The City of Seattle— City Light Department

Enterprise Fund of The City of Seattle

Financial Statements as of and for the Years Ended December 31, 2009 and 2008, Required Supplementary Information, and Independent Auditors' Report

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

ENTERPRISE FUND OF THE CITY OF SEATTLE
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INDEPENDENT AUDITORS' REPORT

Energy, Technology, and Civil Rights Committee
The City of Seattle—City Light Department
Seattle, Washington

We have audited the accompanying balance sheets of The City of Seattle—City Light Department (the "Department") as of December 31, 2009 and 2008, and the related statements of revenues, expenses, and changes in equity and cash flows for the years then ended. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1 to the financial statements, the financial statements referred to above present only the Department and are not intended to present fairly the financial position and results of operations of The City of Seattle, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Department as of December 31, 2009, and 2008, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 13 to the financial statements, the Department adopted the provisions of Governmental Accounting Standards Board Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, effective January 1, 2008. In addition, as discussed in Note 1 to the financial statements, the Department adopted the provisions of Governmental Accounting Standards Board Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments,* effective January 1, 2009. The financial statements for the year ended December 31, 2008 were restated to reflect the adoption of Governmental Accounting Standards Board Statement No. 53.

Energy, Technology, and Civil Rights Committee
The City of Seattle—City Light Department

The Management's Discussion and Analysis and Schedules of Funding Progress information enclosed in this report are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We 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.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
April 30, 2010

The following discussion and analysis of the financial performance of The City of Seattle—City Light Department (the Department) provides a summary of the financial activities for the years ended December 31, 2009, 2008, and 2007. This discussion and analysis should be read in combination with the Department's financial statements, which immediately follow this section.

ORGANIZATION

The Department is the public electric utility of The City of Seattle (the City). As an enterprise fund of the City, the Department owns and operates certain generating, transmission, and distribution facilities and supplies electricity to approximately 395,000 customers in Seattle and certain surrounding communities. The Department also supplies electrical energy to other City agencies at rates prescribed by City ordinances.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Department's accounting records are maintained in accordance with generally accepted accounting principles for proprietary funds as prescribed by the Governmental Accounting Standards Board (GASB) and, where not in conflict with GASB pronouncements, accounting principles prescribed by the Financial Accounting Standards Board (FASB). The Department's accounting records follow the Uniform System of Accounts for Public Licensees prescribed by the Federal Energy Regulatory Commission (FERC).

This discussion and analysis is intended to serve as an introduction to the Department's basic financial statements, which are comprised of the financial statements and the notes to the financial statements and include the following:

Balance Sheets, Statements of Revenues, Expenses, and Changes in Equity, and Statements of Cash Flows—The basic financial statements provide an indication of the Department's financial health. The balance sheets include all of the Department's assets and liabilities, using the accrual basis of accounting, as well as an indication about which assets can be utilized for general purposes, and which assets are restricted as a result of bond covenants and other commitments. The statements of revenues, expenses, and changes in equity report all of the revenues and expenses during the time periods indicated. The statements of cash flows report the cash provided and used by operating activities, as well as other cash sources such as investment income and cash payments for bond principal and capital additions and betterments.

Notes to the Financial Statements—The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

	December 31		
	2009	2008 (Restated)	2007 (Restated)
Assets:			
Utility plant—net	$1,797,912,969	$1,662,187,945	$1,591,294,242
Capitalized purchased power commitment	-	-	4,749,025
Restricted assets	31,639,850	267,019,138	31,109,383
Current assets	186,779,956	223,131,080	247,762,839
Other assets	360,206,718	333,360,432	295,096,371
Total assets	$2,376,539,493	$2,485,698,595	$2,170,011,860
Liabilities:			
Long-term debt	$1,299,349,321	$1,444,574,242	$1,263,273,902
Noncurrent liabilities	49,677,868	39,142,190	29,941,671
Current liabilities	174,532,295	181,149,971	183,120,299
Deferred credits	28,726,364	30,736,545	35,170,995
Total liabilities	1,552,285,848	1,695,602,948	1,511,506,867
Equity:			
Invested in capital assets—net of related debt	682,906,578	604,153,231	450,344,232
Restricted	25,928,099	26,231,479	25,293,880
Unrestricted	115,418,968	159,710,937	182,866,881
Total equity	824,253,645	790,095,647	658,504,993
Total liabilities and equity	$2,376,539,493	$2,485,698,595	$2,170,011,860

Note 1: 2007 and 2006 (not shown) were restated to reflect the implementation in 2008 of GASB 49 – *Accounting and Financial Reporting for Pollution Remediation Obligations*. See Note 13 in the accompanying financial statements.

Note 2: 2008 restated to reflect the implementation in 2009 of GASB 53 – *Accounting and Financial Reporting for Derivative Instruments*. 2007 was not restated as the effect on the balance sheet was insignificant. See Note 5 in the accompanying financial statements.

ASSETS

Utility Plant - Net

2009 Compared to 2008

Utility Plant Assets net of accumulated depreciation increased $135.7 million to $1,797.9 million in 2009. Utility Plant Assets were comprised of *Hydroelectric production* plant $651.9 million which increased $8.8 million, *Transmission plant* $186.3 million which increased $16.6 million, *Distribution plant* $1,616.2 million which increased $78.9 million, and *General plant* $397.6 million which increased $17.5 million. The $78.9 million increase in *Distribution plant* is primarily due to $20.8 million for underground conduit, $18.4 million for underground conductors, $11.3 million for transformers, $9.8 million for poles and $8.5 million for services. These increases were offset by a $63.8 million increase in *Accumulated depreciation.*

Other components of Utility Plant Assets included Construction Work-In-Progress $147.8 million which increased $35.4 million, Land and Land Rights $82.8 million which increased $40.9 million and Other Assets $16.3 million which increased $1.4 million. The $40.9 million increase in Land and Land Rights is primarily due to the purchase of two Greyhound properties in the amount of $39.1 million for a proposed new substation.

More information on the Department's capital assets can be found in Note 2 of the accompanying financial statements.

2008 Compared to 2007

Utility Plant Assets net of accumulated depreciation increased $70.9 million to $1,662.2 million in 2008. Utility Plant Assets were comprised of *Hydroelectric production* plant $643.1 million which increased $8.9 million, *Transmission plant* $169.7 million which increased $5.4 million, *Distribution plant* $1,537.4 million which increased $98.9 million, and *General plant* $380.1 million which increased $11.3 million. The $98.9 million increase in *Distribution plant* is primarily due to $34.2 million for underground conduits, $17.4 million for underground conductors, $13.2 million for transformers, $13.7 million for poles and streetlights and $9.5 million for services. These increases were offset by a $62.8 million increase in *Accumulated depreciation.*

Other components of Utility Plant Assets included Construction Work-In-Progress $112.4 million which increased $8.1 million, Land and Land Rights $41.9 million which increased $0.8 million and Other Assets $14.9 million which increased $0.3 million.

Restricted Assets

2009 Compared to 2008

Restricted assets decreased by $235.4 million to $31.6 million in 2009, principally the result of drawing all of the $235.9 million remaining bond proceeds from the 2008 bond issue. Funds in the Construction Account were spent on the ongoing capital improvement program and $72.0 million was used to repay all variable rate bonds in February 2009.

The Contingency Reserve Account remained constant at $25.0 million from 2008. This account was established by Ordinance No. 121812 in 2005 and is restricted for extraordinary costs associated with the operation of the electric system.

2008 Compared to 2007

Restricted assets increased by $235.9 million to $267.0 million in 2008 primarily due to $235.9 million in bond proceeds remaining from the $257.7 million in bonds issued in December 2008. $163.9 million was deposited in the Construction Account and $72.0 million was set aside to repay all variable rate bonds in February 2009.

The Contingency Reserve Account remained constant at $25.0 million from 2007.

Current Assets

2009 Compared to 2008

Current assets decreased by $36.4 million to $186.8 million during 2009 related to decreases in *Operating cash* of $30.4 million, *Accounts receivable* of $3.3 million, and other of $2.7 million. *Operating cash* was lower due to a significant decrease in net wholesale revenues, investment earnings, spending to fund a portion of the capital improvement program from operations, spending for normal operations, and offset by receipts for retail power revenues. Retail electric power *Accounts receivable* increased $2.0 million in part due to BPA's pass-through rate increase of 1.8% in October 2009 which was offset by lower *Wholesale power receivables* of $3.4 million at the end of 2009. Other receivables declined $1.9 million generally as a result of lower *Capital contributions receivables* at the end of the year. Other current assets decreased $2.7 million because of reduced *Materials and supplies* inventory available at year end related to an initiative to improve material and supply management.

2008 Compared to 2007

Current assets decreased by $24.6 million to $223.1million in 2008, as restated, primarily due to decreases of $24.6 million in *Operating cash* and $1.9 million in *Accounts receivable* offset by a $1.9 million increase in other current assets. Cash received from normal operations, Bonneville Power Administration (BPA) for the Residential Exchange Program ($21.6 million), and reimbursement of December capital expenses from the Construction Account ($21.3 million) were offset by higher operating costs and spending for the ongoing capital improvement program along with lower investment earnings. A decrease of $4.5 million and $1.3 million in receivables for *Retail electric* and *Wholesale power,* respectively, was offset by an increase of $2.5 million in non-operating receivables and $1.4 million in other receivables. The increase in other current assets of $1.9 million was primarily due to a $2.0 million increase in *Materials and supplies* inventory at the end of 2008.

Other Assets

2009 Compared to 2008

ASC 980-10-05, *Effects of Regulatory Accounting*, provides for the deferral of certain utility costs and related recognition in future years as the costs are recovered through future rates. Deferred costs are authorized by resolutions passed by the Seattle City Council and include capitalized conservation costs, deferral of payments to the Province of British Columbia under the High Ross Agreement, regulatory deferred charges associated with energy transactions, and other deferred charges.

Deferred assets increased $26.8 million to $360.2 million in 2009. Increases were incurred for $7.0 million in *Capitalized relicensing costs* primarily for the Boundary hydro generation facility for which the Department submitted an application for a new license in September 2009; $8.9 million in net *Annual deferral of payment due* to B. C. Hydro for the High Ross Agreement; $12.6 million in *Deferred conservation costs, net;* and a net decrease of $1.7 million in other charges incurred in the normal course of operations.

Details for Other deferred charges and assets, net, are provided in Note 10 of the accompanying financial statements.

2008 Compared to 2007

Deferred assets increased $38.3 million to $333.4 million in 2008. Increases were incurred for $13.5 million in *Capitalized relicensing costs* primarily for the Boundary hydro generation facility for which the Department intended to submit an application for a new license by September 2009; $8.9 million in net *Annual deferral of payment due* to B. C. Hydro for the High Ross Agreement; $7.9 million in *Deferred conservation costs, net;* $3.7 million in long-term receivables for infrastructure improvements in the Department service area of Burien; $3.6 million increase for bond issue costs from the 2008 bonds; and $0.7 increase in other.

LIABILITIES

Long-Term Debt

2009 Compared to 2008

Long-term debt decreased a net $145.2 million to $1,299.3 million in 2009. No bonds were issued in 2009, and as noted above in *Restricted Assets*, $72.0 million in variable bonds were repaid in February 2009. Furthermore, $74.4 million of parity bonds were repaid during 2009.

The Department's debt to capitalization ratio at the end of 2009 was 62.6% compared to 65.9% at the end of 2008. Progress was made during 2009 towards a goal to achieve a debt to capitalization ratio of 60.0% by 2010. This goal was revised in March 2010 to specify that over any six year period, the Department should finance 40% of capital expenditures through cash from operations. Net revenues available to pay debt service were equal to 1.38 times principal and interest on all bonds for 2009, lower than the policy target of 2.0 due primarily to lower wholesale revenues in 2009. Revised financial policies adopted in March 2010 specified a debt service coverage policy target of 1.8.

During 2009, bond ratings on the Department's revenue bonds remained strong at Aa2 from Moody's Investors Service and AA- from Standard and Poor's.

Note 6 of the accompanying financial statements provides additional information on the Department's long-term debt.

2008 Compared to 2007

Long-term debt increased by a net $181.3 million to $1,444.6 million in 2008. In late December 2008, new improvement and refunding revenue bonds were issued totaling $257.7 million to fund the ongoing capital improvement program and to repay all of the Department's outstanding variable rate bonds in February 2009.

The Department's debt to capitalization ratio at the end of 2008 was 65.9% compared to 67.1% at the end of 2007. Progress continued as planned for overall debt reduction with a goal of a debt to capitalization ratio of 60.0% by 2010. Net revenues available to pay debt service were equal to 2.05 times principal and interest on all bonds for 2008.

During the fourth quarter 2008, Moody's Investors Service upgraded the credit rating for the Department's revenue bonds to Aa2 from Aa3 citing several factors including a strong risk management program, limitations on wholesale energy market exposure, maintenance of competitive rates, and access to the City's cash pool. Standard and Poor's followed suit with a credit rating upgrade to AA- from A+.

