8,032
Drainage and Wastewater	248,248	336	244,773	300	8,129
Solid Waste	145,381	145	135,393	573	409
Planning and Development	55,357	285	33,379	218	-
Downtown Parking Garage	7,824	-	6,862	-	-
Total Business-Type Activities	1,389,618	2,284	1,328,465	4,789	59,983
Total Government-Wide Activities	\$ 2,629,214	\$ -	\$ 1,572,591	\$ 109,171	\$ 96,817
<b>COMPONENT UNIT</b>	\$ 3,814	\$ -	\$ -	\$ 2,353	\$ -

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

**STATEMENT OF ACTIVITIES**  
**For the Year Ended December 31, 2009**  
*(In Thousands)*

	Net Revenue (Expense) and Changes in Net Assets				Component Unit
	Primary Government				
	Governmental Activities	Business-Type Activities	Comparative Totals		Seattle Public Library Foundation
			2009	2008	
<b>GOVERNMENTAL ACTIVITIES</b>					
General Government	\$ (35,104)	\$ -	\$ (35,104)	\$ (30,643)	
Judicial	1,041	-	1,041	(4,548)	
Public Safety	(437,915)	-	(437,915)	(430,106)	
Physical Environment	(30,793)	-	(30,793)	(6,065)	
Transportation	(40,075)	-	(40,075)	(49,499)	
Economic Environment	(59,743)	-	(59,743)	(56,214)	
Health and Human Services	(41,675)	-	(41,675)	(38,119)	
Culture and Recreation	(170,881)	-	(170,881)	(187,613)	
Interest on Long-Term Debt	(36,825)	-	(36,825)	(39,336)	
Total Governmental Activities	(851,970)	-	(851,970)	(842,143)	
<b>BUSINESS-TYPE ACTIVITIES</b>					
Light	-	29,480	29,480	122,496	
Water	-	(605)	(605)	480	
Drainage and Wastewater	-	4,618	4,618	10,272	
Solid Waste	-	(9,151)	(9,151)	4,140	
Planning and Development	-	(22,045)	(22,045)	(13,363)	
Downtown Parking Garage	-	(962)	(962)	(2,015)	
Total Business-Type Activities	-	1,335	1,335	122,010	
Total Government-Wide Activities	(851,970)	1,335	(850,635)	(720,133)	
<b>COMPONENT UNIT</b>					\$ (1,461)
General Revenues					
Property Taxes	388,341	-	388,341	368,515	-
Sales Taxes	150,515	-	150,515	171,917	-
Business Taxes	329,572	-	329,572	330,369	-
Excise Taxes	27,710	-	27,710	36,091	-
Other Taxes	28,582	-	28,582	25,395	-
Penalties and Interest on Delinquent Taxes	3,867	-	3,867	2,410	-
Unrestricted Investment Earnings	8,898	4,837	13,735	37,670	6,565
Gain (Loss) on Sale of Capital Assets	(2,422)	4,495	2,073	17,169	-
Transfers	(10,245)	10,245	-	-	-
Total General Revenues (Loss) and Transfers	924,818	19,577	944,395	989,536	6,565
Changes in Net Assets	72,848	20,912	93,760	269,403	5,104
Net Assets - Beginning of Year	2,650,327	1,358,866	4,009,193	3,739,790	41,646
Net Assets - End of Year	<u>\$ 2,723,175</u>	<u>\$ 1,379,778</u>	<u>\$ 4,102,953</u>	<u>\$ 4,009,193</u>	<u>\$ 46,750</u>

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.

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; 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.

**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**December 31, 2009**  
*(In Thousands)*

	<u>General</u>	<u>Transportation</u>	<u>Low-Income Housing</u>
<b>ASSETS</b>			
Cash and Equity in Pooled Investments	\$ 153,880	\$ 14,356	\$ 74,744
Receivables, Net of Allowances			
Taxes	55,030	5,918	323
Accounts	3,611	1,834	77
Contracts and Notes	4	1	-
Special Assessments - Delinquent	-	-	-
Interest and Dividends	251	283	69
Unbilled and Others	429	1,619	-
Due from Other Funds	13,089	12,104	85
Due from Other Governments	38,935	21,378	482
Inventories	59	-	-
Prepaid and Other Current Assets	603	-	-
Deposits With Vendor	1	-	-
Contracts and Notes - Noncurrent	7,992	-	265,826
Deferred Charges and Other Assets	6	-	-
	<u>273,890</u>	<u>57,493</u>	<u>341,606</u>
Total Assets	\$ 273,890	\$ 57,493	\$ 341,606
<b>LIABILITIES</b>			
Accounts Payable	\$ 22,901	\$ 12,491	\$ 270
Contracts Payable	508	3,253	-
Due to Other Funds	5,580	2,479	2
Due to Other Governments	2,245	12	4
Salaries, Benefits, and Taxes Payable	11,115	1,663	-
Interest Payable	867	17	1
Deposits Payable	251	253	90
Revenue Collected/Billed in Advance - Current	1,759	49	-
Other Current Liabilities	208	-	-
Deferred Revenues	31,010	3,120	266,080
	<u>76,444</u>	<u>23,337</u>	<u>266,447</u>
Total Liabilities	76,444	23,337	266,447

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

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
December 31, 2009  
(In Thousands)**

	<u>Other Governmental</u>	<u>Comparative Totals</u>	
		<u>2009</u>	<u>2008</u>
<b>ASSETS</b>			
Cash and Equity in Pooled Investments	\$ 285,056	\$ 528,036	\$ 603,759
Receivables, Net of Allowances			
Taxes	2,353	63,624	61,685
Accounts	5,101	10,623	13,985
Contracts and Notes	1	6	13
Special Assessments - Delinquent	164	164	150
Interest and Dividends	323	926	1,377
Unbilled and Others	1,053	3,101	3,141
Due from Other Funds	4,452	29,730	34,556
Due from Other Governments	15,880	76,675	72,442
Inventories	592	651	607
Prepaid and Other Current Assets	-	603	639
Deposits With Vendor	-	1	6
Contracts and Notes - Noncurrent	42,549	316,367	284,996
Deferred Charges and Other Assets	18,023	18,029	19,542
	<u>\$ 375,547</u>	<u>\$ 1,048,536</u>	<u>\$ 1,096,898</u>
Total Assets			
<b>LIABILITIES</b>			
Accounts Payable	\$ 31,882	\$ 67,544	\$ 57,693
Contracts Payable	1,317	5,078	7,405
Due to Other Funds	14,730	22,791	26,165
Due to Other Governments	5,945	8,206	7,763
Salaries, Benefits, and Taxes Payable	4,030	16,808	35,701
Interest Payable	3	888	212
Deposits Payable	219	813	962
Revenue Collected/Billed in Advance - Current	2,152	3,960	4,328
Other Current Liabilities	161	369	390
Deferred Revenues	65,061	365,271	326,948
	<u>125,500</u>	<u>491,728</u>	<u>467,567</u>
Total Liabilities			

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

**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**December 31, 2009**  
*(In Thousands)*

	<b>General</b>	<b>Transportation</b>	<b>Low-Income Housing</b>
<b>FUND BALANCES</b>			
Reserves Legally Segregated for Future Use			
Capital Improvements	\$ 53,759	\$ 34,070	\$ -
Continuing Appropriations	8,366	-	56,115
Debt Service	11,227	-	-
Encumbrances	2,585	84	-
Health Care Rate Stabilization	13,045	-	-
Reserves Not Available for Appropriation			
Endowments	-	-	-
Gifts	-	-	-
Inventories	-	-	-
Petty Cash	1,080	2	-
Unreserved, Reported in			
Major Funds			
Designated for Special Purpose	37,329	-	-
Undesignated	70,055	-	19,044
Special Revenue Funds			
Designated for Special Purpose	-	-	-
Undesignated	-	-	-
Permanent Funds	-	-	-
Total Fund Balance	<u>197,446</u>	<u>34,156</u>	<u>75,159</u>
Total Liabilities and Fund Balance	<u>\$ 273,890</u>	<u>\$ 57,493</u>	<u>\$ 341,606</u>

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

**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**December 31, 2009**  
*(In Thousands)*

	<u>Other Governmental</u>	<u>Comparative Totals</u>	
		<u>2009</u>	<u>2008</u>
<b>FUND BALANCES</b>			
Reserves Legally Segregated for Future Use			
Capital Improvements	\$ 169,397	\$ 257,226	\$ 300,415
Continuing Appropriations	24,455	88,936	33,260
Debt Service	20,585	31,812	29,350
Encumbrances	841	3,510	3,142
Health Care Rate Stabilization	-	13,045	20,779
Reserves Not Available for Appropriation			
Endowments	2,050	2,050	2,050
Gifts	10,891	10,891	10,976
Inventories	592	592	532
Petty Cash	22	1,104	1,284
Unreserved, Reported in			
Major Funds			
Designated for Special Purpose	-	37,329	29,497
Undesignated	-	89,099	154,361
Special Revenue Funds			
Designated for Special Purpose	843	843	879
Undesignated	20,270	20,270	42,685
Permanent Funds	101	101	121
<b>Total Fund Balance</b>	<u>250,047</u>	<u>556,808</u>	<u>629,331</u>
<b>Total Liabilities and Fund Balance</b>	<u>\$ 375,547</u>		
 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.		2,976,330	2,776,854
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		12,023	6,642
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.		121,865	130,963
Net pension asset net of pension obligations		82,630	80,501
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		(29,164)	(36,791)
Accrued Interest Payable		(10,445)	(10,591)
Current Portion of Long-Term Debt		(56,956)	(52,719)
Compensated Absences Payable		(17,424)	(15,423)
General Obligation Bonds Payable		(707,979)	(671,515)
Less Bond Discount and Premium		(27,135)	(22,222)
Special Assessment Bonds		(17,045)	(18,265)
Unamortized Losses on Refunding		-	1,443
Deferred Credits		3,407	3,042
Notes and Other Long-Term Liabilities		(16,746)	(17,603)
Compensated Absences - Long-Term		(59,915)	(54,612)
Claims Payable - Long-Term		(40,386)	(45,770)
Workers' Compensation		(13,940)	(12,074)
Arbitrage		(205)	(445)
Unfunded Other Post Employment Benefits		(32,548)	(20,419)
Net Adjustments		<u>2,166,367</u>	<u>2,020,996</u>
<b>Net Assets of Governmental Activities</b>		<u>\$ 2,723,175</u>	<u>\$ 2,650,327</u>

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, 2009

*(In Thousands)*

	<u>General</u>	<u>Transportation</u>	<u>Low-Income Housing</u>
<b>REVENUES</b>			
Taxes	\$ 756,909	\$ 63,321	\$ 11,660
Licenses and Permits	19,333	8,965	-
Grants, Shared Revenues, and Contributions	28,208	57,239	6,607
Charges for Services	69,018	37,647	72
Fines and Forfeits	28,519	3	-
Parking Fees and Space Rent	25,478	154	-
Program Income, Interest, and Miscellaneous Revenues	14,943	275	9,098
Total Revenues	942,408	167,604	27,437
<b>EXPENDITURES</b>			
Current			
General Government	180,880	-	-
Judicial	26,812	-	-
Public Safety	424,794	-	-
Physical Environment	16,250	-	-
Transportation	13,236	96,166	-
Economic Environment	19,986	-	23,259
Health and Human Services	1,262	-	-
Culture and Recreation	10,798	-	-
Capital Outlay			
General Government	15,978	-	-
Public Safety	2,724	-	-
Physical Environment	-	-	-
Transportation	-	179,201	-
Economic Environment	-	-	28
Culture and Recreation	24,878	-	-
Debt Service			
Principal	-	2,134	-
Advance Refunding to Escrow	6	-	-
Interest	-	315	-
Bond Issuance Cost	-	-	-
Total Expenditures	737,604	277,816	23,287
Excess (Deficiency) of Revenues over Expenditures	204,804	(110,212)	4,150
<b>OTHER FINANCING SOURCES (USES)</b>			
Long-Term Debt Issued	1,471	1,250	-
Refunding Debt Issued	-	-	-
Premium on Bonds Issued	53	-	-
Proceeds of Capital Leases	-	-	-
Payment to Refunded Bond Escrow Agent	-	-	-
Payments on Intergovernmental Agreements	-	-	-
Sales of Capital Assets	616	-	-
Transfers In	8,336	120,610	1,008
Transfers Out	(289,244)	(10,096)	-
Total Other Financing Sources (Uses)	(278,768)	111,764	1,008
Net Change in Fund Balance	(73,964)	1,552	5,158
Fund Balances - Beginning of Year	271,410	32,604	70,001
Fund Balances - End of Year	\$ 197,446	\$ 34,156	\$ 75,159

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, 2009

(In Thousands)

	Other Governmental	Comparative Totals	
		2009	Restated 2008
<b>REVENUES</b>			
Taxes	\$ 95,397	\$ 927,287	\$ 934,544
Licenses and Permits	-	28,298	29,091
Grants, Shared Revenues, and Contributions	81,177	173,231	133,772
Charges for Services	50,344	157,081	142,797
Fines and Forfeits	1,123	29,645	25,572
Parking Fees and Space Rent	16,772	42,404	37,961
Program Income, Interest, and Miscellaneous Revenues	9,695	34,011	102,077
Total Revenues	254,508	1,391,957	1,405,814
<b>EXPENDITURES</b>			
Current			
General Government	5,166	186,046	195,947
Judicial	-	26,812	26,584
Public Safety	6,619	431,413	421,105
Physical Environment	278	16,528	8,454
Transportation	2,129	111,531	107,532
Economic Environment	60,217	103,462	109,903
Health and Human Services	75,209	76,471	70,032
Culture and Recreation	212,542	223,340	215,458
Capital Outlay			
General Government	8,673	24,651	12,953
Public Safety	18,057	20,781	12,643
Physical Environment	-	-	5
Transportation	30	179,231	100,636
Economic Environment	-	28	22
Culture and Recreation	48,027	72,905	72,322
Debt Service			
Principal	51,457	53,591	51,855
Advance Refunding to Escrow	-	6	35,152
Interest	38,133	38,448	35,738
Bond Issuance Cost	727	727	632
Total Expenditures	527,264	1,565,971	1,476,973
Excess (Deficiency) of Revenues over Expenditures	(272,756)	(174,014)	(71,159)
<b>OTHER FINANCING SOURCES (USES)</b>			
Long-Term Debt Issued	85,089	87,810	84,960
Refunding Debt Issued	4,390	4,390	54,870
Premium on Bonds Issued	8,099	8,152	7,545
Proceeds of Capital Leases	20	20	-
Payment to Refunded Bond Escrow Agent	(4,735)	(4,735)	(56,920)
Payments on Intergovernmental Agreements	(16,928)	(16,928)	-
Sales of Capital Assets	8	624	408
Transfers In	266,175	396,129	350,078
Transfers Out	(74,631)	(373,971)	(332,266)
Total Other Financing Sources (Uses)	267,487	101,491	108,675
Net Change in Fund Balance	(5,269)	(72,523)	37,516
Fund Balances - Beginning of Year	255,316	629,331	591,815
Fund Balances - End of Year	\$ 250,047	\$ 556,808	\$ 629,331

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

**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, 2009  
(In Thousands)**

	<b>Comparative Totals</b>	
	<b>2009</b>	<b>2008</b>
Amounts reported for governmental activities in the statement of activities are different because:		
Net change in fund balance - total governmental funds	\$ (72,523)	\$ 37,516
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	(100,738)	(91,613)
Capital outlay reported as expenditures	298,838	173,364
Retirement and sale of capital assets	(3,045)	15,053
Capital assets received as donations	5,042	18,874
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	11,369	(9,914)
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	(86,560)	(84,960)
Premium on general obligation bonds	(8,152)	(7,545)
Proceeds from bond refunding	(5,660)	(54,870)
Principal payments bonds/notes	53,591	51,859
Bond interest	1,522	(1,520)
Remittance to refunding escrow using City funds	-	35,152
Bond issuance costs	797	615
Remittance to refunding escrow using refunding proceeds	4,735	56,920
Amortization of debt expense	(358)	(247)
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	(7,301)	(3,299)
Injury and damage claims	3,468	(13,898)
Workers' compensation	(2,545)	(1,618)
Arbitrage	241	(13)
Unfunded OPEB liabilities	(12,128)	(11,574)
Net pension asset	2,129	4,864
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	4,895	33
Net revenue of internal service funds activities reported with governmental activities	(14,769)	8,173
Change in Net Assets of Governmental Activities	\$ 72,848	\$ 121,352

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 395,000 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 187 miles of supply mains, 1,714 miles of distribution lines and distribution storage capacity of 301 million gallons in reservoirs, tanks, and standpipes. The distribution system serves a population of about 659,000 people. The utility also sells to 25 surrounding cities and water districts that provide water to an additional 760,000 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 1,898 miles of sewers and drainage mainlines, one-half of which are separate sanitary sewers and storm mainlines. In addition, the City manages 67 pumping stations.

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.

**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
**December 31, 2009**  
*(In Thousands)*

	Business-Type Activities - Enterprise Funds			
	L i g h t		W a t e r	
	2009	Restated 2008	2009	2008
<b>ASSETS</b>				
<i>Current Assets</i>				
Operating Cash and Equity in Pooled Investments	\$ 32,695	\$ 63,121	\$ 8,354	\$ 7,340
Restricted Cash and Equity in Pooled Investments	2,511	2,659	511	33,639
Restricted Investments	-	-	-	60,274
Restricted Investment Interest Receivable	-	-	-	1,108
Receivables, Net of Allowances				
Accounts	60,319	63,135	11,462	10,063
Interest and Dividends	79	686	-	-
Unbilled	60,198	60,079	9,109	8,936
Energy Contracts, Notes, and Other Contracts	-	-	21	22
Due from Other Funds	1,579	476	1,487	656
Due from Other Governments	4,450	5,457	1,713	1,253
Hydrant Settlement Receivable	-	-	-	10,088
Materials and Supplies Inventory	26,128	28,949	4,171	4,996
Prepayments and Other Current Assets	1,332	1,228	38	103
Total Current Assets	189,291	225,790	36,866	138,478
<i>Noncurrent Assets</i>				
Restricted Cash and Equity in Pooled Investments	29,129	138,181	38,452	30,892
Restricted Investments	-	126,179	-	72,293
Restricted Investment Interest Receivable	-	-	-	849
Unamortized Bond Issue Costs, Net	8,217	9,435	4,490	5,123
Notes and Contracts Receivable	-	-	22	42
Deferred Conservation Costs, Net	162,137	149,512	34,222	36,382
Deferred Landfill Closure and Postclosure Costs, Net	-	-	-	-
Deferred Environmental Costs, Net	-	-	-	-
Deferred External Infrastructure Costs	-	-	-	-
Capitalized Relicensing Costs	61,384	54,374	-	-
Other Deferred Charges	128,469	120,039	13,563	12,936
Capital Assets				
Land and Land Rights	82,827	41,852	39,128	33,784
Plant in Service, Excluding Land	2,852,098	2,730,371	1,531,299	1,435,137
Less Accumulated Depreciation	(1,301,205)	(1,237,407)	(483,482)	(443,119)
Buildings and Improvements	-	-	-	-
Less Accumulated Depreciation	-	-	-	-
Machinery and Equipment	-	-	-	-
Less Accumulated Depreciation	-	-	-	-
Construction in Progress	147,810	112,390	87,082	105,279
Other Property, Net	16,383	14,983	865	811
Total Noncurrent Assets	2,187,249	2,259,909	1,265,641	1,290,409
Total Assets	2,376,540	2,485,699	1,302,507	1,428,887

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

**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
**December 31, 2009**  
*(In Thousands)*

	<b>Business-Type Activities - Enterprise Funds</b>			
	<b>Drainage and Wastewater</b>		<b>Nonmajor Funds</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
<b>ASSETS</b>				
<i>Current Assets</i>				
Operating Cash and Equity in Pooled Investments	\$ 23,595	\$ 20,870	\$ 21,228	\$ 46,043
Restricted Cash and Equity in Pooled Investments	1,666	1,705	-	-
Restricted Investments	-	-	-	-
Restricted Investment Interest Receivable	-	-	-	-
Receivables, Net of Allowances				
Accounts	14,592	13,727	15,838	14,129
Interest and Dividends	60	188	49	217
Unbilled	14,569	13,521	200	281
Energy Contracts, Notes, and Other Contracts	1	1	-	-
Due from Other Funds	1,577	1,336	1,137	1,018
Due from Other Governments	1,887	705	1,369	1,332
Hydrant Settlement Receivable	-	-	-	-
Materials and Supplies Inventory	548	-	162	16
Prepayments and Other Current Assets	6	6	-	-
Total Current Assets	58,501	52,059	39,983	63,036
<i>Noncurrent Assets</i>				
Restricted Cash and Equity in Pooled Investments	31,537	49,810	28,315	42,001
Restricted Investments	99,859	-	-	-
Restricted Investment Interest Receivable	645	-	-	-
Unamortized Bond Issue Costs, Net	3,375	2,910	1,220	1,299
Notes and Contracts Receivable	-	-	-	-
Deferred Conservation Costs, Net	-	-	-	-
Deferred Landfill Closure and Postclosure Costs, Net	-	-	24,134	26,978
Deferred Environmental Costs, Net	7,491	6,156	8,072	10,705
Deferred External Infrastructure Costs	22,472	21,288	-	-
Capitalized Relicensing Costs	-	-	-	-
Other Deferred Charges	15,199	10,612	931	1,041
Capital Assets				
Land and Land Rights	11,091	10,492	14,672	14,672
Plant in Service, Excluding Land	738,819	705,747	64,598	52,872
Less Accumulated Depreciation	(211,904)	(194,929)	(35,571)	(31,550)
Buildings and Improvements	-	-	60,131	60,131
Less Accumulated Depreciation	-	-	(22,048)	(20,044)
Machinery and Equipment	-	-	15,130	15,160
Less Accumulated Depreciation	-	-	(9,545)	(7,869)
Construction in Progress	55,055	48,621	35,370	30,305
Other Property, Net	620	597	1,765	1,765
Total Noncurrent Assets	774,259	661,304	187,174	197,466
Total Assets	832,760	713,363	227,157	260,502

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

**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
**December 31, 2009**  
*(In Thousands)*

	<b>Business-Type Activities - Enterprise Funds</b>		<b>Governmental Activities - Internal Service Funds</b>	
	<b>Comparative Totals</b>			
	<b>2009</b>	<b>Restated 2008</b>	<b>2009</b>	<b>2008</b>
<b>ASSETS</b>				
<i>Current Assets</i>				
Operating Cash and Equity in Pooled Investments	\$ 85,872	\$ 137,374	\$ 41,341	\$ 53,092
Restricted Cash and Equity in Pooled Investments	4,688	38,003	-	-
Restricted Investments	-	60,274	-	-
Restricted Investment Interest Receivable	-	1,108	-	-
Receivables, Net of Allowances				
Accounts	102,211	101,054	717	535
Interest and Dividends	188	1,091	38	136
Unbilled	84,076	82,817	2	-
Energy Contracts, Notes, and Other Contracts	22	23	-	-
Due from Other Funds	5,780	3,486	7,088	6,412
Due from Other Governments	9,419	8,747	433	682
Hydrant Settlement Receivable	-	10,088	-	-
Materials and Supplies Inventory	31,009	33,961	2,425	2,180
Prepayments and Other Current Assets	1,376	1,337	62	21
Total Current Assets	324,641	479,363	52,106	63,058
<i>Noncurrent Assets</i>				
Restricted Cash and Equity in Pooled Investments	127,433	260,884	68	325
Restricted Investments	99,859	198,472	-	-
Restricted Investment Interest Receivable	645	849	-	-
Unamortized Bond Issue Costs, Net	17,302	18,767	59	-
Notes and Contracts Receivable	22	42	-	-
Deferred Conservation Costs, Net	196,359	185,894	-	-
Deferred Landfill Closure and Postclosure Costs, Net	24,134	26,978	-	-
Deferred Environmental Costs, Net	15,563	16,861	-	-
Deferred External Infrastructure Costs	22,472	21,288	-	-
Capitalized Relicensing Costs	61,384	54,374	-	-
Other Deferred Charges	158,162	144,628	-	-
Capital Assets				
Land and Land Rights	147,718	100,800	39	39
Plant in Service, Excluding Land	5,186,814	4,924,127	-	-
Less Accumulated Depreciation	(2,032,162)	(1,907,005)	-	-
Buildings and Improvements	60,131	60,131	4,073	3,688
Less Accumulated Depreciation	(22,048)	(20,044)	(1,022)	(916)
Machinery and Equipment	15,130	15,160	167,428	168,689
Less Accumulated Depreciation	(9,545)	(7,869)	(83,798)	(84,227)
Construction in Progress	325,317	296,595	7,876	2,072
Other Property, Net	19,633	18,156	-	-
Total Noncurrent Assets	4,414,323	4,409,088	94,723	89,670
Total Assets	4,738,964	4,888,451	146,829	152,728

