Washington State Auditor's Office

Financial Statements and Federal Single Audit Report

City of Seattle
King County

Audit Period
January 1, 2006 through December 31, 2006

Report No. 73373

Issue Date
September 28, 2007

Washington
State Auditor
Brian Sonntag

Washington State Auditor
Brian Sonntag

September 28, 2007

Mayor and City Council
City of Seattle
Seattle, Washington

Report on Financial Statements and Federal Single Audit

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

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

In addition to this work, we look at other areas of our audit client's operations for compliance with state laws and regulations. The results of that audit will be included in a separately issued accountability report.

Sincerely,

BRIAN SONNTAG, CGFM
STATE AUDITOR

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Federal Summary

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

FINANCIAL STATEMENTS

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

Internal Control Over Financial Reporting:

- **Significant Deficiencies:** We identified deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.

- **Material Weaknesses:** We identified no significant deficiencies that we consider to be material weaknesses.

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

FEDERAL AWARDS

Internal Control Over Major Programs:

- **Significant Deficiencies:** We identified deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.

- **Material Weaknesses:** We identified significant deficiencies that we consider to be material weaknesses.

We issued an unqualified opinion on the City's compliance with requirements applicable to its major federal programs, with the exception of the Federal Transit Formula Grants program on which we issued a qualified opinion on compliance with applicable requirements.

We reported findings that are required to be disclosed under OMB Circular A-133.

Identification of Major Programs:

The following were major programs during the period under audit:

CFDA No.	Program Title
14.218	Community Development Block Grants/Entitlement Grants
14.235	Supportive Housing Program
16.011	Urban Areas Security Initiative
16.590	Grants to Encourage Arrest Policies and Enforcement of Protective Orders
20.205	Highway Planning and Construction

20.507	Transit Cluster – Federal Transit Formula Grants
93.044/045/053	Aging Cluster
97.004	Homeland Security Grant Program
97.008	Urban Areas Security Initiative
97.067	Homeland Security Grant Program
97.071	Metropolitan Medical Response System

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was $2,725.728.61.

The City qualified as a low-risk auditee under OMB Circular A-133.

Schedule of Federal Audit Findings and Questioned Costs

City of Seattle
King County
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1. The City of Seattle did not maintain adequate records to document it met subrecipient monitoring requirements.

CFDA Number and Title:	**20.507 – Federal Transit Formula Grants**
Federal Grantor Name:	**U.S. Federal Highway Administration**
Federal Award Number:	**ST06FTA**
Questioned Cost Amount:	**$0**
Pass-through Entity:	**Washington State Department of Transportation (WSDOT)**

Background

The City has an agreement with Seattle Monorail Services , a private company, to operate the Seattle Monorail. Upon receiving Federal Transit Administration funds for monorail improvements, the City signed a letter of agreement with Monorail Services to make these improvements. This agreement passed responsibility for compliance with most applicable Federal Transit Administration requirements to Monorail Services, thereby making them a grant subrecipient

Description of Condition

We reviewed the City’s internal controls and compliance with regulations over the Federal Transit Formula Grant. The City reported federal expenditures of approximately $705,000 under this grant in 2006. Of this, we examined expenditures totaling $595,452.

Federal regulations require the City to monitor its subrecipients to ensure their compliance with grant program requirements. The City did not include all applicable federal requirements in the contract with Monorail Services. Further, the City lacked sufficient documentation to show adequate controls were in place to monitor compliance by Monorail Services with grant program requirements.

Compliance areas affected by lack of controls:

<u>Davis-Bacon Act</u>
The Davis-Bacon Act requires the payment of federal prevailing wages to laborers. The City did not include Davis-Bacon compliance requirements in its contract with Monorail Services. Further, the City did not have controls in place to monitor the subrecipient for Davis-Bacon Act compliance.

<u>Procurement/Suspension and Debarment</u>
The subrecipient was provided with the City's policies and procedures for procurement and suspension and debarment. While the City would not authorize payment unless the

subrecipient could provide signed contracts and proof of bidding, it did not monitor the actual bid process or ensure contractors were not suspended or debarred from grant projects.

Special Reporting – Report of DBE Awards or Commitments and Payments
Federal Transit Administration (FTA) requirements related to utilizing Disadvantaged Business Enterprises were included in the subrecipient agreement. However, the City did not monitor Monorail Services for compliance with this requirement.

Special Tests and Provisions – Environmental Review
FTA requirements related to environmental review were included in the subrecipient agreement. However, the City was not able to provide records demonstrating that it monitored for compliance with this requirement.

Cause of Condition

The City believed that providing reference of federal requirements to the subrecipient was sufficient.

Effect of Condition

Without controls in place to monitor the subrecipient, the City is not able to ensure federal funds are being used appropriately. Because Seattle Monorail Services is a for-profit subrecipient, it is not required to receive a federal grant audit. This makes subrecipient monitoring even more important in ensuring the federal grant dollars were properly expended.

Recommendation

We recommend the City establish and follow control policies and procedures to effectively monitor subrecipients' use of federal funds.

City's Response

We concur with the finding that our records were not sufficient to document subrecipient compliance with federal grant program requirements. We are engaged in ongoing discussions with the subrecipient regarding federal grant requirements and we are putting into place monitoring and documentation procedures and controls.

Auditor's Remarks

We appreciate the steps the City is taking to resolve this issue. We will review the condition in our next audit.

Applicable laws and Regulations

The U.S. Office of Management and Budget's Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, outlines responsibilities for pass-through entities receiving federal funds and states in part:

Subsection D – Federal Agencies and Pass-Through Entities

400(d) Pass-through entity responsibilities:

A pass-through entity shall perform the following for the Federal awards it makes:

(1) Identify Federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year, if the award is R&D, and name of Federal agency. When some of this information is not available, the pass-through entity shall provide the best information available to describe the Federal award.
(2) Advise subrecipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity.

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

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

(5) Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.

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

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

Subsection B – Audits

210(a) General:

An auditee may be a recipient, a subrecipient, and a vendor. Federal awards expended as a recipient or a subrecipient would be subject to audit under this part. The payments received for goods or services provided as a vendor would not be considered Federal awards.

(e) For-profit subrecipient:

Since this part does not apply to for-profit subrecipients, the pass-through entity is responsible for establishing requirements, as necessary, to ensure compliance by for-profit subrecipients. The contract with the for-profit subrecipient should describe applicable compliance requirements and the for-profit subrecipient's compliance responsibility. Methods to ensure compliance for Federal awards made to for-profit subrecipients may include pre-award audits, monitoring during the contract, and post-award audits.

Schedule of Federal Audit Findings and Questioned Costs

City of Seattle
King County
January 1, 2006 through December 31, 2006

2. The City of Seattle charged unallowable costs and activities to its Highway Planning and Construction grant.

CFDA Number and Title:	**20.205 – Highway Planning and Construction**
Federal Grantor Name:	**U.S. Federal Highway Administration**
Questioned Cost Amount:	**$196,324**
Pass-through Entity:	**Washington State Department of Transportation (WSDOT)**

Description of the Condition

In 2006 the City spent $19.1 million for projects funded by the Federal Highway Planning and Construction program. The City receives this federal assistance through the Washington State Department of Transportation (WSDOT). The agreements between the City and WSDOT specify the allowable activities and costs under each agreement.