Environmental Liabilities

The Department implemented GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, effective in 2008. Implementation of this accounting standard resulted in restated environmental liabilities at the end of 2007 and accordingly, restated financial statements for 2007. Environmental liabilities were $29.1 million, $18.7 million, and $20.2 million at December 31, 2009, 2008, and 2007, respectively. The liabilities are primarily attributable to the estimated cost of remediating contaminated sediments in the lower Duwamish Waterway, a designated federal Superfund site. The Department is considered a potentially responsible party for contamination in the Duwamish River due to land ownership or use of property located along the river. Not included in environmental liabilities is an estimate of $7.5 million for remediation work that will be capitalized as work is performed for land purchased from Greyhound for a proposed new substation.

More information on environmental liabilities is found in Note 13 of the accompanying financial statements.

RESULTS OF OPERATIONS

Condensed Revenues and Expenses

	Year Ended December 31		
	2009	2008	2007 (Restated)
Operating revenues	$ 723,128,041	$ 877,392,652	$ 832,524,784
Nonoperating revenues	2,641,899	9,105,765	10,747,418
Total revenues	725,769,940	886,498,417	843,272,202
Operating expenses	664,155,748	730,692,842	694,922,525
Nonoperating expenses	72,565,163	66,449,323	73,698,789
Total expenses	736,720,911	797,142,165	768,621,314
Capital contributions	35,900,980	36,440,773	37,736,620
Grants	9,207,989	5,793,629	8,375,960
Net income	$ 34,157,998	$ 131,590,654	$ 120,763,468

Note: 2007 results were restated to reflect the implementation in 2008 of GASB 49 – *Accounting and Financial Reporting for Pollution Remediation Obligations*. See Note 13 in the accompanying financial statements.

SUMMARY

2009 Compared to 2008

Net income for 2009 was a solid $34.2 million but significantly lower than 2008 net income of $131.6 million by $97.4 million or 74.0%. Lower net wholesale energy revenues plus higher BPA power costs were the primary reasons for the decline in net income. Additionally, higher non-power operating expenses and interest expense contributed in comparison to 2008 to the lower net income; however, operating expenses were held below the budgeted amount in 2009.

2008 Compared to 2007

Net income for 2008 remained strong at $131.6 million, which was $10.8 million or 8.9% higher than 2007, as restated. Higher retail revenues along with lower BPA costs, primarily as a result of substantial cash payments from BPA for the Residential Exchange Program, more than offset the decrease in net short-term wholesale power revenues and related transactions, and higher non-power operating expenses.

REVENUES

2009 Compared to 2008

Total Operating Revenues were $723.1 million, a decrease of $154.3 million or 17.6 % from 2008. *Retail* revenues at $545.1 million, decreased $2.8 million, *Wholesale* revenues at $88.7 million decreased $80.3 million, *Other Power* revenues at $66.7 decreased $75.8 million, and other revenues at $22.6 million increased $4.6 million. *Wholesale* revenues were substantially lower because of somewhat less energy available for sale due to a less than average water year, along with significantly lower wholesale energy prices on the spot market during 2009. *Other Power* revenues declined $52.1 million as a result of less non-monetary power exchanges transacted during 2009 and valued at lower fair value energy prices in accordance with ASC 820, *Fair Value Measurements and Disclosure.* Furthermore, monetary power related transactions were lower by $23.6 million, mainly the result of lower basis transactions at contractual prices.

Net wholesale energy revenues were $64.1 million for 2009, a decrease of $52.4 million or 45.0 % from net revenues of $116.5 million in 2008. The Department is a net seller in the wholesale energy market and lower wholesales energy prices during the year greatly reduced the amount of revenue derived from wholesale sales.

2008 Compared to 2007

Total Operating Revenues increased $44.9 million to $877.4 million. Operating revenues for 2008 consisted of *Retail* revenues $547.9 million, which increased $5.5 million, *Wholesale* revenues $169.0 million, which increased $7.9 million, *Other Power* revenues $142.5 million, which increased $33.2 million and *Other* revenues of $18.0 million, which decreased $1.7 million. The $33.2 million increase in Other Power is primarily due to the valuation of $37.9 million at fair value for non-monetary power exchanges in accordance with ASC 820, *Fair Value Measurements and Disclosure,* offset by a net decrease of $4.7 million, primarily due to lower power basis revenues valued at contractual prices.

Net wholesale energy transactions produced net revenues of $116.5 million for 2008, a decrease of $11.2 million or 8.8% from net revenues of $127.7 million in 2007. More energy was purchased in 2008 compared to 2007 to meet load, and at higher average purchased power prices year-to-date.

EXPENSES

2009 Compared to 2008

Total operating expenses were $664.1 million, a decrease of $66.6 million or 9.1 % from $730.7 million in 2008.

Power related expenses at $338.4 million were lower by $76.4 million or 18.4 %. These expenses consisted of BPA purchased power of $153.7 million, which increased $16.0 million, *Short-term power purchases* of $24.6 million, which decreased $27.9 million, *Power related wholesale purchases* of $27.7 million, which decreased $66.9 million, and other *Power related expenses,* including *Transmission* and *Generation* of $132.4 million, which increased $2.4 million.

BPA purchased power increased $16.0 million in large part because credits associated with the Residential Exchange Program were lower in 2009 compared to 2008. *Short-term power purchases* decreased $27.9 million and are associated with net wholesale energy revenues discussed within Operating Revenues above. *Power related wholesale purchases* decreased $50.7 million for fair value valuations of non-monetary power exchange contracts, and decreased $16.2 million principally for power basis transactions valued at contractual prices; also discussed at Operating Revenues above.

Non-power operating expenses of $182.7 million increased $6.8 million or 3.9% from $175.9 million in 2008. Administrative and general expenses increased $7.0 million in large part due to higher expenses for ongoing environmental clean-up associated with remediation work for the numerous Duwamish superfund sites. In addition, health care, pensions and other administrative expenses were slightly higher. The Department held operating and maintenance expenditures below the budgeted level during 2009 as a response to the decrease in *Wholesale* revenues.

Taxes of $62.3 million increased $0.4 million, and depreciation of $80.7 million increased $2.6 million.

2008 Compared to 2007

Total operating expenses increased $35.8 million to $730.7 million in 2008.

Power related expenses of $414.8 million increased $14.2 million. These expenses were comprised of BPA purchased power of $137.7 million, which decreased $38.1 million, *Short-term power purchases* of $52.5 million, which increased $19.1 million, *Power related wholesale purchases* of $94.6 million, which increased $26.6 million, and other *Power related expenses,* including *Transmission* and *Generation* of $130.0 million, which increased $6.6 million.

BPA purchased power decreased due to cash and credits received in the amount of $24.4 million associated with the Residential Exchange Program, lower annual slice true-up of $12.5 million, and other decrease of $1.2 million. *Short-term power expenses* increased $19.1 million and are associated with net wholesale energy revenues discussed within Operating Revenues above. The $26.6 million increase in *Power related wholesale purchases* is primarily due to the $31.4 million fair value valuations for non-monetary power exchange contracts, also discussed at Operating Revenues above, offset by decreased purchased power basis transactions valued at contractual prices in the amount of $4.8 million.

Non-power operating expenses of $175.9 million increased $17.8 million, *Taxes* of $61.9 million increased $2.8 million, and depreciation of $78.1 million increased $1.0 million.

The $17.8 million increase in *Non-power operating expenses* is due to higher distribution expenses, customer service related expenses, and administrative and general. Within administrative and general, higher expenses were incurred for labor, pensions, benefits, enhancements to administrative systems, and ongoing environmental clean-up associated with various Duwamish superfund sites.

OTHER NONOPERATING INCOME AND EXPENSE

2009 Compared to 2008

Nonoperating Revenues (Expenses)—Nonoperating (expenses) increased $12.6 million to $69.9 million in 2009 from $57.3 million in 2008 as a result of the following:

Nonoperating income decreased $6.5 million to $2.6 million from 2008, principally on account of lower *Investment income* of $3.3 million attributable to lower cash balances and interest rates during the year. *Other nonoperating income* increased $3.2 million.

Nonoperating expense increased $6.1 million from $14.7 million in 2008, mainly the result of higher interest expense for the parity bonds issued in December 2008.

Fees and Grants—Fees and grants increased by $2.9 million to $45.1 million in 2009. Grants totaled $9.2 million for an increase of $3.4 million from 2009 largely on account of two grants. Grants were higher by $2.4 million for electrical work for a major project to improve traffic congestion in an industrial area and by $0.6 million for funds received from FEMA relating to the 2008 storm. Lower combined capital fees of $7.2 million for general installations, non-standard installations and suburban infrastructure undergrounding for Burien were offset by higher in-kind contributions of $6.7 million for electrical infrastructure on the Alaskan Way Viaduct project.

2008 Compared to 2007

Nonoperating Revenues (Expenses)—Nonoperating (expenses) decreased $5.7 million to $57.3 million in 2008 from $63.0 million in 2007 due to the following:

Nonoperating income decreased $1.6 million to $9.1 million from 2007. *Investment income* of $6.0 million decreased $4.2 million because of lower cash balances during the year, and *Other nonoperating income* of $3.1 million in expenses increased $2.6 million, for a favorable swing from 2007.

Nonoperating expense decreased $7.3 million from $73.6 million in 2007 to $66.3 million in 2008, mainly due to lower interest expense. Interest expense for parity bonds decreased $3.3 million while interest expense for variable rate bonds was lower by $1.4 million.

Fees and Grants—Fees and grants decreased by $3.9 million to $42.2 million in 2008. Underground infrastructure improvements for local suburban areas decreased $12.7 million and were offset by increases in in-kind contributions of $7.1 million and $1.7 million for other. In-kind contributions were principally for undergrounding electrical service associated with Sound Transit light rail system.

RISK MANAGEMENT

The Department began implementing an Enterprise Risk Management (ERM) process in 2008 to establish a full spectrum approach to risk management that links strategic planning and other important decision making functions through a standardized process of identifying, assessing, monitoring, and responding to risks across all business units of the Department.

An ERM Council, comprised of the Chief of Staff, Power Supply & Environmental Affairs Officer, Customer Service & Energy Delivery Officer, Chief Financial Officer, Regulatory Compliance Officer, Human Resources Officer, and the Director of Risk Management was formed by the Superintendent to guide the development of a risk-aware culture and risk management capabilities and accountability throughout the utility.

A Risk Oversight Council (ROC) oversees wholesale power marketing activities. It is comprised of the Chief Financial Officer, Power Supply and Environmental Affairs Officer, Director of Risk Management, and Power Management Executive (non-voting member). The ROC guides the continuous improvement of energy risk management activities and capabilities, approves hedging strategies and plans, and approves changes to relevant operating procedures.

The Risk Management Division facilitates the development of ERM efforts across the Department; manages wholesale energy market credit risk; and carries out the middle office functions of the Department's wholesale energy market participation which include risk controls development, and independent reporting of market positions and policy compliance.

Hydro Risk

Due to the Department's primary reliance on hydroelectric generation, the weather can significantly affect its operations. Hydroelectric generation depends on the amount of snow-pack in the mountains upstream of the Department's hydroelectric facilities, springtime snow-melt and run-off and rainfall. Hydroelectric operations also are influenced by flood control and environmental matters, including protection of fish. In low-water years, the Department's generation is reduced and the use of wholesale purchased power will increase in order to meet load. Normally, the Department experiences high electricity peaks in winter; however extreme weather conditions affecting either heating or cooling needs could cause the Department's seasonal fluctuations to be more pronounced and increase costs. In addition, economic trends (increase or decrease in business activity, housing sales and development of properties) can affect demand and change or increase costs.

Energy Market Risk

For the Department, energy market risk is the risk of adverse fluctuations in the price of wholesale electricity, which is compounded by volumetric changes affecting the availability of or demand for electricity. Factors that contribute to energy market risk include: regional planned and unplanned generation plant outages, transmission constraints or disruptions, the number of active creditworthy market participants willing to transact, and environmental regulations that influence the availability of generation resources.

The Department's exposure to hydro volumetric and market risk is managed by the Power Management Executive under the guidance of the ROC. The Department engages in market transactions to meet its load obligations and to realize earnings from surplus energy resources. Except for limited intraday and interday trading to take advantage of owned hydro storage, the Department does not take market positions in anticipation of generating revenue.

With a significant portion of the Department's revenue expected from wholesale energy market sales, great emphasis is placed on the management of risks associated with this activity. Policies, procedures, and processes designed to manage, control and monitor these risks are in place. A formal front, middle, and back office structure is in place to ensure proper segregation of duties.

The Department measures the risk in its energy portfolio on a weekly basis using a Monte Carlo model that incorporates not only price risk, but also the volumetric risk associated with its hydro-dominated power portfolio. Scenario analysis is used for stress testing.

Credit Risk

Credit risk is the risk of loss that would be incurred as a result of nonperformance by counterparties of their contractual obligations. If a counterparty failed to perform on its contractual obligation to deliver electricity, then the Department may find it necessary to procure electricity at current market prices, which may be higher than the contract price. If a counterparty failed to pay its obligation in a timely manner, this would have an impact on the Department's revenue and cash flow. As with market risk, the Department has policies governing the management of credit risk.

Wholesale counterparties are assigned unsecured credit limits based on publically available and proprietary financial information. A third-party's proprietary credit scoring model is used to classify counterparties into one of several categories with permissible ranges of unsecured credit limits. Specific counterparty credit limits are set within this prescribed range based on qualitative and quantitative factors. Credit limits are also used to manage counterparty concentration risk. The Department has a concentration of credit risk related to geographic location and counterparties as it transacts in the western United States. This concentration of counterparties and of geographic location may impact the Department's overall exposure to credit risk, either positively or negatively, because counterparties may be similarly affected by changes in conditions.