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

**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
**December 31, 2009**  
*(In Thousands)*

	<b>Business-Type Activities - Enterprise Funds</b>			
	<b>L i g h t</b>		<b>W a t e r</b>	
	<b>2009</b>	<b>Restated 2008</b>	<b>2009</b>	<b>2008</b>
<b>LIABILITIES</b>				
<i>Current Liabilities</i>				
Accounts Payable	\$ 41,554	\$ 47,458	\$ 7,479	\$ 5,231
Salaries, Benefits, and Payroll Taxes Payable	4,306	9,703	1,344	3,481
Compensated Absences Payable	1,330	1,327	426	441
Due to Other Funds	6,919	7,162	4,117	3,362
Due to Other Governments	-	-	79	62
Interest Payable	20,931	18,505	15,765	12,471
Deferred Bond Interest	-	-	-	-
Taxes Payable	10,066	8,607	456	430
General Obligation Bonds Due Within One Year	-	-	-	-
Revenue Bonds Due Within One Year	80,735	80,620	25,425	121,495
Claims Payable	7,896	6,948	1,713	1,505
Notes and Contracts Payable	-	-	715	555
Habitat Conservation Program Liability	-	-	5,759	5,453
Landfill Closure and Postclosure Liability	-	-	-	-
Deferred Credits	7,578	9,819	924	2,417
Other Current Liabilities	795	820	110	16,211
<b>Total Current Liabilities</b>	<b>182,110</b>	<b>190,969</b>	<b>64,312</b>	<b>173,114</b>
<i>Noncurrent Liabilities</i>				
Compensated Absences Payable	13,459	12,336	4,432	4,124
Claims Payable	32,771	24,419	3,645	3,689
Public Works Trust Loan	-	-	9,834	7,679
Landfill Closure and Postclosure Liability	-	-	-	-
Vendor and Other Deposits Payable	-	-	90	167
Habitat Conservation Program Liability	-	-	3,664	4,154
Muckleshoot Liability	-	-	495	495
Deferred Credits	21,148	20,918	14,414	14,219
Unfunded Other Post Employment Benefits	3,328	2,247	1,236	875
Other Noncurrent Liabilities	120	140	195	67
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	1,383,050	1,529,375	903,985	1,025,480
Less Bonds Due Within One Year	(80,735)	(80,620)	(25,425)	(121,495)
Bond Discount and Premium, Net	24,957	28,318	27,804	29,354
Deferred Loss on Advanced Refunding	(27,922)	(32,499)	(16,346)	(17,335)
<b>Total Noncurrent Liabilities</b>	<b>1,370,176</b>	<b>1,504,634</b>	<b>928,023</b>	<b>951,473</b>
<b>Total Liabilities</b>	<b>1,552,286</b>	<b>1,695,603</b>	<b>992,335</b>	<b>1,124,587</b>

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

**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
**December 31, 2009**  
*(In Thousands)*

	<b>Business-Type Activities - Enterprise Funds</b>			
	<b>Drainage and Wastewater</b>		<b>Nonmajor Funds</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
<b>LIABILITIES</b>				
<i>Current Liabilities</i>				
Accounts Payable	\$ 5,065	\$ 6,992	\$ 8,558	\$ 8,784
Salaries, Benefits, and Payroll Taxes Payable	1,121	2,422	1,380	2,462
Compensated Absences Payable	335	340	408	412
Due to Other Funds	4,928	3,679	2,326	1,617
Due to Other Governments	9,256	8,181	11	298
Interest Payable	6,025	5,981	2,347	2,483
Deferred Bond Interest	-	-	924	790
Taxes Payable	312	204	596	205
General Obligation Bonds Due Within One Year	-	-	1,226	1,205
Revenue Bonds Due Within One Year	13,285	9,785	1,980	6,535
Claims Payable	6,837	5,603	5,413	5,531
Notes and Contracts Payable	762	308	-	-
Habitat Conservation Program Liability	-	-	-	-
Landfill Closure and Postclosure Liability	-	-	1,338	1,115
Deferred Credits	1,122	3,558	6,666	2,826
Other Current Liabilities	-	-	20	795
<b>Total Current Liabilities</b>	<b>49,048</b>	<b>47,053</b>	<b>33,193</b>	<b>35,058</b>
<i>Noncurrent Liabilities</i>				
Compensated Absences Payable	3,489	3,179	4,121	3,734
Claims Payable	15,108	12,858	3,132	5,846
Public Works Trust Loan	12,549	11,698	-	-
Landfill Closure and Postclosure Liability	-	-	23,923	24,925
Vendor and Other Deposits Payable	713	745	13	-
Habitat Conservation Program Liability	-	-	-	-
Muckleshoot Liability	-	-	-	-
Deferred Credits	-	-	9,952	14,289
Unfunded Other Post Employment Benefits	973	674	1,077	735
Other Noncurrent Liabilities	48	103	-	6
General Obligation Bonds, Due Serially	-	-	63,319	64,524
Less Bonds Due Within One Year	-	-	(1,226)	(1,205)
Bond Discount and Premium, Net	-	-	3,817	4,019
Deferred Bond Interest	-	-	4,005	4,258
Less Accrued Interest Due Within One Year	-	-	(924)	(790)
Revenue Bonds	513,070	402,035	80,470	87,005
Less Bonds Due Within One Year	(13,285)	(9,785)	(1,980)	(6,535)
Bond Discount and Premium, Net	9,310	9,204	3,236	3,442
Deferred Loss on Advanced Refunding	(4,700)	(4,567)	(233)	(376)
<b>Total Noncurrent Liabilities</b>	<b>537,275</b>	<b>426,144</b>	<b>192,702</b>	<b>203,877</b>
<b>Total Liabilities</b>	<b>586,323</b>	<b>473,197</b>	<b>225,895</b>	<b>238,935</b>

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

**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
**December 31, 2009**  
*(In Thousands)*

	<u>Business-Type Activities - Enterprise Funds</u>		<u>Governmental Activities - Internal Service Funds</u>	
	<u>Comparative Totals</u>			
	<u>2009</u>	<u>Restated 2008</u>	<u>2009</u>	<u>2008</u>
<b>LIABILITIES</b>				
<i>Current Liabilities</i>				
Accounts Payable	\$ 62,656	\$ 68,465	\$ 8,045	\$ 7,393
Salaries, Benefits, and Payroll Taxes Payable	8,151	18,068	1,215	2,628
Compensated Absences Payable	2,499	2,520	316	289
Due to Other Funds	18,290	15,820	1,606	2,677
Due to Other Governments	9,346	8,541	-	-
Interest Payable	45,068	39,440	286	-
Deferred Bond Interest	924	790	-	-
Taxes Payable	11,430	9,446	93	37
General Obligation Bonds Due Within One Year	1,226	1,205	2,325	-
Revenue Bonds Due Within One Year	121,425	218,435	-	-
Claims Payable	21,859	19,587	488	441
Notes and Contracts Payable	1,477	863	-	-
Habitat Conservation Program Liability	5,759	5,453	-	-
Landfill Closure and Postclosure Liability	1,338	1,115	-	-
Deferred Credits	16,290	18,620	-	-
Other Current Liabilities	925	17,826	1	2
Total Current Liabilities	328,663	446,194	14,375	13,467
<i>Noncurrent Liabilities</i>				
Compensated Absences Payable	25,501	23,373	3,495	3,161
Claims Payable	54,656	46,812	993	863
Public Works Trust Loan	22,383	19,377	-	-
Landfill Closure and Postclosure Liability	23,923	24,925	-	-
Vendor and Other Deposits Payable	816	912	68	325
Habitat Conservation Program Liability	3,664	4,154	-	-
Muckleshoot Liability	495	495	-	-
Deferred Credits	45,514	49,426	-	-
Unfunded Other Post Employment Benefits	6,614	4,531	942	647
Other Noncurrent Liabilities	363	316	364	717
General Obligation Bonds, Due Serially	63,319	64,524	8,910	-
Less Bonds Due Within One Year	(1,226)	(1,205)	(2,325)	-
Bond Discount and Premium, Net	3,817	4,019	486	-
Deferred Bond Interest	4,005	4,258	-	-
Less Accrued Interest Due Within One Year	(924)	(790)	-	-
Revenue Bonds	2,880,575	3,043,895	-	-
Less Bonds Due Within One Year	(121,425)	(218,435)	-	-
Bond Discount and Premium, Net	65,307	70,318	-	-
Deferred Loss on Advanced Refunding	(49,201)	(54,777)	-	-
Total Noncurrent Liabilities	3,028,176	3,086,128	12,933	5,713
Total Liabilities	3,356,839	3,532,322	27,308	19,180

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

**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
**December 31, 2009**  
*(In Thousands)*

	Business-Type Activities - Enterprise Funds			
	L i g h t		W a t e r	
	2009	Restated 2008	2009	2008
<b>NET ASSETS</b>				
Invested in Capital Assets, Net of Related Debt	\$ 682,907	\$ 604,153	\$ 297,765	\$ 290,311
Restricted for				
Debt Service	8	844	9,039	8,936
Contingency Reserve Account	25,000	25,000	-	-
Special Deposits and Other	920	388	-	-
Deferred Conservation and Environmental Costs	-	-	6,341	6,918
Bonneville Power Administration Projects	-	-	763	1,891
Deferred External Infrastructure Costs	-	-	-	-
Muckleshoot Settlement	-	-	460	542
Other Deferred Charges	-	-	3,006	1,089
Unrestricted	115,419	159,711	(7,202)	(5,387)
Total Net Assets	<u>\$ 824,254</u>	<u>\$ 790,096</u>	<u>\$ 310,172</u>	<u>\$ 304,300</u>
Adjustment to Reflect the Consolidation of Internal Service Fund Activities Related to Enterprise Funds				
Net Assets of Business-Type Activities				

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

**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
**December 31, 2009**  
*(In Thousands)*

	<b>Business-Type Activities - Enterprise Funds</b>			
	<b>Drainage and Wastewater</b>		<b>Nonmajor Funds</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
<b>NET ASSETS</b>				
Invested in Capital Assets, Net of Related Debt	\$ 207,139	\$ 216,579	\$ 19,634	\$ 17,276
Restricted for				
Debt Service	12,757	5,340	-	-
Contingency Reserve Account	-	-	-	-
Special Deposits and Other	-	-	-	-
Deferred Conservation and Environmental Costs	-	203	23	50
Bonneville Power Administration Projects	-	-	-	-
Deferred External Infrastructure Costs	8,019	8,255	-	-
Muckleshoot Settlement	-	-	-	-
Other Deferred Charges	5,424	4,115	41	342
Unrestricted	<u>13,098</u>	<u>5,674</u>	<u>(18,436)</u>	<u>3,899</u>
Total Net Assets	<u>\$ 246,437</u>	<u>\$ 240,166</u>	<u>\$ 1,262</u>	<u>\$ 21,567</u>
Adjustment to Reflect the Consolidation of Internal Service Fund Activities Related to Enterprise Funds				
Net Assets of Business-Type Activities				

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

**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
**December 31, 2009**  
*(In Thousands)*

	<b>Business-Type Activities - Enterprise Funds</b>		<b>Governmental Activities - Internal Service Funds</b>	
	<b>Comparative Totals</b>			
	<b>2009</b>	<b>Restated 2008</b>	<b>2009</b>	<b>2008</b>
<b>NET ASSETS</b>				
Invested in Capital Assets, Net of Related Debt	\$ 1,207,445	\$ 1,128,319	\$ 88,358	\$ 89,345
Restricted for				
Debt Service	21,804	15,120	-	-
Contingency Reserve Account	25,000	25,000	-	-
Special Deposits and Other	920	388	-	-
Deferred Conservation and Environmental Costs	6,364	7,171	-	-
Bonneville Power Administration Projects	763	1,891	-	-
Deferred External Infrastructure Costs	8,019	8,255	-	-
Muckleshoot Settlement	460	542	-	-
Other Deferred Charges	8,471	5,546	-	-
Unrestricted	<u>102,879</u>	<u>163,897</u>	<u>31,163</u>	<u>44,203</u>
Total Net Assets	1,382,125	1,356,129	<u>\$ 119,521</u>	<u>\$ 133,548</u>
Adjustment to Reflect the Consolidation of Internal Service Fund Activities Related to Enterprise Funds	<u>(2,347)</u>	<u>2,737</u>		
Net Assets of Business-Type Activities	<u>\$ 1,379,778</u>	<u>\$ 1,358,866</u>		

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, 2009  
(In Thousands)**

	<b>Business-Type Activities - Enterprise Funds</b>			
	<b>L i g h t</b>		<b>W a t e r</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
<b>OPERATING REVENUES</b>				
Charges for Services and Other Revenues	\$ 723,128	\$ 877,393	\$ 191,370	\$ 164,405
<b>OPERATING EXPENSES</b>				
Long-Term Purchased Power	202,003	181,689	-	-
Short-Term Wholesale Power Purchases	24,571	52,501	-	-
Generation	28,622	27,978	-	-
Transmission	47,074	48,790	-	-
Distribution	57,005	60,699	-	-
Energy Management and Other Power Expenses	53,034	119,534	-	-
Pre-Capital Planning and Development	-	-	3,830	-
Utility Systems Management	-	-	16,008	19,378
Field Operations	-	-	21,810	19,979
Project Delivery	-	-	5,055	6,200
Customer Services	35,662	33,402	8,295	8,163
Wastewater Treatment	-	-	-	-
Solid Waste Collection	-	-	-	-
Operations and Maintenance	-	-	-	-
General and Administrative	73,217	66,141	29,561	27,545
City Business and Occupation Taxes	33,664	33,842	27,062	19,029
Other Taxes	28,611	28,062	6,559	5,762
Amortization of Landfill and Postclosure Costs	-	-	-	-
Depreciation and Other Amortization	80,693	78,055	46,099	40,616
Total Operating Expenses	<u>664,156</u>	<u>730,693</u>	<u>164,279</u>	<u>146,672</u>
Operating Income (Loss)	58,972	146,700	27,091	17,733
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Investment and Interest Income	2,613	5,956	678	1,066
Interest Expense	(69,112)	(61,087)	(40,664)	(34,448)
Amortization of Bonds Premiums	3,569	3,554	1,550	1,461
Amortization of Refunding Loss	(4,577)	(4,778)	(1,368)	(1,391)
Amortization of Debt Costs	(1,433)	(784)	(254)	(283)
Gain (Loss) on Sale of Capital Assets	29	3,150	4,726	(1,020)
Contributions and Grants	1,697	2,308	2,001	167
Others, Net	(1,013)	(3,355)	4,080	43
Total Nonoperating Revenues (Expenses)	<u>(68,227)</u>	<u>(55,036)</u>	<u>(29,251)</u>	<u>(34,405)</u>
Income (Loss) Before Capital Contributions and Grants and Transfers	(9,255)	91,664	(2,160)	(16,672)
Capital Contributions and Grants	43,413	39,927	8,032	17,172
Transfers In	-	-	-	-
Transfers Out	-	-	-	-
Change in Net Assets	34,158	131,591	5,872	500
Net Assets - Beginning of Year	<u>790,096</u>	<u>658,505</u>	<u>304,300</u>	<u>303,800</u>
Net Assets - End of Year	<u>\$ 824,254</u>	<u>\$ 790,096</u>	<u>\$ 310,172</u>	<u>\$ 304,300</u>

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, 2009  
(In Thousands)**

	<b>Business-Type Activities - Enterprise Funds</b>			
	<b>Drainage and Wastewater</b>		<b>Nonmajor Funds</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
<b>OPERATING REVENUES</b>				
Charges for Services and Other Revenues	\$ 250,195	\$ 224,109	\$ 178,052	\$ 175,724
<b>OPERATING EXPENSES</b>				
Long-Term Purchased Power	-	-	-	-
Short-Term Wholesale Power Purchases	-	-	-	-
Generation	-	-	-	-
Transmission	-	-	-	-
Distribution	-	-	-	-
Energy Management and Other Power Expenses	-	-	-	-
Pre-Capital Planning and Development	510	-	69	-
Utility Systems Management	18,466	20,943	1,254	1,024
Field Operations	19,113	16,376	8,332	9,547
Project Delivery	10,612	11,934	495	257
Customer Services	5,329	5,280	12,423	11,948
Wastewater Treatment	111,372	98,294	-	-
Solid Waste Collection	-	-	84,806	59,689
Operations and Maintenance	-	-	45,837	47,556
General and Administrative	17,308	22,502	21,495	20,803
City Business and Occupation Taxes	28,861	25,567	17,547	17,203
Other Taxes	2,821	2,753	1,979	1,725
Amortization of Landfill and Postclosure Costs	-	-	2,845	3,233
Depreciation and Other Amortization	20,721	18,182	8,670	8,489
Total Operating Expenses	235,113	221,831	205,752	181,474
Operating Income (Loss)	15,082	2,278	(27,700)	(5,750)
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Investment and Interest Income	653	2,758	893	3,750
Interest Expense	(18,252)	(16,811)	(6,033)	(6,556)
Amortization of Bonds Premiums	332	320	409	462
Amortization of Refunding Loss	(251)	(251)	(143)	(967)
Amortization of Debt Costs	(118)	(116)	(78)	(105)
Gain (Loss) on Sale of Capital Assets	133	(508)	(393)	86
Contributions and Grants	300	310	791	1,314
Others, Net	263	232	1,295	367
Total Nonoperating Revenues (Expenses)	(16,940)	(14,066)	(3,259)	(1,649)
Income (Loss) Before Capital Contributions and Grants and Transfers	(1,858)	(11,788)	(30,959)	(7,399)
Capital Contributions and Grants	8,129	24,323	409	4
Transfers In	-	-	10,245	10,803
Transfers Out	-	-	-	-
Change in Net Assets	6,271	12,535	(20,305)	3,408
Net Assets - Beginning of Year	240,166	227,631	21,567	18,159
Net Assets - End of Year	<u>\$ 246,437</u>	<u>\$ 240,166</u>	<u>\$ 1,262</u>	<u>\$ 21,567</u>

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, 2009  
(In Thousands)**

	<u>Business-Type Activities - Enterprise Funds</u>		<u>Governmental Activities - Internal Service Funds</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
<b>OPERATING REVENUES</b>				
Charges for Services and Other Revenues	\$ 1,342,745	\$ 1,441,631	\$ 160,612	\$ 162,499
<b>OPERATING EXPENSES</b>				
Long-Term Purchased Power	202,003	181,689	-	-
Short-Term Wholesale Power Purchases	24,571	52,501	-	-
Generation	28,622	27,978	-	-
Transmission	47,074	48,790	-	-
Distribution	57,005	60,699	-	-
Energy Management and Other Power Expenses	53,034	119,534	-	-
Pre-Capital Planning and Development	4,409	-	-	-
Utility Systems Management	35,728	41,345	-	-
Field Operations	49,255	45,902	-	-
Project Delivery	16,162	18,391	-	-
Customer Services	61,709	58,793	-	-
Wastewater Treatment	111,372	98,294	-	-
Solid Waste Collection	84,806	59,689	-	-
Operations and Maintenance	45,837	47,556	110,357	99,595
General and Administrative	141,581	136,991	10,841	14,622
City Business and Occupation Taxes	107,134	95,641	4	5
Other Taxes	39,970	38,302	333	300
Amortization of Landfill and Postclosure Costs	2,845	3,233	-	-
Depreciation and Other Amortization	156,183	145,342	21,984	14,512
Total Operating Expenses	<u>1,269,300</u>	<u>1,280,670</u>	<u>143,519</u>	<u>129,034</u>
Operating Income (Loss)	73,445	160,961	17,093	33,465
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Investment and Interest Income	4,837	13,530	578	2,468
Interest Expense	(134,061)	(118,902)	(286)	51
Amortization of Bonds Premiums	5,860	5,797	97	-
Amortization of Refunding Loss	(6,339)	(7,387)	-	-
Amortization of Debt Costs	(1,883)	(1,288)	(12)	-
Gain (Loss) on Sale of Capital Assets	4,495	1,708	633	(251)
Contributions and Grants	4,789	4,099	149	849
Others, Net	4,625	(2,713)	-	-
Total Nonoperating Revenues (Expenses)	<u>(117,677)</u>	<u>(105,156)</u>	<u>1,159</u>	<u>3,117</u>
Income (Loss) Before Capital Contributions and Grants and Transfers	(44,232)	55,805	18,252	36,582
Capital Contributions and Grants	59,983	81,426	124	6
Transfers In	10,245	10,803	-	-
Transfers Out	-	-	(32,403)	(28,616)
Change in Net Assets	25,996	148,034	(14,027)	7,972
Net Assets - Beginning of Year	<u>1,356,129</u>	<u>1,208,095</u>	<u>133,548</u>	<u>125,576</u>
Net Assets - End of Year	1,382,125	1,356,129	<u>\$ 119,521</u>	<u>\$ 133,548</u>
Accumulated Adjustment to Reflect the Consolidation of Internal Service Fund Activities Related to Enterprise Funds	<u>(2,347)</u>	<u>2,737</u>		
Net Assets of Business-Type Activities	<u>\$ 1,379,778</u>	<u>\$ 1,358,866</u>		
Change in Net Assets as above	25,996	148,034		
Current Year Adjustment to Reflect the Consolidation of Internal Service Fund Activities Related to Enterprise Funds	<u>(5,084)</u>	<u>17</u>		
Adjusted Change in Net Assets of Business-Type Activities	<u>\$ 20,912</u>	<u>\$ 148,051</u>		

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

**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**For the Year Ended December 31, 2009**  
*(In Thousands)*

	Business-Type Activities - Enterprise Funds			
	L i g h t		W a t e r	
	2009	Restated 2008	2009	2008
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash Received from Customers	\$ 676,967	\$ 782,043	\$ 192,424	\$ 157,382
Cash Paid to Suppliers	(253,669)	(300,357)	(28,944)	(19,802)
Cash Paid to Employees	(195,823)	(181,802)	(58,657)	(53,237)
Cash Paid for Taxes	(60,682)	(63,105)	(32,946)	(24,659)
Net Cash from Operating Activities	166,793	236,779	71,877	59,684
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Principal and Interest Paid on Loan/Note	-	(291)	-	-
Operating Grants Received	1,614	2,416	2,001	167
Rental Income	-	-	-	-
Transfers In	-	-	-	-
Transfers Out	-	-	-	-
Receipts for Energy Conservation Augmentation	218	782	-	-
Payments for Energy Conservation Augmentation	(24,105)	(18,996)	-	-
Proceeds from Interfund Loans	-	-	-	-
Loans Provided to Other Funds	-	-	-	-
Payments for Environmental Liabilities	-	-	-	-
Other Cash Inflows	-	-	4,149	732
Other Cash Outflows	-	-	(69)	(689)
Gains from Bankruptcy Distributions	29	718	-	-
Net Cash from Noncapital Financing Activities	(22,244)	(15,371)	6,081	210
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Proceeds from Sale of Bonds and Other Long-Term Debt	-	260,619	3,030	216,114
Principal Payments on Long-Term Debt and Refunding	(146,325)	(70,460)	(122,210)	(21,940)
Capital Expenditures and Deferred Charges Paid	(219,228)	(165,893)	(81,134)	(73,947)
Interest Paid on Long-Term Debt	(70,514)	(65,218)	(42,044)	(38,807)
Capital Fees and Grants Received	22,952	25,271	3,154	4,805
Interest Received for Suburban Infrastructure Improvements	980	440	-	-
Debt Issuance Costs	(7)	(3,358)	-	(673)
Interfund Proceeds on Sale of Property	-	2,653	-	-
Proceeds from Sale of Capital Assets	-	-	4,700	158
Net Cash from Capital and Related Financing Activities	(412,142)	(15,946)	(234,504)	85,710
<b>CASH FLOWS FROM INVESTING ACTIVITIES <sup>a</sup></b>				
Proceeds from Sale of Investments	125,779	-	131,250	14,675
Purchases of Investments	-	(125,780)	-	(131,250)
Interest Received on Investments	2,188	5,446	742	1,164
Net Cash from Investing Activities	127,967	(120,334)	131,992	(115,411)
Net Increase (Decrease) in Cash and Equity in Pooled Investments	(139,626)	85,128	(24,554)	30,193
<b>CASH AND EQUITY IN POOLED INVESTMENTS</b>				
Beginning of Year	203,961	118,833	71,871	41,678
End of Year	<u>\$ 64,335</u>	<u>\$ 203,961</u>	<u>\$ 47,317</u>	<u>\$ 71,871</u>
<b>CASH AT THE END OF THE YEAR CONSISTS OF</b>				
Operating Cash and Equity in Pooled Investments	\$ 32,695	\$ 63,121	\$ 8,354	\$ 7,340
Current Restricted Cash and Equity in Pooled Investments	2,511	2,659	511	33,639
Noncurrent Restricted Cash and Equity in Pooled Investments	29,129	138,181	38,452	30,892
Total Cash at the End of the Year	<u>\$ 64,335</u>	<u>\$ 203,961</u>	<u>\$ 47,317</u>	<u>\$ 71,871</u>

<sup>a</sup> 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 Schedule of Noncash Activities 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, 2009**  
*(In Thousands)*