We looked at six such agreements supporting $16.7 million of these costs. From these six agreements, we reviewed billings to the grant totaling $5,097,960. We found two areas in which the City improperly charged costs to the program as follows:

- The City charged $163,052 for activities not identified in the grant agreement (LA -5512). The agreement provided funding for transportation system improvements including sidewalks, traffic medians and crosswalks. However, we found costs charged to the project for a library/community center storm drainage facility, which was beyond the allowable activities specified in the grant agreement.

- Our review also disclosed that the City charged unallowable overhead to the grant program. The City applied overhead of 14.61 percent to its direct labor for fringe benefits and paid absences. The City inappropriately charged $33,272 of overhead to the $5,097,960 in billings that we tested. While costs for overhead can be allowed on projects, the City did not have such approval from WSDOT.

Cause of Condition

City personnel responsible for preparing grant billings inadvertently included these unallowable costs in those billings.

Effect of Condition

Federal grant funds were used to pay for at least $196,324 in unallowable costs. In addition, based on the amount of overhead charged to the billings we tested, it is likely that approximately $91,256 of overhead was charged to the untested billings. WSDOT could seek recovery of these costs.

Recommendation

We recommend the City contact the Washington State Department of Transportation to resolve these questioned costs.

City's Response

We concur with the finding that unallowable costs were inappropriately billed to the grant program. This was due to a misunderstanding within the Finance section that resulted in direction to the grant accountant to include the charges in question when billing the grant. We have contacted the Washington State Department of Transportation, the pass-through entity, and, with their approval, we will submit other eligible costs to replace the questioned costs. Formal systems are in place for communicating the billing information from the Finance section to the Grant Accounting section. In addition, the project manager will henceforth review and approve the billing information to ensure compliance with grant requirements. With regard to overhead costs, we will revise our calculation methods to determine appropriate amounts for future billings and will perform a complete review of the overhead cost calculations for both internal and external billings to ensure compliance with OMB Circular A-87. Training sessions will be conducted with staff to ensure consistency.

Auditor's Remarks

We appreciate the steps the City is taking to resolve this issue. We will review the condition in our next audit.

Applicable Laws and Regulations

Office of Management and Budget Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments* (2 CFR Part 225), Appendix A, Section C, states in part:

> To be allowable under Federal awards, costs must meet the following general criteria:
>
> > d. Conform to any limitations or exclusions set forth in these principles, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.

Washington State Department of Transportation Contract No. LA-5512 describes the activities that the grant charged for the storm drainage facilities may fund:

> Design and construct TSM (Transportation System Management) improvements on 5th Avenue NE between NE 100th and NE Northgate Way. The location is the site for the City of Seattle planned new library and recreation center. The new transportation facilities, including new wide sidewalks, traffic medians and new crosswalks will improve transit speed and reliability in the corridor, accommodate future transit capacity and improve pedestrian access in the corridor.

Washington State Department of Transportation Local Agency Guidelines, Chapter 23, states:

> 23.5 Identification of Federal Aid Participating and Nonparticipating Charges Costs are eligible for Federal Highway Administration (FHWA) federal participation if claimed in accordance and in compliance with 23CFR and OMB Circular A-87 . . .

> An Indirect Cost Plan must be submitted to H&LP for review and acceptance prior to charging any indirect costs to a FHWA project. The indirect cost plan is subject to audit during the local agency's regular audit. It is recommended that all supporting documentation be retained at the local agency to ensure compliance with federal regulations.

Washington State Department of Transportation (WSDOT) agreements with the City that we reviewed consistently had the following provisions limiting overhead charges to the program as follows:

> Expenditures by the Local Agency for maintenance, general administration, supervision, and other overhead shall not be eligible for federal participation unless an indirect cost plan has been approved by WSDOT.

Schedule of Audit Findings and Responses

City of Seattle
King County
January 1, 2006 through December 31, 2006

1. The City of Seattle did not have adequate internal controls to ensure federal expenditures are accurately reported on its Schedule of Expenditures of Federal Awards.

Description of Condition

Entity management, the state Legislature, state and federal agencies and bondholders rely on the information included in financial statements and reports to make decisions. It is the responsibility of City management to design and follow internal controls that provide reasonable assurance regarding the reliability of financial reporting. The control system must ensure that financial data is reliably authorized, processed and reported.

Our audit identified a significant deficiency in controls that adversely affects the City's ability to produce a reliable Schedule of Expenditures of Federal Awards (SEFA), which is supplemental information to be included in the City's financial statements and is part of the federal audit report required by the federal government. This schedule is to include all federal expenditures by the City for each fiscal year.

Government Auditing Standards, prescribed by the Comptroller General of the United States, require the auditor to communicate significant deficiencies as a finding.

Instead of expenditures, the City has traditionally reported revenue amounts on its SEFA. This method works for most of the City's federal grants because revenues are usually earned at the time the related expenditures are incurred. However, we identified one instance where program expenditures were understated by $2,134,577. The City subsequently corrected its SEFA to include these amounts. In making this correction, the City reviewed its reporting for other programs. This resulted in correcting an additional $1,676,380 in understated expenditures.

Cause of Condition

In the past, the City has reported revenue amounts on its SEFA instead of expenditures because that is generally an efficient and reliable procedure for identifying most of the federal expenditures. However, for 2006, that procedure resulted in significant errors due to the timing of billings to grantor agencies and recording the related revenue.

Effect of Condition

The City incorrectly reported information on the SEFA, which is used for audit planning and grantor oversight. An incorrect SEFA can affect the amount of audit coverage required. Further, an incorrect SEFA can delay an audit beyond the required nine-month reporting deadline and cause unnecessary audit costs.

Recommendation

We recommend the City establish and implement internal controls to ensure the Schedule of Expenditures of Federal Awards is reported accurately and is complete.

City's Response

We concur with the finding that grant expenditures were understated in the Schedule of Expenditures of Federal Awards (SEFA) that was submitted for audit. The SEFA was subsequently corrected. We will review our procedures for preparing the SEFA and will implement internal controls to ensure the SEFA is reported accurately and completely.

Auditor's Remarks

We appreciate the steps the City is taking to resolve this issue. We will follow up on this issue during our next regularly scheduled audit.

Applicable Laws and Regulations

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

> Section 300 – Auditee responsibilities.
>
> > The auditee shall:
> >
> > > (a) Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity.
> > >
> > > (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.
> > >
> > > (c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.
> > >
> > > (d) Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with §___.310**.**

RCW 43.09.200, Local government accounting--Uniform system of accounting, states:

> The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class.
>
> The system shall exhibit true accounts and detailed statements of funds collected, received, and expended for account of the public for any purpose whatever, and by all public officers, employees, or other persons.

> The accounts shall show the receipt, use, and disposition of all public property, and the income, if any, derived therefrom; all sources of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction; all statements and reports made or required to be made, for the internal administration of the office to which they pertain; and all reports published or required to be published, for the information of the people regarding any and all details of the financial administration of public affairs.

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

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

Government Auditing Standards, January 2007 Revision **–** Section 5.11, states in part:

> For all financial audits, auditors should report the following deficiencies in internal control:
>
> > a. Significant deficiency: a deficiency in internal control, or combination of deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is a more than remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected . . . .

Schedule of Prior Federal Audit Findings

City of Seattle
King County
January 1, 2006 through December 31, 2006

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

Audit Period:	**Report Reference Number:**	**Finding Reference Number:**	**CFDA Number(s):**
2006	71511	1	16.011, 97.004, 97.008, 97.042 and 97.071

Federal Program Name and Granting Agency:	**Pass-Through Agency Name:**
Homeland Security	Washington State Military Department

Finding Caption:
The City of Seattle Fire Department did not comply with recordkeeping and monitoring requirements for equipment purchased with federal Homeland Security grant funds.