Credit limits, exposures and credit quality are actively monitored. Despite such efforts, defaults by counterparties may periodically occur. The Department transacts with counterparties on an uncollateralized and collateralized basis. Posted collateral may be in the form of cash or letters of credit and may represent prepayment or credit exposure assurance.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

BALANCE SHEETS
AS OF DECEMBER 31, 2009 AND 2008

	2009	2008 (Restated)
ASSETS		
UTILITY PLANT—At original cost:		
Plant-in-service—excluding land	$ 2,852,097,973	$ 2,730,371,132
Less accumulated depreciation	(1,301,205,194)	(1,237,407,154)
Total utility plant	1,550,892,779	1,492,963,978
Construction work-in-progress	147,809,570	112,389,741
Nonoperating property—net of accumulated depreciation	5,122,638	4,826,893
Assets held for future use	11,260,732	10,155,422
Land and land rights	82,827,250	41,851,911
Utility plant—net	1,797,912,969	1,662,187,945
RESTRICTED ASSETS:		
Contingency reserve account	25,000,000	25,000,000
Construction account	-	37,814,396
Investments	-	126,179,000
Debt service account	2,510,783	75,078,214
Special deposits and other restricted assets	4,129,067	2,947,528
Total restricted assets	31,639,850	267,019,138
CURRENT ASSETS:		
Cash and equity in pooled investments	32,694,670	63,121,148
Accounts receivable (includes $3,777,444 and $4,134,571 at fair value), net of allowance of $7,138,288 and $7,002,703	64,847,784	69,277,481
Interfund receivable	1,579,395	475,513
Unbilled revenues	60,198,421	60,079,426
Materials and supplies at average cost	26,127,543	28,949,419
Prepayments, interest receivable, and other current assets	1,332,143	1,228,093
Total current assets	186,779,956	223,131,080
OTHER ASSETS:		
Deferred conservation costs—net	162,136,725	149,512,228
Capitalized relicensing costs—net	61,383,807	54,373,682
Deferred costs—High Ross Agreement—net	93,562,147	84,688,706
Other deferred charges and assets—net	43,124,039	44,785,816
Total other assets	360,206,718	333,360,432
TOTAL	$ 2,376,539,493	$ 2,485,698,595

See notes to financial statements.

	2009	2008 (Restated)
LIABILITIES		
LONG-TERM DEBT:		
Revenue bonds	$ 1,383,050,000	$ 1,529,375,000
Plus bond premium	25,152,248	28,721,643
Less bond discount	(195,531)	(403,473)
Less deferred charges on advanced refunding	(27,922,396)	(32,498,928)
Less revenue bonds—current portion	(80,735,000)	(80,620,000)
Total long-term debt	1,299,349,321	1,444,574,242
NONCURRENT LIABILITIES:		
Accumulated provision for injuries and damages	32,771,188	24,418,781
Compensated absences	13,458,624	12,335,958
Other noncurrent liabilities (includes $120,519 and $140,151 at fair value)	3,448,056	2,387,451
Total noncurrent liabilities	49,677,868	39,142,190
CURRENT LIABILITIES:		
Accounts payable and other current liabilities	60,310,868	63,833,027
Interfund payable	6,918,981	7,161,632
Accrued payroll and related taxes	4,306,367	9,702,848
Compensated absences	1,330,512	1,326,973
Accrued interest	20,930,567	18,505,491
Long-term debt—current portion	80,735,000	80,620,000
Total current liabilities	174,532,295	181,149,971
DEFERRED CREDITS (includes $1,713,502 and $216,203 at fair value)	28,726,364	30,736,545
Total liabilities	1,552,285,848	1,695,602,948
COMMITMENTS AND CONTINGENCIES (Note 15)		
EQUITY		
Invested in capital assets, net of related debt	682,906,578	604,153,231
Restricted:		
Contingency reserve account	25,000,000	25,000,000
Cash and investments from bond proceeds and debt service account	8,173	843,391
Special deposits and other restricted assets	919,926	388,088
Total restricted	25,928,099	26,231,479
Unrestricted—net	115,418,968	159,710,937
Total equity	824,253,645	790,095,647
TOTAL	$ 2,376,539,493	$ 2,485,698,595

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009	2008
OPERATING REVENUES:		
Retail power revenues	$ 545,110,850	$ 547,884,163
Short-term wholesale power revenues	88,650,460	169,048,552
Other power-related revenues	66,782,044	142,499,672
Other operating revenues	22,584,687	17,960,265
Total operating revenues	723,128,041	877,392,652
OPERATING EXPENSES:		
Long-term purchased power—Bonneville	153,685,459	137,742,951
Long-term purchased power—other	48,317,603	43,946,138
Short-term wholesale power purchases	24,570,643	52,500,893
Other power expenses	36,112,877	103,879,921
Generation	28,621,886	27,977,551
Transmission	47,074,084	48,790,219
Distribution	57,005,441	60,699,360
Customer service	35,661,790	33,401,909
Conservation	16,920,830	15,653,578
Administrative and general	73,217,198	66,140,885
City of Seattle occupation tax	33,664,082	33,842,444
Other taxes	28,610,571	28,061,712
Depreciation	80,693,284	78,055,281
Total operating expenses	664,155,748	730,692,842
NET OPERATING INCOME	58,972,293	146,699,810
NONOPERATING REVENUES (EXPENSES):		
Investment income	2,612,978	5,956,201
Interest expense	(69,111,778)	(61,087,089)
Amortization of refunding loss	(4,576,532)	(4,778,197)
Amortization of bond premium	3,569,395	3,554,009
Amortization of bond discount and issue costs	(1,433,287)	(783,105)
Gain on sale of property	28,921	3,149,564
Other income (expense)—net	(1,012,961)	(3,354,941)
Total nonoperating expenses	(69,923,264)	(57,343,558)
NET INCOME (LOSS) BEFORE FEES AND GRANTS	(10,950,971)	89,356,252
FEES AND GRANTS:		
Capital contributions	35,900,980	36,440,773
Grants	9,207,989	5,793,629
Total fees and grants	45,108,969	42,234,402
NET INCOME	34,157,998	131,590,654
EQUITY:		
Beginning of year	790,095,647	658,504,993
End of year	$ 824,253,645	$ 790,095,647

See notes to financial statements.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009	2008 (Restated)
OPERATING ACTIVITIES:		
Cash received from customers and counterparties	$ 672,137,809	$ 778,721,351
Interfund operating cash received	4,828,827	3,322,026
Cash paid to suppliers, employees, and counterparties	(423,139,664)	(455,827,113)
Interfund operating cash paid	(26,352,163)	(26,332,843)
Taxes paid	(60,682,273)	(63,104,605)
Net cash provided by operating activities	166,792,536	236,778,816
NONCAPITAL FINANCING ACTIVITIES:		
Principal paid on State of Washington note	-	(283,757)
Interest paid on State of Washington note	-	(7,168)
Non-capital grants received	1,613,781	2,415,702
Gains from bankruptcy distributions	28,921	718,160
Bonneville receipts for conservation	217,857	782,032
Payment to vendors on behalf of customers for conservation augmentation	(24,104,827)	(18,995,864)
Net cash used in noncapital financing activities	(22,244,268)	(15,370,895)
CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from long-term debt, net of premium	-	260,618,923
Bond issue costs paid	(7,449)	(3,358,273)
Principal paid on long-term debt	(146,325,000)	(70,460,000)
Interest paid on long-term debt	(70,514,238)	(65,218,099)
Acquisition and construction of capital assets	(193,198,619)	(132,607,746)
Interfund payments for acquisition and construction of capital assets	(4,062,930)	(6,333,770)
Capital contributions	14,699,438	22,027,213
Interfund receipts for capital contributions	635,332	515,554
Capital grants received	7,617,342	2,728,629
Interest received for suburban infrastructure improvements	980,335	439,743
Interfund proceeds on sale of property	-	2,652,950
(Increase) in other deferred assets and charges	(21,954,675)	(26,293,592)
Interfund (increase) in other deferred assets and charges	(12,038)	(657,937)
Net cash used in capital and related financing activities	(412,142,502)	(15,946,405)
INVESTING ACTIVITIES:		
Proceeds from investments	125,779,341	-
Purchases of investments	-	(125,779,341)
Interest received on investments and on cash and equity in pooled investments	2,188,127	5,445,795
Net cash provided by/(used in) investing activities	127,967,468	(120,333,546)
NET INCREASE/(DECREASE) IN CASH AND EQUITY IN POOLED INVESTMENTS	(139,626,766)	85,127,970
CASH AND EQUITY IN POOLED INVESTMENTS:		
Beginning of year	203,961,286	118,833,316
End of year	$ 64,334,520	$ 203,961,286

	2009	2008 (Restated)
RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net operating income	$ 58,972,293	$ 146,699,810
Adjustments to reconcile operating income to net cash provided by operating activities:		
Non-cash items included in operating income:		
Depreciation	82,571,691	79,825,422
Amortization of deferred credits	(5,963,898)	(5,901,205)
Amortization of other deferred charges	13,765,284	13,101,301
Bad debt expense	5,271,105	4,728,580
Power revenues	(57,084,168)	(135,583,636)
Power expenses	59,504,974	136,177,436
Provision for injuries and damages	9,218,102	1,019,033
Other non-cash items	1,536,744	377,220
Change in:		
Accounts receivable	(4,962,528)	(952,231)
Unbilled revenues	(118,995)	(563,850)
Materials and supplies	5,067,627	(5,595,127)
Prepayments, interest receivable, and other receivables	(363,476)	(573,907)
Other deferred assets and charges	1,015,423	(2,060,866)
Provision for injuries and damages and claims payable	(865,695)	(967,989)
Accounts payable, accrued payroll, and other payables	(771,947)	7,048,825
Total adjustments	107,820,243	90,079,006
Net cash provided by operating activities	$ 166,792,536	$ 236,778,816
SUPPLEMENTAL DISCLOSURES OF NONCASH ACTIVITIES:		
In-kind capital contributions	$ 19,559,652	$ 12,830,427
Amortization of debt related costs—net	(2,440,424)	2,007,293
Change in valuation of deferrals on power exchange	(1,497,299)	221,959
Allowance for funds used during construction	3,833,222	3,212,926
Power exchange revenues	25,844,065	64,059,066
Power exchange expenses	(27,698,491)	(63,654,998)
Change in capitalized purchased power commitment/obligation	-	(4,749,025)
Power revenue netted against power expenses	7,241,424	14,266,077
Power expense netted against power revenues	(24,217,655)	(57,908,957)

See notes to financial statements.

1. OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City Light Department (the Department) is the public electric utility of The City of Seattle (the City). The Department is an enterprise fund of the City. The Department owns and operates certain generating, transmission, and distribution facilities and supplies electricity to approximately 395,000 customers. The Department supplies electrical energy to other City agencies at rates prescribed by City ordinances, and to certain neighboring communities under franchise agreements. The establishment of the Department's rates is within the exclusive jurisdiction of the Seattle City Council. A requirement of Washington State law provides that rates must be fair, nondiscriminatory, and fixed to produce revenue adequate to pay for operation and maintenance expenses and to meet all debt service requirements payable from such revenue. The Department pays occupation taxes to the City based on total revenues.

The Department's revenues were $15.9 million and $16.0 million for electrical energy and $6.6 million and $4.6 million for nonenergy services provided to other City departments in 2009 and 2008, respectively. Beginning in 2009, interfund receipts for the utility billing system shared by Seattle Public Utilities and the Department were recorded as operating revenues rather than an offset to expenses for the system.

The Department receives certain services from other City departments and paid $39.1 million in both 2009 and 2008 for such services. Amounts paid include central cost allocations from the City for services received including treasury services, risk financing, purchasing, data processing systems, vehicle maintenance, personnel, payroll, legal, other administrative, and building rentals, including for the Department's administrative offices.

The Department's due from other City departments totaled $1.6 million and $0.5 million at December 31, 2009 and 2008. The Department's due to other City departments totaled $6.9 million and $7.2 million at December 31, 2009 and 2008. The balances due from and to are the result of transactions incurred in the normal course of operations.

Basis of Presentation and Accounting Standards—The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Department has applied and is current through 2009 with all applicable GASB pronouncements as well as Accounting Standards Codification (ASC) of the Financial Accounting Standards Board (FASB), except for those that conflict with or contradict GASB pronouncements.

Effective January 1, 2009, the Department adopted Statement No. 53 of the GASB, *Accounting and Financial Reporting for Derivative Instruments*. This Statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments. This Statement is similar to ASC 815, Derivatives and Hedging (formerly Statement No. 133 of the FASB, *Accounting for Derivative Instruments and Hedging Activities* and Statement No. 138 of the FASB, *Accounting for Certain Derivative Instruments and Certain Hedging Activities, an amendment of FASB Statement No. 133*), which the Department implemented in 2001. Similar to ASC 815, Statement No. 53 requires that the fair value of hedging derivative instruments be recognized as either assets or liabilities on the Department's balance sheet and that changes in the fair value of an investment derivative instrument be included in earnings. The effect of implementing Statement No. 53 of the GASB is noted in Note 5.