	<b>Business-Type Activities - Enterprise Funds</b>			
	<b>Drainage and Wastewater</b>		<b>Nonmajor Funds</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash Received from Customers	\$ 244,423	\$ 224,007	\$ 176,408	\$ 176,735
Cash Paid to Suppliers	(141,086)	(129,946)	(125,199)	(102,000)
Cash Paid to Employees	(44,937)	(39,582)	(51,195)	(48,883)
Cash Paid for Taxes	(31,461)	(28,141)	(20,223)	(20,152)
Net Cash from Operating Activities	26,939	26,338	(20,209)	5,700
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Principal and Interest Paid on Loan/Note	-	-	-	-
Operating Grants Received	300	310	791	1,314
Rental Income	-	-	446	367
Transfers In	-	-	10,245	10,803
Transfers Out	-	-	-	-
Receipts for Energy Conservation Augmentation	-	-	-	-
Payments for Energy Conservation Augmentation	-	-	-	-
Proceeds from Interfund Loans	-	-	500	-
Loans Provided to Other Funds	-	-	-	-
Payments for Environmental Liabilities	(3,408)	(2,028)	-	-
Other Cash Inflows	263	232	848	-
Other Cash Outflows	-	-	-	-
Gains from Bankruptcy Distributions	-	-	-	-
Net Cash from Noncapital Financing Activities	(2,845)	(1,486)	12,830	12,484
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Proceeds from Sale of Bonds and Other Long-Term Debt	122,835	92,211	-	-
Principal Payments on Long-Term Debt and Refunding	(10,180)	(8,314)	(7,739)	(5,869)
Capital Expenditures and Deferred Charges Paid	(40,287)	(48,995)	(17,147)	(18,294)
Interest Paid on Long-Term Debt	(19,721)	(18,289)	(7,863)	(6,580)
Capital Fees and Grants Received	6,222	2,080	409	4
Interest Received for Suburban Infrastructure Improvements	-	-	-	-
Debt Issuance Costs	(765)	(666)	-	-
Interfund Proceeds on Sale of Property	-	-	-	-
Proceeds from Sale of Capital Assets	234	72	157	141
Net Cash from Capital and Related Financing Activities	58,338	18,099	(32,183)	(30,598)
<b>CASH FLOWS FROM INVESTING ACTIVITIES <sup>a</sup></b>				
Proceeds from Sale of Investments	-	4,000	-	-
Purchases of Investments	(98,800)	-	-	-
Interest Received on Investments	781	2,663	1,061	3,864
Net Cash from Investing Activities	(98,019)	6,663	1,061	3,864
Net Increase (Decrease) in Cash and Equity in Pooled Investments	(15,587)	49,614	(38,501)	(8,550)
<b>CASH AND EQUITY IN POOLED INVESTMENTS</b>				
Beginning of Year	72,385	22,771	88,044	96,594
End of Year	\$ 56,798	\$ 72,385	\$ 49,543	\$ 88,044
<b>CASH AT THE END OF THE YEAR CONSISTS OF</b>				
Operating Cash and Equity in Pooled Investments	\$ 23,595	\$ 20,870	\$ 21,228	\$ 46,043
Current Restricted Cash and Equity in Pooled Investments	1,666	1,705	-	-
Noncurrent Restricted Cash and Equity in Pooled Investments	31,537	49,810	28,315	42,001
Total Cash at the End of the Year	\$ 56,798	\$ 72,385	\$ 49,543	\$ 88,044

<sup>a</sup> 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 Schedule of Noncash Activities 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, 2009**  
*(In Thousands)*

	<b>Business-Type Activities - Enterprise Funds</b>		<b>Governmental Activities - Internal Service Funds</b>	
	<b>Comparative Totals</b>			
	<b>2009</b>	<b>Restated 2008</b>	<b>2009</b>	<b>2008</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash Received from Customers	\$ 1,290,222	\$ 1,340,167	\$ 160,203	\$ 166,497
Cash Paid to Suppliers	(548,898)	(552,105)	(70,325)	(67,447)
Cash Paid to Employees	(350,612)	(323,504)	(52,471)	(46,749)
Cash Paid for Taxes	(145,312)	(136,057)	(281)	(303)
Net Cash from Operating Activities	245,400	328,501	37,126	51,998
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Principal and Interest Paid on Loan/Note	-	(291)	-	-
Operating Grants Received	4,706	4,207	149	849
Rental Income	446	367	-	-
Transfers In	10,245	10,803	-	-
Transfers Out	-	-	(32,403)	(28,615)
Receipts for Energy Conservation Augmentation	218	782	-	-
Payments for Energy Conservation Augmentation	(24,105)	(18,996)	-	-
Proceeds from Interfund Loans	500	-	-	-
Loans Provided to Other Funds	-	-	(500)	-
Payments for Environmental Liabilities	(3,408)	(2,028)	-	-
Other Cash Inflows	5,260	964	-	-
Other Cash Outflows	(69)	(689)	-	-
Gains from Bankruptcy Distributions	29	718	-	-
Net Cash from Noncapital Financing Activities	(6,178)	(4,163)	(32,754)	(27,766)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Proceeds from Sale of Bonds and Other Long-Term Debt	125,865	568,944	9,396	-
Principal Payments on Long-Term Debt and Refunding	(286,454)	(106,583)	-	(878)
Capital Expenditures and Deferred Charges Paid	(357,796)	(307,129)	(27,306)	(20,580)
Interest Paid on Long-Term Debt	(140,142)	(128,894)	97	(25)
Capital Fees and Grants Received	32,737	32,160	124	-
Interest Received for Suburban Infrastructure Improvements	980	440	-	-
Debt Issuance Costs	(772)	(4,697)	-	-
Interfund Proceeds on Sale of Property	-	2,653	-	-
Proceeds from Sale of Capital Assets	5,091	371	633	6
Net Cash from Capital and Related Financing Activities	(620,491)	57,265	(17,056)	(21,477)
<b>CASH FLOWS FROM INVESTING ACTIVITIES <sup>a</sup></b>				
Proceeds from Sale of Investments	257,029	18,675	-	-
Purchases of Investments	(98,800)	(257,030)	-	-
Interest Received on Investments	4,772	13,137	676	2,554
Net Cash from Investing Activities	163,001	(225,218)	676	2,554
Net Increase (Decrease) in Cash and Equity in Pooled Investments	(218,268)	156,385	(12,008)	5,309
<b>CASH AND EQUITY IN POOLED INVESTMENTS</b>				
Beginning of Year	436,261	279,876	53,417	48,108
End of Year	\$ 217,993	\$ 436,261	\$ 41,409	\$ 53,417
<b>CASH AT THE END OF THE YEAR CONSISTS OF</b>				
Operating Cash and Equity in Pooled Investments	\$ 85,872	\$ 137,374	\$ 41,341	\$ 53,092
Current Restricted Cash and Equity in Pooled Investments	4,688	38,003	-	-
Noncurrent Restricted Cash and Equity in Pooled Investments	127,433	260,884	68	325
Total Cash at the End of the Year	\$ 217,993	\$ 436,261	\$ 41,409	\$ 53,417

<sup>a</sup> 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 Schedule of Noncash Activities 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, 2009**  
*(In Thousands)*

	Business-Type Activities - Enterprise Funds			
	L i g h t		W a t e r	
	2009	Restated 2008	2009	2008
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES</b>				
Operating Income (Loss)	\$ 58,972	\$ 146,700	\$ 27,091	\$ 17,733
<b>Adjustments to Reconcile Net Operating Income (Loss) to Net Cash from Operating Activities</b>				
Depreciation and Amortization	82,572	79,825	46,099	40,616
Amortization of Deferred Power Costs	7,801	7,200	-	-
Changes in Operating Assets and Liabilities				
Accounts Receivable	(4,865)	1,576	3,989	(10,822)
Unbilled Receivables	(119)	(564)	(173)	(645)
Bad Debt Expense	5,271	4,729	-	-
Power Revenue and Expense	2,421	594	-	-
Other Receivables	(363)	(574)	20	2,777
Due from Other Funds	(1,104)	216	(830)	589
Due from Other Governments	1,007	(2,745)	(459)	907
Materials and Supplies Inventory	5,068	(5,595)	824	(482)
Accounts Payable	2,282	9,247	3,685	(701)
Salaries, Benefits, and Payroll Taxes Payable	(5,396)	1,399	(2,136)	828
Compensated Absences Payable	1,126	1,097	654	675
Due to Other Funds	(243)	(4,290)	106	(359)
Due to Other Governments	-	(23)	17	62
Claims Payable	(866)	(968)	164	482
Taxes Payable	1,459	(380)	675	132
Deferred Credits	1,015	(2,061)	195	498
Other Assets and Liabilities	10,755	1,396	(8,044)	7,394
Total Adjustments	107,821	90,079	44,786	41,951
Net Cash from Operating Activities	<u>\$ 166,793</u>	<u>\$ 236,779</u>	<u>\$ 71,877</u>	<u>\$ 59,684</u>
<b>SCHEDULE OF NONCASH ACTIVITIES</b>				
In-Kind Capital Contributions	\$ 19,560	\$ 12,830	\$ -	\$ -
Amortization of Debt Related Costs, Net	(2,440)	2,007	-	-
Change in Valuation of Deferrals on Power Exchange	(1,497)	222	-	-
Allowance for Funds Used During Construction	3,833	3,213	-	-
Power Exchange Revenues	25,844	64,059	-	-
Power Exchange Expenses	(27,699)	(63,655)	-	-
Change in Capitalized Purchased Power Commitment/Obligation	-	(4,749)	-	-
Power Revenue Netted against Power Expenses	7,241	14,266	-	-
Power Expense Netted against Power Revenues	(24,218)	(57,908)	-	-
Fair Value Adjustment of Long-Term Investments	-	-	(108)	105
Contributed Infrastructure	-	-	4,878	12,366
Total Noncash Activities	<u>\$ 624</u>	<u>\$ (29,715)</u>	<u>\$ 4,770</u>	<u>\$ 12,471</u>

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

**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**For the Year Ended December 31, 2009**  
*(In Thousands)*

	<b>Business-Type Activities - Enterprise Funds</b>			
	<b>Drainage and Wastewater</b>		<b>Nonmajor Funds</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
<b>RECONCILIATION OF OPERATING INCOME (LOSS)</b>				
<b>TO NET CASH FROM OPERATING ACTIVITIES</b>				
Operating Income (Loss)	\$ 15,082	\$ 2,278	\$ (27,700)	\$ (5,750)
<b>Adjustments to Reconcile Net Operating Income (Loss) to</b>				
<b>Net Cash from Operating Activities</b>				
Depreciation and Amortization	20,721	18,182	11,515	11,722
Amortization of Deferred Power Costs	-	-	-	-
Changes in Operating Assets and Liabilities				
Accounts Receivable	(865)	(1,017)	(1,709)	514
Unbilled Receivables	(1,048)	(276)	80	(87)
Bad Debt Expense	-	-	-	-
Power Revenue and Expense	-	-	-	-
Other Receivables	-	-	-	-
Due from Other Funds	(1,377)	(915)	433	813
Due from Other Governments	(1,182)	504	(36)	(488)
Materials and Supplies Inventory	(548)	-	(146)	20
Accounts Payable	(1,927)	2,837	(226)	(313)
Salaries, Benefits, and Payroll Taxes Payable	(1,301)	563	(1,082)	293
Compensated Absences Payable	305	220	532	434
Due to Other Funds	1,249	(518)	210	(145)
Due to Other Governments	1,075	(58)	(31)	(119)
Claims Payable	(1,127)	2,835	27	155
Taxes Payable	108	18	134	(11)
Deferred Credits	(2,436)	813	(1,117)	(280)
Other Assets and Liabilities	210	872	(1,093)	(1,058)
Total Adjustments	<u>11,857</u>	<u>24,060</u>	<u>7,491</u>	<u>11,450</u>
Net Cash from Operating Activities	<u>\$ 26,939</u>	<u>\$ 26,338</u>	<u>\$ (20,209)</u>	<u>\$ 5,700</u>
<b>SCHEDULE OF NONCASH ACTIVITIES</b>				
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	-	-	-	-
Change in Capitalized Purchased Power Commitment/Obligation	-	-	-	-
Power Revenue Netted against Power Expenses	-	-	-	-
Power Expense Netted against Power Revenues	-	-	-	-
Fair Value Adjustment of Long-Term Investments	(47)	(3)	-	-
Contributed Infrastructure	1,908	22,243	-	-
Total Noncash Activities	<u>\$ 1,861</u>	<u>\$ 22,240</u>	<u>\$ -</u>	<u>\$ -</u>

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

**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**For the Year Ended December 31, 2009**  
*(In Thousands)*

	<u>Business-Type Activities - Enterprise Funds</u>		<u>Governmental Activities - Internal Service Funds</u>	
	<u>Comparative Totals</u>			
	<u>2009</u>	<u>Restated 2008</u>	<u>2009</u>	<u>2008</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES</b>				
Operating Income (Loss)	\$ 73,445	\$ 160,961	\$ 17,093	\$ 33,465
<b>Adjustments to Reconcile Net Operating Income (Loss) to Net Cash from Operating Activities</b>				
Depreciation and Amortization	160,907	150,345	21,984	14,512
Amortization of Deferred Power Costs	7,801	7,200	-	-
Changes in Operating Assets and Liabilities				
Accounts Receivable	(3,450)	(9,749)	(183)	823
Unbilled Receivables	(1,260)	(1,572)	(2)	79
Bad Debt Expense	5,271	4,729	-	-
Power Revenue and Expense	2,421	594	-	-
Other Receivables	(343)	2,203	-	-
Due from Other Funds	(2,878)	703	(177)	2,720
Due from Other Governments	(670)	(1,822)	249	749
Materials and Supplies Inventory	5,198	(6,057)	(245)	337
Accounts Payable	3,814	11,070	651	(2,041)
Salaries, Benefits, and Payroll Taxes Payable	(9,915)	3,083	(1,413)	143
Compensated Absences Payable	2,617	2,426	361	194
Due to Other Funds	1,322	(5,312)	(1,070)	934
Due to Other Governments	1,061	(138)	-	-
Claims Payable	(1,802)	2,504	177	90
Taxes Payable	2,376	(241)	56	1
Deferred Credits	(2,343)	(1,030)	-	-
Other Assets and Liabilities	1,828	8,604	(355)	(8)
Total Adjustments	<u>171,955</u>	<u>167,540</u>	<u>20,033</u>	<u>18,533</u>
Net Cash from Operating Activities	<u>\$ 245,400</u>	<u>\$ 328,501</u>	<u>\$ 37,126</u>	<u>\$ 51,998</u>
<b>SCHEDULE OF NONCASH ACTIVITIES</b>				
In-Kind Capital Contributions	\$ 19,560	\$ 12,830	\$ -	\$ 6
Amortization of Debt Related Costs, Net	(2,440)	2,007	-	-
Change in Valuation of Deferrals on Power Exchange	(1,497)	222	-	-
Allowance for Funds Used During Construction	3,833	3,213	-	-
Power Exchange Revenues	25,844	64,059	-	-
Power Exchange Expenses	(27,699)	(63,655)	-	-
Change in Capitalized Purchased Power Commitment/Obligation	-	(4,749)	-	-
Power Revenue Netted against Power Expenses	7,241	14,266	-	-
Power Expense Netted against Power Revenues	(24,218)	(57,908)	-	-
Fair Value Adjustment of Long-Term Investments	(155)	102	-	-
Contributed Infrastructure	6,786	34,609	-	-
Total Noncash Activities	<u>\$ 7,255</u>	<u>\$ 4,996</u>	<u>\$ -</u>	<u>\$ 6</u>

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.

**STATEMENT OF NET ASSETS**  
**FIDUCIARY FUNDS**  
**December 31, 2009**  
*(In Thousands)*

	<b>Pension Trust Funds</b>	<b>S. L. Denny Private-Purpose Trust</b>	<b>Agency Funds</b>
<b>ASSETS</b>			
Cash and Equity in Pooled Investments	\$ 34,588	\$ 206	\$ 22,469
Short-Term Investments	11,027	-	-
Securities Lending Collateral	36,492	-	-
Investments at Fair Value			
U.S. Government Obligations	178,650	-	-
Domestic Corporate Bonds	108,951	-	-
Domestic Stocks	631,592	-	-
International Stocks	305,943	-	-
Real Estate	183,025	-	-
Alternative/Venture Capital	159,010	-	-
Mezzanine Debt	57,795	-	-
Total Investments at Fair Value	1,624,966	-	-
Receivables			
Employer - Due from Other Funds	92	-	-
Employer - Other	3,240	-	755
Interest and Dividends	1,825	-	-
Total Receivables	5,157	-	755
Equipment, at Cost, Net of Accumulated Depreciation	2	-	-
Total Assets	1,712,232	206	23,224
<b>LIABILITIES</b>			
Accounts Payable	-	-	2
Refunds Payable and Other	12,943	-	-
Salaries, Benefits, and Payroll Taxes Payable	-	-	12,639
Deposits Payable	-	-	10,578
Claims/Judgments Payable	-	-	5
Securities Lending Collateral	40,438	-	-
Total Liabilities	53,381	-	23,224
Net Assets Held in Trust for Pension Benefits and Other Purposes	\$ 1,658,851	\$ 206	\$ -

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

**STATEMENT OF CHANGES IN NET ASSETS**  
**FIDUCIARY FUNDS**  
**For the Year Ended December 31, 2009**  
*(In Thousands)*

	<b>Pension Trust Funds</b>	<b>S.L. Denny Private-Purpose Trust</b>
<b>ADDITIONS</b>		
Contributions		
Employer	\$ 88,146	\$ -
Plan Member	46,614	-
Total Contributions	134,760	-
Investment Income (Loss)		
From Investment Activities		
Net Appreciation (Depreciation) in Fair Value of Investments	183,503	-
Interest	13,570	3
Dividends	1,128	-
Total Investment Activities Income (Loss)	198,201	3
Investment Activities Expenses		
Investment Management Fees	3,015	-
Performance Measurement Fees	256	-
Investment Custodial Fees	95	-
Total Investment Activities Expenses	3,366	-
Net Income (Loss) from Investment Activities	194,835	3
From Securities Lending Activities		
Securities Lending Income	361	-
Securities Lending Expenses		
Borrower Rebates	75	-
Management Fees	70	-
Total Securities Lending Expenses	145	-
Net Income (Loss) from Securities Lending Activities	216	-
Total Net Investment Income (Loss)	195,051	3
Total Additions	329,811	3
<b>DEDUCTIONS</b>		
Benefits	147,054	-
Refund of Contributions	9,743	-
Administrative Expense	3,510	-
Total Deductions	160,307	-
Change in Net Assets	169,504	3
Net Assets - Beginning of Year	1,489,347	203
Net Assets - End of Year	\$ 1,658,851	\$ 206

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

# NOTES TO FINANCIAL STATEMENTS

## December 31, 2009

### (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 a component unit 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.

## Organizations Excluded: Related Organizations

Organizations for which the City has appointed a voting majority of the members of the governing body, but for which the City is not financially accountable, are as follows:

Housing Authority of the City of Seattle

City of Seattle Industrial Development Corporation

Burke-Gilman Place Public Development Authority

## ACCOUNTING STANDARDS

In 2009 the City implemented the following Government Accounting Standards Board (GASB) statements:

GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This statement establishes accounting and financial reporting standards for all state and local governments that enter into derivative instruments. The scope of the statement excludes: (1) derivative instruments that are normal purchases and normal sales contracts, (2) insurance contracts accounted for under Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, as amended, (3) certain financial guarantee contracts, (4) certain contracts that are not exchange-traded, and (5) loan commitments. For derivative instruments reported in financial statements prepared using the current financial resources measurement focus, the recognition and measurement provisions of this statement are not applied. There was no impact on the financial statements of the City.

GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This statement applies to the financial statements of all state and local governments that are presented in conformity with GAAP.

GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*. This statement establishes accounting and financial reporting standards for all state and local governments in regard to related-party transactions, subsequent events, and going concern considerations. This statement amends paragraph 25 of the National Council on Governmental Accounting Statement 5, *Accounting and Financial Reporting Principles for Lease Agreements of State and Local Governments*. There was no impact on the financial statements of the City.

## 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 395,000 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 187 miles of water supply mains, 1,714 miles of distribution lines, and 301 million gallons of distribution storage capacity in the Cedar and Tolt Rivers and Highline Well Field watersheds. The distribution system serves a population of close to 659,000 people. The Utility also sells to 25 surrounding cities and water districts that provide water to an additional 760,000 people. The average daily total consumption is about 122 million gallons of water.

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 1,898 miles of sewers and drainage mainlines and 67 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.

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, 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, 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. Governmental fund inventories 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 “backtrekking,” 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, programmatic conservation costs, certain purchased power expenses, the cost of future construction of plant owned and operated by other entities for future services, and charges related to bond issues.

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 the 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.

### **Reservations and Designations**

A reservation is used to segregate a portion of fund balance that is either not appropriable for expenditures or is legally restricted for a specific future use. The amounts not appropriable for expenditures are reported as fund balance reserved for noncurrent assets, inventories, petty cash, and prepaid items. The amounts legally segregated for specific future uses are reported as fund balance reserved for capital improvements and grants, debt service including judgments and claims, employee benefits, endowments and gifts, employee retirement systems, continuing appropriations, and encumbrances.

In cases where a governmental fund does not have enough available unreserved fund balance, the fund balance reserved for that fund is limited to the extent of the amount available.

## 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, 2008, from which the summarized information was derived.

# (2) STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

## BUDGETARY INFORMATION

The City budgets for the General 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 Library 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)*

	<u>2009</u>
Annual Budget	\$ 1,119,757
Carryovers	
Encumbrances	2,343
Continuing Appropriations	115,882
Budget Revisions	<u>80,406</u>
Total Budget	<u>\$ 1,318,388</u>

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 Finance Director 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 Finance Director's approval.

Budgetary comparisons for proprietary funds may be requested from the Department of Executive Administration. 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 Department of Finance to carry over to the following year, and are included with expenditures.

## **FUND BALANCE DESIGNATED FOR SPECIAL PURPOSES**

Within the fund financial statements the City reports fund balances as "Unreserved Designated for Special Purposes" on the Balance Sheet of its governmental funds. In the General Fund the balances are comprised of amounts billed and collected internally by the City's Personnel Department for purposes of industrial insurance, unemployment compensation, special employment, life insurance, and health care.

Also included in the balance are revenues collected within the Cable TV Franchise Subfund. The Cable Television Franchise Subfund, created by Ordinance 118196, collects revenues from the cable providers and must use the funds according to the usage policies established in Council Resolution 30379.

The designation in the Seattle Center Fund is for the repairs and maintenance of McCaw Hall, its kitchen equipment purchases, and its operations.

All amounts reported as designated for special purposes are legally segregated for specific future use. The total amount reported is broken down by fund and by year in the following table.

Table 2-2

FUND BALANCES DESIGNATED FOR SPECIAL PURPOSES

(In Thousands)

Fund	2009	2008
General Fund		
Group Term Life Insurance	\$ 429	\$ 414
Health Care	24,249	13,564
Unemployment Compensation	1,907	4,398
Industrial Insurance	6,971	6,681
Special Employment Program	87	106
Cable TV Franchise	3,686	4,334
Special Revenue Fund		
Seattle Center McCaw Hall	843	879
	<u>\$ 38,172</u>	<u>\$ 30,376</u>

**DEFICITS IN FUND BALANCES AND NET ASSETS**

The Downtown Parking Garage Fund has negative fund net assets of \$21.2 million. This is mostly attributable to cumulative depreciation expenses which were not planned to be covered by operating revenues. The Garage generates revenues to cover debt service payments and operating expenses but not enough to cover depreciation. The negative fund equity will continue and the Garage revenues are not expected to remain sufficient to meet cash requirements for the foreseeable future due to increasing bond debt service payments as scheduled and increasing tax burden on revenues. However, the City will develop a plan to address the structural imbalance between revenues and expenses.

The Seattle Streetcar Fund has negative fund balance of \$3.2 million. 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.

**(3) CASH AND INVESTMENTS**

**CASH AND EQUITY IN POOLED INVESTMENTS**

Cash resources of all City funds are combined to form a cash pool that is managed by the Department of Executive Administration. 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 out of the pool without prior notice or penalty.

**Custodial Credit Risk – Deposits.** As of December 31, 2009, the City's cash pool had cash in the vault of \$0.1 million and \$17.1 million on deposit with the City's custodial banks which includes cash that had been credited in the City books but remains in the bank to cover checks that had been issued by the City but were unredeemed at the end of the year. The Federal Deposit Insurance Corporation (FDIC) insures the City's deposits up to \$0.25 million; the rest is uninsured and uncollateralized and is therefore exposed to custodial risk, which is the risk that deposits may not be returned to the City in the event of bank failure. The City minimizes exposure to custodial credit risk for deposits by requiring depository banks to have sufficient capital to support the activities of City accounts. Banks having a deposit relationship with the City are also required to provide financial statements for the City's use in reviewing the bank's financial condition. All deposits not covered by FDIC insurance are under the jurisdiction of the Washington State Public Deposit Protection Commission (Commission), established in RCW 39.58 that also regulates public depository financial institutions within the state. The Commission requires each public depository a pledge agreement with the Commission and a trustee. The depository shall at all times maintain, segregated from its other assets, eligible collateral in the form of securities described in RCW 39.58.050 (5) and (6), having a value at least equal to its maximum liability. Such collateral shall be segregated by deposit with the depository's trustee and shall be clearly designated as security for the benefit of public depositors. The collateral is used, through the depository's trustee, when the Commission assesses the depository bank in cases where losses are incurred by depositors, net of deposit insurance already received by them.

## 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, 2009, the City's cash investment pool had the following investments and maturities.

Table 3-1

**INVESTMENTS AND MATURITIES  
TREASURY RESIDUAL INVESTMENTS AND  
SECURITIES HELD FOR DEDICATED FUNDS  
(In Thousands)**

Investments	Fair Value			Weighted Average Maturity (Days)
	Treasury Residual Investments	Securities Held for Dedicated Funds	Carrying Amount	
Repurchase Agreements	\$ 116,779	\$ -	\$ 116,779	4
U.S. Government Obligations	13,496	83,569	97,065	301
U.S. Government Securities and U.S. Government- Sponsored Enterprises Securities	483,159	-	483,159	564
Commercial Paper	221,243	16,290	237,533	52
Municipal Bonds	10,137	-	10,137	223
Total	<u>\$ 844,814</u>	<u>\$ 99,859</u>	<u>\$ 944,673</u>	
Weighted Average Maturity of the Treasury Residual Investments and Securities Held for Dedicated Funds				335

**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. To manage exposure to declines in fair values, the City adopted an investment policy that limits the weighted average maturity of its investment portfolio to no longer than five years. Furthermore, to achieve its financial objective of maintaining liquidity to meet its operating cash flow needs, the City typically selects investments that have much shorter average maturities.