Background:
The City received $13,805,661 in Urban Areas Security Initiative (UASI) grant funds (CFDA 16.011 and 97.008) and $1,669,666 in Homeland Security Grant Cluster (HSGC) funds (CFDA 97.004, 97.042 and 97.071) during 2005. The Seattle Fire Department received approximately $3.2 million of this funding. It utilized $653,900 of UASI and $100,712 of HSGC for equipment. We found the Department did not comply with recordkeeping and monitoring requirements for equipment purchased with these grant funds.

Federal regulations require property records be maintained to list equipment purchased with grant money. The regulations also require a physical inventory at least once every two years.

The City uses its Asset Management System (AMS) to track equipment. Every two years, it conducts a physical inventory of equipment recorded in the AMS. The last inventory was conducted in the summer of 2005.

We tested the equipment the Department purchased with the grant funds to the AMS and to the last physical inventory. We found the equipment was not listed in the AMS and it was not included in the physical inventory.

The Department had not established a control system over inventory sufficient to gather information needed to effectively track and monitor equipment. Further, Department personnel were not familiar with the grant requirement.

Status of Corrective Action: (check one)
X Fully Corrected __ Partially Corrected __ No Corrective Action Taken __ Finding is considered no longer valid

Corrective Action Taken:
The City requires any single item valued at over $5,000 be tracked in the Summit Asset Management Program. Currently, the Fire Department is entering these purchases monthly. For 2006, the City Asset Management Team (Summit) found us in full compliance and, currently, the only outstanding 2007 purchases (seven) will be entered by the end of July 2007 because the protocol is to make entries at least monthly.

As required, the Fire Department only tracks those items over $5,000 in the City Summit system.

However, the Department tracks all equipment (regardless of unit dollar value) via its own Asset Management Program called Wisetrack. This includes all grant and non-grant purchases. Records are entered at the Department's central receiving and distribution Warehouse. These records include equipment profile and issue information along with subsequent updates in turn on repair, redistribution and retirement. This life-cycle system allows for complete equipment tracking as well as financial planning for replacements.

This system was in place at the time of the audit and shown to the auditor. The Department was tracking and controlling its grant purchased items. The vast majority of grant items purchased by the Fire Department are below the $5,000 threshold. Of the tens of thousands of items purchased with grants that were audited, a few dozen were over the Summit threshold. Any limited Summit exceptions have been corrected and confirmed by Summit.

Regarding the two year inventory, the Fire Department runs a report of all items in the Summit Asset Management Program and ensures the items listed are still in service and all retired assets are retired in the system. Because the Department operates from 35 sites, the inventory is done via phone and working with the warehouse to ensure that all items are accounted for.

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

City of Seattle
King County
January 1, 2006 through December 31, 2006

Mayor and City Council
City of Seattle
Seattle, Washington

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, the aggregate discretely presented component units and remaining fund information of the City of Seattle, King County, Washington, as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 26, 2007. Our report was modified to include a reference to other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Light, Water, Drainage and Wastewater, and Solid Waste funds and the Seattle City Employees Retirement System, as described in our report on the City's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies involving the internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control over financial reporting.

We consider the deficiency described in the accompanying Schedule of Audit Findings and Responses to be a significant deficiency in internal control over financial reporting, and is reported as Finding 1.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

COMPLIANCE AND OTHER MATTERS

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

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information and use of management, the Mayor and City Council, federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

BRIAN SONNTAG, CGFM
STATE AUDITOR

June 26, 2007

Independent Auditor's Report on Compliance with Requirements Applicable to each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133

City of Seattle
King County
January 1, 2006 **through** December 31, 2006

Mayor and City Council
City of Seattle
Seattle, Washington

COMPLIANCE

We have audited the compliance of the City of Seattle, King County, Washington, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the year ended December 31, 2006. The City's major federal programs are identified in the Federal Summary. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

As described in Finding 1 in the accompanying Schedule of Federal Audit Findings and Questioned Costs, the City did not comply with requirements regarding subrecipient monitoring that are applicable to the Federal Transit Formula Grants program. Compliance with such requirements is necessary, in our opinion, for the City to comply with requirements applicable to the program.

In our opinion, except for the noncompliance described in the preceding paragraphs, the City complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended December 31, 2006. The results of our auditing procedures also disclosed another instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Finding 2.

INTERNAL CONTROL OVER COMPLIANCE

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Finding 1 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying Schedule of Federal Audit Findings and Questioned Costs, we consider Finding 1 to be a material weakness.

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

This report is intended for the information of management, the Mayor and City Council, federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

BRIAN SONNTAG, CGFM
STATE AUDITOR

September 17, 2007

Independent Auditor's Report on Financial Statements

City of Seattle
King County
January 1, 2006 through December 31, 2006

Mayor and City Council
City of Seattle
Seattle, Washington

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the aggregate discretely presented component units and remaining fund information of the City of Seattle, King County, Washington, as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements as listed on page 21. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We did not audit the financial statements of the Light, Water, and Drainage and Wastewater funds, which are major funds and collectively represent 95 percent, 99 percent and 88 percent, respectively, of the assets, net assets and revenues of the business-type activities. We also did not audit the financial statements of the Solid Waste Fund, which represent 2 percent, 1 percent and 8 percent, respectively, of the assets, net assets and revenues of the business-type activities, and 3 percent, 0 percent and 12 percent, respectively, of the assets, net assets and revenues of the aggregate discretely presented component units and remaining fund information. We also did not audit the financial statements of the Seattle City Employees' Retirement System, which represent 75 percent, 84 percent and 33 percent, respectively, of assets, net assets and revenues of the aggregate discretely presented component units and remaining fund information. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the Light, Water, Solid Waste, and Drainage and Wastewater funds and the Seattle City Employees' Retirement System, are based solely on the reports of the other auditors.

The partial prior year comparative information has been derived from the City's 2005 financial statements and, in our report dated July 18, 2006, based on our audit and the reports of other auditors, we expressed unqualified opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund, the aggregate discretely presented component units and remaining fund information.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, the aggregate discretely presented component units and remaining fund information of the City of Seattle, as of December 31, 2006, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

The management's discussion and analysis on pages 22 through 41, budgetary comparison information on pages 132 through 135 and pension trust fund information on pages 136 through 138 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the City's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. This schedule is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

BRIAN SONNTAG, CGFM
STATE AUDITOR

June 26, 2007

Financial Section

City of Seattle
King County
January 1, 2006 through December 31, 2006

REQUIRED SUPPLEMENTAL INFORMATION

Management's Discussion and Analysis – 2006

BASIC FINANCIAL STATEMENTS

Statement of Net Assets – 2006
Statement of Activities – 2006
Balance Sheet – Governmental Funds – 2006
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – 2006
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities – 2006
Statement of Net Assets – Proprietary Funds – 2006
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds – 2006
Statement of Cash Flows – Proprietary Funds – 2006
Statement of Net Assets – Fiduciary Funds – 2006
Statement of Changes in Net Assets – Fiduciary Funds – 2006
Notes to Financial Statements – 2006

REQUIRED SUPPLEMENTAL INFORMATION

Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund – 2006
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Transportation Fund – 2006
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Low-Income Housing Fund – 2006
Schedules of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Notes to Required Supplementary Information – 2006
Pension Plan Information – Schedule of Funding Progress – 2006
Pension Plan Information – Schedule of Employer Contributions – 2006
Pension Plan Information – Notes to Required Supplementary Information – 2006

SUPPLEMENTAL INFORMATION

Schedule of Expenditures of Federal Awards – 2006
Notes to Schedule of Expenditures of Federal Awards – 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Seattle (City) presents this Management's Discussion and Analysis (MD&A) of its financial activities for the fiscal year ended December 31, 2006. This discussion and analysis focuses on significant financial issues, provides an overview of the City's financial activity, highlights significant changes in the City's financial position, and identifies material variances between the approved budget and actual spending.