Effective January 1, 2008, the Department adopted Statement No. 49 of the GASB, *Accounting and Financial Reporting for Pollution Remediation Obligations.* This Statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities, such as site assessments and cleanups. The scope of the document excludes pollution prevention or control obligations with respect to current operations and future pollution remediation activities that are required upon retirement of an asset, such as landfill closure and postclosure care and nuclear power plant decommissioning. The effect of implementing Statement No. 49 of the GASB is noted in Note 13.

Effective January 1, 2008, the Department adopted ASC 820 Fair Value Measurements and Disclosures (formerly Statement No. 157 of the FASB, as amended, *Fair Value Measurements*). Under this standard, fair value is defined as the exchange price in an orderly transaction between market participants that would be received to sell the asset or paid to transfer the liability (*i.e*., the exit price) in the market in which the reporting entity would transact, that is, the principal or most advantageous market for the asset or liability. Fair value is the result of a hypothetical transaction at the measurement date. This standard applies under other accounting pronouncements that require or permit fair value measurements. ASC 820 establishes a fair value hierarchy consisting of three levels and also provides three valuation approaches. The level within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety. In measuring fair value, the Department maximized the use of observable inputs that at their lowest significant level were other than quoted prices. The Department applied fair value measurements to exchange energy contracts and asset retirement obligations. The adoption of the provisions of ASC 820 did not have a material impact on the Department's financial condition and results of operations; disclosures with respect to fair value measurements were expanded as required. (See Note 14 and Fair Value Measurements below.)

In June 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which establishes accounting and financial reporting standards for intangible assets. Intangible assets include, but are not limited to, easements, water rights, timber rights, patents, trademarks, and computer software. Statement No. 51 is effective for the Department beginning in 2010. The Department has not yet determined the financial statement impact of adopting this new statement.

Fair Value Measurements—Descriptions of the Department's accounting policies on fair value measurements for items reported on the balance sheet at December 31, 2009 and 2008, are as noted in the following paragraph, Note 4 Accounts Receivable, and Note 9 Long-Term Purchased Power, Exchanges, and Transmission. Additional disclosures required by ASC 820 are provided in Note 14 Fair Value Measurements. Asset retirement obligations are measured at fair value at initial recognition based on contractual costs and this asset was the only applicable nonrecurring nonfinancial item and the only item to use Level 3 inputs.

Fair Value of Financial Instruments—The Department's financial instruments are reported on the balance sheet at December 31, 2009 and 2008, as Restricted assets and Cash and equity in pooled investments and investments are measured at fair value. These instruments consist primarily of the

Department's share of the City-wide pool of investments and its dedicated investments (see Note 3). Gains and losses on these financial instruments are reflected in Investment income in the Statements of revenues, expenses, and changes in equity. Long-term debt at December 31, 2009 and 2008, is disclosed at fair value (see Note 6).

Equity—The Department classifies its equity into three components as follows:

- *Invested in capital assets—net of related debt*—This component consists of capital assets, net of accumulated depreciation, reduced by the net outstanding debt balances related to capital assets net of unamortized debt expenses.

- *Restricted*—This component consists of equity with constraints placed on use. Constraints include those imposed by creditors (such as through debt covenants and excluding amounts considered in net capital, above), grants, or laws and regulations of other governments, or by enabling legislation, The City of Seattle Charter, or by ordinances legislated by the Seattle City Council.

- *Unrestricted*—This component consists of assets and liabilities that do not meet the definition of "invested in capital assets—net of related debt" or "restricted."

Restricted and Unrestricted Equity—The Department's policy is to use restricted equity for their intended purpose and to use unrestricted equity for operating expenses. The Department does not currently incur expenses for which both restricted and unrestricted equity is available.

In September 2005, the bond reserve account was liquidated and a portion of these funds was used to establish a Contingency Reserve Account in the amount of $25.0 million in accordance with City of Seattle Ordinance No. 121812. This account is restricted for extraordinary costs associated with the operation of the electrical system. There was no associated liability for the Contingency Reserve Account as of December 31, 2009 and 2008.

Assets Held for Future Use—These assets include property acquired but never used by the Department in electrical service and therefore, held for future service under a definitive plan. Also included is property previously used in service but retired and held pending its reuse in the future under a definitive plan. As of December 31, 2009 and 2008, assets held for future use included the following electrical plant assets: substations, ducts and vaults, and transmission lines totaling $11.3 million and $10.2 million, respectively.

Materials and Supplies—Materials and supplies are generally used for construction, operation and maintenance work, not for resale. They are valued utilizing the average cost method and charged to construction or expense when used.

Revenue Recognition—Service rates are authorized by City ordinances. Billings are made to customers on a monthly or bimonthly basis. Revenues for energy delivered to customers between the last billing date and the end of the year are estimated and reflected in the accompanying financial statements under the caption unbilled revenues.

The Department's customer base accounted for electric energy sales at December 31, 2009 and 2008, as follows:

	2009	2008
Residential	37.2 %	36.9 %
Nonresidential	62.8	63.1
Total	100.0 %	100.0 %

Revenues earned in the process of delivering energy to customers, wholesale energy transactions, and related activities are considered operating revenues in the determination of net income. Investment income, nonexchange transactions, and other revenues are considered nonoperating revenues.

Expense Recognition—Expenses incurred in the process of delivering energy to customers, wholesale energy transactions, and related activities are considered operating expenses in the determination of net income. Debt interest expense, debt related amortization, and certain other expenses are considered nonoperating expenses.

Administrative and General Overhead Costs Applied—Administrative and general costs are allocated to construction work-in-progress, major data processing systems development, programmatic conservation, relicensing mitigation projects, and billable operations and maintenance activities based on rates established by cost studies. Pension and benefit costs are fully allocated to capital and operations and maintenance activities based on a percentage of labor dollars. The administrative and general overhead costs applied totaled $29.7 million and $25.8 million in 2009 and 2008, respectively. Pension and benefit costs were $35.3 million and $33.2 million in 2009 and 2008, respectively. Administrative and general expenses, net of total applied overhead, were $73.2 million and $66.1 million in 2009 and 2008, respectively.

Interest Charged to Construction—Interest is charged for funds used during construction of plant assets and to nonbillable construction work-in-progress. Interest charged represents the estimated costs of financing construction projects and is computed using the Department's weighted-average interest rate for all bonds outstanding at the end of the year. Interest charged to construction totaled $3.8 million and $3.2 million in 2009 and 2008, respectively, and is reflected as a reduction of interest expense in the statements of revenues, expenses, and changes in equity.

Nonexchange Transactions—Capital contributions and grants in the amount of $45.1 million and $42.2 million are reported for 2009 and 2008, respectively, in the statements of revenues, expenses, and changes in equity as nonoperating revenues from nonexchange transactions. Capital contributions and grants revenues are recognized based on the accrual basis of accounting. In-kind capital contributions are recognized in the period when all eligibility requirements have been met as described in GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, based on either the internal engineer's estimate of the current cost of comparable plant-in-service or the donor's actual cost. Federal and state grant revenues are recognized as earned and are subject to contract and other compliance audits.

Compensated Absences—Regular employees of the Department earn vacation time in accordance with length of service. A maximum of 480 hours may be accumulated and, upon termination, employees are entitled to compensation for unused vacation. Upon retirement, employees receive compensation equivalent to 25% of their accumulated sick leave. Effective 2006, only employees represented by unions who voted in favor of a Healthcare Reimbursement Arrangement (HRA), receive 35% of their sick leave balance tax-free through an HRA account for healthcare expenses post retirement. Because of the special tax arrangement, the sick leave balance may only go into the HRA account; it may not be taken as a cashout. The HRA program is administered by an independent third party administrator; HRA investments are managed by HRA VEBA Trust. The Department accrues all costs associated with compensated absences, including payroll taxes.

Use of Estimates—The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the financial statements. The Department used significant estimates in determining reported allowance for doubtful accounts, unbilled revenues, power exchanges, accumulated provision for injuries and damages and workers' compensation, environmental liabilities, accrued sick leave, other postemployment benefits, and other contingencies. Actual results may differ from those estimates.

Significant Risk and Uncertainty—The Department is subject to certain business risks that could have a material impact on future operations and financial performance. These risks include financial market liquidity and economic uncertainty; prices on the wholesale markets for short-term power transactions; interest rates and other inputs and techniques for fair valuation; water conditions, weather, climate change, and natural disaster-related disruptions; terrorism; collective bargaining labor disputes; fish and other Endangered Species Act (ESA) issues; Environmental Protection Agency (EPA) regulations; federal government regulations or orders concerning the operations, maintenance, and/or licensing of hydroelectric facilities; other governmental regulations; restructuring of the electrical utility industry; and the costs of constructing transmission facilities that may be incurred as part of a northwest regional transmission system, and related effects of this system on transmission rights, transmission sales, surplus energy, and governance.

***Reclassifications and Restatements*—**Certain 2008 account balances have been reclassified to conform to the 2009 presentation and 2008 was restated in accordance with the provisions of GASB Statement No. 53 (see Note 5).

2. UTILITY PLANT

Utility Plant—Utility plant is recorded at original cost, which includes both direct costs of construction or acquisition and indirect costs, including an allowance for funds used during construction. The capitalization threshold was $5,000 in 2009 and 2008. Plant constructed with capital fees or contributions in-aid-of construction received from customers is included in utility plant. Capital fees totaled $35.9 million in 2009 and $36.4 million in 2008. Provision for depreciation is made using the straight-line method based upon estimated economic lives, which range from 3 to 50 years, of related operating assets. The Department uses a half-year convention method on the assumption that additions and replacements are placed in service at mid-year. The composite depreciation rate was approximately 2.8% in 2009 and 2.9 % in 2008. When operating plant assets are retired, their original cost together with retirement costs and removal costs, less salvage, is charged to accumulated depreciation. The cost of maintenance and repairs is charged to expense as incurred, while the cost of replacements and betterments is capitalized. The Department periodically reviews long-lived assets for impairment to determine whether any events or circumstances indicate the carrying value of the assets may not be recoverable. No impairment was identified in 2009 or 2008.

Utility plant-in-service at original cost, excluding land, at December 31, 2009 and 2008, was:

2009	Hydroelectric Production	Transmission	Distribution	General	Total
Original cost:					
Beginning balance	$ 643,111,977	$ 169,712,866	$1,537,406,713	$ 380,139,576	$2,730,371,132
Capital acquisitions	10,914,503	8,553,272	76,790,782	21,430,486	117,689,043
Dispositions	(2,155,713)	(1,176,219)	(6,083,713)	(3,943,137)	(13,358,782)
Transfers and adjustments	-	9,250,000	8,146,580	-	17,396,580
Total original cost	651,870,767	186,339,919	1,616,260,362	397,626,925	2,852,097,973
Accumulated depreciation:					
Beginning balance	327,304,795	76,320,036	566,739,630	267,042,693	$1,237,407,154
Increase in accumulated depreciation	12,965,897	3,825,612	47,219,480	19,902,168	83,913,157
Retirements	(3,211,240)	(1,713,498)	(9,193,700)	(3,990,467)	(18,108,905)
Retirement work-in-process	(443,769)	(1,300)	(1,471,083)	(90,060)	(2,006,212)
Total accumulated depreciation	336,615,683	78,430,850	603,294,327	282,864,334	1,301,205,194
Ending balance	$ 315,255,084	$ 107,909,069	$1,012,966,035	$ 114,762,591	$1,550,892,779

2008	Hydroelectric Production	Transmission	Distribution	General	Total
Original cost:					
Beginning balance	$ 634,233,241	$ 164,298,514	$1,438,537,286	$ 368,792,964	$2,605,862,005
Capital acquisitions	10,182,931	5,801,868	89,010,216	16,055,273	121,050,288
Dispositions	(1,304,195)	(447,565)	(7,080,805)	(4,708,661)	(13,541,226)
Transfers and adjustments	-	60,049	16,940,016	-	17,000,065
Total original cost	643,111,977	169,712,866	1,537,406,713	380,139,576	2,730,371,132
Accumulated depreciation:					
Beginning balance	316,542,529	73,310,565	532,624,550	252,090,739	$1,174,568,383
Increase in accumulated depreciation	12,746,707	3,625,345	44,611,888	19,845,307	80,829,247
Retirements	(2,010,577)	(617,837)	(10,677,737)	(4,730,614)	(18,036,765)
Retirement work-in-process	26,136	1,963	180,929	(162,739)	46,289
Total accumulated depreciation	327,304,795	76,320,036	566,739,630	267,042,693	1,237,407,154
Ending balance	$ 315,807,182	$ 93,392,830	$ 970,667,083	$ 113,096,883	$1,492,963,978

3. CASH AND EQUITY IN POOLED INVESTMENTS AND INVESTMENTS

Cash and Equity in Pooled Investments—Cash resources of the Department are combined with cash resources of the City to form a pool of cash that is managed by the City's Department of Executive Administration (DEA). Under the City's investment policy, DEA invests and manages all temporary cash surpluses in the pool. The Department's share of the pool is included in the balance sheets under the caption "cash and equity in pooled investments" or accounts within restricted cash. The pool operates like a demand deposit account in that all agencies, including the Department, may deposit cash at any time and can also withdraw cash out of the pool without prior notice or penalty. Accordingly, the statements of cash flows reconcile to cash and equity in pooled investments. The City considers investments in financial instruments having a maturity of 90 days or less as a cash equivalent.