**Credit Risk.** Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In accordance with its investment policy the City manages exposure to credit risk in commercial paper by purchasing programs with the highest rating by at least two nationally recognized statistical rating organizations (NRSROs); conducting internal due diligence of each commercial paper program purchased and maintaining an approved purchased list of names as well as list of names to avoid; and paid subscriptions to Moody's Investors Service and Fitch Ratings. As of December 31, 2009, the City's investments in commercial paper were rated P-1 by Moody's Investors Service, A-1+ or A-1 by Standard & Poor's, or F-1 or F1+ by Fitch Ratings. The same internal due diligence is conducted for purchasing taxable municipal securities issued outside of the State of Washington. The municipal bonds were rated VMIG1, Aaa, Aa1, Aa2 by Moody's Investors Service and A-1+, A-1, AAA, AA+ or AA by Standard & Poor's.

The City also purchases obligations of government-sponsored enterprises which are eligible as collateral for advances to member banks as determined by the Board of Governors of the Federal Reserve System. These include, but are not limited to, debt securities of the Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, Federal Farm Credit Bank, and Federal National Mortgage Association. As of December 31, 2009, these investments were rated Aaa by Moody's Investors Service and AAA by Standard & Poor's.

The City's investments in repurchase agreements require a master repurchase agreement executed with the counterparty. Securities delivered as collateral must be priced at a minimum of 102 percent of their market value for U.S. Treasuries and at higher margins of 103 percent to 105 percent for debentures of U.S. federal government-sponsored enterprises, mortgage-backed pass-throughs, banker's acceptances, and commercial paper. In addition, collateral securities must have the highest credit ratings of at least two NRSROs. As of December 31, 2009, the securities underlying the City's investment in repurchase agreements included collateral other than U.S. Treasuries, and the repurchase agreements were not rated.

**Concentration of Credit Risk.** Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. In accordance with its investment policy, the City manages exposure to concentration of credit risk for the City's investments portfolio as a whole. The City limits its investments in any one issuer as follows: 10 percent of the portfolio per bank for certificates of deposit or bankers' acceptances; 5 percent for commercial paper or municipal

bonds; and 20 percent per U.S. government agency. However, U.S. government real estate mortgage investment conduits (REMICs), collateralized mortgage obligations (CMOs), and pass-through securities are not subject to maximum agency limitations but are limited to a maximum asset allocation of 25 percent of the total portfolio. The City's investments in which five percent or more is invested in any single issuer as of December 31, 2009, 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 Bank	\$ 198,998	21 %
Wells Fargo Bank	116,779	12
Federal Home Loan Mortgage Corporation (Freddie Mac)	111,610	12
Federal National Mortgage Association (Fannie Mae)	99,106	10
U.S. Treasury	97,065	10
Federal Farm Credit Bank	73,445	8

**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 be able to recover the value of its investments or collateral securities that are in the possession of an outside counterparty. The City minimizes custodial credit risk for its investments by having its investment securities held by the City's contractual custodian 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 custodian. In accordance with its investment policy the City also maintains a list of approved securities dealers to provide investment services to the City. The securities dealers include primary dealers or regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule). The City conducts its own financial due diligence of each counterparty before adding the securities dealer to the City's list of approved dealers.

**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	\$ 178,650
Domestic Corporate Bonds	108,951
Domestic Stocks	631,592
International Stocks	305,943
Other	
Short-Term Investment Funds	11,027
Securities Lending	36,492
Mezzanine Debt	57,795
Real Estate	183,025
Alternative/Venture Capital	159,010
Total	<u>\$ 1,672,485</u>

**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 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 Type	Fair Value	Investment Maturities (In Years)			
		<1	1 - 5	6 - 10	>10
Fixed Income					
U.S. Government					
Treasuries, Notes, and Bonds	\$ 59,471	\$ 9,443	\$ 29,995	\$ 14,050	\$ 5,983
Treasury Inflation-Protected Securities	1,616	-	-	-	1,616
Agencies	10,892	19	5,839	1,356	3,678
Municipal	1,535	1,384	-	-	151
Mortgage-Backed					
Government Pass-Throughs	56,304	17,446	-	9,895	28,963
Corporate Pass-Throughs	23,220	3	16	341	22,860
Government Collateralized Mortgage Obligations	3,279	-	-	-	3,279
Corporate					
Bonds	80,235	23,428	22,001	23,961	10,845
Asset-Backed	20,366	1,018	10,747	2,148	6,453
Private Placements	9,921	146	5,146	2,574	2,055
CDO's and CLO's	7,977	-	16	4,960	3,001
Government/Sovereign Emerging Markets	2,523	1,327	449	546	201
Total Portfolio	\$ 277,339	\$ 54,214	\$ 74,209	\$ 59,831	\$ 89,085

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 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
Fixed Income								
Mortgage-Backed Corporate Pass-Throughs	\$ 7,830	\$ 1,115	\$ 2,205	\$ 1,304	\$ 2,118	\$ 447	\$ 4,974	\$ 3,226
Corporate								
Bonds	9,041	7,418	27,181	22,022	3,318	2,324	1,218	7,714
Asset-Backed	6,633	1,018	-	1,445	2,296	734	-	8,240
Private Placements	862	1,355	2,155	1,370	1,210	-	826	2,144
CDO's and CLO's	-	-	-	459	438	490	405	6,185
Foreign Sovereign								
Bonds	-	546	-	84	1,327	-	-	566
Total Portfolio	\$ 24,366	\$ 11,452	\$ 31,541	\$ 26,684	\$ 10,707	\$ 3,995	\$ 7,423	\$ 28,075

Table 3-6

## SCERS' ASSET ALLOCATION

Asset Class	Actual	Target
Cash and Cash Equivalents	1.8 %	1.0 %
Equities		
Domestic	38.2	38.0
International	18.5	20.0
Bonds	17.4	14.0
Alternative	9.6	10.0
Mezzanine	3.5	5.0
Real Estate	11.0	12.0
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. Regular systematic rebalancing of the portfolio back to the target percentages are undertaken to ensure compliance with the specified targets. In line with its policy, SCERS does not have any investments in any issuer that represent more than five percent of SCERS' net assets, except for investments in U.S. government obligations or U.S. government agency securities. 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. Managers do not have authority to depart from those 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 market 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 currency security risk. Per SCERS' policy, individual manager guidelines include the ranges of acceptable exposure.

## 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 loaned 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. There are no restrictions on the amount of securities that may be loaned. 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. In 2009 the custodian has been instructed not to exceed \$75.0 million of collateralized obligations.

In 2008 SCERS experienced a default on a cash collateral purchase as a result of the Lehman Brothers bankruptcy. In 2009, SCERS continues to work with the custodian through the bankruptcy process. The defaulted dollar value of the asset is de minimis to the overall portfolio value.

**Table 3-7** **SCERS' SECURITIES LENT AND COLLATERAL**  
(In Thousands)

Type of Securities Lent	2009		2008	
	Fair Values of Securities Lent	Collateral	Fair Values of Securities Lent	Collateral
U.S. Government and Agencies	\$ 14,598	\$ 14,911	\$ 11,359	\$ 11,692
U.S. Corporate Fixed Income	1,211	1,229	9,809	10,043
U.S. Equities	23,557	24,204	53,017	53,659
Total Securities Lent	<u>\$ 39,366</u>	<u>\$ 40,344</u>	<u>\$ 74,185</u>	<u>\$ 75,394</u>
Collateral	2009		2008	
U.S. Corporate Obligations		\$ 20,500		\$ 22,501
Bank Obligations		-		11,000
Mutual Funds		5,535		-
Repurchase Agreements		1,875		8,428
Asset-Backed Securities		7,651		9,466
Certificates of Deposit		4,877		23,999
Total Collateral		<u>\$ 40,438</u>		<u>\$ 75,394</u>

## 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, 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)

	<u>December 31 2009 Revenues</u>	<u>December 31 2009 Receivables</u>
Property Taxes	\$ 388,341	\$ 18,052
General Business and Occupation Taxes	329,572	53,517
Totals	<u>\$ 717,913</u>	<u>\$ 71,569</u>

## 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 \$1.61 per \$1,000 for general operations and Firemen's Pension Fund in 2009. In addition, the levy included \$0.97 per \$1,000 of assessed value for debt service and other voter-approved levies. The total 2009 levy was \$2.58 per \$1,000 of assessed value. Not included in this total is the levy for Emergency Medical Services (EMS), which was renewed by voters at election in November 2007 at \$0.30 per \$1,000 of assessed value. In 2009 the rate for EMS was \$0.27 per \$1,000 of assessed value.

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, 2009, as reported in the fund financial statements.

Table 4-2

DUE FROM AND TO OTHER FUNDS

(In Thousands)

Receivable Fund	Payable Fund(s)	Amount
General	Drainage and Wastewater	\$ 3,003
	Nonmajor Enterprise	930
	Nonmajor Governmental	2,684
	Internal Service	719
	Transportation	324
	Light	3,271
	Water	2,158
	Total General Fund	13,089
Transportation	Drainage and Wastewater	65
	Nonmajor Enterprise	138
	General	1,595
	Nonmajor Governmental	8,917
	Internal Service	45
	Light	583
	Water	761
Total Transportation	12,104	
Light	Drainage and Wastewater	209
	Nonmajor Enterprise	175
	General	332
	Nonmajor Governmental	63
	Internal Service	564
	Transportation	44
	Water	192
Total Light Fund	1,579	
Water	Drainage and Wastewater	895
	Nonmajor Enterprise	263
	General	75
	Nonmajor Governmental	48
	Internal Service	11
	Transportation	20
	Light	175
Total Water Fund	1,487	
Low-Income Housing	Light	85
	Total Low-Income Housing	85
Fiduciary	Light	92
	Total Fiduciary	92
Drainage and Wastewater	Nonmajor Enterprise	79
	General	48
	Nonmajor Governmental	8
	Internal Service	16
	Transportation	490
	Light	832
	Water	104
Total Drainage and Wastewater Fund	1,577	

Table 4-2

## DUE FROM AND TO OTHER FUNDS (continued)

(In Thousands)

Receivable Fund	Payable Fund(s)	Amount
Nonmajor Governmental	Drainage and Wastewater	\$ 185
	Nonmajor Enterprise	44
	General	1,333
	Nonmajor Governmental	2,030
	Internal Service	117
	Low-Income Housing	2
	Transportation	259
	Light	449
	Water	33
		<u>4,452</u>
Nonmajor Enterprise	Drainage and Wastewater	345
	Nonmajor Enterprise	52
	General	170
	Nonmajor Governmental	40
	Internal Service	29
	Transportation	16
	Light	437
	Water	48
	<u>1,137</u>	
Internal Service	Drainage and Wastewater	226
	Nonmajor Enterprise	645
	General	2,028
	Nonmajor Governmental	941
	Internal Service	105
	Light	995
	Transportation	1,327
Water	821	
	<u>7,088</u>	
Grand Total		<u>\$ 42,690</u>

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 In	Transfers Out				
	General	Nonmajor Governmental	Internal Service	Transportation	Total
General Fund	\$ -	\$ 1,263	\$ 7,073	\$ -	\$ 8,336
Low-Income Housing	1,008	-	-	-	1,008
Nonmajor Enterprise	10,245	-	-	-	10,245
Nonmajor Governmental	228,199	2,872	25,008	10,096	266,175
Transportation	49,792	70,496	322	-	120,610
Total Transfers	<u>\$ 289,244</u>	<u>\$ 74,631</u>	<u>\$ 32,403</u>	<u>\$ 10,096</u>	<u>\$ 406,374</u>

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 and (2) 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 18 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.

Effective January 1, 2009, the City adopted GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which requires that changes in fair values of investment derivative instruments be recorded on the income statement and that changes in fair values of effective hedging derivative instruments be recorded as deferrals on the balance sheet except as provided by the normal purchase and normal sales exception to that standard. It is the City's policy to apply the normal purchase and normal sales exception of GASB Statement No. 53 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. SCL previously recorded these types of transactions at fair value under Accounting Standards Codification (ASC) 815, *Derivatives and Hedging*. The effect of implementing GASB Statement No. 53 was to restate the 2008 financial statements. The effect of this restatement on the balance sheet was that current assets, energy contracts at fair value, decreased \$6.6 million; current liabilities, energy contracts at fair value, decreased \$0.2 million; and deferred credits decreased \$6.4 million. There was no effect to the statement of revenues, expenses, and changes in equity for 2008.

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 2009	Aggregate Contract Amount	Aggregate Fair Value	Unrealized Gain (Loss)
Sales	\$ 14,971	\$ 14,624	\$ 347
Purchases	<u>3,746</u>	<u>3,687</u>	<u>(59)</u>
Total	<u>\$ 18,717</u>	<u>\$ 18,311</u>	<u>\$ 288</u>

Year 2008	Aggregate Contract Amount	Aggregate Fair Value	Unrealized Gain (Loss)
Sales	\$ 16,276	\$ 9,646	\$ 6,630
Purchases	<u>3,527</u>	<u>3,352</u>	<u>(175)</u>
Total	<u>\$ 19,803</u>	<u>\$ 12,998</u>	<u>\$ 6,455</u>

Fair value measurements at December 31, 2009 and 2008 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. SCL did not have any such activity for 2009 and 2008, as restated. 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 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.

**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 geographical 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 <sup>a</sup>

(In Thousands)

	Restated Balance January 1	Additions	Deletions	Balance December 31
<b>GOVERNMENTAL ACTIVITIES <sup>b</sup></b>				
CAPITAL ASSETS NOT BEING DEPRECIATED				
Land	\$ 436,123	\$ 77,494	\$ 1,574	\$ 512,043
Construction in Progress	175,990	300,506	276,396	200,100
Total Capital Assets Not Being Depreciated	612,113	378,000	277,970	712,143
CAPITAL ASSETS BEING DEPRECIATED				
Buildings and Improvements	1,939,037	73,963	3,186	2,009,814
Machinery and Equipment	259,160	41,326	26,583	273,903
Infrastructure	1,126,315	114,776	-	1,241,091
Other Capital Assets	12,589	546	67	13,068
Total Capital Assets Being Depreciated	3,337,101	230,611	29,836	3,537,876
Accumulated Depreciation				
Buildings and Improvements	448,179	48,165	1,648	494,696
Machinery and Equipment	136,654	39,803	26,653	149,804
Infrastructure	497,052	36,250	-	533,302
Other Capital Assets	1,129	164	-	1,293
Total Accumulated Depreciation	1,083,014	124,382	28,301	1,179,095
Total Capital Assets Being Depreciated, Net	2,254,087	106,229	1,535	2,358,781
Governmental Activities Capital Assets, Net	<u>\$ 2,866,200</u>	<u>\$ 484,229</u>	<u>\$ 279,505</u>	<u>\$ 3,070,924</u>
<b>BUSINESS-TYPE ACTIVITIES</b>				
CAPITAL ASSETS NOT BEING DEPRECIATED				
Land	\$ 100,800	\$ 46,918	\$ -	\$ 147,718
Construction in Progress	296,594	347,729	319,006	325,317
Total Capital Assets Not Being Depreciated	397,394	394,647	319,006	473,035
CAPITAL ASSETS BEING DEPRECIATED				
Plant in Service, Excluding Land	4,924,128	278,669	15,983	5,186,814
Buildings	60,131	-	-	60,131
Machinery and Equipment	15,160	17	47	15,130
Other Capital Assets	20,772	1,483	-	22,255
Total Capital Assets Being Depreciated	5,020,191	280,169	16,030	5,284,330
Accumulated Depreciation				
Plant in Service, Excluding Land	1,907,005	141,763	16,606	2,032,162
Buildings	20,043	2,005	-	22,048
Machinery and Equipment	7,870	1,722	47	9,545
Other Capital Assets	2,617	5	-	2,622
Total Accumulated Depreciation	1,937,535	145,495	16,653	2,066,377
Total Capital Assets Being Depreciated, Net	3,082,656	134,674	(623)	3,217,953
Business-Type Activities Capital Assets, Net	<u>\$ 3,480,050</u>	<u>\$ 529,321</u>	<u>\$ 318,383</u>	<u>\$ 3,690,988</u>

<sup>a</sup> Some amounts may have rounding differences with Statements of Net Assets.

<sup>b</sup> 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	\$ 21,874
Public Safety	8,388
Transportation	36,896
Economic Environment	18
Culture and Recreation	<u>33,561</u>
Subtotal	100,737
Capital assets held by internal service funds are charged to the various functions based on their usage of the assets	<u>23,645</u>
Total Governmental Activities	<u>\$ 124,382</u>

**BUSINESS-TYPE ACTIVITIES**

Light	\$ 78,434
Water	40,364
Solid Waste	5,170
Drainage and Wastewater	17,801
Planning and Development	1,641
Parking Garage	<u>2,085</u>
Total Business-Type Activities	<u>\$ 145,495</u>

**(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 2009 and 2008. 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 \$77.3 million and \$70.0 million at December 31, 2009 and 2008, respectively, have been recorded in the government-wide financial statements. These amounts include unpaid holiday, compensatory, merit, and furlough time of \$16.7 million and \$14.4 million at the end of 2009 and 2008, respectively; accumulated unpaid vacation pay of \$50.4 million and \$45.7 million at the end of 2009 and 2008, respectively; and the balance for sick leave (estimated based on the termination method) of \$10.2 million and \$9.9 million at December 31, 2009 and 2008, respectively.

**Internal Service Funds**

Table 7-1

**COMPENSATED ABSENCES IN INTERNAL SERVICE FUNDS***(In Thousands)*

	<u>2009</u>	<u>2008</u>
Fleets and Facilities	\$ 2,012	\$ 1,817
Information Technology	<u>1,798</u>	<u>1,633</u>
Totals	<u>\$ 3,810</u>	<u>\$ 3,450</u>

**BUSINESS-TYPE ACTIVITIES**

**Enterprise Funds**

**Table 7-2** **COMPENSATED ABSENCES IN ENTERPRISE FUNDS**  
*(In Thousands)*

	<u>2009</u>	<u>2008</u>
Light	\$ 14,789	\$ 13,663
Water	4,858	4,565
Drainage and Wastewater	3,824	3,519
Solid Waste	1,654	1,427
Planning and Development	<u>2,876</u>	<u>2,719</u>
Totals	<u>\$ 28,001</u>	<u>\$ 25,893</u>

**PENSION TRUST FUNDS**

**Table 7-3** **COMPENSATED ABSENCES IN PENSION TRUST FUNDS**  
*(In Thousands)*

	<u>2009</u>	<u>2008</u>
Employees' Retirement	\$ 71	\$ 80
Firemen's Pension	80	65
Police Relief and Pension	<u>84</u>	<u>62</u>
Totals	<u>\$ 235</u>	<u>\$ 207</u>

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 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)*

<u>Net Capital Lease Assets</u>	<u>Capital Assets Governmental Activities</u>
Machinery and Equipment	\$ 20
Less Accumulated Depreciation	<u>(4)</u>
December 31, 2009	<u>\$ 16</u>
<u>Minimum Capital Lease Payments</u>	<u>Long-Term Liabilities Governmental Activities</u>
2010	\$ 5
2011	5
2012	5
2013	4
2014	<u>2</u>
Total Minimum Lease Payments	21
Less Interest	<u>(3)</u>
Principal	<u>\$ 18</u>

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 Fleets and Facilities Department, 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. Fleets and Facilities paid rentals of approximately \$4.3 million and \$3.5 million in 2009 and 2008, 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 lease agreement commenced on July 17, 2000, and expires on July 30, 2010, requiring a fixed rent of \$18,500 per month subject to increases on each July 1 beginning in 2001 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 approximately \$300,793 and \$293,290 in 2009 and 2008, 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		
	Fleets and Facilities	Seattle Center	Total
2010	\$ 4,979	\$ 164	\$ 5,143
2011	3,672	-	3,672
2012	3,076	-	3,076
2013	2,647	-	2,647
2014	1,862	-	1,862
2015 - 2016	2,000	-	2,000
Total	<u>\$ 18,236</u>	<u>\$ 164</u>	<u>\$ 18,400</u>

**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 \$0.6 million and \$0.4 million in 2009 and 2008, 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 2009 and 2008 were: \$560,033 and \$628,449 for the Water Fund; \$103,574 and \$100,528 for the Drainage and Wastewater Fund, and \$164,667 and \$158,051 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
2010	\$ 1,093	\$ 365	\$ 106	\$ 171	\$ 1,735
2011	1,111	362	104	168	1,745
2012	1,131	358	101	164	1,754
2013	1,139	252	65	170	1,626
2014	1,043	237	60	176	1,516
2015 - 2017	2,822	456	114	337	3,729
Total	<u>\$ 8,339</u>	<u>\$ 2,030</u>	<u>\$ 550</u>	<u>\$ 1,186</u>	<u>\$ 12,105</u>

**LEASE REVENUES - GOVERNMENTAL ACTIVITIES**

The Fleets and Facilities Department 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 Fleets and Facilities 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 FLEETS AND FACILITIES**  
*(In Millions)*

	<u>2009</u>	<u>2008</u>
Non-City Property Occupied by City Departments	\$ 4.9	\$ 3.6
City-Owned Property Occupied by City Departments	53.9	55.9
City-Owned Property Leased to Non-City Tenants	<u>2.9</u>	<u>2.9</u>
Total	<u>\$ 61.7</u>	<u>\$ 62.4</u>

Additionally, in 2009 the SeaPark Garage and the Seattle Municipal Tower Building generated \$2.2 million total parking revenues, which were recorded in the Fleets and Facilities Fund.

Also, in 2009 the City recognized \$6.8 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 bonds (LTGO) and unlimited tax general obligation bonds (UTGO).

The original amount of general obligation bonds issued for bonds outstanding at the end of 2008 was \$1.403 billion. The amount of bonds outstanding at December 31, 2008, was \$785.7 million. The following paragraphs discuss the general obligation bonds issued during 2009. No outstanding general obligation bonds were defeased in 2009.

On March 25, 2009, the City issued the \$99.9 million LTGO Improvement and Refunding Bonds, 2009, with interest rates ranging from 3.0 percent to 5.0 percent and which mature serially from November 1, 2009, through May 1, 2034. The proceeds of the LTGO bonds are used to pay all or part of the costs of construction and acquisition of various City capital projects, including the Alaskan Way Viaduct, IT Projects, Jail, North Precinct, Northgate Land/Park, Pike Place Market Renovation, Rainier Beach Community Center, Trails, Arterial Asphalt and Concrete, Bridge Rehabilitation, King Street Station, Spokane Bridging the Gaps (BTG), and to totally refund \$4.4 million of the 1996 Pike Place Market Bonds. Further discussion on the refunding is shown in the Advance and Current Refundings section of this note.

The City had no short-term general obligation debt at the end of 2009.

The following table presents the individual general obligation bonds outstanding as of December 31, 2009, 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		Bonds Outstanding December 31
					2009	To Date <sup>a</sup>	
<b>LIMITED TAX GENERAL OBLIGATION (LTGO) BONDS - NON-VOTED</b>							
Refunding - Various LTGO Bonds, 1998, Series B	03/17/98	09/01/98-12	4.493	\$ 43,710	\$ 2,845	\$ 36,145	\$ 7,565
Deferred Interest Parking Garage, 1998, Series E	11/12/98	12/15/01-14	4.714	13,042	1,205	7,353	5,689 <sup>b</sup>
Various Purpose - Civic Center, Galer St, 1999, Series B	10/19/99	12/01/00-28	5.677	85,500	3,195	85,500	-
Various Purpose - Civic Center, South Police Precincts, Training Facilities, Information Technology, Etc., 2001	08/21/01	08/01/02-31	4.908	129,760	3,260	36,875	92,885
Improvement (Various) and Refunding, 2002	01/30/02	07/01/02-32	4.778	125,510	5,330	55,110	70,400
Various Purpose and Refunding, 2003	02/26/03	08/01/04-23	3.469	60,855	1,000	51,100	9,755
Refunding, 2004	05/24/04	07/01/04-20	4.118	91,805	5,320	18,275	73,530
Various Purpose and Refunding, 2005	03/23/05	08/01/05-28	4.167	129,540	5,850	32,395	97,145
Various Purpose and Refunding, 2006	04/26/06	03/01/07-26	4.254	24,905	1,600	4,590	20,315
Various Purpose and Refunding, 2007	05/02/07	10/01/07-28	4.251	95,550	1,930	5,330	90,220
Various Purpose and Refunding, 2008	07/02/08	12/01/08-28	4.398	139,830	5,350	5,350	134,480
Various Purpose and Refunding, 2009	03/25/09	11/01/09-05/01/34	3.574	99,860	310	310	99,550
Total Limited Tax General Obligation Bonds				1,039,867	37,195	338,333	701,534
<b>UNLIMITED TAX GENERAL OBLIGATION (UTGO) BONDS - VOTED</b>							
Refunding-Variou UTGO Bonds, 1998, Series A	03/17/98	09/01/98-17	4.470	53,865	4,475	47,830	6,035
Library Facilities, 1999, Series A	07/01/99	12/01/00-18	5.135	100,000	5,130	100,000	-
Improvement (Library Facilities) and Refunding, 2002	09/26/02	12/01/03-21	3.892	117,025	4,360	49,460	67,565
Refunding, 2007	05/02/07	12/01/07-18	3.886	60,870	-	1,620	59,250
Total Unlimited Tax General Obligation Bonds				331,760	13,965	198,910	132,850
Total General Obligation Bonds				\$ 1,371,627	\$ 51,160	\$ 537,243	\$ 834,384

<sup>a</sup> 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.