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

FINANCIAL HIGHLIGHTS

- At the end of fiscal year 2006 the assets of the City of Seattle exceeded its liabilities by $3.380 billion. Net assets invested in capital assets (net of depreciation and related debt) account for 78.1 percent of this amount ($2.638 billion). The remaining net assets of $741.5 million may be used to meet the City's ongoing obligations to citizens and creditors.

- The City's net assets increased by $408.9 million (13.8 percent) during the fiscal year. The governmental net assets increased by $243.1 million (12.0 percent) over the amount reported in 2005. Business-type net assets increased by $165.8 million (17.7 percent). The business-type increase included net income of $161.8 million for City Light, $1.0 million for the Drainage and Wastewater Utility, $0.6 million for the Water Utility, and $1.6 million for the nonmajor funds. The balance of the offset is the result of the consolidation of the Internal Service Funds' activities related to the Enterprise Funds.

- At the close of 2006 the City's governmental funds reported a combined ending fund balance of $496.7 million, an increase of $75.8 million (18.0 percent). Of the major funds, the fund balance of the General Fund increased $37.6 million and the Low-Income Housing Fund increased by $9.3 million. The fund balance increases were offset by a decrease of $0.6 million in the Transportation Fund. The fund balances of the nonmajor governmental funds increased by $29.5 million. The gain from the sale of capital assets contributed a significant portion to the revenues. In addition, the ongoing improvement of the regional economy contributed to the increase in the City's tax revenues. Approximately $188.9 million (38.0 percent) of the combined ending fund balance is unreserved fund balance available to the City for discretionary spending.

- At the end of 2006 the unreserved fund balance for the General Fund was $150.3 million or 25.4 percent of total General Fund expenditures of $592.9 million. The General Fund's unreserved fund balance increased by approximately $42.5 million from the prior year's amount of $107.8 million, reflecting gains from sale of capital assets and the continuing economic improvement in 2006.

- The City's total outstanding bonded debt increased by approximately $20.0 million (0.6 percent) to $3.463 billion during the current fiscal year. General obligation (GO) bonded debt decreased by $48.8 million in 2006. During the year, revenue bonds and bond anticipation notes increased by $68.6 million. In addition, the City issued $21.9 million of special assessment bonds for the design and construction of the new South Lake Union Streetcar, backed by the collection of assessments from a local improvement district (LID).

- Several capital assets were sold in 2006 with sales proceeds amounting to $35.8 million. The majority of these properties were acquired in the mid-1900s at a cost of less than $0.5 million which resulted in the gain on sale of $35.3 million. Revenues from local tax sources, including property, sales, business excise, miscellaneous other taxes, penalties and interest on taxes, increased by $51.4 million to $851.5 million, a 6.4 percent increase over 2005.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

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

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

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

- **Enterprise funds** report the same functions presented as business-type activities in the government-wide financial statements. The proprietary funds financial statements provide separate information for the Seattle City Light Fund, Water Fund, and the Drainage and Wastewater Fund, which are considered to be major enterprise funds. Information for nonmajor enterprise funds is presented in the aggregate. Information for each of the nonmajor enterprise funds is provided in the combining statements in this report.

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

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

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

Notes to the Financial Statements

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

Required Supplementary Information

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

Combining Statements

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve as a useful indicator of a government's financial position. Table A-1 is a condensed version of the statement of net assets for the City of Seattle. At the close of the current fiscal year the City's total assets exceeded liabilities by $3.380 billion.

Statement of Net Assets

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

(In Thousands)

	Governmental Activities		Business-Type Activities		Total	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**
Current and Other Assets	$ 1,042,069	$ 929,891	$ 1,005,439	$ 929,920	$ 2,047,508	$ 1,859,811
Capital Assets and Construction in Progress, Net of Accumulated Depreciation	2,587,436	2,452,610	3,162,817	3,011,820	5,750,253	5,464,430
Total Assets	3,629,505	3,382,501	4,168,256	3,941,740	7,797,761	7,324,241
Current Liabilities	220,102	232,912	314,340	316,817	534,442	549,729
Noncurrent Liabilities	1,133,002	1,116,315	2,750,516	2,687,311	3,883,518	3,803,626
Total Liabilities	1,353,104	1,349,227	3,064,856	3,004,128	4,417,960	4,353,355
Net Assets						
Invested in Capital Assets, Net of Related Debt	1,825,203	1,679,338	813,091	664,469	2,638,294	2,343,807
Restricted	183,338	142,509	59,161	147,980	242,499	290,489
Unrestricted (Deficit)	267,862	211,426	231,148	125,160	499,010	336,586
Total Net Assets	$ 2,276,403	$ 2,033,273	$ 1,103,400	$ 937,610	$ 3,379,803	$ 2,970,883

The largest portion of the City's net assets (78.1 percent) reflects an investment of $2.638 billion in capital assets, such as land, buildings, and equipment, less any related outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, the resources needed to repay the debt must be provided from other sources, as capital assets cannot be used to liquidate these liabilities.

An additional portion of the City's net assets, $242.5 million (7.2 percent), represents resources that are subject to restrictions on how they may be used. The remaining balance of unrestricted net assets, $499.0 million (14.8 percent), may be used to meet the government's obligation to citizens and creditors.

Unrestricted net assets for governmental activities increased by 26.7 percent from $211.4 million in 2005 to $267.9 million in 2006. The City continues to see improvement in the local economy, and a corresponding increase in tax revenues coupled with the sale of capital assets in 2006 boosted the total unrestricted net assets.

The net assets for the business activities increased between 2005 and 2006 from $937.6 million to $1.103 billion. The increase in net assets is primarily due to the improved performance of the City Light Utility. The Utility was able to sell more short-term wholesale power because of the significant rainfall in the Northwest region in 2006. They also realized higher operating revenues, higher non-operating revenues, higher capital contributions and fees, and slightly lower non-operating expenses.