Custodial Credit Risk—Deposits—As of December 31, 2009 and 2008, the City's cash pool contained cash on deposit with the City's custodial banks in the amounts of $17.1 million and $23.9 million respectively. The Federal Deposit Insurance Corporation (FDIC) insures the City's deposits up to $250,000 for interest bearing accounts and unlimited for non-interest bearing for each covered financial institution; 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 depositary 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 (the Commission) established in RCW 39.58 that also regulates public depository financial institutions within the state. The Commission requires of each public depository a pledge agreement with the Commission and a trustee, and 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 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.

Investments—The Department's cash resources may be invested by DEA separate from the cash and investments pool. Investments are managed in accordance with the City's investment policy, with limits and restrictions applied at the City-wide level rather than to specific investments of the Department. The City considers an investment held for more than one year as a long-term investment.

As of December 31, 2009 and 2008, the Department's dedicated investments and the City's pool and other investments were as follows:

2009	Fair Value				Weighted-Average Maturity (Days)
	Dedicated Investments of the Department	City Pool	Other City Dedicated Investments	Total	
U.S. government securities and U.S. government-sponsored enterprise securities	$ -	$ 483,159,285	$ -	$ 483,159,285	564
Municipal bonds	-	10,136,607	-	10,136,607	223
Commercial paper	-	221,242,855	16,289,929	237,532,784	52
U.S. treasuries	-	13,495,781	83,569,314	97,065,095	301
Repurchase agreements	-	116,779,375	-	116,779,375	4
Total	$ -	$ 844,813,903	$ 99,859,243	$ 944,673,146	
Portfolio weighted-average maturity					335

2008	Fair Value				Weighted-Average Maturity (Days)
	Dedicated Investments of the Department	City Pool	Other City Dedicated Investments	Total	
U.S. government securities and U.S. government-sponsored enterprise securities	$ 80,749,063	$ 784,028,317	$ 133,043,510	$ 997,820,890	703
Municipal bonds	-	13,340,600	-	13,340,600	469
Commercial paper	44,986,000	215,172,530	-	260,158,530	15
U.S. treasuries	-	15,285,938	-	15,285,938	151
Repurchase agreements	-	95,760,494	-	95,760,494	2
Total	$ 125,735,063	$ 1,123,587,879	$ 133,043,510	$ 1,382,366,452	
Portfolio weighted-average maturity					517

As of December 31, 2009 and 2008, the Department's share of the City pool was as follows:

	2009	2008
Cash and equity in pooled investments:		
Restricted assets	$ 31,639,850	$ 140,840,138
Current assets	32,694,670	63,121,148
Total	$ 64,334,520	$ 203,961,286
Balance as a percentage of City pool	7.6 %	18.2 %

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. In accordance with its investment policy, the City manages its exposure to declines in fair values by limiting 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 its exposure to credit risk in commercial paper by purchasing programs with the highest ratings issued by at least two nationally recognized statistical rating organizations (NRSRO), conducting internal due diligence of each commercial paper program purchased and maintaining an approved purchase list of entities as well as a list of entities to avoid, and paid subscriptions to Moody's Investors Service and Fitch Ratings. As of December 31, 2009 and 2008 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, and/or F-1 or F-1+ by Fitch Ratings. The same internal due diligence is conducted for purchasing taxable municipal securities issued outside of the state of Washington. As of December 31, 2009 and 2008, the City's investments in taxable municipal bonds were rated VMIG1, Aaa, Aa1, or 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 Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, Federal Farm Credit Bank, and Federal National Mortgage Association. As of December 31, 2009 and 2008, 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% of their market value for U.S. Treasuries and at higher margins of 103% to 105% 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 and 2008, 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 its exposure to concentration of credit risk for the City's investment portfolio as a whole. The City limits its investments in any one issuer as follows: 10% of the portfolio per bank for certificates of deposit or bankers' acceptances, 5% for commercial paper or municipal bonds, and 20% 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% of the total portfolio. The following table shows the components of investments by type and/or issuer and the respective percentage concentration to the total investment portfolio as of December 31, 2009 and 2008.

	2009		2008	
Issuer	**Fair Value**	**Percent of Total Investments**	**Fair Value**	**Percent of Total Investments**
Wells Fargo	$ 116,779,375	12 %	$ 95,760,494	7 %
Siemens Capital	-	-	69,980,556	5
U.S. treasuries	97,065,095	10	-	-
Federal Home Loan Mortgage Corporation	111,610,027	12	334,910,927	24
Federal National Mortgage Association	99,106,306	10	296,604,178	21
Federal Home Loan Bank	198,997,599	21	255,135,472	18
Federal Farm Credit Bank	73,445,353	8	111,170,313	8
Total	$ 697,003,755	73 %	$ 1,163,561,940	83 %

The Department's dedicated investments in which 5% or more is invested in any single issuer as of December 31, 2009 and 2008 were as follows:

	2009		2008	
Issuer	**Fair Value**	**Department Percent of Total Investments**	**Fair Value**	**Department Percent of Total Investments**
Siemens Capital	$ -	- %	$ 44,986,000	36 %
Federal Home Loan Mortgage Corporation	-	-	25,125,000	20
Federal National Mortgage Association	-	-	14,985,000	12
Federal Home Loan Bank	-	-	40,639,063	32
Total	$ -	- %	$ 125,735,063	100 %

Custodial Credit Risk—Investments—The custodial credit risk for investments is the risk that, in the event of the 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 instantly upon delivery or receipt, 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.

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.

The City of Seattle's Comprehensive Annual Financial Report may be obtained by writing to The City of Seattle, Department of Executive Administration, P.O. Box 94669, Seattle, WA 98124-4669; telephone: (206) 684-8306, or obtained on-line at http:/www.seattle.gov/cafrs/.

4. ACCOUNTS RECEIVABLE

Accounts receivable at December 31, 2009 and 2008, consist of:

	Retail Electric	Wholesale Power	Other Operating	Operating Subtotal	Nonoperating Subtotal	Total
2009						
Accounts receivable	$ 43,112,309	$ 12,990,648	$ 3,888,849	$ 59,991,806	$ 11,994,266	$ 71,986,072
Less allowance for doubtful accounts	(4,341,181)	(814,275)	(1,982,832)	(7,138,288)	-	(7,138,288)
	$ 38,771,128	$ 12,176,373	$ 1,906,017	$ 52,853,518	$ 11,994,266	$ 64,847,784
2008						
Accounts receivable	$ 41,325,229	$ 16,453,212	$ 3,819,058	$ 61,597,499	$ 14,682,685	$ 76,280,184
Less allowance for doubtful accounts	(4,652,150)	(838,553)	(1,512,000)	(7,002,703)	-	(7,002,703)
	$ 36,673,079	$ 15,614,659	$ 2,307,058	$ 54,594,796	$ 14,682,685	$ 69,277,481

Wholesale power receivable includes $3.7 million at December 31, 2009, and $4.1 million at December 31, 2008, for exchange energy at fair value under long-term contracts (see Note 9).

5. SHORT-TERM ENERGY CONTRACTS AND DERIVATIVE INSTRUMENTS

The Department engages in an ongoing process of resource optimization, which involves the economic selection from available energy resources to serve the Department's load obligations and using these resources to capture available economic value. The Department 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. The Department 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, the Department 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, the Department 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, the Department does not take market positions in anticipation of generating revenue. Energy transactions in response to forecasted seasonal resource and demand variations require approval by the Department's Risk Oversight Council.

Effective January 1, 2009, the Department adopted Statement No. 53 of the GASB, *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 Department's policy to apply the normal purchase and normal sales exception of Statement No. 53 as appropriate. Certain forward purchase and sale of electricity contracts 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, the Department considers these forward contracts as normal purchase and normal sales under Statement No. 53. These transactions are not required to be recorded at fair value in the financial statements. The Department previously recorded these types of transactions at fair value under ASC 815. The effect of implementing 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 aggregate contract amounts, fair value, and unrealized gain (loss) of the Department's commodity derivative instruments qualifying as normal purchases and normal sales at December 31 follows:

2009	Aggregate Contract Amount	Aggregate Fair Value	Unrealized Gain (Loss)
Sales	$ 14,971,214	$ 14,624,226	$ 346,988
Purchases	3,746,000	3,686,756	(59,244)
	$ 18,717,214	$ 18,310,982	$ 287,744

2008	Aggregate Contract Amount	Aggregate Fair Value	Unrealized Gain (Loss)
Sales	$ 16,276,251	$ 9,645,859	$ 6,630,392
Purchases	3,527,050	3,351,562	(175,488)
	$ 19,803,301	$ 12,997,421	$ 6,454,904

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. The Department did not have any such activity for 2009 and 2008, as restated. In addition, the Seattle 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* (see Notes 10 and 11).

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 the Department 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. The Department 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. The Department also seeks assurances of performance through collateral requirements in the form of letters of credit, parent company guarantees, or prepayment.

The Department 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, the Department 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 the Department'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 the Department's operations. Due to the Department's primary reliance on hydroelectric generation, the weather, including spring time snow melt, runoff, and rainfall, can significantly affect the Department'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. LONG-TERM DEBT

At December 31, 2009 and 2008, the Department's long-term debt consisted of the following:

LONG-TERM

		Fixed Rate	Year Due	Original Issuance	2009	2008
Prior Lien Bonds:						
2008	ML&P Revenue and Refunding Revenue Bonds	4.000%–6.000%	2029	$ 257,375,000	$ 251,015,000	$ 257,375,000
2004	ML&P Improvement and Refunding Revenue Bonds	3.000%–5.250%	2029	284,855,000	254,020,000	260,535,000
2003	ML&P Improvement and Refunding Revenue Bonds	4.000%–6.000%	2028	251,850,000	146,815,000	158,970,000
2002	ML&P Refunding Revenue Bonds	3.000%–4.500%	2014	87,735,000	28,265,000	38,990,000
2001	ML&P Improvements and Refunding Revenue Bonds	5.000%–5.500%	2026	503,700,000	443,980,000	464,270,000
2000	ML&P Revenue Bonds	4.500%–5.625%	2025	98,830,000	86,475,000	89,790,000
1999	ML&P Revenue Bonds	5.000%–6.000%	2024	158,000,000	-	5,500,000
1998B	ML&P Revenue Bonds	4.750%–5.000%	2024	90,000,000	72,590,000	75,805,000
1998A	ML&P Refunding Revenue Bonds	4.500%–5.000%	2020	104,650,000	77,325,000	82,390,000
1997	ML&P Revenue Bonds	5.000%–5.125%	2022	30,000,000	22,565,000	23,775,000
Total prior lien bonds				1,866,995,000	1,383,050,000	1,457,400,000
Subordinate Lien Bonds:						
1996	ML&P Adjustable Rate Revenue Bonds	variable rates	2021	19,800,000	-	14,575,000
1993	ML&P Adjustable Rate Revenue Bonds	variable rates	2018	22,000,000	-	12,800,000
1991B	ML&P Adjustable Rate Revenue Bonds	variable rates	2016	20,000,000	-	7,000,000
1991A	ML&P Adjustable Rate Revenue Bonds	variable rates	2016	25,000,000	-	25,000,000
1990	ML&P Adjustable Rate Revenue Bonds	variable rates	2015	25,000,000	-	12,600,000
Total subordinate lien bonds				111,800,000	-	71,975,000
Total long-term debt				$1,978,795,000	$1,383,050,000	$1,529,375,000

The Department had the following activity in long-term debt during 2009 and 2008:

2009	Balance at 12/31/08	Additions	Reductions	Balance at 12/31/09	Current Portion
Prior Lien Bonds	$ 1,457,400,000	$ -	$ (74,350,000)	$ 1,383,050,000	$80,735,000
Subordinate Lien Bonds	71,975,000	-	(71,975,000)	-	-
Total	$ 1,529,375,000	$ -	$ (146,325,000)	$ 1,383,050,000	$80,735,000

2008	Balance at 12/31/07	Additions	Reductions	Balance at 12/31/08	Current Portion
Prior Lien Bonds	$ 1,264,645,000	$ 257,375,000	$ (64,620,000)	$ 1,457,400,000	$74,350,000
Subordinate Lien Bonds	77,815,000	-	(5,840,000)	71,975,000	6,270,000
Note payable—State of Washington	284,853	-	(284,853)	-	-
Total	$ 1,342,744,853	$ 257,375,000	$ (70,744,853)	$ 1,529,375,000	$80,620,000

Prior Lien Bonds—In December 2008, the Department issued $257.4 million in Municipal Light and Power Improvement (ML&P) and Refunding Revenue Bonds that bear interest at rates ranging from 4.00% to 6.00% and mature serially from April 1, 2009 through 2029. Proceeds were used to finance certain capital improvements and conservation programs, with $72.0 million used to repay all outstanding subordinate lien bonds in February 2009.