<sup>b</sup> The accreted value of the outstanding bonds as of December 31, 2009, is \$9,693,588. The difference is also recognized as long-term accrued interest in the Downtown Parking Garage Fund, an enterprise fund, where the bond outstanding is also recorded.

The requirements to amortize the general obligation bonds as of December 31, 2009, 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		Business-Type Activities		Total
	Principal	Interest	Principal	Interest	
2010	\$ 56,500	\$ 36,723	\$ 1,226	\$ 3,806	\$ 98,255
2011	56,060	34,117	1,247	3,940	95,364
2012	59,455	31,412	1,257	4,094	96,218
2013	57,895	28,622	1,262	4,259	92,038
2014	54,695	25,815	1,857	3,740	86,107
2015 - 2019	230,070	113,086	18,285	12,472	373,913
2020 - 2024	158,185	45,422	29,055	6,891	239,553
2025 - 2029	78,740	14,773	9,130	656	103,299
2030 - 2034	19,465	1,824	-	-	21,289
Total	<u>\$ 771,065</u>	<u>\$ 331,794</u>	<u>\$ 63,319</u>	<u>\$ 39,858</u>	<u>\$ 1,206,036</u>

**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 2009 was \$17.7 million. There were no new bond issues in 2009.

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		Bonds Outstanding
					2009	To Date	December 31
Local Improvement District No. 6750 Bonds, 2006	09/13/06	12/15/07-24	4.102	\$ 21,925	\$ 1,500	\$ 4,220	\$ 17,705

The requirements to amortize the special assessments with governmental commitment as of December 31, 2009, 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
2010	\$ 660	\$ 25	\$ 685
2011	1,220	46	1,266
2012	1,220	47	1,267
2013	1,220	47	1,267
2014	1,220	48	1,268
2015 - 2019	6,090	247	6,337
2020 - 2024	6,075	257	6,332
Total	<u>\$ 17,705</u>	<u>\$ 717</u>	<u>\$ 18,422</u>

**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 Community, Trade, and Economic Development. The notes were drawn at varying low annual interest rates ranging from 0.5 to 3.0 percent. The proceeds of the loan support City road and bridge improvements. The amount of \$1.2 million was drawn in 2009 and the City paid \$2.1 million and \$0.3 million in principal and interest, respectively, in 2009. The outstanding balance on the notes at December 31, 2009, is \$18.9 million. The following table presents the annual debt service requirements to maturity on the notes as of the end of 2009.

**Table 9-5 ANNUAL DEBT SERVICE REQUIREMENTS TO MATURITY  
SEATTLE DEPARTMENT OF TRANSPORTATION  
PUBLIC WORKS TRUST LOAN NOTES  
(In Thousands)**

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 2,122	\$ 321	\$ 2,443
2011	2,019	278	2,297
2012	1,920	239	2,159
2013	1,797	202	1,999
2014	1,736	169	1,905
2015 - 2019	6,210	450	6,660
2020 - 2024	2,863	74	2,937
2025 - 2029	187	3	190
Total	<u>\$ 18,854</u>	<u>\$ 1,736</u>	<u>\$ 20,590</u>

**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 2008 was approximately \$3.936 billion. The total outstanding amount at December 31, 2008, was \$3.044 billion. During 2009 an additional \$139.2 million of revenue and refunding bonds, all of which were issued for the Drainage and Waste Water Fund.

**Drainage and Waste Water**

In December 2009 the City issued \$102.5 million in Drainage and Wastewater Revenue Bonds, Series A, with varying annual principal payments due beginning on November 1, 2017, and ending on November 1, 2039, at interest rates ranging from 4.2 percent to 5.6 percent. The bonds were issued as taxable, direct-pay Build America Bonds. Designation as Build America Bonds allows the City a credit payable by the United States Treasury in an amount equal to 35.0 percent of the interest payable on each bond interest payment date. As a result, interest on the bonds is not excludable from gross income. Proceeds of the revenue bonds are being used to finance certain capital improvements and additions to the drainage and wastewater system.

Also, in December 2009 the City issued \$36.7 million in Drainage and Wastewater Improvement and Refunding Revenue Bonds, Series B, with varying annual principal payments due beginning on November 1, 2010, and ending on November 1, 2027, at interest rates ranging from 2.0 percent to 4.0 percent. These bonds were issued as regular tax-exempt bonds. A portion of the proceeds from the issuance was set aside as restricted cash to be used on January 19, 2010, to refund the remaining portion of the 1998 Revenue Bonds, totaling \$18.4 million. The balance of bond proceeds will be used to finance certain capital improvements and additions to the drainage and wastewater system.

The business-type funds had no short-term debt at December 31, 2009.

The following table presents the individual revenue bonds outstanding as of December 31, 2009, 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 <sup>a</sup>	Bond Issuance	Redemptions		Bonds Outstanding December 31
					2009	To Date <sup>b</sup>	
<b>MUNICIPAL LIGHT AND POWER (ML&amp;P) BONDS</b>							
1990 Subordinate Lien	11/27/90	11/01/96-15	0.40-5.25	\$ 25,000	\$ 12,600	\$ 25,000	\$ -
1991 Subordinate Lien, Series A	11/20/91	05/01/11-16	0.40-6.00	25,000	25,000	25,000	-
1991 Subordinate Lien, Series B	11/20/91	05/01/98-11	0.40-6.00	20,000	7,000	20,000	-
1993 Subordinate Lien	11/17/93	11/01/99-18	0.40-3.42	22,000	12,800	22,000	-
1996 Subordinate Lien	12/11/96	06/01/02-21	0.55-5.75	19,800	14,575	19,800	-
1997 Parity	12/30/97	07/01/03-22	5.131	30,000	1,210	7,435	22,565
1998 Parity, Series A, Refunding	01/27/98	07/01/98-20	4.884	104,650	5,065	27,325	77,325
1998 Parity, Series B	10/29/98	06/01/04-24	4.919	90,000	3,215	17,410	72,590
1999 Parity	10/27/99	10/01/06-24	5.960	158,000	5,500	158,000	-
2000 Parity	12/27/00	12/01/06-25	5.298	98,830	3,315	12,355	86,475
2001 Parity	03/29/01	03/01/04-26	5.082	503,700	20,290	59,720	443,980
2002 Parity, Refunding	12/04/02	12/01/03-14	3.470	87,735	10,725	59,470	28,265
2003 Parity, Refunding	08/20/03	11/01/04-28	3.517	251,850	12,155	105,035	146,815
2004 Parity	12/23/04	08/01/05-29	4.159	284,855	6,515	30,835	254,020
2008 Parity	12/30/08	04/01/09-29	5.222	257,375	6,360	6,360	251,015
Total Light Bonds				1,978,795	146,325	595,745	1,383,050
<b>MUNICIPAL WATER BONDS</b>							
1995 Adjustable Rate	09/20/95	09/01/00-25	0.500	45,000	34,300	45,000	-
1998 Parity	07/04/98	10/01/99-27	5.110	80,000	2,050	18,175	61,825
1999 Parity	06/23/99	03/01/00-29	5.373	100,000	2,285	100,000	-
1999 Parity, Series B	10/23/99	07/01/01-29	5.912	110,000	2,475	110,000	-
2001 Parity	11/20/01	11/01/05-31	4.972	52,525	1,210	5,635	46,890
2002 Adjustable Rate, Series A	05/15/02	05/15/03-32	0.780	32,500	28,700	32,500	-
2002 Adjustable Rate, Series B	05/15/02	05/15/03-32	0.850	32,500	30,000	32,500	-
2003 Parity, Refunding	05/12/03	09/01/03-33	4.083	271,320	7,785	68,935	202,385
2004 Parity	10/25/04	09/01/05-34	4.580	84,750	1,535	7,705	77,045
2005 Parity, Refunding	12/28/05	09/01/06-29	4.482	138,040	1,710	6,050	131,990
2006 Parity, Refunding	10/23/06	02/01/08-37	4.424	189,970	1,830	3,585	186,385
2008 Parity, Refunding	12/15/08	12/15/09-38	4.753	205,080	7,615	7,615	197,465
Total Water Bonds				1,341,685	121,495	437,700	903,985
<b>MUNICIPAL DRAINAGE AND WASTEWATER BONDS</b>							
1998 Parity	05/15/98	11/01/98-18	5.122	24,170	13,830	24,170	-
1999 Parity	09/28/99	11/01/00-29	5.720	55,000	1,225	55,000	-
2001 Parity	06/22/01	11/01/02-31	5.260	60,680	1,290	9,055	51,625
2002 Refunding	12/17/02	07/01/03-32	4.751	78,550	1,975	11,680	66,870
2004 Parity	10/28/04	09/01/05-34	4.609	62,010	1,175	5,340	56,670
2006 Refunding	11/01/06	02/01/07-37	4.180	121,765	2,170	6,375	115,390
2008 Parity	04/16/08	06/01/09-38	4.830	84,645	1,345	1,345	83,300
2009 Parity, Series A	12/17/09	11/01/10-39	3.450	102,535	-	-	102,535 <sup>c</sup>
2009 Parity & Refunding, Series B	12/17/09	11/01/10-27	3.000	36,680	-	-	36,680
Total Drainage and Wastewater Bonds				626,035	23,010	112,965	513,070
<b>SOLID WASTE BONDS</b>							
1999 Refunding	01/19/99	08/01/99-09	4.839	40,900	4,630	40,900	-
1999 Parity, Series B	10/26/99	11/01/00-19	5.732	5,500	255	5,500	-
2007 Revenue & Refunding	12/12/07	02/01/08-33	4.505	82,175	1,650	1,705	80,470
Total Solid Waste Bonds				128,575	6,535	48,105	80,470
Total Utility Revenue Bonds				\$ 4,075,090	\$ 297,365	\$ 1,194,515	\$ 2,880,575

<sup>a</sup> The ML&P subordinate lien bonds are variable rate bonds for which the life-to-date actual low and high rates are shown. The Municipal Water adjustable-rate bonds show the interest rate in effect at the end of 2009. Interest rates in effect at December 31, 2009, were used to calculate annual interest requirements for these obligations. All adjustable-rate revenue bonds were called by the City in February 2009 from proceeds of the refunding bonds issued in December 2008.

<sup>b</sup> 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.

<sup>c</sup> Issued as taxable direct-pay Build America Bonds.

The requirements to amortize the revenue bonds of December 31, 2009, are presented below.

**Table 9-7 ANNUAL DEBT SERVICE REQUIREMENTS TO MATURITY  
REVENUE BONDS  
(In Thousands)**

Year Ending December 31	Light		Water		Drainage and Wastewater		Solid Waste		Total
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
2010	\$ 80,735	\$ 69,958	\$ 25,425	\$ 44,233	\$ 13,285	\$ 23,756	\$ 1,980	\$ 3,865	\$ 263,237
2011	79,675	65,999	26,565	43,078	13,175	24,083	2,075	3,773	258,423
2012	80,335	62,313	28,820	41,802	13,695	23,589	2,185	3,667	256,406
2013	84,085	58,074	30,160	40,438	14,290	23,043	2,295	3,555	255,940
2014	85,400	53,699	31,575	39,010	14,935	22,456	2,415	3,437	252,927
2015 - 2019	414,440	202,098	182,655	170,046	85,835	101,798	14,045	15,198	1,186,115
2020 - 2024	371,200	101,806	217,300	119,588	98,825	79,504	15,600	11,501	1,015,324
2025 - 2029	187,180	20,742	197,760	66,689	109,880	54,069	20,025	7,069	663,414
2030 - 2034	-	-	118,760	25,901	91,500	27,460	19,850	1,837	285,308
2035 - 2039	-	-	44,965	4,107	57,650	7,683	-	-	114,405
Total	<u>\$ 1,383,050</u>	<u>\$ 634,689</u>	<u>\$ 903,985</u>	<u>\$ 594,892</u>	<u>\$ 513,070</u>	<u>\$ 387,441</u>	<u>\$ 80,470</u>	<u>\$ 53,902</u>	<u>\$ 4,551,499</u>

## NOTES AND CONTRACTS PAYABLE – BUSINESS-TYPE ACTIVITIES

### Water

During 1993 the Seattle Public Utilities (SPU), for its Water Fund, entered into an agreement to borrow up to \$2.2 million from the Washington State Department of Community, Trade, and Economic Development 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.

During 2008 the Fund borrowed \$8.1 million from the Washington State Department of Community, Trade, and Economic Development under its Public Works Trust Loan Program from the Drinking Water State Revolving Fund. Proceeds from two loans were used to finance the Myrtle and Beacon reservoir projects. Beginning in 2008 amounts borrowed for the Myrtle and Beacon reservoirs are repaid over a period of 17 and 18 years, respectively, and accrue interest at 1.5 percent per annum.

During 2009 the Fund again borrowed \$3.0 million from the Washington State Department of Community, Trade, and Economic Development under its Public Works Trust Loan Program from the Drinking Water State Revolving Fund. Proceeds from the loan were used to finance the West Seattle reservoir projects. Beginning in 2009 the amount borrowed for the West Seattle reservoir is repaid over a period of 18 years and accrues interest at 1.5 percent per annum.

The Fund was approved for a \$6.1 million public works trust fund loan for the Maple Leaf Reservoir by the Washington State Department of Community, Trade, and Economic Development. The loan will be funded with resources as part of the American Recovery and Reinvestment Act (ARRA) of 2009. A portion of this loan may be forgivable in future years. As of December 31, 2009, the Fund had not received any draw downs related to this loan.

Amounts paid to the loan in 2009 totaled \$714,766 and \$152,876 in principal and interest, respectively. The combined outstanding balance of these three loans at December 31, 2009, amounts to approximately \$10.5 million, the minimum debt service requirements to maturity that is included in Table 9-8.

### Drainage and Wastewater

SPU, for its Drainage and Wastewater Fund, drew \$693,600 on a loan from the State of Washington Department of Ecology in 2007. The loan agreement originated in 2005 and allows borrowings up to \$2.7 million to support the construction of improvements of the High Point Natural Drainage Systems project. Amounts borrowed under the agreement accrue interest at 1.5 percent per annum and are to be repaid in 20 annual installments.

During 2006 the Utility began receiving draws on a loan from the Washington State Department of Community, Trade, and Economic Development under its Public Works Trust Loan Program for 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.

In 2008 the Fund began receiving draws on a loan in the amount of \$5.2 million from the Washington State Department of Ecology for 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 June 2010. No draw downs were made against this loan in 2009. The Fund also received \$185,000 from another existing public works trust loan for the construction of the Thornton Creek Natural Drainage Systems

In 2009 the Utility was approved for a public works trust fund loan in the amount of \$1.4 million by the Washington State Department of Ecology. This loan is funded with resources from the American Recovery and Reinvestment Act of 2009 (ARRA). No drawdowns were made in 2009, and a portion of this loan may be considered forgiven in future years.

Total loans outstanding as of December 31, 2009, amount to \$13.3 million.

In 2009 amounts paid from the Drainage and Water totaled \$394,617 in principal and approximately \$24,985 in interest for all of the loans.

**Table 9-8**

**ANNUAL DEBT SERVICE REQUIREMENTS TO MATURITY  
SEATTLE PUBLIC UTILITIES  
PUBLIC WORKS TRUST LOAN AND OTHER NOTES  
(In Thousands)**

Year Ending December 31	Water		Drainage and Wastewater		Total
	Principal	Interest	Principal	Interest	
2010	\$ 715	\$ 156	\$ 762	\$ 143	\$ 1,776
2011	715	146	766	134	1,761
2012	715	136	771	126	1,748
2013	714	125	769	117	1,725
2014	596	115	762	109	1,582
2015 - 2019	2,983	443	3,866	429	7,721
2020 - 2024	2,983	219	3,965	231	7,398
2025 - 2027	1,048	27	1,650	53	2,778
Total	<u>\$ 10,469</u>	<u>\$ 1,367</u>	<u>\$ 13,311</u>	<u>\$ 1,342</u>	<u>\$ 26,489</u>

The following table shows the long-term liability activities during the year ended December 31, 2009.

**Table 9-9**

**CHANGES IN LONG-TERM LIABILITIES <sup>a</sup>**

*(In Thousands)*

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
<b>GOVERNMENTAL ACTIVITIES</b>					
Bonds Payable					
General Obligation Bonds	\$ 721,160	\$ 99,860	\$ 49,955	\$ 771,065	\$ 56,500
Add (Deduct) Deferred Amounts					
Issuance Premiums	22,224	8,316	2,916	27,624	-
Issuance Discounts	(2)	-	-	(2)	-
On Refunding	(1,442)	-	(1,442)	-	-
Special Assessment Bonds with Governmental Commitment <sup>b</sup>	19,205	-	1,500	17,705	660
Total Bonds Payable	<u>761,145</u>	<u>108,176</u>	<u>52,929</u>	<u>816,392</u>	<u>57,160</u>
Notes and Contracts					
Capital Leases	-	20	2	18	4
Other Notes and Contracts	19,738	1,250	2,134	18,854	2,122
Total Notes and Contracts	<u>19,738</u>	<u>1,270</u>	<u>2,136</u>	<u>18,872</u>	<u>2,126</u>
Compensated Absences	73,485	78,635	70,974	81,146	17,737
Claims Payable					
Workers' Compensation	19,552	10,010	7,288	22,274	7,340
General Liability	63,010	10,406	14,363	59,053	18,668
Health Care Claims	3,159	3,647	3,158	3,648	3,647
Total Claims Payable <sup>c</sup>	<u>85,721</u>	<u>24,063</u>	<u>24,809</u>	<u>84,975</u>	<u>29,655</u>
Arbitrage Rebate Liability	445	-	240	205	-
Total Long-Term Liabilities from Governmental Activities	<u>\$ 940,534</u>	<u>\$ 212,144</u>	<u>\$ 151,088</u>	<u>\$ 1,001,590</u>	<u>\$ 106,678</u>
<b>BUSINESS-TYPE ACTIVITIES</b>					
Bonds Payable					
General Obligation Bonds	\$ 64,524	\$ -	\$ 1,205	\$ 63,319	\$ 1,226
Revenue Bonds	3,043,895	139,215	302,535	2,880,575	121,425
Add (Deduct) Deferred Amounts					
Issuance Premiums	75,723	1,004	5,933	70,794	-
Issuance Discounts	(1,387)	(689)	(405)	(1,671)	-
On Refunding	(54,777)	(762)	(6,339)	(49,200)	-
Total Bonds Payable	<u>3,127,978</u>	<u>138,768</u>	<u>302,929</u>	<u>2,963,817</u>	<u>122,651</u>
Accrued Interest - Deferred Interest Bonds	4,257	538	790	4,005	924
Notes and Contracts - Other	20,240	4,730	1,109	23,861	1,476
Compensated Absences	25,892	31,742	29,633	28,001	2,501
Claims Payable					
Workers' Compensation	7,458	4,102	2,970	8,590	2,831
General Liability	24,239	4,857	8,044	21,052	6,655
Environmental Liability <sup>d</sup>					
General Contamination Cleanup	34,701	23,582	11,410	46,873	12,373
Total Claims Payable <sup>c</sup>	<u>66,398</u>	<u>32,541</u>	<u>22,424</u>	<u>76,515</u>	<u>21,859</u>
Muckleshoot Liability	495	-	-	495	-
Habitat Conservation Program Liability	9,607	677	861	9,423	5,759
Landfill Closure and Postclosure Costs	26,040	1,337	2,117	25,260	1,338
Total Long-Term Liabilities from Business-Type Activities	<u>\$ 3,280,907</u>	<u>\$ 210,333</u>	<u>\$ 359,863</u>	<u>\$ 3,131,377</u>	<u>\$ 156,508</u>

<sup>a</sup> Some amounts may have rounding differences with the Statements of Net Assets.

<sup>b</sup> The Special Assessment Bonds carry neither premiums nor discounts.

<sup>c</sup> 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.

<sup>d</sup> See Note 10, Environmental Liabilities for a detailed discussion.

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 \$3.8 million and \$1.5 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 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 two years, proceeds are kept with the City as restricted until the refunded bonds are called, usually within 90 days. The following paragraphs discuss the advance and current refundings that occurred in 2009.

The refunding portion of the \$99.9 million LTGO Improvement and Refunding Bonds, 2009, issued by the City on March 25, 2009, in the amount of \$4.4 million to fully refund the \$4.6 million 1996 Pike Place Market Special Obligation Bonds under an agreement with Pike Place Market Preservation and Development Authority (PPMDA). The aggregate total debt service on the refunded bonds requires a cash flow of \$6.6 million, including \$1.9 million in interest. The aggregate total debt service on the refunding bonds requires a cash flow of \$5.9 million including interest of \$1.5 million. The difference between the cash flows required to service the old and the new debt and complete the refunding totaled approximately \$770,137, and the aggregate economic gain amounted to approximately \$588,818 at net present value. Since the City was not an issuer of the \$4.6 million 1996 Pike Place Market Special Obligation Bonds, this is excluded from Table 9-10.

The Drainage and Wastewater Revenue and Refunding Bonds, 2009, Series B, issued on December 9, 2009, in the amount of \$36.7 million refunded \$18.4 million of the \$24.2 million 1998 Drainage and Wastewater Revenue Parity Bonds. The aggregate total debt service on the refunded bonds requires a cash flow of \$28.4 million including interest of \$10.0 million. The aggregate total debt service on the refunding bonds requires a cash flow of \$25.1 million including interest of \$6.9 million. The difference between the cash flows required to service the old and the new debt and complete the refunding totaled \$3.3 million, and the aggregate economic gain amounted to \$2.6 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 2009	Defeased Outstanding December 31
<b>GENERAL OBLIGATION BONDS</b>							
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	\$ 325	\$ 295
Various Purpose - Civic Center, Galer St, 1999, Series B, Refunded 3/23/05	10/19/99	12/01/00-28	5.677	85,500	49,865	49,865	-
Improvement (Various) and Refunding, 2002, Defeased 9/26/05	01/30/02	07/01/02-32	4.778	125,510	8,470	2,295	6,175
Various Purpose and Refunding, 2002, Series B Defeased 12/17/08	09/26/02	10/01/03-14	3.127	64,560	24,730	3,760	20,970
Various Purpose and Refunding, 2003, Defeased 4/4/07	02/26/03	08/01/04-23	3.469	60,855	2,715	405	2,310
Various Purpose and Refunding, 2003, Defeased 8/30/07					3,180	295	2,885
Various Purpose and Refunding, 2003, Defeased 12/17/08					6,480	940	5,540
Various Purpose and Refunding, 2005, Defeased 12/17/08	03/23/05	08/01/05-28	4.167	129,540	775	380	395
Unlimited Tax (Voted)							
Library Facilities, 1999, Series A, Refunded 05/02/07	07/01/99	12/01/00-18	5.135	100,000	59,205	59,205	-
<b>REVENUE BONDS</b>							
Municipal Light and Power							
1990 Subordinate Lien	11/27/90	11/01/96-15	0.40-5.25	25,000	12,600	12,600	-
1991 Subordinate Lien, Series A	11/20/91	05/01/11-16	0.40-6.00	25,000	25,000	25,000	-
1991 Subordinate Lien, Series B	11/20/91	05/01/98-11	0.40-6.00	20,000	7,000	7,000	-
1993 Subordinate Lien	11/17/93	11/01/99-18	0.40-3.42	22,000	12,800	12,800	-
1996 Subordinate Lien	12/11/96	06/01/02-21	0.55-5.75	19,800	14,575	14,575	-
1999 Parity	10/27/99	10/01/06-23	5.960	158,000	138,250	138,250	-
Municipal Water							
1995 Adjustable Rate	09/20/95	09/01/00-25	0.500	45,000	34,300	34,300	-
1999 Parity	06/23/99	03/01/00-29	5.373	100,000	81,000	81,000	-
1999 Parity, Series B	10/23/99	07/01/01-29	5.912	110,000	91,360	91,360	-
2002 Adjustable Rate, Series A	05/15/02	05/15/03-32	0.780	32,500	28,700	28,700	-
2002 Adjustable Rate, Series B	05/15/02	05/15/03-32	0.850	32,500	30,000	30,000	-
Drainage and Wastewater							
1998 Parity	06/11/98	11/01/10-27	5.122	24,170	18,395	-	18,395
1999 Parity	09/28/99	11/01/00-29	5.720	55,000	45,205	45,205	-
Solid Waste							
1999 Parity, Series B	10/26/99	11/01/00-19	5.732	5,500	3,415	3,415	-
Total Refunded/Defeased Bonds				<u>\$ 1,284,145</u>	<u>\$ 698,640</u>	<u>\$ 641,675</u>	<u>\$ 56,965</u>

**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 approximately \$26,000 arbitrage rebate in 2008 but paid no rebate in 2009 on the City's general obligation bonds. The City paid no rebate in 2008 and in 2009, for the Municipal Light and Power, Water System, Drainage and Wastewater, and Solid Waste revenue bonds. There is approximately \$459,000 estimated arbitrage liability recognized at the end of 2009 on the general obligation bonds. There is no estimated arbitrage liability at the end of 2009 on the revenue bonds.