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

(In Thousands)

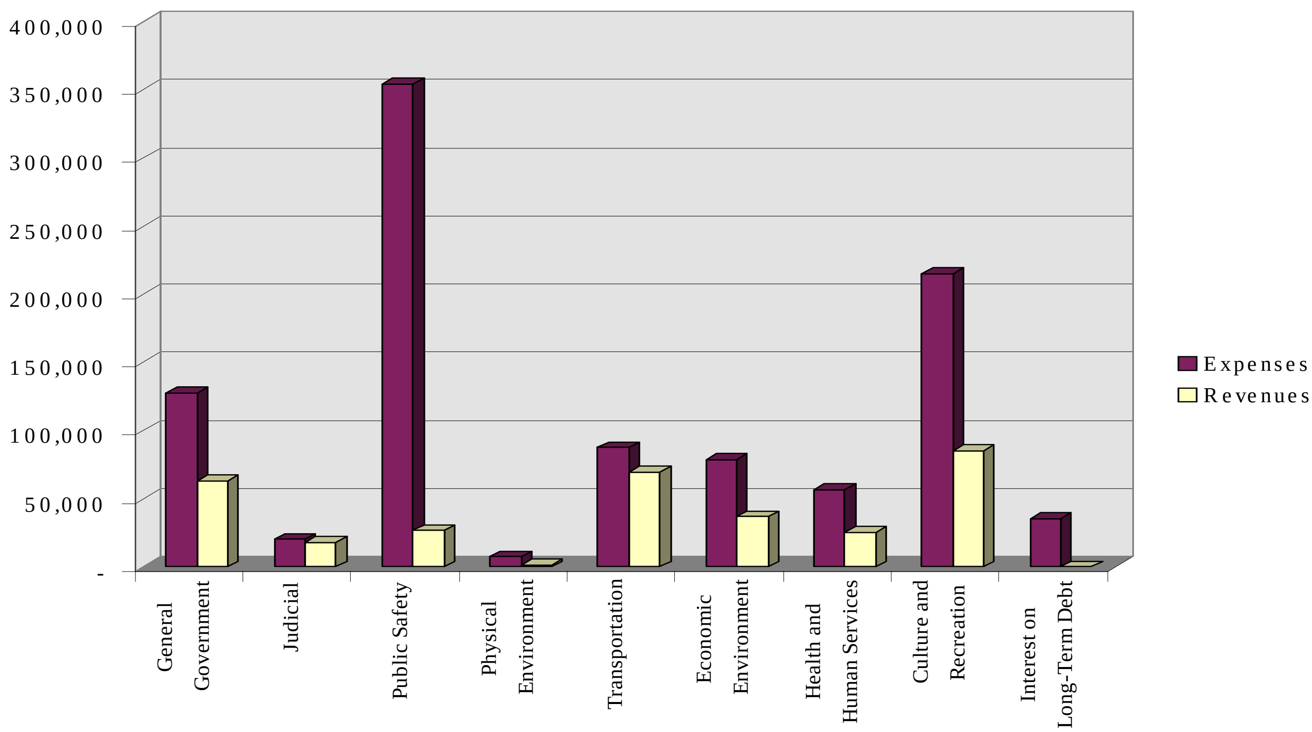
	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues						
Program Revenues						
Charges for Services	$ 180,587	$ 169,754	$ 1,320,336	$ 1,210,615	$ 1,500,923	$ 1,380,369
Operating Grants and Contributions	93,851	93,656	2,412	2,973	96,263	96,629
Capital Grants and Contributions	52,173	66,991	49,436	30,750	101,609	97,741
General Revenues						
Property Taxes	318,490	311,613	-	-	318,490	311,613
Sales Taxes	155,311	146,060	-	-	155,311	146,060
Business Taxes	311,015	280,139	-	-	311,015	280,139
Other Taxes	66,675	62,268	-	-	66,675	62,268
Other	57,373	13,209	18,065	11,249	75,438	24,458
Total Revenues	1,235,475	1,143,690	1,390,249	1,255,587	2,625,724	2,399,277
Expenses						
Governmental Activities						
General Government	127,377	102,362	-	-	127,377	102,362
Judicial	20,344	18,429	-	-	20,344	18,429
Public Safety	354,083	325,416	-	-	354,083	325,416
Physical Environment	7,331	6,614	-	-	7,331	6,614
Transportation	87,610	87,542	-	-	87,610	87,542
Economic Environment	78,957	91,060	-	-	78,957	91,060
Health and Human Services	56,904	56,572	-	-	56,904	56,572
Culture and Recreation	215,081	199,169	-	-	215,081	199,169
Interest on Long-Term Debt	35,399	39,539	-	-	35,399	39,539
Business-Type Activities						
Light	-	-	699,163	683,475	699,163	683,475
Water	-	-	161,943	148,992	161,943	148,992
Drainage and Wastewater	-	-	199,378	178,447	199,378	178,447
Solid Waste	-	-	114,527	110,044	114,527	110,044
Planning and Development	-	-	50,203	43,487	50,203	43,487
Downtown Parking Garage	-	-	8,505	8,414	8,505	8,414
Total Expenses	983,086	926,703	1,233,719	1,172,859	2,216,805	2,099,562
Excess (Deficiency) Before Transfers	252,389	216,987	156,530	82,728	408,919	299,715
Transfers	(9,260)	(8,456)	9,260	8,456	-	-
Increase in Net Assets	243,129	208,531	165,790	91,184	408,919	299,715
Net Assets - Beginning of Year	2,033,274	1,824,743	937,610	846,426	2,970,884	2,671,169
Nets Assets - End of Year	$ 2,276,403	$ 2,033,274	$ 1,103,400	$ 937,610	$ 3,379,803	$ 2,970,884

Analysis of Changes in Net Assets

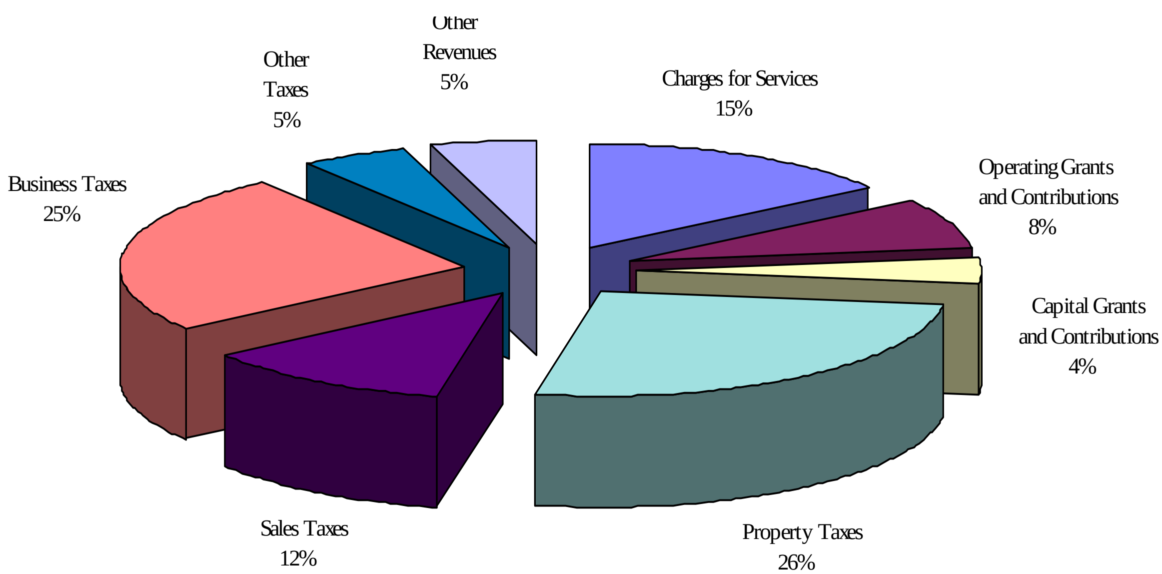
In 2006 the City's total net assets increased by $408.9 million. The increase is explained in the following discussion of governmental and business-type activities.