Debt service requirements for prior lien bonds are as follows:

Years Ending December 31	Principal Redemptions	Interest Requirements	Total
2010	$ 80,735,000	$ 69,958,139	$ 150,693,139
2011	79,675,000	65,999,358	145,674,358
2012	80,335,000	62,312,608	142,647,608
2013	84,085,000	58,074,101	142,159,101
2014	85,400,000	53,698,720	139,098,720
2015 – 2019	414,440,000	202,097,637	616,537,637
2020 – 2024	371,200,000	101,805,816	473,005,816
2025 - 2029	187,180,000	20,742,448	207,922,448
Total	$ 1,383,050,000	$ 634,688,827	$ 2,017,738,827

The Department is required by ordinance to fund reserves for prior lien bond issues in an amount equal to the lesser of (a) the maximum annual debt service on all bonds secured by the reserve account or (b) the maximum amount permitted by the Internal Revenue Code (“IRC”) of 1986 as a reasonably required reserve or replacement fund (Reserve Fund Requirement). The Reserve Fund Requirement upon issuance of the 2008 Bonds was an amount equal to $122.9 million (125% of average annual debt service on the prior lien bonds). The maximum annual debt service on prior lien bonds was $150.7 million due in 2010. No proceeds of the 2008 Bonds were deposited in the Reserve Fund (Account). The Reserve Fund Requirement will be met by an existing surety bond previously purchased in 2005 from Financial Security Assurance, Inc., which is now known as Assured Guarantee Municipal Corporation, in the amount of $109.5 million. The surety bond will expire on August 1, 2029, with the balance of the Reserve Fund Requirement to be funded within five years from the issue date of the 2008 Bonds as permitted by Bond Legislation. Assured Guarantee Municipal Corporation is currently rated Aa3 and AAA by Moody's and Standard & Poor's respectively. The bond ordinance does not require that the Reserve Fund Requirement be funded with cash or a substitute surety bond or letter of credit if the provider of qualified insurance is downgraded.

A portion of the proceeds from the 2004 refunding bonds were placed in a separate irrevocable trust to provide for all future debt service payments on certain bonds defeased. There were balances outstanding in the irrevocable trust during 2009 and 2008 for the 2004 series bonds. Neither the assets of the trust account nor the liabilities for the defeased bonds are reflected in the Department's financial statements. These bonds had an outstanding principal balance of $138.3 million as of December 31, 2008. Funds held in the 2004 trust account as of December 31, 2008 were sufficient to service and redeem the defeased bonds. The bonds defeased in 2004 were called and repaid in full in October 2009.

Subordinate Lien Bonds—The Department is authorized to issue a limited amount of adjustable rate revenue bonds, which are subordinate to prior lien bonds with respect to claims on revenues. Subordinate lien bonds may be issued to the extent that the new bonds will not cause the aggregate principal amount of such bonds then outstanding to exceed the greater of $70.0 million or 15% of the aggregate principal amount of prior lien bonds then outstanding. Subordinate bonds may be remarketed daily, weekly, short term, or long term and may be converted to prior lien bonds when certain conditions are met. All subordinate lien bonds totaling $72.0 million were repaid in full in February 2009. The subordinate lien bonds were supported by a letter of credit issued by JP Morgan Chase Bank that provided credit and liquidity support for the principal amounts and accrued interest then outstanding in the event that the subordinate lien bonds were not able to be remarketed. The letter of credit was set to expire on January 31, 2010.

Revenue Pledged—All revenue bonds are special limited obligations payable from and secured solely by the gross revenues of the Department, less charges for maintenance and operations, and by money in the debt service account and reserve account. Principal and interest paid for 2009 and 2008 were $144,864,238 and $135,678,099 respectively. Total revenue available for debt service as defined for the same periods was $199,695,331 and $278,637,392. Annual interest and principal payments are expected to require 75.5% of revenues available for debt service for 2009.

Federal Arbitrage Regulations—All revenue bonds are subject to federal arbitrage regulations and the Department has complied with these regulations. There was no federal arbitrage rebate due in 2009 or 2008.

Fair Value—Fair values at December 31, 2009 and 2008 were provided by the Department's financial advisor, Seattle Northwest Securities, and were based on observable inputs consisting of subscription service indices that reflect the current yields of municipal debt; yields were adjusted for the differential in credit for the Department's bonds. The fair value for the Department's bonds are estimated based on the quoted market prices for the same or similar issues or on the current rates offered to the Department for debt of the same remaining maturities. Carrying amounts (net of premiums and discounts) and fair values at December 31, 2009 and 2008, are as follows:

	2009		2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt:				
Prior lien bonds	$ 1,408,006,718	$ 1,453,781,594	$ 1,485,870,073	$ 1,495,973,219
Subordinate lien bonds	-	-	71,823,097	71,975,000
Total	$ 1,408,006,718	$ 1,453,781,594	$ 1,557,693,170	$ 1,567,948,219

Amortization—Bond issue costs, including the surety bond, discounts, and premiums are amortized using the effective interest method over the term of the bonds.

The excess of costs incurred over the carrying value of bonds refunded on early extinguishment of debt is amortized as a component of interest expense using both the straight-line and effective interest methods over the terms of the issues to which they pertain. Deferred refunding costs amortized to interest expense totaled $4.6 million in 2009 and $4.8 million in 2008. Deferred refunding costs in the amount of $27.9 million and $32.5 million are reported as a component of long-term debt in the 2009 and 2008 balance sheets, respectively.

***Note Payable*—State of Washington**—In 2007, the Department negotiated a note payable with the State of Washington for the purchase of software installed in 2006 department-wide. The total amount of the note payable was $0.8 million, which matured in 2008 at an imputed interest rate of 5%. During 2008, $0.3 million was repaid leaving no balance outstanding at the end of 2008.

***Noncurrent Liabilities*—**The Department had the following activities during 2009 and 2008:

2009	Balance at 12/31/08	Additions	Reductions	Balance at 12/31/09	Current Portion
Compensated absences	$ 13,662,932	$ 19,258,166	$ (18,131,962)	$ 14,789,136	$ 1,330,512
Other	2,387,451	1,085,125	(24,520)	3,448,056	-
Total	$ 16,050,383	$ 20,343,291	$ (18,156,482)	$ 18,237,192	$ 1,330,512

2008	Balance at 12/31/07	Additions	Reductions	Balance at 12/31/08	Current Portion
Compensated absences	$ 12,565,999	$ 17,688,569	$ (16,591,636)	$ 13,662,932	$ 1,326,973
Long-term purchased power obligation	4,749,025	-	(4,749,025)	-	-
Other	1,451,724	876,133	(59,594)	2,387,451	-
Total	$ 18,766,748	$ 18,564,702	$ (21,400,255)	$ 16,050,383	$ 1,326,973

7. ACCOUNTS PAYABLE

Accounts Payable and Other Current Liabilities—The composition of accounts payable and other current liabilities at December 31, 2009 and 2008, is as follows:

	2009	2008
Vouchers payable	$18,363,583	$20,958,400
Power accounts payable	22,310,215	25,077,178
Taxes payable	10,065,814	8,607,272
Claims payable—current	7,895,892	6,947,668
Guarantee deposit and contract retainer	795,352	820,133
Other accounts payable	880,012	1,422,376
Total	$60,310,868	$63,833,027

8. SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM

The Seattle City Employees' Retirement System ("SCERS") is a single-employer defined benefit public employee retirement system, covering employees of the City and administered in accordance with Chapter 41.28 of the Revised Code of Washington and Chapter 4.36 of the Seattle Municipal Code. SCERS is a pension trust fund of the City.

All employees of the City are eligible for membership in SCERS with the exception of uniformed police and fire personnel who are covered under a retirement system administered by the State of Washington. Employees of Metro and the King County Health Department who established membership in SCERS when these organizations were City departments were allowed to continue their SCERS membership. As of December 31, 2009, there were 5,303 retirees and beneficiaries receiving benefits and 11,007 active members of SCERS. In addition, 2,006 vested terminated employees were entitled to future benefits.

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% multiplied by years of creditable service, multiplied by average salary, based on the highest 24 consecutive months, excluding overtime. The benefit is actuarially reduced for early retirement. Future increases in the cost-of-living adjustments are available to current and future retired members only if SCERS attains at least a 95% funding level. SCERS does not provide termination benefits.

The contribution requirements of plan members and the City are established and may be amended by the City Council. Plan members are required to contribute 8.03% of their annual covered salary. The City is required to contribute at an actuarially determined rate, equal to at least that of the members' contribution rate. The City's current contribution rate is 8.03% of annual covered payroll. Actuarially recommended contribution rates both for members and for the employer were 8.03% of covered payroll during 2009 and 2008.

Under the authority of the state and City, SCERS operates a securities lending program, and there were transactions during 2009 and 2008. In 2009, SCERS did not incur a loss as a result of borrower default. SCERS did have negative credit exposure at December 31, 2009, as the liability for collateral received exceeded the market value of the collateral. In 2008, SCERS experienced a loss resulting from a default by an issuer. This loss from default is proceeding through the bankruptcy process and by December 31, 2009 and 2008, the securities lending program's exposure was limited to less than $75.0 million and $100.0 million, respectively.

SCERS issues a stand-alone financial report that may be obtained by writing to the Seattle City Employees' Retirement System, 720 Third Avenue, Suite 1000, Seattle, WA 98104; by telephone at (206) 386-1293; or by accessing the web site http://www.seattle.gov/retirement/annual_report.htm.

Employer contributions for the City were $46.7 million and $46.0 million in 2009 and 2008. Employer contributions for the Department were $10.4 million and $9.9 million in 2009 and 2008. The annual required contributions were made in full.

Actuarial Data

Valuation date	January 1, 2008
Actuarial cost method	Entry age
Amortization method	Level percent
Remaining amortization period	17.0 years
Amortization period	Maximum of 30 years
Asset valuation method	Fair Value

Actuarial Assumptions*

Investment rate of return	7.75%
Projected general wage increases	4.00%
Cost-of-living year-end bonus dividend	0.00%

* Includes price inflation at 3.5% and 0.5% of payroll growth.
Note: There are no post-retirement benefit increases assumed.

Annual Pension Cost and Net Pension Obligation
for Fiscal Year Ending December 31, 2007
Based on January 1, 2006 Valuation

	Years Ending December 31	2007	2006
1a	Total normal cost rate	12.50 %	12.50 %
1b	Employee contribution rate	8.03 %	8.03 %
1c	Employer normal cost rate (1a-1b)	4.47 %	4.47 %
2a	Total employer contribution rate	8.03 %	8.03 %
2b	Amortization payment rate (2a-1c)	3.56 %	3.56 %
2c	Amortization period *	18.00	18.00
2d	GASB 27 amortization rate	3.56 %	3.56 %
3	Total annual required contribution (ARC) rate (1c+2d)	8.03 %	8.03 %
4	Covered employee payroll **	$ 501,861,843	$ 472,470,212
5a	ARC (3x4)	$ 40,299,506	$ 37,939,358
5b	Interest on net pension obligation (NPO)	(6,064,263)	(6,049,964)
5c	ARC adjustment	5,879,319	5,865,455
5d	Annual pension cost (APC) (5a+5b+5c)	$ 40,114,562	$ 37,754,849
6	Employer contribution	$ 40,299,506	$ 37,939,358
7a	Change in NPO (5d-6)	(184,944)	(184,509)
7b	NPO at beginning of year	(78,248,556)	(78,064,047)
7c	NPO at end of year (7a+7b)	$ (78,433,500)	$ (78,248,556)

* 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.

** Covered payroll includes compensation paid to all active employees on which contributions were made in the year preceding the valuation period.

The schedules of funding progress ($ in millions) for SCERS are as follows:

Actuarial Valuation Date January 1,	Actuarial Value of Assets (a)	Actuarial Accrued Liabilities ("AAL")[(1)] (b)	Unfunded AAL ("UAAL")[(2)] (b-a)	Funding Ratio (a/b)	Covered Payroll[(3)] (c)	UAAL (or Excess) as a Percentage of Covered Payroll ((b-a)/c)
2004	$ 1,527.5	$ 1,778.9	$ 251.4	85.9 %	$ 424.7	59.2 %
2006	1,791.8	2,017.5	225.8	88.8	447.0	50.5
2008	2,119.4	2,294.6	175.2	92.4	501.9	34.9

(1) Actuarial present value of benefits less actuarial present value of future normal costs based on entry age actuarial cost method.
(2) Actuarial accrued liabilities less actuarial value of assets; funding excess if negative.
(3) Covered payroll includes compensation paid to all active employees on which contributions were made in the year preceding the valuation period.

As of December 2009, SCERS estimates that the funding ratio has fallen to approximately 64% based on the market value of the system's assets.

Other Postemployment Benefits (OPEB)—Health care plans for active and retired employees are administered by the City of Seattle as single-employer defined benefit public employee health care plans.

Eligible retirees may contribute to the medical and any additional health care programs contemplated or amended by ordinance of the Seattle City Council and as provided in Seattle Municipal Code 4.50.020.