## (10) ENVIRONMENTAL LIABILITIES

Effective January 1, 2008, the City implemented GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* to account for 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 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 as of the date of this note. For some specific early action sites, the City and other PRPs have voluntarily agreed to initiate cleanup under AOC. 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 City filed suit in King County Superior Court against the Boeing Company to require Boeing to pay its fair share of costs. The case has been settled as of the date of this note.
- North Boeing Field/Georgetown Steam Plant. The City, King County, and Boeing have signed an Administrative Order by the DOE requiring them to investigate and possibly remove contamination in an area that encompasses North Boeing Field, the Georgetown Steam Plant, and the King County Airport. The three potentially liable parties have agreed to share costs equally on an interim basis for the current investigative phase. Ultimate responsibility for cleanup costs is also the subject of the City's lawsuit against the Boeing Company noted above, excluding Georgetown Steam Plant for which the City Light will bear the entire costs for cleanup.
- 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.
- 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.
- 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.
- 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 RI/FS are substantially complete as of the date of this note and the City is working with the DOE to assess the feasibility of cleanup options for use in the ultimate remedial actions that are required. Work is expected to begin in 2010.
- Maple Leaf Reservoir. In 2009, contaminated soils were discovered during the reconstruction of the Maple Leaf Reservoir. The City entered into the DOE's Voluntary Cleanup program. The cleanup of Maple Leaf Reservoir's lead-contaminated soils occurred under the supervision of the DOE and was completed in 2009. No liability was recorded because the cleanup work was essentially complete. The City expects to receive a "No Further Action" determination from DOE.

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 increases or reductions, technology, 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 \$6.1 million and \$21.4 million, at December 31, 2009 and 2008, respectively.

The changes in the provision for environmental liability, net of recovery (in thousands) at December 31, 2009 and 2008 are as follows:

	<u>2009</u>	<u>2008</u>
Environmental Liability – Beginning of Year	\$ 34,701	\$ 27,234
Payments or Amortization	(8,911)	(7,407)
Incurred Environmental Liability	<u>21,083</u>	<u>14,874</u>
Environmental Liability – End of Year	<u>\$ 46,873</u>	<u>\$ 34,701</u>

The provision for environmental liability (in thousands) included in current and noncurrent liability at December 31, 2009 and 2008, is as follows:

	<u>2009</u>	<u>2008</u>
Claims Payable, Current	\$ 12,373	\$ 10,431
Claims Payable, Noncurrent	<u>34,500</u>	<u>24,270</u>
Total	<u>\$ 46,873</u>	<u>\$ 34,701</u>

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**

	<u>Employees’ Retirement</u>	<u>Firemen’s Pension</u>	<u>Police Relief and Pension</u>	<u>LEOFF Plan 1</u>	<u>LEOFF Plan 2</u>
Actuarial Valuation Date	1/1/2010	1/1/2010	1/1/2010	6/30/2008	6/30/2008
Actuarial Cost Method	Entry Age	Entry Age	Entry Age	Entry Age	Aggregate <sup>a</sup>
Asset Valuation Method	Fair Value	Fair Value	Fair Value	8-Year Graded Smoothed Fair Value <sup>b</sup>	8-Year Graded Smoothed Fair Value <sup>b</sup>
Amortization					
Method	Level %	Level \$	Level \$	Level %/Level \$ <sup>c</sup>	N/A
Period	30.0 years	27.0 years	27.0 years	14.5 years	N/A
Approach	Open	Closed	Closed	Closed	N/A
Actuarial Assumptions					
Inflation Rate (CPI)	3.50%	2.50% <sup>d</sup>	2.50% <sup>d</sup>	3.50%	3.50%
Investment Rate of Return	7.75%	4.00%	4.00%	8.00%	8.00%
Projected Salary Increases - General	4.00%	3.50% <sup>d</sup>	3.50% <sup>d</sup>	4.00%	4.50%
Projected Salary Increases - Step Merit	N/A	N/A	N/A	Varies <sup>e</sup>	Varies <sup>e</sup>
Postretirement Benefit Increases	1.50%	Varies <sup>f</sup>	Varies <sup>f</sup>	CPI Increase	CPI Increase (Maximum 3%)

<sup>a</sup> The aggregate cost method does not identify or separately amortize unfunded actuarial liabilities.

<sup>b</sup> 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.

<sup>c</sup> Funding is Level %; GASB is Level \$.

<sup>d</sup> Long-term assumption is listed. Specific short-term assumptions are used through 2010.

<sup>e</sup> For specific information, please refer to the 2008 Actuarial Valuation Report issued by the Washington Office of the State Actuary.

<sup>f</sup> 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, 2009:

Retirees and Beneficiaries Receiving Benefits	5,304
Terminated Plan Members Entitled To But Not Yet Receiving Benefits, Vested	1,706
Terminated Plan Members Who Have Restored Their Contributions Due to the Provisions of the Portability Statutes and May Be Eligible for Future Benefits, Vested	300
Active Plan Members, Vested and Non-vested	9,071

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 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 a stand-alone financial report. A copy of the report is available from the Seattle City Employees' Retirement System at 720 Third Avenue, Suite 1000, Seattle, WA 98104; by telephone at 206-386-1293; or by accessing the website [http://www.seattle.gov/retirement/annual\\_report.htm](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 security lending transactions as discussed in Note 3, are reported at fair market value. The fair market 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 market value of venture capital and real estate equities has been determined by independent appraisers. Securities and security lending transactions are reflected in the financial statements on a trade-date basis. Investment policies as set by the Retirement Board require that investments in any one corporation or organization may not exceed 5 percent of net assets available for benefits.

### 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 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 are currently 8.03 percent for members and 8.03 percent for the employer. Plan member and employer contributions for 2009 are \$46,468,189 and \$46,504,472, respectively. There are no long-term contracts for contributions outstanding and no legally required reserves.

Actuarial data for SCERS are determined through biennial actuarial valuations. The latest valuation date is January 1, 2010, and reflects measurements through the year ending 2009. Based on this valuation, the actuarial value of plan net assets available for benefits was \$1.645 billion, and the actuarial accrued liability was \$2.654 billion. The unfunded actuarial accrued liability (UAAL) was \$1.008 billion and the funding ratio was 62.0 percent.

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 2007-2009; actuarial valuations were not performed for the years 2006 and 2008.

Fiscal Year Ending December 31	Annual Pension Cost (APC)	Total Employer Contribution	Percentage of APC Contributed	Net Pension Obligation (NPO)
2007	\$ 40,115	\$ 40,300	100 %	\$ (78,433)
2008	46,245	45,961	99	(78,149)
2009	46,933	46,650	99	(77,866)

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
2009	\$46,650	\$ (6,056)	\$ 6,339	\$ 46,933	\$46,650	\$ 567	\$ (78,433)	\$ (77,866)

Seattle City Employees' Retirement System's net pension asset decreased from \$78.4 million to \$77.8 million, a decrease of \$567 thousand 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, 2009  
(In Thousands)**

	2009 <sup>a</sup>	2008 <sup>a</sup>
Total Normal Cost Rate	13.32 %	13.32 %
Employee Contribution Rate	8.03	8.03
Employer Normal Cost Rate	5.29	5.29
Total Employer Contribution Rate	8.03 %	8.03 %
Amortization Payment Rate	2.74	2.74
Amortization Period (Year)	16.20	16.20
GASB 27 Amortization Rate	2.74	2.74
Total Annual Required Contribution (ARC) Rate <sup>b</sup>	8.03	8.03
Covered Employee Payroll <sup>c</sup>	\$ 580,948	\$ 572,367
ARC	\$ 46,650	\$ 45,961
Interest on Net Pension Obligation (NPO)	(6,056)	(6,078)
Adjustment to ARC	6,339	6,362
Annual Pension Cost (APC)	\$ 46,933	\$ 46,245
Employer Contribution	\$ 46,650	\$ 45,961
Change in NPO	\$ 283	\$ 284
NPO at Beginning of Year	(78,149)	(78,433)
NPO at End of Year	\$ (77,866)	\$ (78,149)

<sup>a</sup> Actuarial studies are done every two years. No study was done for year 2008.

<sup>b</sup> 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.

<sup>c</sup> 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's for benefit.

Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as Percentage of Covered Payroll
\$1,645,300	\$2,653,800	\$1,008,500	62.0%	\$580,948	173.6%

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 8.03 percent to 10.03 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 954 fire and 997 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 \$9.1 million in 2009 and \$8.5 million in 2008; and for Police Relief and Pension, \$11.9 million in 2009 and \$11.3 million in 2008.

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, 2009:

	Firemen's Pension	Police Relief and Pension
Retirees and Beneficiaries Receiving Benefits Terminated Plan Members Entitled To But Not Yet Receiving Benefits	851	869
Active Plan Members, Vested	-	-
Active Plan Members, Nonvested	53	42
	-	-

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 gets 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, 2010, 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	2007	\$ 9,533	91 %	\$ 900
	2008	10,662	141	(3,465)
	2009	8,320	137	(6,567)
Police Relief and Pension Fund	2007	7,782	76	1,897
	2008	9,224	105	1,398
	2009	8,343	95	1,803

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 AALs for benefits.

	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	\$13,273	\$143,499	\$130,226	9.0%	N/A	N/A
Police Relief and Pension Fund	280	129,393	129,113	0.0	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, 2009. 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, 2009, based on the actuarial valuation as of January 1, 2010, was \$143.5 million for Firemen's Pension and \$129.4 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 \$6.6 million net pension asset at December 31, 2009. The net pension obligation of the Police Relief and Pension Fund is a \$1.8 million net pension liability at December 31, 2009.

**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, 2009  
(In Thousands)**

	Firemen's Pension			Police Relief and Pension		
	2009	2008	2007	2009	2008	2007
Annual Required Contribution (ARC)						
Annual Normal Cost - Beginning of Year	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Amortization of UAAL - Beginning of Year	7,909	10,153	9,068	8,005	8,797	7,403
Interest to End of Year	356	520	465	360	451	379
ARC at End of Year	8,265	10,673	9,533	8,365	9,248	7,782
Interest on NPO	(156)	46	-	63	97	-
Adjustment to ARC	211	(57)	-	(85)	(121)	-
Annual Pension Cost (APC)	8,320	10,662	9,533	8,343	9,224	7,782
Employer Contribution	11,421	15,027	8,633	7,938	9,723	5,885
Change in NPO	(3,101)	(4,365)	900	405	(499)	1,897
NPO at Beginning of Year	(3,465)	900	-	1,398	1,897	-
NPO at End of Year	\$ (6,566)	\$ (3,465)	\$ 900	\$ 1,803	\$ 1,398	\$ 1,897

Following are the Firemen's Pension and the Police Relief and Pension financial statements for fiscal year ending December 31, 2009.

Table 11-4

**STATEMENT OF NET ASSETS**  
**FIREMEN'S PENSION AND POLICE RELIEF AND PENSION FUNDS**  
**December 31, 2009**  
*(In Thousands)*

	<u>Firemen's Pension</u>	<u>Police Relief and Pension</u>	<u>2009</u>	<u>2008</u>
<b>ASSETS</b>				
Cash and Equity in Pooled Investments	\$ 14,192	\$ 2,049	\$ 16,241	\$ 14,112
Investments at Fair Value				
U.S. Government Obligations	-	-	-	464
Receivables				
Employer - Other	9	-	9	22
Total Assets	14,201	2,049	16,250	14,598
<b>LIABILITIES</b>				
Refunds Payable and Other	927	1,770	2,697	2,677
Total Liabilities	927	1,770	2,697	2,677
Net Assets Held in Trust for Pension Benefits	<u>\$ 13,274</u>	<u>\$ 279</u>	<u>\$ 13,553</u>	<u>\$ 11,921</u>

Table 11-5

**STATEMENT OF CHANGES IN**  
**PLAN NET ASSETS**  
**FIREMEN'S PENSION AND POLICE RELIEF AND PENSION FUNDS**  
**For Year Ended December 31, 2009**  
*(In Thousands)*

	<u>Defined Benefit</u>		<u>Postemployment Healthcare</u>		<u>2009</u>	<u>2008</u>
	<u>Firemen's Pension</u>	<u>Police Relief and Pension</u>	<u>Firemen's Pension</u>	<u>Police Relief and Pension</u>		
<b>ADDITIONS</b>						
Contributions						
Employer	\$ 11,980	\$ 8,473	\$ 9,151	\$ 11,892	\$ 41,496	\$ 44,482
Investment Income						
From Investment Activities						
Net Appreciation (Depreciation) in						
Fair Value of Investments	(21)	-	-	-	(21)	38
Interest	165	-	-	-	165	357
Total Net Investment Income	144	-	-	-	144	395
Total Additions	12,124	8,473	9,151	11,892	41,640	44,877
<b>DEDUCTIONS</b>						
Benefits	9,790	8,082	9,151	11,892	38,915	41,792
Administrative Expense	558	535	-	-	1,093	974
Total Deductions	10,348	8,617	9,151	11,892	40,008	42,766
Change in Net Assets	1,776	(144)	-	-	1,632	2,111
Net Assets - Beginning of Year	11,498	423	-	-	11,921	9,810
Net Assets - End of Year	<u>\$ 13,274</u>	<u>\$ 279</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,553</u>	<u>\$ 11,921</u>

# 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 2009 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:

<u>Term of Service</u>	<u>Percent of FAS</u>
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 22, 2007:

- LEOFF Plan 2 members may purchase up to 24 consecutive months of service credit (up from 12 months) for each period of temporary duty disability. (SHB 1261, Chapter 40, Laws of 2007).
- The portability of retirement benefits is changed by: (1) adding LEOFF Plan 2 to those plans that are able to combine service under portability for indexing purposes, (2) allowing compensation that is reportable in all dual member systems, except in the Washington State Patrol Retirement System (WSPRS), to be included in the calculation of all dual members' benefits, and (3) removing the "maximum benefit rule" for dual members who have less than 15 years of service in one capped plan and service in one uncapped plan. (SHB 1264, Chapter 207, Laws 2007).
- The \$150,000 duty-related death benefit is extended to include death from occupational disease or duty-related illness. (SHB 1266, Chapter 487, Laws of 2007).
- The terms of the employer representatives on the LEOFF Plan 2 Board are now staggered so that no more than one position expires in the same year. Legislative terms are now two years and run from January through December. After January 1, 2008, one member of the Board must be a retired LEOFF Plan 2 participant. (SHB 1679, Chapter 303, Laws of 2007).
- An exception is made to the five-year waiting period required before transferring prior Washington State Public Employees' Retirement System (PERS) service credit for those Emergency Medical Technicians who joined LEOFF Plan 2 as a result of legislation passed in 2003 and 2005 and who retire due to disability, or die. (HB 1680, Chapter 304, Laws of 2007).

Effective June 12, 2008:

- Beginning in 2011, when state General Fund revenues increase by at least five percent over the prior biennium's revenues, the State Treasurer will transfer, subject to legislative appropriation, specific amounts into a Local Public Safety Enhancement Account. Half of this transfer will be proportionately distributed to all jurisdictions with LEOFF Plan 2 members. The other half will be transferred to a LEOFF Retirement System Benefits Improvement Account to fund benefit enhancements for LEOFF Plan 2 members.
- Active LEOFF members can choose whether or not to obtain and pay for Medicare coverage through a "divided referendum" process.

Effective July 26, 2009:

- House Bill 1548 provides up to five years of no-cost service credit for members who had their public employment interrupted by military service that occurred during a period of war (as defined in statute). Members who previously purchased military service credit are eligible to receive a refund of their contributions. This bill applies to members of PERS Plan 2 and 3, SERS Plan 2 and 3, TRS Plan 2 and 3, LEOFF Plan 2, WSPRS Plan 2 and PSERS.
- 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 PERS, RRS, SERS, LEOFF, WSPRS and PSERS.
- House Bill 1678 reclassified pre-2001 duty-related retirements as occupational disability retirements. The reclassification allows affected retirees to receive favorable tax treatment on pension benefits they receive after the effective date of the bill.
- House Bill 1616 gives domestic partners of LEOFF Plan 2 members the same pension rights and options as spouses.

Effective March 18, 2010:

- Substitute House Bill 1953 allows Department of Fish and Wildlife Enforcement Officers to transfer service credit earned as an enforcement officer in PERS Plan 2 or 3 to LEOFF Plan 2. Member, employer and state contribution rates

will increase to the extent necessary to fund the difference in the value of the service credit transferred between the plans and the member contributions transferred in LEOFF Plan 2.

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, 2009. LEOFF pension benefit provisions have been established by RCW 41.26.

There are 76 participating employers in LEOFF Plan 1 and 375 participating employers in Plan 2 as of June 30, 2009. Membership in LEOFF consisted of the following as of the latest actuarial valuation date of June 30, 2008:

	<u>Plan 1</u>	<u>Plan 2</u>
Retirees and Beneficiaries Receiving Benefits	8,134	1,134
Terminated Members Entitled To But Not Yet Receiving Benefits	1	649
Active Plan Members, Vested	421	12,700
Active Plan Members, Nonvested	<u>1</u>	<u>3,926</u>
Total	<u>8,557</u>	<u>18,409</u>

All law enforcement officers and fire fighters of the City of Seattle participate in LEOFF. Current active members (vested and non-vested) are 98 under Plan 1 and 2,270 under Plan 2.

DRS prepares a stand-alone 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 have no investments of any commercial or industrial organization whose market value exceeds 5 percent or more of each plan's net assets.

## 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 2009 are as follows:

	LEOFF Actual Contribution Rates	
	Plan 1	Plan 2
Employer (includes an administrative expense rate of 0.16 percent)	0.16 %	5.46 %
Employee	-	8.83
State of Washington Contributions	-	3.53

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 2009 the state contributed \$51.1 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:

Year	Plan 1		Plan 2	
	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed
2007	\$ -	N/A	\$ 94.9	101 %
2008	0.1	N/A	102.1	117
2009	-	N/A	105.3	122

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
2007	\$ 18	\$ 9,381
2008	15	10,649
2009	15	11,520

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, 2009	June 30, 2008
Plan 1	\$ 56,053	\$ 62,457
Plan 2	1,542,388	1,379,022

**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, 2009	June 30, 2008
Plan 1	\$ 4,298,667	\$ 5,972,700
Plan 2	2,766,301	3,936,384

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, 2008; this valuation is performed on alternate years. 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, 2010.

## 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. Following is the funded status (in thousands) for each of the plans for the last two actuarial studies:

	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	1/1/2006	-	\$84,338	\$84,338	-	N/A	N/A
	1/1/2008	-	78,816	78,816	-	N/A	N/A
Firemen's Pension (LEOFF1)	1/1/2009	-	221,915	221,915	-	N/A	N/A
	1/1/2010	-	242,493	242,493	-	N/A	N/A
Police Relief and Pension (LEOFF1)	1/1/2009	-	240,113	240,113	-	N/A	N/A
	1/1/2010	-	263,350	263,350	-	N/A	N/A

The 2009 funded status for Police Relief and Pension (LEOFF1) was adjusted upward 1.9 percent due to a change in assumption for the long-term-care model.

## 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	1/1/2008	1/1/2010	1/1/2010
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	27 years	27 years
Records and Data	N/A	Supplied by the City	Supplied by the City
Replacement of Terminated Employees	N/A	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	4.826%	4.0%	4.0%
Medical Inflation		8.3%, decreasing by 0.5% each year until it reaches an ultimate rate of 4.9%	8.3%, decreasing by 0.5% each year until it reaches an ultimate rate of 4.9%
Traditional and Preventive Plans	10.5%, decreasing by 0.5% each year for 11 years until it reaches an ultimate rate of 5.0%		
Group Health Standard and Deductible Plans	10.9% decreasing by 0.4 % in 2009 and 0.5% for 11 succeeding years until it reaches an ultimate rate of 5.0%		
Long-Term Care Inflation Rate	N/A	4.5%	4.5%
Participation/Service Retirement	40% of actives who retire are assumed to participate. This assumption was developed by comparing the count of pre-65 retirees currently covered under the Plan with the count of pre-65 retirees shown in the 2006 valuation report prepared by Mellon for the City of Seattle Employees' Retirement System.	All actives are assumed to retire at the valuation date.	All actives are assumed to retire at the valuation date.
Mortality	Mortality assumptions for 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 employees, basis is RP 2000 Mortality Table (Combined Healthy). For disabled members, basis is RP 2000 Mortality Table (Combined Healthy) with ages set forward 2 years and a 0.005 minimum.	For active and service-retired employees, basis is RP 2000 Mortality Table (Combined Healthy). For disabled members, basis is RP 2000 Mortality Table (Combined Healthy) with ages set forward 2 years and a 0.005 minimum.
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 11-6

## ANNUAL OPEB COST AND NET OPEB OBLIGATION

	Healthcare Blended Premium Subsidy	Firemen's Pension (LEOFF1)	Police Relief and Pension (LEOFF1)	Total
Annual Required Contribution	\$ 8,751,992	\$ 14,096,196	\$ 15,252,203	\$ 38,100,391
Interest on Net OPEB Obligation	384,860	285,519	220,489	890,868
Adjustment to Annual Required Contribution	<u>(508,523)</u>	<u>(385,675)</u>	<u>(297,834)</u>	<u>(1,192,032)</u>
Annual OPEB Cost (Expense)	8,628,329	13,996,040	15,174,858	37,799,227
Expected Contribution (Employer-Paid Benefits)	<u>2,250,276</u>	<u>9,150,904</u>	<u>11,891,608</u>	<u>23,292,788</u>
Increase in Net OPEB Obligation	6,378,053	4,845,136	3,283,250	14,506,439
Net OPEB Obligation – Beginning of Year	<u>7,974,722</u>	<u>6,344,860</u>	<u>4,899,757</u>	<u>19,219,339</u>
Net OPEB Obligation – End of Year	<u>\$ 14,352,775</u>	<u>\$ 11,189,996</u>	<u>\$ 8,183,007</u>	<u>\$ 33,725,778</u>

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, 2008, for Healthcare Blended Premium Subsidy and January 1, 2010, for Firemen's Pension (LEOFF1) and Police Relief and Pension (LEOFF1) is displayed below for the latest two years.

	Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
Healthcare Blended Premium Subsidy	12/31/2007	\$ 9,328,990	14.5%	\$ 7,974,722
	12/31/2008	8,628,329	6.5	14,352,775
Firemen's Pension (LEOFF1)	12/31/2008	13,250,373	64.0	6,344,860
	12/31/2009	13,996,040	65.0	11,189,996
Police Relief and Pension (LEOFF1)	12/31/2008	14,002,767	81.0	4,899,757
	12/31/2009	15,174,858	78.0	8,183,007

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: 100.5% to 166.3% for male retirees, 74.0% to 122.5% for female retirees, 141.8% to 234.7% for male spouses, and 104.5% to 172.9% for female spouses.		
Preventive Plan	Morbidity rate ranges assumed for ages 50 through 64 are as follows: 105.10% to 173.9% for male retirees, 77.4% to 128.1% for female retirees, 139.9% to 231.6% for male spouses, and 103.1% to 170.6% for female spouses.  For these 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: 113.3% to 187.5% for males and 83.4% to 138.1% for females.		
Other Considerations	Active employees with current spouse and/or dependent coverage are assumed to elect the same plan and coverage.	N/A	N/A

**(12) COMPONENT UNIT**

**SEATTLE PUBLIC LIBRARY FOUNDATION**

The Seattle Public Library 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 of Seattle is not financially accountable for the Seattle Public Library Foundation. The Foundation is considered a 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; (3) the economic resources received or held by the Foundation are significant to the Seattle Public Library.

The Seattle Public Library Foundation reports on a fiscal year-end consistent with the City of Seattle, the primary government. The Foundation issues its own audited financial statements. Please note that the unaudited figures presented for 2008 last year were revised post audit. Total Net Assets remained unchanged, but the components were reclassified between the Invested in Capital Assets category to Restricted. To obtain complete audited statements for all years, please contact: Seattle Public Library Foundation, 1000 Fourth Avenue, Seattle, WA 98104, phone 206-386-4130.

Table 12-1

**CONDENSED STATEMENT OF NET ASSETS**  
**THE SEATTLE PUBLIC LIBRARY FOUNDATION**  
**December 31, 2009**  
*(In Thousands)*

	<u>2009</u>	<u>2008</u>
<b>ASSETS</b>		
Cash, Investments, and Other Assets	\$ 47,563	\$ 42,653
Capital Assets, Net	<u>1</u>	<u>7</u>
Total Assets	47,564	42,660
<b>LIABILITIES</b>		
Current Liabilities	<u>814</u>	<u>1,014</u>
Total Liabilities	814	1,014
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	1	-
Restricted	34,594	30,433
Unrestricted	<u>12,155</u>	<u>11,213</u>
Total Net Assets	<u>\$ 46,750</u>	<u>\$ 41,646</u>

Table 12-2

**CONDENSED STATEMENT OF ACTIVITIES**  
**THE SEATTLE PUBLIC LIBRARY FOUNDATION**  
**For Year Ended December 31, 2009**  
*(In Thousands)*

	<u>2009</u>	<u>2008</u>
<b>PROGRAM REVENUES</b>		
Contributions/Endowment Gain	\$ 2,353	\$ 3,342
<b>GENERAL REVENUES</b>		
Investment Income (Loss)	<u>6,565</u>	<u>(10,485)</u>
Total Program Support and Revenues (Loss)	8,918	(7,143)
<b>EXPENSES</b>		
Support to Seattle Public Library	3,081	4,731
Management and General	395	380
Fundraising	<u>338</u>	<u>392</u>
Total Expenses	3,814	5,503
<b>DIVESTED ACTIVITIES</b>		
Transfer of Net Assets to Washington Talking Book & Braille Library	<u>-</u>	<u>(1,964)</u>
Total Divested Activities	<u>-</u>	<u>(1,964)</u>
Change in Net Assets	5,104	(14,610)
<b>NET ASSETS</b>		
Net Assets - Beginning of Year	<u>41,646</u>	<u>56,256</u>
Net Assets - End of Year	<u>\$ 46,750</u>	<u>\$ 41,646</u>

## **(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 (CEOs) 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, 2009, 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. For the year 2009, WDC paid \$1.5 million to the City of Seattle. Of this amount, \$0.9 million was attributable to the American Recovery and Reinvestment Act (ARRA) of 2009 - Summer Youth Workforce Investment Act Program.