Governmental Activities

EXPENSES AND PROGRAM REVENUES - GOVERNMENTAL ACTIVITIES



REVENUES BY SOURCE - GOVERNMENTAL ACTIVITIES



Total $1,235.5 Million

Governmental Activities. The charts on the previous page present the City's governmental expenses and revenues by function and its revenue by source. Public safety is the largest governmental expense of the City, followed by culture and recreation, general government, transportation, economic environment, health and human services, interest on long-term debt, judicial, and physical environment. General revenues such as the property, business, and sales taxes are not shown by function because they are used to support citywide program activities. Governmental activities increased the City's net assets by $243.1 million in 2006 compared to an increase of $208.5 million in 2005. Key factors in the change are as follows:

In 2006, total revenues for governmental activities were $1.235 billion, $91.8 million or 8.0 percent higher than 2005.

Program revenue related to services increased by $10.8 million or 6.4 percent in 2006. Revenue from licenses and permits was up overall with a significant increase in cable franchise fees and street use permit fees. Revenues for various recreational activities and concessions increased as did parking and building and space rental revenues. While the City realized an overall increase, revenue related to the transportation and economic environment programs declined. Revenue related to the Sound Transit project decreased significantly in 2006. Float loan revenue was also down.

Revenue from grants and contributions decreased by $14.6 million in 2006. While 2006 operating grants remained at the same level as the prior year, capital grants decreased by 14.8 million compared to 2005.

Property taxes, the largest source of revenue supporting governmental activities, increased by $6.9 million or 2.2 percent compared to 2005. Property tax is levied primarily on real estate owned by individuals and businesses. State law limits growth in the amount of tax that a jurisdiction can collect but does allow for additional voter approved lid lifts. There were no proposed property tax measures for Seattle in 2005 that added to the 2006 property tax. In November 2006 voters did approve a transportation lid lift that will generate approximately $36.2 million in 2007.

The retail sales and use (sales) tax is imposed on the sale of most goods and certain services in Seattle. The tax is collected and remitted to the state. The state provides the City with its share on a monthly basis. With the continued improvement of the economy and the rapid pace of construction activity in 2006, sales tax revenues increased by $9.3 million or 6.3 percent.

Business taxes are the second largest contributor to governmental revenues. The business and occupation (B&O) tax, the major business tax, is levied by the City on the gross receipts of most business activity occurring in Seattle. The City also levies a B&O tax on the gross income derived from sales of utility services within Seattle. In 2006 B&O tax revenues increased by $30.9 million or 11.0 percent due to a healthy economy and mid-year 2005 B&O tax rate increases for the Water Utility and the Solid Waste Utility.

Other tax revenues increased by $4.4 million or 7.1 percent. With the booming housing market, revenue from real estate excise taxes increased by $2.9 million, from $50.6 million in 2005 to $53.6 million in 2006. The remaining increase of $1.5 million is primarily due to an unusually large increase in penalty and interest payments during the first half of the year.

Other revenues more than quadrupled in 2006 to $57.4 million. Revenue from the sale of several properties in 2006 amounted to $35.4 million compared to $2.9 million in 2005, an increase of $32.4 million. The majority of these properties were acquired in the mid-1900s at a combined cost of less than $0.5 million. Also contributing to the increase, investment earnings went up by $11.7 million in 2006. The rate of return for investments continued to rise from an average of 2.85 percent in 2005 to an average of 4.0 percent in 2006.

In 2006 total expenses for governmental activities were $983.1 million compared to $926.7 million in 2005, $56.4 million or 6.1 percent higher than 2005.

General government expenses went up by $25.0 million, a 24.4 percent increase over 2005. Judgment and claims expenses were up significantly as a result of several large cases including the Glaser Temporary Employees Class Action lawsuit and the legal fees associated with that case. Staffing levels in many departments, such as the Department of Executive Administration, the Legislative Department, and the Personnel Department increased in 2006. Health care and dental costs increased for all general government departments. In addition, a 2.3 percent cost-of-living salary adjustment was paid out in 2006. Various Finance General Department projects saw increases in 2006. Some of the larger projects included: street light and fire hydrants costs up $2.0 million; $1.2 million associated with the 1 Percent for Art program; an LID assessment of $1.0 million on City owned property in the South Lake Union area; and, election and voter registration costs up $0.9 million. Depreciation expense on general government property was also up in 2006.

Public safety expenses increased by $28.7 million, an 8.8 percent increase over 2005. The increase is attributed to several factors: staffing increases at both the Police and Fire departments; a 4.6 percent cost-of-living salary adjustment and retroactive payments totaling $8.7 million at the Fire Department; increased overtime and employee benefit expenses; cost increases for technical and professional services; and, jail service contract costs up $2.0 million in 2006. Depreciation expense also increased by $1.4 million in 2006.

Judicial expenses went up $1.9 million or 10.4 percent. In addition to the cost-of-living salary adjustment and health care increases, staff was added to implement the Community Court pilot program that targets chronic criminal justice and human service system users in an attempt to more effectively rehabilitate them. The Municipal Court also added staff to screen defendants for indigent public defense services. This service was previously provided by King County.

Physical environment expenses went up $0.7 million, a 10.8 percent increase compared to 2005. In addition to the cost-of-living increases, expenses went up due to staffing increase to address animal welfare.

At $87.6 million, Transportation expenses remained relatively constant compared to 2005.

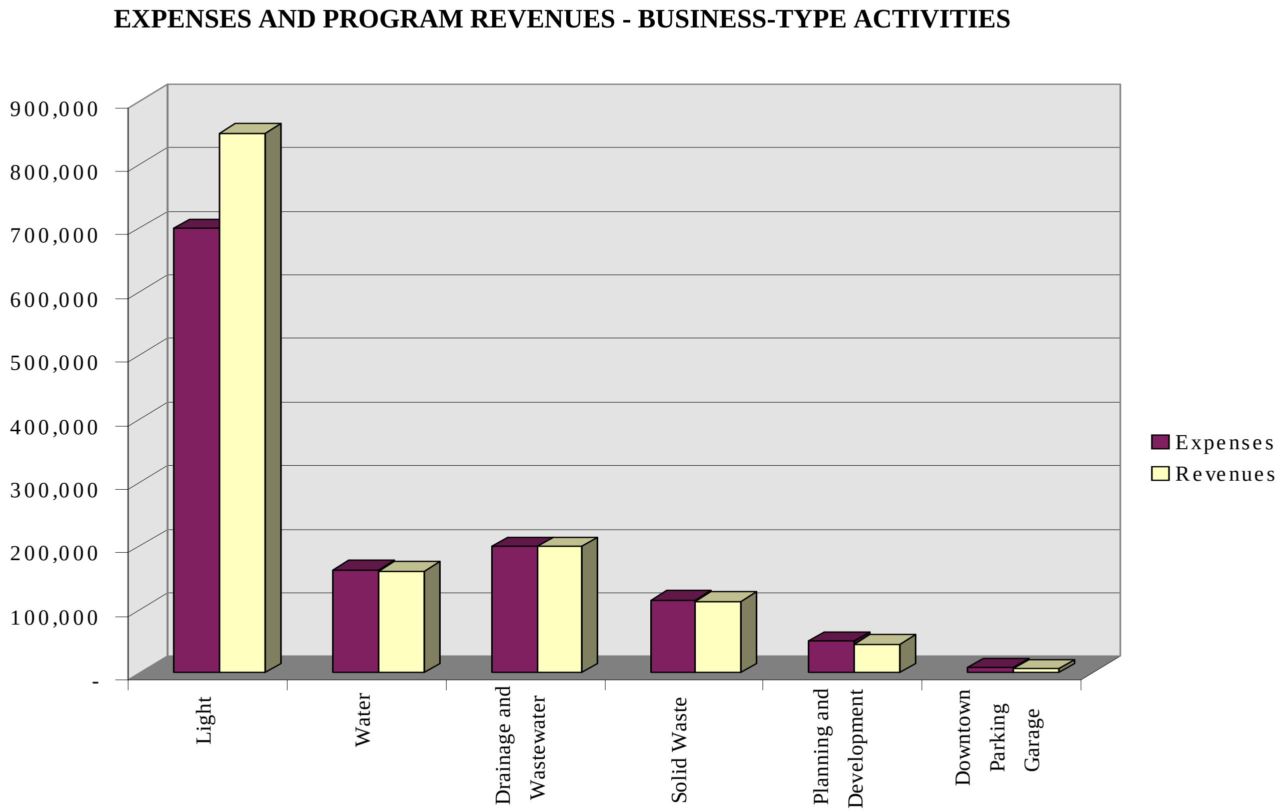
Economic environment expenses went down by $12.1 million or 13.3 percent. The decrease in expenses is attributed to the following: a 2005 payment of the La Salle Pike Place Market Float Loan payment ($7.2 million); a decrease in the number of housing projects funded by the 2002 Housing Levy ($9.0 million); a $4.1 million increase for non-profit assistance for transitional housing and senior service centers.