The Seattle City Council authorizes the obligations of the plan members and the City as employer by passing ordinances and amendments regarding contributions to the plans. Eligible retirees up to age 65 self-pay 100% 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 plan is financed on a pay-as-you-go basis, and the City's expected contribution for employer-paid benefits was $2.3 million in 2009 and $2.3 million in 2008. The Department's portion of the expected contribution was $0.4 million in 2009 and $0.4 million in 2008. The City recorded an expense and liability for OPEB of $6.4 million in 2009 and $6.4 million in 2008. The Department recorded an expense and liability for OPEB of $1.1 million in 2009 and $1.0 million in 2008.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future. Actuarial calculations reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Based on the latest biennial actuarial valuation date the significant methods and assumptions are as follows:

Actuarial data and assumptions

Valuation date	January 1, 2008
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	30 years, closed
Discount rate	4.826%
Health care cost trend rates—medical:	Aetna plans: 10.5%, decreasing by 0.5% each year for 11 years to an ultimate rate of 5%. Group Health plans: 10.9%, decreasing by 0.4% the first year and by 0.5% each year for the subsequent 11 years to an ultimate rate of 5%.
Participation	40% of Active Employees who retire participate
Mortality	General Service Actives and Retirees based on the Group Annuity Mortality (GAM) 1994 Static Table (Final) with ages set forward one year for male and female actives; set forward one year for male and no age adjustment for female retirees.
Marital status	60% of members electing coverage: married or have a registered domestic partner. Male spouses two years older than their female spouses.
Morbidity factors	Morbidity rate ranges for ages 50 through 64:
Aetna Traditional	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.
Aetna Preventive	105.1% 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 the Aetna plans, because the retirees' spouses pay a lower premium for health care coverage than 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 fact.
Group Health Standard and Deductible Plans	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 elect same plan and coverage.

Based on the actuarial valuation date of January 1, 2008, the City's annual cost for fiscal years ended December 31, 2009 and 2008, the amount of expected contribution to the plan, and changes in net obligation are as follows:

	2009	2008
Annual required contribution	$ 8,751,992	$ 8,751,992
Interest on net OPEB obligation	384,860	384,860
Adjustment to annual required contribution	(508,523)	(508,523)
Annual OPEB cost (expense)	8,628,329	8,628,329
Expected contribution (employer-paid benefits)	(2,250,276)	(2,250,276)
Increase in net OPEB obligation	6,378,053	6,378,053
Net OPEB Obligation - beginning of the year	14,352,775	7,974,722
Net OPEB obligation - end of year	$ 20,730,828	$ 14,352,775

The schedules of funding progress ($ in millions) are as follows:

Actuarial Valuation Date January 1,	Actuarial Value of Assets (a)	Actuarial Accrued Liabilities ("AAL") Entry Age (b)	Unfunded AAL ("UAAL") (b-a)	Funding Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2006	$ -	$ 84.3	$ 84.3	- %	N/A	N/A
2008	-	78.8	78.8	-	N/A	N/A

The Health Care Subfund of the General Fund is reported in The City of Seattle's Comprehensive Annual Financial Report.

9. LONG-TERM PURCHASED POWER, EXCHANGES, AND TRANSMISSION

Bonneville Power Administration—The Department purchases electric energy from the U.S. Department of Energy, Bonneville Power Administration ("Bonneville") under the Block and Slice Power Sales Agreement, a 10-year contract that expires September 30, 2011. The agreement provides power equal to the Department'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.

In 2006, the Department and Bonneville amended the Block agreement to enable the Department to participate in the Bonneville 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 Department 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 Department with a monthly discount on its Block bill whether or not the Flexible PF Charge was applied. In order to participate, the Department 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 Department will receive a fixed percentage (4.6676%) of the actual output of the Federal Columbia River Power System. The cost of Slice power is based on the Department's same percentage (4.6676%) 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 Bonneville will pay the Department for qualified energy savings realized through specified programs and decrement Block purchases accordingly.

Bonneville'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 Department 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 of 2008 the Department entered into a new contract to purchase both Block and Slice energy from Bonneville for the period October 1, 2011 through September 30, 2028. The Block quantities, Slice percentage, and Bonneville 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 Department entered into a purchase power agreement with four irrigation districts to acquire 100% 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 FERC license expires in 2030. The agreement, which expires in 2038, obligates the Department 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 Department 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 under which British Columbia will provide the Department 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 Department 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 received and expenses incurred under these and other long-term purchased power agreements at December 31, 2009 and 2008 are as follows:

	2009 Expense	2008 Expense	2009 Average Megawatts	2008 Average Megawatts
Bonneville Block	$ 54,701,786	$ 48,025,809	237.6	239.0
Bonneville Slice	98,983,673	89,717,142	379.4	412.1
	153,685,459	137,742,951	617.0	651.1
Lucky Peak	5,654,794	10,824,258	36.9	35.4
British Columbia - High Ross Agreement	13,405,324	13,410,236	35.7	35.3
Grant County Public Utility District	1,788,917	1,208,451	3.8	2.6
Grand Coulee Project Hydro Authority	5,010,391	6,939,206	29.7	29.6
Bonneville South Fork Tolt billing credit	(3,429,444)	(3,411,775)	-	-
British Columbia - Boundary Encroachment	-	-	1.7	1.9
Renewable energy - State Line Wind	19,015,418	22,381,289	40.2	49.2
Renewable energy - Other	989,721	1,197,385	1.8	2.2
Exchanges and loss returns energy at fair value	10,168,478	9,285,228	14.0	17.1
Long-term purchased power booked out	(4,285,996)	(17,888,140)	(16.9)	(34.9)
	$ 202,003,062	$ 181,689,089	763.9	789.5

Payments under these long-term power contracts totaled $200.7 million and $195.6 million in 2009 and 2008, respectively. Payments under these transmission contracts totaled $37.9 million and $39.9 million in 2009 and 2008, respectively.

Energy Exchanges—Northern California Power Agency (“NCPA”) and the Department executed a long-term Capacity and Energy Exchange Agreement in March 1993. The Department 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 year’s 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% by 2012, at least 9% by 2016, and at least 15% 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 or 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. (See Notes 11 and 14.)

Estimated Future Payments Under Purchased Power and Transmission Contracts—The Department's estimated payments under its contracts with Bonneville, various public utility districts and 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 Bonneville, ColumbiaGrid, and others for the period from 2010 through 2065, undiscounted, are:

Years Ending December 31	Estimated Payments (1)
2010	$ 270,278,274
2011	268,095,627
2012	261,808,856
2013	265,079,243
2014	272,072,364
2015–2019	1,459,269,784
2020–2024	1,449,418,217
2025–2029 (2)(3)	952,106,867
2030–2034	54,797,802
2035–2039 (4)	44,169,716
2040–2044	3,357,770
2045–2065	14,936,774
Total	$5,315,391,294

(1) 2010 to 2015 includes estimated REP recoveries from Bonneville.
(2) Bonneville transmission contract expires July 31, 2025.
(3) Bonneville new Block and Slice contract expires September 30, 2028.
(4) 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 Department executed an agreement in January 2007 with ColumbiaGrid, a non-profit membership corporation formed to improve the operational efficiency, reliability, and planned expansion of the Northwest transmission grid.

10. OTHER ASSETS

Seattle City Council passed resolutions authorizing the debt financing and/or deferral of certain costs in accordance with ASC 980-10-05, *Effect of Regulatory Accounting*. Unamortized charges for the deferral of contractual payments pursuant to the High Ross Agreement are being amortized to expense over 35 years through 2035 (see Note 9). Bonneville Slice contract true-up payments are deferred in the year invoiced and recognized as expense in the following year (see Note 9). Endangered Species Act costs are deferred and amortized to expense over the remaining license period (see Note 15).

Seattle City Council affirmed the Department's practice of deferring recognition of the effects of reporting the fair value of exchange contracts for rate making purposes and maintaining regulatory accounts to defer the accounting impact of these accounting adjustments, in Resolution No. 30942 adopted January 16, 2007 (see Note 9).

Underground electrical infrastructure costs for suburban jurisdictions will be recovered through rates from customers within the respective jurisdictions for a period of approximately 25 years as approved by the Seattle City Council. Programmatic conservation costs incurred by the Department not funded by third parties are amortized to expense over 20 years. Capitalized relicensing and mitigation costs are deferred and amortized to expense over the remaining license period; or unamortized if incurred for future relicensing (see Note 15). The remaining components of other assets, excluding billable work in progress and real estate and conservation loans receivable, are being amortized to expense over 4 to 36 years.

Regulatory deferred charges and other assets net at December 31, 2009 and 2008, consisted of the following:

	2009	2008
Regulatory deferred charges:		
Deferred conservation costs—net	$ 162,136,725	$ 149,512,228
British Columbia - High Ross Agreement—net	93,562,147	84,688,706
Endangered Species Act—net(1)	2,418,434	2,057,625
	258,117,306	236,258,559
Capitalized relicensing costs:		
Skagit—net	19,416,591	19,656,498
Boundary—net	41,967,216	34,717,184
	61,383,807	54,373,682
Other deferred charges and assets—net:		
Regulatory deferred charges—net	2,418,434	2,057,625
Suburban infrastructure long-term receivables	26,176,002	25,210,834
Puget Sound Energy interconnection and substation	1,092,145	1,191,431
Studies, surveys, and investigations	406,545	964,881
Skagit Environmental Endowment	1,292,639	1,410,151
South Fork Tolt mitigation—net	1,367,453	982,501
Real estate and conservation loans receivable	30,756	55,508
Unamortized debt expense	8,217,401	9,435,296
General work-in-process to be billed	1,908,467	2,431,719
Other	214,197	1,045,870
	43,124,039	44,785,816
Less: Regulatory deferred charges—net	(2,418,434)	(2,057,625)
Total Other Assets	$ 360,206,718	$ 333,360,432

(1) Amounts comprise regulatory deferred charges, net in other deferred charges and assets—net.

11. DEFERRED CREDITS

Seattle City Council passed resolutions authorizing deferral of certain credits in accordance with ASC 980-10-05, *Effect of Regulatory Accounting*. Payments received from Bonneville for qualified conservation augmentation programs are amortized to revenues over the life of the 10-year contract that expires September 30, 2011. Other deferred credits are amortized to revenues as earned, except unrealized or deferred gains from fair valuations that expire at contract completion and deposits that are returned to customers.

Regulatory deferred credits and other credits at December 31, 2009 and 2008, consisted of the following:

	2009	2008 (Restated)
Regulatory deferred credits:		
Bonneville conservation augmentation	$ 10,433,379	$ 16,179,420
Deferred Bonneville Slice true-up credit	1,979,551	263,382
Exchange energy: regulatory deferred gain	1,087,450	(338,767)
	13,500,380	16,104,035
Other credits:		
Deferred capital fees	7,392,604	9,730,199
Deferred revenues in lieu of rent for in-kind capital	523,062	545,233
Customer deposits—sundry sales	2,413,789	1,739,253
Deferred operations and maintenance revenues	821,759	465,918
Deferred exchange premiums	3,263,222	1,491,333
Deferred service revenue exchange fair value	626,052	554,970
Deferred revenues—other	185,496	105,604
	15,225,984	14,632,510
Total	$ 28,726,364	$ 30,736,545

12. PROVISION FOR INJURIES AND DAMAGES

The Department establishes liabilities for claims based on estimates of the ultimate projected cost of claims. Environmental related expenses are discussed in Note 13. The length of time for which such costs must be estimated varies depending on the nature of the claim. Actual claims costs depend on such factors as inflation, changes in doctrines of legal liability, damage awards, and specific incremental claim adjustment expenses. Claims liabilities are recomputed periodically using actuarial and statistical techniques to produce current estimates, which reflect recent settlements, claim frequency, industry averages, City-wide cost allocations, and economic and social factors. Liabilities for lawsuits, claims, and workers' compensation were discounted over a period of 15 to 19 years in 2009 and 2008 at the City's average annual rate of return on investments, which was 1.650% in 2009 and 3.905% in 2008.

To address risk of loss from numerous risks, the Department as part of the City of Seattle, 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. The City has had in effect general liability insurance coverage for losses over $5.0 million per occurrence self-insured retention, with a

$25.0 million limit per occurrence and in the aggregate through 2006. In June 2007, the limit was increased to $30.0 million over a $5.0 million self-insured retention. The City also purchased an all risk comprehensive property insurance policy that provides $500.0 million in limits subject to various deductible levels depending on the type of asset and value of the building. This includes $100.0 million in earthquake and flood limits. Hydroelectric projects are not covered. The City also purchased insurance for excess worker's 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, public notaries, pension exposures and specific projects and activities as necessary.

The changes in the provision for injuries and damages at December 31, 2009 and 2008, are as follows:

	2009	2008
Unpaid claims at January 1	$ 12,709,494	$ 10,146,069
Payments	(5,184,896)	(2,492,480)
Incurred claims	4,066,013	5,055,905
Unpaid claims at December 31	$ 11,590,611	$ 12,709,494

The provision for injuries and damages included in current and noncurrent liabilities at December 31, 2009 and 2008, is as follows:

	2009	2008
Noncurrent liabilities	$ 7,851,929	$ 8,924,122
Accounts payable and other	3,738,682	3,785,372
Total	$ 11,590,611	$ 12,709,494

13. ENVIRONMENTAL LIABILITIES

Effective January 1, 2008, the Department implemented GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* to account for environmental liabilities. The effect of this implementation was to restate equity on the balance sheet as of January 1, 2007, restate the environmental liabilities as of December 31, 2007, and restate the statement of revenues, expenses, and changes in equity for 2007. Beginning equity for 2007 was restated to $537.7 million, a decrease of $9.8 million. Total environmental liabilities were restated to $20.2 million at the end of 2007, an increase of $2.6 million. Net income for 2007 was restated to $120.8 million, an increase of $7.3 million.