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 their 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 2009-2010 Capital Improvement Program (CIP) which functions as a capital financing plan totaling \$4.3 billion for the years 2009-2014. The adopted CIP for 2009 was \$778.9 million, consisting of \$453.8 million for City-owned utilities and \$325.1 million for nonutility departments. The utility allocations are: \$232.5 million for City Light, \$110.5 million for Water, \$73.5 million for Drainage and Wastewater, \$24.4 million for Solid Waste, and \$12.9 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)

	<u>2009</u>	<u>2008</u>
Bonneville Power Administration Block	237.6	239.0
Bonneville Power Administration Slice	379.4	412.1
Lucky Peak	36.9	35.4
British Columbia - High Ross Agreement	35.7	35.3
Renewable Energy - State Line Wind	40.2	49.2
Grant County Public Utility District	3.8	2.6
Grand Coulee Project Hydroelectric Authority	29.7	29.6
British Columbia - Boundary Encroachment	1.7	1.9
Renewable Energy - Other	1.8	2.2
Exchange Energy at fair value	14.0	17.1
Long-Term Purchased Power Booked Out	<u>(16.9)</u>	<u>(34.9)</u>
Total Long-Term Purchased Power	<u>763.9</u>	<u>789.5</u>

## Purchased and Wholesale Power

### *Bonneville Power Administration*

City Light (the Utility) purchases 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 expires September 30, 2011. The agreement provides 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 provides fixed amounts of power per month.

The Utility and BPA amended the Block agreement in 2006 to enable the Utility to participate in the BPA Flexible Priority Firm (PF) Program. Under the provisions of this program, which expired in 2009, the Block product was subject to a Flexible PF Charge on a power bill increasing the amount payable by the Utility for power service in a given month followed by reductions in the amount payable for power service in subsequent months until the charge was recovered. Participation in the program provided the Utility with a monthly discount on its Block bill whether or not the Flexible PF Charge was applied. In order to participate, the Utility was required to enter into an irrevocable standby letter of credit for \$16.5 million issued by the Bank of America with a term from October 1, 2006 through September 30, 2009. The Flexible PF Charge was not applied in 2009 or 2008.

The terms of the Slice product specify that the Utility will receive a fixed percentage (4.6676 percent) of the actual output of the Federal Columbia River Power System. The cost of Slice power is based on the Utility's same percentage (4.6676 percent) of the expected costs of the system and is subject to true-up adjustments based on actual costs with specified exceptions. Subsequent amendments to the contract provide that BPA will pay the Utility for qualified energy savings realized through specified programs and decrement Block purchases accordingly.

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 \$10.9 million and \$24.4 million in 2009 and 2008, respectively in interim payments and billing credits related to both the Block and Slice agreements.

In December 2008 the Utility entered into a new contract to purchase both Block and Slice energy from BPA for the period October 1, 2011, through September 30, 2028. The Block quantities, Slice percentage, and BPA rates were not finalized as of the end of 2009. Accordingly, certain estimates and assumptions were used in the calculations in the estimated future payments table below.

### ***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. To properly reflect its rights and obligations under this agreement, the Utility included as an asset and liability the outstanding principal of the project's debt, net of the balance in the project's reserve account. The project's debt matured and was paid in full in July 2008 and, accordingly, the asset and liability previously recorded were amortized to zero as of December 31, 2008.

### ***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 80 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 deferred and are being amortized to purchase power expense over 35 years through 2035.

### ***Energy Exchanges***

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 seven years' advance written notice by either party.

### ***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. Similar legislation is in effect or contemplated in other states. Long-term renewable purchase or exchange agreements were executed with the Sacramento Municipal Utility District in 2007 and Waste Management Renewable Energy, LLC in 2009. The agreement with the City of Redding executed in 2008 was terminated in 2009, and there were no renewable energy transactions with the City of Redding during 2009 and 2008.

### ***Fair Value of Exchange Energy***

Receivable and deferred balances at December 31, 2009 and 2008, were based on an income valuation technique that utilized Platts M2M Power Curves, Dow Jones U.S. Daily Electricity Price Indexes for settled deliveries, and interest rate forecasts from HIS Global Insight that are used to calculate discount rates. Risk was evaluated internally resulting in no valuation adjustments.

### ***Estimated Future Payments under Purchase Power and Transmission Contracts***

The Utility's estimated payments under its contracts with BPA, the Public Utility Districts (PUDs), irrigation districts, Lucky Peak Project, British Columbia – High Ross Agreement, PacifiCorp Power Marketing Inc. (now Iberdrola Renewables, Inc.), and PacifiCorp for wind energy and net integration and exchange services, and others, and for transmission with BPA, ColumbiaGrid, and others for the period from 2010 through 2065, undiscounted, are shown in the following table.

Table 14-2

**ESTIMATED FUTURE PAYMENTS UNDER  
PURCHASED POWER CONTRACTS AND TRANSMISSION CONTRACTS**  
*(In Thousands)*

<u>Year Ending December 31</u>	<u>Estimated Payments<sup>a</sup></u>
2010	\$ 270,278
2011	268,095
2012	261,809
2013	265,079
2014	272,072
2015 - 2019	1,459,270
2020 - 2024	1,449,418
2025 - 2029 <sup>b, c</sup>	952,107
2030 - 2034	54,798
2035 - 2039 <sup>d</sup>	44,170
2040 - 2044	3,358
2045 - 2065	14,937
Total	<u>\$ 5,315,391</u>

<sup>a</sup> 2010 to 2015 includes estimated REP recoveries from BPA.

<sup>b</sup> BPA transmission contract expires July 31, 2025.

<sup>c</sup> BPA new Block and Slice contract expires September 30, 2028.

<sup>d</sup> Lucky Peak contract expires September 30, 2038.

The effects of changes that could occur to transmission as a result of FERC's implementation of the Federal Power Act as amended August 8, 2005, are not known and are not reflected in the estimated future payments except for inclusion of costs associated with ColumbiaGrid. The Utility executed an agreement in January 2007 with ColumbiaGrid, a nonprofit membership corporation formed to improve the operational efficiency, reliability, and planned expansion of the Northwest transmission grid.

Payments under these long-term power contracts totaled \$200.7 million and \$195.6 million in 2009 and 2008, respectively. Payments under the transmission agreements amounted to \$37.9 million and \$39.9 million in 2009 and 2008, 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, 2009, to be \$70.0 million, of which \$61.6 million had been expended. Total South Fork Tolt license mitigation costs were estimated at \$1.3 million, of which \$0.8 million was expended through 2009. Capital improvement, other deferred costs, and operations and maintenance costs are included in the estimates related to the settlement agreements for both licenses.

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. 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.

### ***Application Process for New Boundary License***

The Utility's FERC license for the Boundary Project expires on September 30, 2011. The Utility filed an application for a new license with FERC on September 29, 2009. The Utility intends to submit a proposed settlement agreement to FERC by March 29, 2010. The proposed settlement seeks to preserve the Utility's operational flexibility at Boundary Dam while providing for natural resource protection, mitigation, and enhancement measures. While the Utility was preparing its initial license application, the Utility was also negotiating the proposed settlement with external parties, such as owners of other hydroelectric projects, Indian tribes, conservation groups, and other government agencies. When the Utility and the external parties agreed to the settlement, the Utility requested FERC to allow the settlement agreement to replace the initial September 2009 application as the Utility's application; FERC agreed to this request. Total application process costs are estimated at \$52.7 million, of which \$35.1 million had been expended and deferred as of December 31, 2009. A new license will require additional mitigation efforts for endangered species, including water quality standards, the full extent of which is not known at this time. Cost projections for new license requirements are not included in the forecast.

### ***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 City Light's Boundary, Skagit, 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, 2009 are estimated to be approximately \$4.1 million, and approximately \$0.7 million has been allocated for the program in the 2010 budget.

### ***Project Impact Payments***

Effective November 1999 the Utility committed to pay a total of \$11.6 million over ten years ending in 2008 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 combined impact compensation, including an annual inflation factor of 3.1 percent and retroactive payments, totaled \$1.4 million in 2008 to Pend Oreille County and \$0.9 million to Whatcom County in both 2009 and 2008.

The Utility is currently in negotiations on a new contract with Pend Oreille County. In a good faith act to Pend Oreille County, \$1.4 million was paid to the County for 2009.

## **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 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 \$100.6 million (in 2009 dollars) over a period of 50 years. Expenses are being funded from a combination of operating revenues and debt. The cost of HCP to SPU is \$62.9 million thru 2009. The remaining cost of \$37.7 million is comprised of a \$9.4 million liability and an estimate of \$28.3 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 \$160.8 million through the year 2014, and the cost beyond 2014 is not estimable. The total cost incurred as of December 31, 2009, was \$94.3 million. Seattle Public Utilities has \$36.5 million of authorized public works trust loans from Washington State Department of Commerce to fulfill its obligation to improve the security of the drinking water system. As of December 31, 2009, an amount of \$10.5 million was outstanding on the loans and \$9.1 million was authorized and available.

## ***Untreated Water Supply Contract***

The Seattle City Council authorized a contract with the City of North Bend to provide North Bend with untreated water for mitigation purposes. SPU executed the contract with North Bend on February 7, 2008. Under the contract SPU will supply water up to an annual average of 1.1 million gallons per day at the basic services rates until January 1, 2067.

## **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 2009 and 2008 payments to the Division were approximately \$109.9 million and \$98.0 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 2009 and 2008 were \$38.9 million and \$22.0 million, respectively. Commercial services paid under these contracts during 2009 and 2008 were \$24.2 million and \$17.6 million, respectively.

In 1990 the City signed a 38-year contract with Washington Waste Systems (WWS) for the disposal of nonrecyclable 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 \$14.7 million in 2009 and \$17.6 million in 2008 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. Total payments to CGC in 2009 and 2008 were \$2.3 million and \$1.8 million, respectively.

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 in 2009 under this contract was \$2.0 million.

### ***Landfill Closure and Postclosure Care***

At December 31, 2009 and 2008, 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.

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. Beginning June 2009 the self-insured retention was increased to \$6.5 million with a \$30.0 million excess insurance limit.

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 2009 to resolve litigation. No structured settlements were entered into by the City in 2009. No large liability settlements were received in 2009. No settlements made in 2009, 2008, or 2007 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 2009 on data as of year-end 2008 and for health care as of year-end 2009. IBNR undiscounted totaled \$48.6 million and \$52.1 million at December 31, 2009 and 2008, respectively. The \$3.5 million decrease in the IBNR amount in 2009 compared to 2008 was mainly due to the lower estimates of liabilities by \$14.2 million while the liability reserves decreased by \$11.4 million. Changes in the reserves and liability estimates for workers' compensation claims accounted for the remaining \$0.7 million change in IBNR.

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 2009 and \$0.2 million in 2008. 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 1.650 percent for 2009 and 3.905 percent for 2008, the City's average annual rates of return on investments. The total discounted liability at December 31, 2009, was \$114.6 million consisting of \$80.1 million for general liability, \$3.6 million for health care, and \$30.9 million for workers' compensation.

Table 15-1

**RECONCILIATION OF CHANGES IN  
AGGREGATE LIABILITIES FOR CLAIMS  
(In Thousands)**

	<u>General Liability</u>		<u>Health Care</u>		<u>Workers' Compensation</u>		<u>Total City</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
<b>UNDISCOUNTED</b>								
Balance - Beginning of Fiscal Year	\$ 98,220	\$ 77,139	\$ 3,281	\$ 3,424	\$ 30,811	\$ 28,949	\$ 132,312	\$ 109,512
Less Payments and Expenses During the Year	(22,298)	(26,017)	(82,006)	(69,836)	(14,158)	(11,582)	(118,462)	(107,435)
Plus Claims and Changes in Estimates	8,037	47,098	82,432	69,693	15,951	13,444	106,420	130,235
Balance - End of Fiscal Year	<u>\$ 83,959</u>	<u>\$ 98,220</u>	<u>\$ 3,707</u>	<u>\$ 3,281</u>	<u>\$ 32,604</u>	<u>\$ 30,811</u>	<u>\$ 120,270</u>	<u>\$ 132,312</u>
<b>UNDISCOUNTED BALANCE AT END OF FISCAL YEAR CONSISTS OF</b>								
Governmental Activities	\$ 61,893	\$ 70,932	\$ 3,707	\$ 3,281	\$ 23,530	\$ 22,303	\$ 89,130	\$ 96,516
Business-Type Activities	22,065	27,287	-	-	9,074	8,508	31,139	35,795
Fiduciary Activities	1	1	-	-	-	-	1	1
Balance - End of Fiscal Year	<u>\$ 83,959</u>	<u>\$ 98,220</u>	<u>\$ 3,707</u>	<u>\$ 3,281</u>	<u>\$ 32,604</u>	<u>\$ 30,811</u>	<u>\$ 120,270</u>	<u>\$ 132,312</u>
<b>DISCOUNTED/RECORDED BALANCE AT END OF FISCAL YEAR CONSISTS OF</b>								
Governmental Activities	\$ 59,053	\$ 63,011	\$ 3,648	\$ 3,158	\$ 22,274	\$ 19,552	\$ 84,975	\$ 85,721
Business-Type Activities	21,052	24,239	-	-	8,590	7,458	29,642	31,697
Fiduciary Activities	1	1	-	-	-	-	1	1
Balance - End of Fiscal Year	<u>\$ 80,106</u>	<u>\$ 87,251</u>	<u>\$ 3,648</u>	<u>\$ 3,158</u>	<u>\$ 30,864</u>	<u>\$ 27,010</u>	<u>\$ 114,618</u>	<u>\$ 117,419</u>

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 claims the contamination came from City Light equipment and that City Light is therefore liable for more than \$2.0 million that Boeing has spent and is still spending to investigate and remove contaminated material. City Light denies that its equipment was the source and considers its liability to be zero. However, whether or not City Light will ultimately be deemed liable is unknown.
- **Storage Tanks.** Seattle Public Utilities (SPU) anticipates future environmental cleanup costs related to lead-based paint and arsenic contamination surrounding several standing water tanks, as well as expected remediation efforts associated with underground fuel tank replacements. SPU's liability relating to City property remediation and to possible private claimants is indeterminate.
- **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, 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 have appealed the dismissal and also have 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 will be set in the fall of 2010. 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 May 2000 and June 2001. City Light's 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 on appeal from an adverse decision by FERC, 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. A discretionary review by the United States Supreme Court was sought by various sellers of energy. The United States Supreme Court denied discretionary review and the cases are now waiting for action by FERC.

- Joint Training Facility. In May 2005 the Army Corps of Engineers issued a stop-work order to the Fleets and Facilities Department regarding construction of the City's Joint Training Facility. The Corps contended that the City had violated the Federal Clean Water Act by filling a wetland without a permit. In 2006 the City and the Corps finalized a settlement agreement that required the City to perform mitigation on the Joint Training Facility site and also on a site adjacent to the Duwamish River. This matter is considered resolved after the City completed the wetland mitigation work required in its settlement with the Army Corps of Engineers.
- World Trade Organization (WTO) Conference. The WTO Conference was held in Seattle in 1999. This event spawned 407 claims and 26 lawsuits against the City. All of these claims and actions have been resolved. No material amounts were paid in 2009 and, since the City's insurance company has accepted responsibility for all exposures in excess of the self-insured retention amount which has been exhausted, no further monies will be paid by the City.
- State Route 519 Improvements. Part of these improvements included the movement of a Burlington Northern Santa Fe Railroad (BNSF) spur track. The City and BNSF entered into a contract regarding the movement of the spur track. In part, the contract provided that BNSF would move its spur track upon the City's construction contractor providing BNSF with the contractually specified notice. Even though BNSF was given the required notice, BNSF failed to move the spur track. As a result, the City has paid material sums of money for an improvement that is not usable unless the spur track is moved, and the City's construction contractor has suffered significant delay damages. BNSF has raised several defenses to its failure to move the spur track. The City has decided not to pursue any claims against BNSF. There will be no material recovery for this matter.
- Business Tax Refunds. Two cases involving potential tax refunds were filed as follows. (1) A telecommunications company filed a case with the City of Seattle Hearing Examiner in December 2005 challenging approximately \$4.0 million to \$5.5 million in assessed utility taxes and interest it paid into escrow, covering the period from January 1997 through March 2005. The case is currently in settlement negotiations. (2) A Seattle-based company appealed its business and occupation (B&O) tax assessment 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 Department of Executive Administration, Revenue and Consumer Affairs 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 has now appealed to the court of appeals. It is not possible to predict the likelihood of a material adverse outcome.
- Costs Charges to Ratepayers. The class action plaintiffs alleged that fire hydrant costs were improperly paid by SPU water ratepayers in Seattle and the suburbs. 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 SPU 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 SPU 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 SPU. 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 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 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. SPU received from the General Fund \$10.2 million in 2009 and \$4.1 million in 2008. As of December 31, 2009, SPU has processed all requests for refunds that were received per the terms of the settlement. Approximately \$0.1 million in additional cash payments will be paid in early 2010.

- Cedar River Sockeye Hatchery. A lawsuit was filed alleging that the National Marine Fisheries Service erred in issuing an incidental take permit to the City for SPU's planned construction and operation of a sockeye hatchery based on the Cedar River Habitat Conservation Plan. The City intervened as a defendant. The case was resolved in 2009 when the Ninth Circuit Court of Appeals upheld the trial court's decision in the City's favor.
- Cedar River Watershed. A final settlement of claims by the Muckelshoot Tribe was approved by the United States District Court in 2006. The City paid the Tribe \$14.0 million required by the settlement. If the City is unable to construct and/or operate a sockeye hatchery on the Cedar River, the City will be obligated to pay up to another \$14.5 million to the Tribe.
- Grand Coulee Project Hydro Authority (GCPHA) Litigation. The City and the City of Tacoma (the "Cities") are in an ongoing contract dispute with the GCPHA over the amount of incentive payments due to the GCPHA under five identical long-term power purchase contracts. Seattle and Tacoma each are responsible for half of the incentive payments. The paid but disputed amount for contract years 2002 and 2003 (approximately \$5.4 million) was submitted to an arbitrator in May 2006. Thereafter the GCPHA claimed approximately \$2.0 million for the 2004 contract year. The court prevented the GCPHA from collecting on that invoice while the arbitration proceeded but required the Cities to deposit the 2004 disputed amount with the court. The GCPHA then claimed \$3.4 million in incentive payments for the 2005 contract year, and the Cities again were ordered to deposit that amount with the court. The arbitrator ultimately decided against the Cities on the 2002 and 2003 contract years, and the court denied the Cities request for refunds. Based on this decision the court released the disputed \$5.4 million for contract years 2004 and 2005 to the GCPHA. The Cities appealed the trial court's decision to confirm the arbitrator's decision. In 2008 the Court of Appeals affirmed the trial court and arbitrator decisions, ending the litigation.
- Underground Reservoirs Construction. The City is seeking a recovery of money expended. During the course of construction of the new covered underground reservoirs, the City discovered leaking in the roofs of the reservoirs. The City directed the contractor to make repairs. Both the City and the contractor filed claims with the City's builder's risk insurer. The builder's risk insurer denied coverage in April 2009. The contractor as an additional insured under the builder's risk policy filed suit against the builder's risk insurer, claiming that the denial of coverage was made in bad faith and claiming damages of not less than \$2.0 million. Additionally, as part of its lawsuit the contractor alleged that the leaking was caused by defective design. The City, designer, contractor, and their related insurers have agreed to a pre-litigation mediation in June 2010. It is not possible to predict the outcome of this matter.
- Other Miscellaneous Lawsuits and Claims. A lawsuit was filed by a plaintiff's estate seeking damages for the plaintiff's alleged wrongful death as the result of a traffic collision involving a City vehicle. The estate alleged faulty road design. The case settled for an immaterial amount. Another lawsuit was filed by an executive-level employee of the Personnel Department alleges discrimination based upon gender, national origin, sexual orientation, and retaliation. In early 2010, the plaintiff's employment was terminated for poor performance. The plaintiff has not amended her complaint to challenge the termination. Trial was scheduled for May 16, 2011. It is impossible to predict whether a material adverse outcome will result.

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, 2009, ten accounts remained outstanding with a combined total amount of \$25.5 million. BEDI grant funds amounting to \$3.75 million are being held as loan loss reserves for the ten 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 \$57,925,000 was outstanding at December 31, 2009. The bonds will be fully retired by April 1, 2031.

### ***Pike Place Market Preservation and Development Authority***

Special obligation deferred-interest refunding bonds issued on March 7, 1991, in the amount of \$1,376,671, of which \$311,131 was outstanding at December 31, 2009. The bonds will be fully retired by November 1, 2011.

Special obligation refunding bonds issued on March 28, 2002, in the amount of \$5,925,000 of which \$4,650,000 was outstanding on December 31, 2009. 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, 2009, was \$2,770,000. 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, 2009, was \$2,505,000. 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, 2009, was \$7,070,000. 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, 2009, was \$2,445,000. 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 \$4,825,000 was outstanding as of December 31, 2009. The bonds will be fully retired on November 1, 2024.

## **(16) RESTATEMENTS, CHANGES IN ACCOUNTING PRINCIPLES, AND RECLASSIFICATIONS**

With the implementation of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* as discussed in Note 1 and Note 5, and with the City's Light Fund on its forward purchase and sale of electricity contracts that has derivative instruments considered as normal purchase and normal sales and such are not under the scope of this statement, the City no longer recognizes the transactions at fair value in the financial statements. The City previously recorded these types of transactions at fair value under Accounting Standards Codification (ASC) No. 815. The effect of implementing statement No. 53 was to restate 2008 financial statements. The effect of this restatement on the balance sheet was that current assets, energy contracts at fair value decreased \$6.6 million, current liabilities, energy contracts at fair value decreased \$0.2 million, and deferred credits decrease \$6.4 million. There was no effect on the Statement of Activities.

In 2008 the City, in its Municipal Arts Fund, incorrectly classified approximately \$656,000 in capital outlay as current expenditures, resulting in the restatement of 2008 financial statements. There was no impact on the fund balance. This was, however, correctly presented as part of capital assets in the Statement of Net Assets and total expenses were correctly stated in the Statement of Activities in 2008.

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 March 31, 2010, pursuant to City Ordinance 123156, the City issued \$66.5 million Limited Tax General Obligation (LTGO) Improvement Bonds, 2010A (Taxable Build America Bonds-Direct Payment) and \$135.4 million Limited Tax General Obligation Improvement and Refunding Bonds, 2010B (tax-exempt). The proceeds of the bonds are used to pay for part of the cost of various capital projects and to partially refund \$85.7 million and \$29.5 million outstanding 2001 and 2002 LTGO Bonds, respectively, to realize debt service savings.

On January 21, 2010, pursuant to City Ordinance 123168, the City issued \$109.1 million Water System Revenue Bonds, 2010A (Taxable Build America Bonds), and \$81.8 million Water System Improvement and Refunding Revenue Bonds, 2010B. The proceeds of the bonds are used to pay for part of the cost of various capital projects and to refund \$61.8 million outstanding Water System Revenue Bonds, 1998, to realize debt service savings.

On May 26, 2010, pursuant to City Ordinance 121941 as amended by Ordinance 122838 and Ordinance 123169 as amended by Ordinance 123261, the City issued \$181.6 million Municipal Light and Power Revenue Bonds, 2010A (Taxable Build America Bonds-Direct Payment), \$596.9 million Municipal Light and Power Revenue Improvement and Refunding Bonds, 2010B (tax-exempt), and \$13.3 million Municipal Light and Power Revenue Bonds, 2010C (Taxable Recovery Zone Economic Development Bonds-Direct Payment). The proceeds of the bonds are used to finance certain capital improvements and conservation programs for the Light System and to refund \$541.8 million outstanding Municipal Light and Power Revenue Bonds, Series 1997, 1998A, 1998B, 2000 and 2001, to realize debt service savings.

**Fair Value of Pooled and Dedicated Investments.** In its most recent meeting on March 16, 2010, the Federal Reserve Board (FRB) maintained its target Federal Funds rate at a range from 0.00 percent to 0.25 percent and has left the rate unchanged since December 2008. Interest rates have decreased along the yield curve since year-end 2009, but changes in the fair value of the City's investment pool and dedicated investments have been insignificant through March 2010 due to the short duration of the investments.

**Rate Stabilization Account and Revised Financial Policies.** On March 22, 2010, the City Council adopted Ordinance 123260 and Resolution No. 31187 establishing a Rate Stabilization Account (RSA) and revised financial policies for Seattle City Light (SCL). The RSA, with a targeted balance of \$100.0 million, is intended to absorb fluctuations in SCL's annual revenue in any given year due to the volatility in net wholesale revenue from the amount assumed in the adopted budget for that year. Initial funding of the RSA will come from \$25.0 million of the existing Contingency Reserve Account, approximately \$50.0 million in anticipated savings from refinancing of current bonds outstanding, a temporary 4.5 percent rate surcharge that will go into effect in May 2010 through 2011, and potentially, surplus property sales and cash from operations during 2011. The temporary rate surcharge is in addition to a rate increase of 13.8 percent effective on January 1, 2010. The temporary rate surcharge is scheduled to decline as the RSA balance is established and would be eliminated when the RSA balance reaches \$100.0 million.