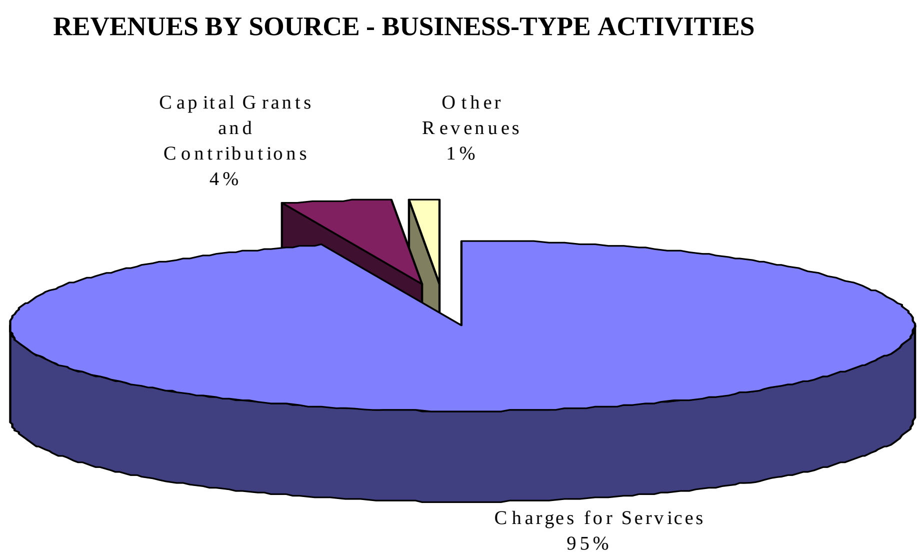
Health and human services expenses showed a minimal increase of $0.3 million, mainly due to cost-of-living increases paid in 2006.

At $215.1 million, culture and recreation expenses were up $15.9 million in 2006 or 8.0 percent higher than 2005. The increase was attributed to several factors. Staffing levels were increased at the Parks Department, Seattle Center, and the Office of Arts and Cultural Affairs. Health care costs rose by approximately $2.0 million. Employees received a cost-of-living salary rate increase. The Library expanded its hours and received increased funding for its collection. There was also an increase in expenses related to the Arts Account program, and depreciation expense went up by $2.2 million in 2006.

Interest on long-term debt went down by $4.1 million or 10.5 percent as a result of a net decrease in general obligation debt of $ 20.0 million.

Business-Type Activities





Total $1,390.2 Million

Business-Type Activities. Business-type activities increased the City's net assets by $164.9 million to $1,102.9 million, an increase of 17.6 percent. Key factors for the change were as follows:

The City Light Utility realized a net increase of $161.8 million in net assets in 2006, an improvement of $79.9 million compared to net income of $81.9 million in 2005. Due to improved rainfall in the Northwest region, the Utility was able to sell more short-term wholesale power in 2006, realizing $128.9 million as compared to $87.4 million in 2005. Also contributing to the higher net income were higher operating revenues, higher non-operating revenues, higher capital contributions and fees, and slightly lower non-operating expenses.

The Water Utility experienced an increase of $0.6 million in net assets in 2006. This increase was primarily due to capital fees and contributions received in 2006 and an increase in water rates and consumption.

The Drainage and Wastewater Utility experienced a $1.0 million increase in net assets in 2006. Operating revenues increased $10.3 million due to rate increases for both wastewater and drainage. The increase was offset by a rise in operating expenses of $21.2 million, including a significant increase of $11.7 million in plan and study costs and an increase of $2.9 million in claims expenses. Capital contributions and grants went up $10.8 due mostly to the infrastructure donated by the Seattle Housing Authority.

The Solid Waste Utility net assets declined $1.2 million in 2006. This compares to an increase of $1.9 million in 2005. Operating revenues increased by $1.2 million in 2006. The revenue increase was offset by an increase of $4.1 million in operating expenses mainly due to garbage collection costs.

In 2006 the Planning and Development (DPD) Fund net assets increased by $4.7 million over 2005. This reflects the continuing economic growth in Seattle – there is massive growth in building construction in terms of volume and size of projects. The Department's operating revenue increased $7.4 million in 2006 while operating expenses increased $4.1 million.

The Downtown Parking Garage Fund experienced a decrease of $1.8 million in net assets.

FINANCIAL ANALYSIS OF CITY FUNDS

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

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

GOVERNMENTAL FUNDS

(In Thousands)

	Major Funds					
	General Fund		Transportation Fund		Low-Income Housing Fund	
	2006	2005	2006	2005	2006	2005
Revenues						
Taxes	$ 706,363	$ 659,686	$ -	$ -	$ 11,816	$ 11,859
Licenses and Permits	19,953	18,686	7,585	6,012	-	-
Grants, Shared Revenues, and Contributions	21,008	22,910	44,017	43,507	6,273	6,409
Charges for Services	52,924	54,387	24,396	30,970	22	10
Fines and Forfeits	18,320	17,023	26	5	-	-
Parking Fees and Space Rent	16,786	15,069	55	109	27	25
Program Income, Interest, and Miscellaneous Revenues	27,603	21,523	259	604	6,077	5,201
Total Revenues	862,957	809,284	76,338	81,207	24,215	23,504
Expenditures	592,859	546,333	157,366	133,103	18,217	27,201
Other Financing Sources and Uses						
Long-Term Debt	-		5,000	2,750	-	-
Sales of Capital Assets	3,992	14,301	-		-	298
Transfers In (Out)	(236,465)	(205,756)	75,446	50,754	3,257	-
Total Other Financing Sources and Uses	(232,473)	(191,455)	80,446	53,504	3,257	298
Fund Balances						
Reserves Legally Segregated for Future Use	82,344	82,152	10,503	11,084	37,134	26,285
Reserves Not Available for Appropriation	8,674	13,703	2	3	-	-
Unreserved	150,280	107,817	-	-	15,355	16,948
Total Fund Balances	$ 241,298	$ 203,672	$ 10,505	$ 11,087	$ 52,489	$ 43,233