Following is a brief description of the significant Superfund sites:

The Harbor Island Superfund Site was designated a federal Superfund site by the EPA in 1983. The Department and other entities are sharing costs of investigating contamination in the East Waterway alongside Harbor Island. The Department's involvement stems from its sale of transformers to a company on Harbor Island. The City of Seattle is one of four parties who are conducting a remedial investigation and feasibility study that will delineate cleanup actions. The Department's ultimate liability is indeterminate.

The Lower Duwamish Waterway Superfund Site was designated a federal Superfund site by the Environmental Protection Agency (EPA) in 2001 for contaminated sediments due to land ownership or use of property along the river. The City of Seattle is one of four parties who signed an Administrative Order on Consent with the Environmental Protection Agency (EPA) and Washington State Department of Ecology to conduct a remedial investigation/feasibility study to prepare a site remedy. The City has filed suit in King County Superior Court against The Boeing Company to require Boeing to pay its fair share of costs. The Department's ultimate liability is indeterminate.

North Boeing Field/Georgetown Steam Plant—The City, King County, and Boeing have signed an Administrative Order by the Washington State Department of Ecology requiring them to investigate and possibly remove contamination in an area that encompasses North Boeing Field, the Department's 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 Department will bear the entire costs for cleanup.

The Department 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 49. Estimated outlays were based on current cost and no adjustments were made for discounting or inflation. Cost scenarios were developed that defined a particular solution for a given site. Scenarios considered relevant potential requirements and alternatives for remediation of a site. 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 Department is aggressively pursuing other third parties that may have contributed to the contamination of superfund sites for appropriate cost sharing. The Department's estimate for not yet realized recoveries from other parties for their share of remediation work that offset the Department's estimated environmental liabilities were $2.4 million and $5.4 million at December 31, 2009 and 2008, respectively.

The changes in the provision for environmental liabilities at December 31, 2009 and 2008 are as follows:

	2009	2008
Environmental liabilities at January 1	$ 18,656,955	$ 20,201,347
Payments	(5,143,355)	(2,886,361)
Incurred environmental liabilities	15,562,869	1,341,969
Environmental liabilities, net of recoveries at December 31,	$ 29,076,469	$ 18,656,955

The provision for environmental liabilities included in current and noncurrent liabilities at December 31, 2009 and 2008, is as follows:

	2009	2008
Noncurrent liabilities	$24,919,259	$15,494,659
Accounts payable and other	4,157,210	3,162,296
Total	$29,076,469	$18,656,955

14. FAIR VALUE MEASUREMENTS

ASC 820, *Fair Value Measurements and Disclosures,* establishes a hierarchy for inputs used in measuring fair value of certain assets and liabilities that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Department. Unobservable inputs are inputs that reflect the Department's assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Department has the ability to access at the measurement date.

- Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.

- Level 3 inputs are unobservable inputs for the asset or liability. Valuation adjustments such as for nonperformance risk or inactive markets could cause an instrument to be classified as Level 3 that would otherwise be classified as Level 1 or Level 2.

Following are the valuation techniques provided by ASC 820: The "market approach" uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. The "income approach" uses valuation techniques to convert expected future amounts to a single present value. The "cost approach" is based on the amount that would be required to replace the service capacity of an asset.

The Department obtained the lowest level of input that was significant to the fair value measurement in its entirety from subscription services or other independent parties under contract and considers its inputs to be observable either directly or indirectly; and used applicable valuation approaches, except for asset retirement obligations that are based on bilateral contracts and were Level 3 inputs.

The following fair value hierarchy table presents information about the Department's assets and liabilities reported at fair value on a recurring and nonrecurring basis or disclosed at fair value as of December 31, 2009 and 2008:

2009	Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Items (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at 12/31/09
ASSETS				
Current assets:				
Exchange energy receivable	$ -	$ 3,777,444	$ -	$ 3,777,444
Total at fair value	$ -	$ 3,777,444	$ -	$ 3,777,444
LIABILITIES				
Noncurrent liabilities*	$ -	$	$ 120,519	$ 120,519
Current liabilities:				
Deferred credits	-	1,713,502	-	1,713,502
Total at fair value	$ -	$ 1,713,502	$ 120,519	$ 1,834,021

*Nonrecurring nonfinancial item: asset retirement obligation

2008 (restated)	Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Items (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at 12/31/08
ASSETS				
Current assets:				
Exchange energy receivable	$ -	$ 4,134,571	$ -	$ 4,134,571
Total at fair value	$ -	$ 4,134,571	$ -	$ 4,134,571
LIABILITIES				
Noncurrent liabilities*	$ -	$ -	$ 140,151	$ 140,151
Current liabilities:				
Deferred credits	-	216,203	-	216,203
Total at fair value	$ -	$ 216,203	$ 140,151	$ 356,354

*Nonrecurring nonfinancial item: asset retirement obligation

Changes in Level 3 assets and liabilities measured at fair value on a recurring basis were:

2009	Balance at 12/31/08	Additions	Reductions	Balance at 12/31/09
Asset Retirement Obligation	$ 140,151	$ 4,887	$ (24,519)	$ 120,519

2008	Balance at 12/31/07	Additions	Reductions	Balance at 12/31/08
Asset Retirement Obligation	$ 194,110	$ 5,636	$ (59,595)	$ 140,151

15. COMMITMENTS AND CONTINGENCIES

Operating Leases—The Department makes monthly lease payments to the City for the majority of its office space. These payments are made through the central cost allocation process, similar to all other payments for tenancy of City property. These payments are not included in the operating leases table below. 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.

Minimum payments under the operating leases are:

Year Ending December 31	Minimum Payments
2010	$ 1,093,301
2011	1,110,457
2012	1,130,832
2013	1,139,030
2014	1,043,281
Thereafter	2,822,224
Total	$ 8,339,125

2010 Capital Program—The estimated financial requirement for the Department's 2010 program for capital improvement, conservation, and deferred operations and maintenance including required expenditures on assets owned by others is $215.8 million. The Department has substantial contractual commitments relating thereto.

Federal Energy Regulatory Commission Fees—Estimated Federal land use and administrative fees related to hydroelectric licenses total $168.7 million through April 30, 2025. Estimated portion of fees attributed to the Boundary license are excluded after its expiration date at September 30, 2011.

Application Process for New Boundary License—The Department's FERC license for the Boundary Project expires on September 30, 2011. The Department filed an application for a new license with FERC on September 29, 2009. The Department intends to submit a proposed settlement agreement to FERC by March 29, 2010. The proposed settlement seeks to preserve the Department's operational flexibility at Boundary Dam while providing for natural resource protection, mitigation, and enhancement measures. While the Department was preparing its initial license application, the Department 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 Department and the external parties agreed to the settlement, the Department requested FERC to allow the settlement agreement to replace the initial September 2009 application as the Department'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.

Skagit and South Fork Tolt Licensing Mitigation and Compliance—In 1995, the 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 Department 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. Department 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 and the Clean Water Act in order to obtain a FERC license. ESA and related issues are discussed below.

Endangered Species—Several fish species that inhabit waters where hydroelectric projects are owned by the Department, or where the Department 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 Department’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 Department’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 Department, with the support of City Council, elected to take a proactive approach to address issues identified within the ESA. The Department 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 Department'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 Department committed to pay a total of $11.6 million over 10 years ending in 2008 to Pend Oreille County for impacts on county governments from the operations of the Department's hydroelectric projects. Effective February 2009, the Department renewed its contract with Whatcom County committing to pay a total of $15.8 million over 15 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 annual inflation factor of 3.1%, 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 Department 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.

Energy Crisis Refund Litigation—The City is involved in various legal proceedings relating to the enormous spikes in energy prices 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 (the "California Parties") sought refunds in markets that had been created by the State of California. The Department had sold energy in one of these markets. The City faced potential liability of approximately $6,500,000, 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 federal court dismissed all claims. 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. Trial is currently scheduled for May 2010.

- *Pacific Northwest Refund Case and Appeal*—In the proceeding before FERC, various sellers of energy, including the City, sought refunds on energy transactions in the Pacific Northwest between May 2000 and June 2001. City Light's claims currently are in excess of $100,000,000. In 2003, FERC declined to grant refunds, on the grounds that there was no equitable way to do so. The City and other parties appealed to the Ninth Circuit. In August 2007, the Ninth Circuit held that FERC had abused its discretion in denying all refund relief in the Pacific Northwest, and remanded the case to FERC for further proceedings. 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. On April 16, 2009, the Ninth Circuit issued the mandate remanding the case to FERC. On September 4, 2009, the sellers filed a Petition for a Writ of Certiorari in the United States Supreme Court. That petition was denied on January 11, 2010. FERC has yet to take any action on remand.

Grand Coulee Project Hydro Authority (GCPHA) Litigation—The Department and the City of Tacoma (the Cities) were in an ongoing contract dispute with the GCPHA over the amount of annual incentive payments due to the GCPHA under five identical long-term power purchase contracts. The Cities were each responsible for one-half of the incentive payments. An arbitrator decided against the Cities, and the trial court denied the Cities request to overturn or limit that decision. As a result, $5.4 million paid under protest by the Cities for the 2002 and 2003 contract years was retained by GCPHA, and an additional $5.4 million of disputed incentive payments for 2004 and 2005 deposited by the Cities with the court was released to GCPHA. In 2008, the Court of Appeals affirmed the trial court and arbitrator decisions, ending the litigation.

Other Contingencies—In addition to those noted above, in the normal course of business, the Department has various other legal claims and contingent matters outstanding. The Department believes that any ultimate liability arising from these actions will not have a material adverse impact on the Department's financial position, operations, or cash flows.

16. SUBSEQUENT EVENTS

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% to 0.25% 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 the Department's dedicated investments have been insignificant through March 2010 due to the short duration of the investments.

Proposed 2010 Bond Issue and Operating Cash Position—The Department had originally planned for a 2010 bond issue in February 2010 to fund the ongoing capital improvement program and also advance refund certain prior year series bond issues. The planned bond issue was intentionally delayed to allow the Seattle City Council to consider and adopt enhanced financial policies for the Department that address the volatility of the Department's wholesale power revenues, including implementation of a Revenue Stabilization Account and possible rate surcharge to fund the Rate Stabilization Account. The planned bond issue is expected to be approximately $818.0 million, including $195.9 million of new money and the balance in refunding revenue bonds. An effect of delaying the 2010 bond issue to late May 2010 was that the Department temporarily utilized the City of Seattle's Consolidated (Residual) Cash Portfolio (Cash Pool) for approximately $14.0 million during portions of February and March 2010. This use of the Cash Pool excluded the $25.0 million contingency reserve account which was maintained intact by the Department. As of late March, the Department's operating cash position was restored to a positive balance given collections in the normal course of business. A negative operating cash position may reoccur of a similar magnitude until proceeds are received from the new bond issue. The new money proceeds of the bond offering in May 2010 will reimburse the Department for capital improvement expenses incurred that have been funded from operating cash. A negative cash position can be funded by the Cash Pool for up to 90 consecutive days before a City Council approved loan from the City of Seattle is required. The Department does not expect to exceed this 90 day temporary Cash Pool borrowing time limit prior to the availability of bond proceeds that would be used to repay the City of Seattle's Cash Portfolio.

Rate Stabilization Account and Revised Financial Policies—On March 22, 2010, the Seattle City Council adopted Council Bill No. 116817 and Resolution No. 31187 establishing a Rate Stabilization Account (RSA) and revised financial policies for the Department. The RSA, with a targeted balance of $100.0 million, is intended to absorb fluctuations in the Department'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% 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% 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 the Department 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% of the expenditures with cash from operations.

Due to low snowpack during this past winter, the Department 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 the Department prospectively.

Long-term Purchase Power Contract—On February 2, 2010, the Department executed a purchase power contract with King County Wastewater Treatment Division. The resource is expected to come online in 2013, and the Department 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.

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REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

Schedules of Funding Progress

SCERS. The schedule of funding progress for SCERS is presented below for the three most recent years for which the Department has available data (dollar amounts in millions):

Actuarial Valuation Date January 1,	Actuarial Value of Assets (a)	Actuarial Accrued Liabilities ("AAL")(1) (b)	Unfunded AAL ("UAAL")(2) (b-a)	Funding Ratio (a/b)	Covered Payroll(3) (c)	UAAL (or Excess) as a Percentage of Covered Payroll ((b-a)/c)
2004	$ 1,527.5	$ 1,778.9	$ 251.4	85.9 %	$ 424.7	59.2 %
2006	1,791.8	2,017.5	225.8	88.8	447.0	50.5
2008	2,119.4	2,294.6	175.2	92.4	501.9	34.9

(1) Actuarial present value of benefits less actuarial present value of future normal costs based on entry age actuarial cost method.
(2) Actuarial accrued liabilities less actuarial value of assets; funding excess if negative.
(3) Covered payroll includes compensation paid to all active employees on which contributions were made in the year preceding the valuation period.

OPEB. The schedule of funding progress for the other post-employment benefit healthcare plans is presented below for the two recent years for which the Department has available data (dollars amounts in millions):

Actuarial Valuation Date January 1,	Actuarial Value of Assets (a)	Liabilities ("AAL") Entry Age (b)	Unfunded AAL ("UAAL") (b-a)	Funding Ratio (a/b)	Covered Payroll (c)	Percentage of Covered Payroll ((b-a)/c)
2006	$ -	$ 84.3	$ 84.3	- %	N/A	N/A
2008	-	78.8	78.8	-	N/A	N/A