The revised financial policies provide that SCL will set electric rates at a level to provide for a debt service coverage ratio of 1.8 times annual debt service and to fund its Capital Improvement Program so that on average, over the term of any given six-year capital improvement program, it will fund 40.0 percent of the expenditures with cash from operations.

Due to low snowpack during this past winter, SCL is forecasting a power wholesale revenue shortfall of approximately \$80.0 million for 2010. The RSA and revised financial policies are intended to mitigate the financial impacts of such shortfalls on SCL prospectively.

**Long-Term Purchase Power Contract.** On February 2, 2010, SCL executed a purchase power contract with King County Wastewater Treatment Division. The resource is expected to come online in 2013, and SCL will acquire both energy and renewable energy credits through 2033. The total costs for the entire contract term are expected to be between \$43.0 million and \$52.0 million.

# **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 Department of Finance to carry over to the following year. These encumbrances are included with expenditures in the City's budgetary basis of accounting.

**GENERAL FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN**  
**FUND BALANCES – BUDGET AND ACTUAL**  
**For the Year Ended December 31, 2009**  
*(In Thousands)*

	Budgeted Amounts		Actual	Variance
	Original	Final		
<b>REVENUES</b>				
Taxes				
General Property Taxes	\$ 245,736	\$ 245,736	\$ 245,543	\$ (193)
Retail Sales and Use Taxes	159,887	159,887	150,515	(9,372)
Business Taxes	211,328	211,328	228,960	17,632
Excise Taxes	37,166	37,166	27,879	(9,287)
Other Taxes	-	-	3,644	3,644
Interfund Business Taxes	90,985	90,985	100,368	9,383
Total Taxes	<u>745,102</u>	<u>745,102</u>	<u>756,909</u>	<u>11,807</u>
Licenses and Permits	18,059	18,059	19,333	1,274
Grants, Shared Revenues, and Contributions	33,149	53,856	28,208	(25,648)
Charges for Services	64,080	66,453	69,018	2,565
Fines and Forfeits	23,687	23,687	28,519	4,832
Parking Fees and Space Rent	25,313	25,313	25,478	165
Program Income, Interest, and Miscellaneous Revenues	17,070	17,100	14,943	(2,157)
Total Revenues	<u>926,460</u>	<u>949,570</u>	<u>942,408</u>	<u>(7,162)</u>
<b>EXPENDITURES AND ENCUMBRANCES</b>				
Current				
General Government	191,389	196,631	183,040	13,591
Judicial	27,096	27,222	26,812	410
Public Safety	426,979	444,485	425,205	19,280
Physical Environment	7,668	20,285	16,297	3,988
Transportation	11,234	13,334	13,236	98
Economic Environment	24,101	25,460	20,053	5,407
Health and Human Services	1,094	1,494	1,262	232
Culture and Recreation	5,903	12,573	11,335	1,238
Capital Outlay				
General Government	54,651	49,687	15,978	33,709
Public Safety	7,164	11,901	2,724	9,177
Physical Environment	49	49	-	49
Transportation	12,650	12,650	-	12,650
Economic Environment	564	17	-	17
Culture and Recreation	59,454	53,261	24,923	28,338
Debt Service				
Interest	-	-	6	(6)
Total Expenditures and Encumbrances	<u>829,996</u>	<u>869,049</u>	<u>740,871</u>	<u>128,178</u>
Excess (Deficiency) of Revenues over (under) Expenditures and Encumbrances	96,464	80,521	201,537	121,016
<b>OTHER FINANCING SOURCES (USES)</b>				
Long-Term Debt Issued	5,625	5,625	1,471	(4,154)
Premium on Bonds Issued	-	-	53	53
Sales of Capital Assets	-	-	616	616
Transfers In	22,084	38,446	8,336	(30,110)
Transfers Out	<u>(266,956)</u>	<u>(308,318)</u>	<u>(289,244)</u>	<u>19,074</u>
Total Other Financing Sources (Uses)	<u>(239,247)</u>	<u>(264,247)</u>	<u>(278,768)</u>	<u>(14,521)</u>
Net Change in Fund Balance	<u>\$ (142,783)</u>	<u>\$ (183,726)</u>	<u>(77,231)</u>	<u>\$ 106,495</u>
Fund Balance - Beginning of Year			267,870	
Encumbrances Continued from Last Year			1,698	
Changes in Unappropriable Reserves			762	
Fund Balance (Budgetary) - End of Year			193,099	
Adjustments to Conform to Generally Accepted Accounting Principles				
Reserves Not Available for Appropriation			1,080	
Encumbrances			3,267	
Reimbursements				
Budgeted as Revenues			(22,223)	
Budgeted as Expenditures			22,223	
Pass-Thru Receipts				
Budgeted as Revenues			(118)	
Budgeted as Expenditures			118	
Fund Balance (GAAP) - End of Year			<u>\$ 197,446</u>	

**TRANSPORTATION FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN**  
**FUND BALANCES – BUDGET AND ACTUAL**  
**For the Year Ended December 31, 2009**  
*(In Thousands)*

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Taxes				
General Property Taxes	\$ 37,744	\$ 37,744	\$ 38,697	\$ 953
Business Taxes	22,362	22,362	18,660	(3,702)
Other Taxes	741	741	5,720	4,979
Interfund Business Taxes	-	-	244	244
Total Taxes	<u>60,847</u>	<u>60,847</u>	<u>63,321</u>	<u>2,474</u>
Licenses and Permits	2,802	2,802	8,965	6,163
Grants, Shared Revenues, and Contributions	159,397	178,803	57,239	(121,564)
Charges for Services	75,997	79,437	37,647	(41,790)
Fines and Forfeits	-	-	3	3
Parking Fees and Space Rent	-	-	154	154
Program Income, Interest, and Miscellaneous Revenues	<u>1,824</u>	<u>1,824</u>	<u>275</u>	<u>(1,549)</u>
Total Revenues	300,867	323,713	167,604	(156,109)
<b>EXPENDITURES AND ENCUMBRANCES</b>				
Current				
Transportation	201,387	204,729	96,250	108,479
Capital Outlay				
Transportation	250,681	256,146	179,201	76,945
Debt Service				
Principal	-	-	2,134	(2,134)
Interest	<u>13,993</u>	<u>13,993</u>	<u>315</u>	<u>13,678</u>
Total Expenditures and Encumbrances	<u>466,061</u>	<u>474,868</u>	<u>277,900</u>	<u>196,968</u>
Excess (Deficiency) of Revenues over (under) Expenditures and Encumbrances	(165,194)	(151,155)	(110,296)	40,859
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds of Long-Term Debt	11,366	11,366	1,250	(10,116)
Transfers In	108,970	104,374	120,610	16,236
Transfers Out	<u>(897)</u>	<u>(897)</u>	<u>(10,096)</u>	<u>(9,199)</u>
Total Other Financing Sources (Uses)	<u>119,439</u>	<u>114,843</u>	<u>111,764</u>	<u>(3,079)</u>
Net Change in Fund Balance	<u>\$ (45,755)</u>	<u>\$ (36,312)</u>	1,468	<u>\$ 37,780</u>
Fund Balance - Beginning of Year			32,602	
Encumbrance Continued from Last Year			<u>-</u>	
Fund Balance (Budgetary) - End of Year			34,070	
Adjustments to Conform to Generally Accepted Accounting Principles				
Reserves Not Available for Appropriation			2	
Encumbrances			<u>84</u>	
Fund Balance (GAAP) - End of Year			<u>\$ 34,156</u>	

**LOW-INCOME HOUSING FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN**  
**FUND BALANCES – BUDGET AND ACTUAL**  
**For the Year Ended December 31, 2009**  
*(In Thousands)*

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Taxes				
General Property Taxes	\$ 11,856	\$ 11,856	\$ 11,660	\$ (196)
Grants, Shared Revenues, and Contributions	17,811	23,473	6,607	(16,866)
Charges for Services	3,088	3,088	72	(3,016)
Program Income, Interest, and Miscellaneous Revenues	10,526	20,643	9,098	(11,545)
Total Revenues	43,281	59,060	27,437	(31,623)
<b>EXPENDITURES AND ENCUMBRANCES</b>				
Current				
Economic Environment	40,938	57,807	23,259	34,548
Capital Outlay				
Economic Environment	59,060	57,250	28	57,222
Total Expenditures and Encumbrances	99,998	115,057	23,287	91,770
Excess (Deficiency) of Revenues over (under) Expenditures and Encumbrances	(56,717)	(55,997)	4,150	60,147
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In	4,595	3,876	1,008	(2,868)
Net Change in Fund Balance	<u>\$ (52,122)</u>	<u>\$ (52,121)</u>	5,158	<u>\$ 57,279</u>
Fund Balance - Beginning of Year			70,001	
Fund Balance (Budgetary and GAAP) - End of Year			<u>\$ 75,159</u>	

# **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.

**PENSION PLAN INFORMATION**  
**SCHEDULE OF FUNDING PROGRESS**  
**December 31, 2009**  
*(In Thousands)*

Retirement System	Actuarial Valuation Date January 1	Actuarial Value of Assets	Actuarial Accrued Liabilities (AAL) <sup>a</sup>	Unfunded Actuarial Accrued Liabilities (UAAL) <sup>b</sup>	Funded Ratio	Covered Payroll <sup>c</sup>	UAAL as a Percentage of Covered Payroll
<b>Seattle City Employees' Retirement System (SCERS)</b>	1998 <sup>d</sup>	\$ 1,224,600	\$ 1,266,700	\$ 42,100	96.7 %	\$ 341,500	12.3 %
	1999	1,375,000	1,326,600	(48,400)	103.6	370,400	(13.1)
	2000	1,582,700	1,403,100	(179,600)	112.8	383,600	(46.5)
	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 <sup>e</sup>	1,645,300	2,653,800	1,008,500	62.0	580,900	173.6
<b>Firemen's Pension Fund</b>	2003	3,573	98,471	94,898	4.0	N/A	N/A
	2004	4,803	89,071	84,268	5.0	N/A	N/A
	2005	6,221	88,705	82,484	7.0	N/A	N/A
	2006	8,717	107,295	98,578	8.0	N/A	N/A
	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
<b>Police Relief and Pension Fund</b>	2004	801	65,418	64,617	1.0	N/A	N/A
	2005	1,752	65,693	63,941	3.0	N/A	N/A
	2006	1,967	69,935	67,968	3.0	N/A	N/A
	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 <sup>f</sup>	131,695 <sup>f</sup>	0.0	N/A	N/A
	2010	280	129,393	129,113	0.0	N/A	N/A

<sup>a</sup> Actuarial present value of benefits less actuarial present value of future normal costs based on Entry Age Actuarial Cost Method for SCERS and Projected Unit Credit Actuarial Cost Method for Firemen's Pension and Police Relief and Pension.

<sup>b</sup> Actuarial accrued liabilities less actuarial value of assets, funding excess if negative.

<sup>c</sup> 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.

<sup>d</sup> Reflects increased COLA benefits adopted by the City Council after the valuation was completed.

<sup>e</sup> Actuarial data for SCERS are determined through biennial actuarial valuations. The latest actuarial valuation was completed as of January 1, 2010.

<sup>f</sup> Reflects a \$514,000 actuarial adjustment for the 2009 AAL and UAAL.

**PENSION PLAN INFORMATION**  
**SCHEDULE OF EMPLOYER CONTRIBUTIONS**  
**December 31, 2009**  
*(In Thousands)*

Retirement System	Fiscal Year Ending December 31	Covered Employee Payroll <sup>a</sup>	Actual Employer Contribution <sup>b</sup>	Actual Employer Contribution Percentage <sup>b</sup>	Annual Required Contribution (ARC) <sup>c</sup>	Percentage of ARC Contributed
<b>Seattle City Employees' Retirement System (SCERS)</b>	2000	\$ 383,600	\$ 30,800	8.03 %	4.50 %	178 %
	2001	405,100	32,700	8.03	3.04	264
	2002	454,500	36,600	8.03	3.04	264
	2003	424,700	34,200	8.03	8.03	100
	2004	456,800	36,700	8.03	8.03	100
	2005	447,000	35,900	8.03	8.03	100
	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 <sup>d</sup>	580,948	46,650	8.03	8.03	100
<b>Firemen's Pension Fund</b>	2003	N/A	9,167	N/A	\$ 9,167	100
	2004	N/A	9,315	N/A	9,315	100
	2005	N/A	9,704	N/A	9,704	100
	2006	N/A	9,385	N/A	9,385	100
	2007 <sup>e</sup>	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
<b>Police Relief and Pension Fund</b>	2003	N/A	7,403	N/A	\$ 7,403	100
	2004	N/A	8,244	N/A	8,244	100
	2005	N/A	7,187	N/A	7,187	100
	2006	N/A	6,056	N/A	6,056	100
	2007 <sup>e</sup>	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

<sup>a</sup> 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.

<sup>b</sup> 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.

<sup>c</sup> 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. Thus, the City's SCERS contributions exceeded the ARC for 1999 through 2001 and resulted in a negative net pension obligation (NPO) amount.

<sup>d</sup> Actuarial data for SCERS are determined through biennial actuarial valuations. The latest actuarial valuation was completed as of January 1, 2010.

<sup>e</sup> 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, 2009**

Grantor Agency/Program	Passthru Agency	J/F	CFDA#	Grant Total
<b>DEPARTMENT OF AGRICULTURE</b>				
Wetlands Reserve Program		F	10.072	95,488.68
Child and Adult Care Food Program	Department of Agriculture	J	10.558	1,169,605.27
Summer Food Service Program for Children	Department of Social and Health Services	J	10.559	464,993.87
Senior Farmers Market Nutrition Program	Department of Agriculture	J	10.576	12,172.95
<b>Sub Total</b>				<b>1,742,260.77</b>
<b>DEPARTMENT OF COMMERCE</b>				
Economic Development Support for Planning Organizations		F	11.302	82,570.09
Pacific Coast Salmon Recovery-Pacific Salmon Treaty Program	Washington State Recreation and Conservation Office (formerly the Office of the Interagency Committee)	J	11.438	267,420.53
ARRA - Special Projects	Other Agencies	J	11.553	21,225.57
Public Safety Interoperable Communications Grant Program	Military Department	J	11.555	40,143.67
<b>Sub Total</b>				<b>411,359.86</b>
<b>DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>				
Community Development Block Grants/Entitlement Grants		F	14.218	11,470,234.10
Emergency Shelter Grants Program		F	14.231	565,383.71
Supportive Housing Program		F	14.235	9,185,016.55
Supportive Housing Program	King County	J	14.235	416,427.81
HOME Investment Partnerships Program		F	14.239	2,661,856.85
Housing Opportunities for Persons with AIDS		F	14.241	1,563,752.43
CDBG-Brownfields Economic Development Initiative		F	14.246	1,058,235.53
CDBG-Section 108 Loan Guarantees		F	14.248	5,935,000.00
ARRA - CDBG ARRA Entitlement Grants		F	14.253	180,583.48
ARRA - Homelessness Prevention and Rapid Re-Housing Program		F	14.257	81,466.86
Fair Housing Assistance Program State and Local		F	14.401	568,307.85
Public and Indian Housing	Seattle Housing Authority	J	14.850	747,662.79
<b>Sub Total</b>				<b>34,433,927.96</b>
<b>DEPARTMENT OF THE INTERIOR</b>				
Cooperative Endangered Species Conservation Fund	Washington State Department of Fish and Wildlife	J	15.615	671,631.00
<b>Sub Total</b>				<b>671,631.00</b>
<b>DEPARTMENT OF JUSTICE</b>				
Services for Trafficking Victims		F	16.320	253,613.48
Juvenile Accountability Incentive Block Grant	King County	J	16.523	45,050.20
Grants to Reduce Domestic Violence, Dating Violence, Sexual Assault, and Stalking on Campus		F	16.525	249,309.42
Missing Childrens Assistance		F	16.543	333,780.44
Edward Byrne Memorial State and Local Law Enforcem		F	16.580	516,280.65
Grants to Encourage Arrest Policies and Enforcement of Protection Orders		F	16.590	7,435.13
Community Capacity Development Office		F	16.595	182,753.22
Community Prosecution and Project Safe Neighborhoo		F	16.609	19,999.50
Public Safety Partnership, Community Policing Grts		F	16.710	475,000.00
Transitional Housing Assistance for Victims of Domestic Violence, Stalking, or Sexual Assault		F	16.736	69,402.17
Edward Byrne Memorial Justice		F	16.738	4,984.40
ARRA - Internet Crimes against Children Task Force Program		F	16.800	52,557.15
ARRA - Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories	Washington State Department of Community, Trade and Economic Development (DCTED)	J	16.803	163,394.54
ARRA - Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to Units of Local Government		F	16.804	285,601.19
<b>Sub Total</b>				<b>2,659,161.49</b>
<b>DEPARTMENT OF LABOR</b>				
Senior Community Service Employment Program	Department of Social and Health Services	J	17.235	301,661.45
ARRA - Senior Community Service Employment Program	Department of Social and Health Services	J	17.235	34,093.91
WIA Youth Activities	Workforce Development Council	J	17.259	563,991.58
ARRA - WIA Youth Activities	Workforce Development Council	J	17.259	943,945.04
<b>Sub Total</b>				<b>1,843,691.98</b>

**City of Seattle**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended December 31, 2009**

Grantor Agency/Program	Passthru Agency	J/F	CFDA#	Grant Total
<b>DEPARTMENT OF TRANSPORTATION</b>				
Highway Planning and Construction	Department of Transportation	J	20.205	10,804,599.93
ARRA - Highway Planning and Construction	Department of Transportation	J	20.205	42,875.84
Federal Transit Formula Grants		F	20.507	4,730,527.59
ARRA - Federal Transit Formula Grants		F	20.507	669,590.51
<b>Sub Total</b>				<b>16,247,593.87</b>
<b>EQUAL EMPLOYMENT OPPORTUNITY COMMISSION</b>				
Employment Discrimination State and Local Fair Employment Practices Agency Contracts		F	30.002	118,870.00
<b>Sub Total</b>				<b>118,870.00</b>
<b>NATIONAL ENDOWMENT FOR THE ARTS</b>				
Promotion of the Arts Grants to Organizations and Individuals		F	45.024	15,000.00
ARRA - Promotion of the Arts Grants to Organizations and Individuals		F	45.024	104,582.60
<b>Sub Total</b>				<b>119,582.60</b>
<b>INSTITUTE OF MUSEUM AND LIBRARY SERVICES</b>				
Grants to States	Library Commission	J	45.310	5,000.00
National Leadership Grants	Other Educational Agencies	J	45.312	8,594.65
<b>Sub Total</b>				<b>13,594.65</b>
<b>ENVIRONMENTAL PROTECTION AGENCY</b>				
Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act	King County	J	66.034	45,000.00
Congressionally Mandated Projects		F	66.202	107,188.00
ARRA - Capitalization Grants for Drinking Water State Revolving Funds	Washington State Department of Community, Trade and Economic Development (DCTED)	J	66.468	1,374,312.42
<b>Sub Total</b>				<b>1,526,500.42</b>
<b>DEPARTMENT OF ENERGY</b>				
Weatherization Assistance for Low-Income Persons	DCTED	J	81.042	808,676.03
ARRA - Weatherization Assistance for Low-Income Persons	DCTED	J	81.042	220,820.23
Renewable Energy Research and Development		F	81.087	152,850.64
ARRA - Energy Efficiency and Conservation Block Grant Program		F	81.128	213,084.25
<b>Sub Total</b>				<b>1,395,431.15</b>
<b>DEPARTMENT OF EDUCATION</b>				
TRIO-Upward Bound		F	84.047	419,004.57
Early Reading First		F	84.359	1,179,758.07
<b>Sub Total</b>				<b>1,598,762.64</b>
<b>NATIONAL ARCHIVES AND RECORDS ADMINISTRATION</b>				
National Historical Publications and Records Grants		F	89.003	13,021.93
<b>Sub Total</b>				<b>13,021.93</b>
<b>DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>				
Special Programs for the Aging Title VII, Chapter	Department of Social and Health Services	J	93.041	25,785.00
Special Programs for the Aging Title III, Part D_D	Department of Social and Health Services	J	93.043	111,789.00
Special Programs for the Aging Title III, Part B_G	Department of Social and Health Services	J	93.044	2,405,039.61
Special Programs for the Aging Title III, Part C_N	Department of Social and Health Services	J	93.045	2,440,792.32
Special Programs for the Aging Title IV and Title II Discretionary Projects	Department of Social and Health Services	J	93.048	14,604.88
Alzheimer's Disease Demonstration Grants to States	Department of Social and Health Services	J	93.051	92,820.14
National Family Caregiver Support	Department of Social and Health Services	J	93.052	769,930.20
Nutrition Services Incentive Program	Department of Social and Health Services	J	93.053	497,698.00
Medicare Enrollment Assistance Program	Department of Social and Health Services	J	93.071	5,717.31
Centers for Research and Demonstration for Health	Department of Social and Health Services	J	93.135	3,753.88
Drug-Free Communities Support Program Grants	Other Agencies	J	93.276	12,998.75
Centers For Disease Control and Prevention	Department of Health	J	93.283	90,165.05
Low-Income Home Energy Assistance	DCTED	J	93.568	1,119,483.52
ARRA - Community Services Block Grant	DCTED	J	93.569	66,960.42
Child Care and Development Block Grant	Department of Agriculture	J	93.575	54,196.30

**City of Seattle**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended December 31, 2009**

Grantor Agency/Program	Passthru Agency	J/F	CFDA#	Grant Total
ARRA - Aging Home-Delivered Nutrition Services for States	Department of Social and Health Services	J	93.705	33,125.76
ARRA - Aging Congregate Nutrition Services for States	Department of Social and Health Services	J	93.707	98,405.32
Medical Assistance Program	Department of Social and Health Services	J	93.778	26,375,092.55
<b>Sub Total</b>				<b>34,218,358.01</b>
<b>DEPARTMENT OF HOMELAND SECURITY</b>				
State and Local Homeland Security Exercise Support	Military Department	J	97.006	39,767.94
Urban Areas Security Initiative	Military Department	J	97.008	100,000.00
Boating Safety Financial Assistance	Department of Parks and Recreation	J	97.012	50,710.35
National Urban Search and Rescue (US&R) Response System		F	97.025	905.95
National Urban Search and Rescue (US&R) Response System	King County	J	97.025	78,507.53
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	Military Department	J	97.036	1,703,393.84
Hazard Mitigation Grant	Military Department	J	97.039	78,998.63
Emergency Management Performance Grants	Military Department	J	97.042	421,767.54
Assistance to Firefighters Grant		F	97.044	333,840.00
Assistance to Firefighters Grant	Military Department	J	97.044	18,726.92
FY05 Homeland Security Grant	King County	J	97.067	3,894,982.67
Metropolitan Medical Response System	Military Department	J	97.071	268,919.05
Law Enforcement Terrorism Prevention Program	King County Office of Emergency Management	J	97.074	598,203.33
National Incident Management System	King County	J	97.107	14,899.39
Regional Catastrophic Preparedness Grant Program (RCPGP)	Military Department	J	97.111	1,528,843.35
<b>Sub Total</b>				<b>9,132,466.49</b>
<b>Federal Grants</b>				<b>106,146,214.82</b>

**CITY OF SEATTLE**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For the Year Ended December 31, 2009**

**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**

The 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 the 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 have been 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 multiple projects. In 2008, the City disbursed \$4,065,000 Section 108 loan funds and \$479,600 BEDI funds to two projects known as 17<sup>th</sup> and Jackson and the Bush Hotel. Through the end of 2009, the City disbursed the remaining balances of Section 108 loan funds and BEDI funds of \$5,935,000 and \$1,187,000 respectively to two more projects known as Alpha Cine and Claremont Apartments.

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 EQUAL EMPLOYMENT OPPORTUNITY COMMISSION (EEOC)**

Grants from EEOC is reported in the 2009 Schedule of Expenditure of Federal Awards (SEFA) under CFDA # 30.002, Employment Discrimination\_State and Local Fair Employment Practices Agency Contracts. In the past years, they were reported under CFDA # 30.001, Employment Discrimination\_Title VII of the Civil Rights Act of 1964 but should have been reported under CFDA #30.002.

Grants received in 2007 and 2008 were under reported in the 2007 and 2008 SEFA in the amounts of \$31,452.49 and \$26,717.51 respectively. These amounts are reported in the 2009 SEFA.

**NOTE 6 - GRANTS FROM DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (HUD), OFFICE OF FAIR HOUSING AND EQUAL OPPORTUNITY, CFDA # 14.401 FAIR HOUSING ASSISTANCE PROGRAM**

Grants received from HUD in 2006, 2007 and 2008 were under reported in the 2006, 2007 and 2008 SEFA in the amounts of \$100,551.62, \$102,293.00 and \$193,412.23 respectively. They are included in the 2009 SEFA.



## **ABOUT THE STATE AUDITOR'S OFFICE**

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The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

Our mission is to work in cooperation with our audit clients and citizens as an advocate for government accountability. As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

The State Auditor's Office employees are located around the state to deliver our 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 continue to refine our reporting efforts to ensure the results of our audits are useful and understandable.

We take our role as partners in accountability seriously. We provide training and technical assistance to governments and have an extensive quality assurance program.

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