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

GOVERNMENTAL FUNDS (continued)

(In Thousands)

	Nonmajor Funds			
	Special Revenue Funds		Debt Service Funds	
	2006	2005	2006	2005
Revenues				
Taxes	$ 53,377	$ 49,765	$ 26,105	$ 25,940
Licenses and Permits	810	914	-	-
Grants, Shared Revenues, and Contributions	61,467	66,652	2	2
Charges for Services	47,834	41,974	-	-
Fines and Forfeits	2,884	2,731	-	-
Parking Fees and Space Rent	18,555	18,233	9,201	8,837
Program Income, Interest, and Miscellaneous Revenues	4,034	30,568	2,829	1,050
Total Revenues	188,961	210,837	38,137	35,829
Expenditures	311,116	306,559	106,998	136,299
Other Financing Sources and Uses				
Long-Term Debt	-	-	23	583
Sales of Capital Assets	15,158	12,619	-	-
Transfers In (Out)	121,197	90,725	70,190	100,062
Total Other Financing Sources and Uses	136,355	103,344	70,213	100,645
Fund Balances				
Reserves Legally Segregated for Future Use	20,448	19,318	16,461	15,109
Reserves Not Available for Appropriation	4,022	2,871	-	-
Unreserved	26,339	14,420	-	-
Total Fund Balances	$ 50,809	$ 36,609	$ 16,461	$ 15,109

	Nonmajor Funds				Total Governmental Funds	
	Capital Projects Funds		Permanent Funds			
	2006	2005	2006	2005	2006	2005
Revenues						
Taxes	$ 53,705	$ 52,678	$ -	$ -	$ 851,366	$ 799,928
Licenses and Permits	-	-	-	-	28,348	25,612
Grants, Shared Revenues, and Contributions	24,012	15,650	322	-	157,101	155,130
Charges for Services	69	95	-	-	125,245	127,436
Fines and Forfeits	-	-	-	-	21,230	19,759
Parking Fees and Space Rent	118	430	-	-	44,742	42,703
Program Income, Interest, and Miscellaneous Revenues	5,986	9,959	104	63	46,892	68,968
Total Revenues	83,890	78,812	426	63	1,274,924	1,239,536
Expenditures	92,942	93,745	416	107	1,279,914	1,243,347
Other Financing Sources and Uses						
Long-Term Debt	44,932	61,382	-	-	49,955	64,715
Sales of Capital Assets	16,606	-	-	-	35,756	27,218
Transfers In (Out)	(38,561)	(35,558)	(15)	(15)	(4,951)	212
Total Other Financing Sources and Uses	22,977	25,824	(15)	(15)	80,760	92,145
Fund Balances						
Reserves Legally Segregated for Future Use	126,099	109,050	2	1	292,991	262,999
Reserves Not Available for Appropriation	-	-	2,190	2,196	14,888	18,773
Unreserved	(3,125)	-	-	-	188,849	139,185
Total Fund Balances	$ 122,974	$ -	$ 2,192	$ 2,197	$ 496,728	$ 420,957

Governmental Funds

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

As of the end of the current fiscal year the City's governmental funds reported combined ending fund balances of $496.7 million, an increase of $75.8 million in comparison to 2005. Approximately $188.9 million of this amount constitutes unreserved fund balance which is available for spending at the City's discretion within the purposes specified for the City's funds. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has been committed for other purposes, such as (1) payment on existing contracts and purchase orders; $13.6 million; (2) funding of continuing projects and programs in future periods, $250.5 million; (3) payment of debt service, $25.6 million; and (4) a variety of other purposes, $18.1 million.

Revenues for governmental funds overall totaled approximately $1.275 billion in the fiscal year ended December 31, 2006, which represents an increase of approximately $35.4 million or 2.9 percent from the prior fiscal year of $1.240 billion. Expenditures in governmental funds amounted to $1.280 billion, an increase of approximately $36.6 million or 2.9 percent compared to $1.243 billion spent in 2005. In the aggregate, expenditures for governmental funds exceeded revenues by approximately $5.0 million.

The **General Fund** is the chief operating fund of the City. It is comprised of thirteen subfunds: General, Judgment/Claims, Arts Account, Cable Television Franchise, Cumulative Reserve, Neighborhood Matching, Development Rights, Emergency, Special Employment Program, Industrial Insurance, Unemployment Compensation, Health Care, and Group Term Life Insurance. Table A-4 provides a summary of the status of the various subfunds at year-end 2006.

At the end of 2006 the total fund balance of the General Fund was $241.3 million. Fund balance increased by $37.6 million in 2006 compared to 2005.

Total revenues for the General Fund amounted to $863.0 million, an increase of $53.7 million or 6.6 percent higher than 2005. Tax revenues increased by $46.7 million due to the continuing economic growth in the region, new construction, the escalating value of existing real estate properties, and a utility B&O tax rate hike. Collections from property tax, sales tax, B&O tax, and the real estate excise tax were up in 2006.

Program income, interest, and miscellaneous revenues increased by $6.1 million. This was mainly due to investment earnings which were higher because of rising interest rates. In addition, licenses and permits revenue increased by $1.3 million in 2006. The City received $3.0 million from Comcast to support the new Arts Programming project in 2006. These revenues were offset by a decrease in police alarm monitoring license fees.

Revenues derived from charges for services went down by $1.5 million overall as a result of the financial system upgrade. The 2005 costs incurred in the upgrade were allocated across the City, including the utility funds.

Fines and forfeits went up by $1.3 million. In 2006 the City contracted with a new collection agency to enforce collection of fines related to parking infractions.

Parking fees and space rent went up $1.7 million due to the installation of 123 new pay stations in 2006 and an increase in meter hood rental fees.

General Fund expenditures increased by $46.5 million or 8.5 percent in 2006, from $546.3 million to $592.9 million. Several factors contributed to this increase: payment for the Glaser Temporary Employees Class Action settlement and several other large claims, an increase in capital spending related to Cumulative Reserve Subfund projects, staffing level increases in numerous departments, increased health care costs, cost of living salary increases, retroactive pay to Local 27 firefighters and a 3-percent increase in longevity pay for members with at least 15 years tenure, increased overtime at the Police and Fire departments, an increase in jail service contract costs, an LID assessment on City-owned property, and payment to the utility funds related to the 1% for Art program.

The other financing sources and uses category decreased the General Fund's fund balance position by $232.5 million in 2006 compared to $191.5 million in 2005. Revenue from the sale of capital assets decreased by $10.3 million due to sale of the Arctic and Alaska Buildings in 2005 while net operating transfers out increased by $30.7 million in 2006.

The **Transportation Fund** develops, maintains, and operates the transportation system inclusive of streets, bridges, ramps, retaining walls, sea walls, bike trails, street lights, and other road infrastructure. At the end of the fiscal year the fund balance decreased by $0.6 million compared to a $1.6 million increase in 2005. Revenues were down $4.9 million primarily due to the decrease in revenues related to the Sound Transit and Monorail projects. Expenditures were up $24.2 million, mainly due to capital projects and the cost of living salary increase. Large capital projects underway in 2006 included the South Lake Union Streetcar and the Fremont Bridge. These expenses were funded by an increase in other financing sources $26.9 million, mainly from increase in support received from the General Fund and the issuance of bonds.

The **Low-Income Housing Fund**, a special revenue fund and one of the major governmental funds of the City, manages activities undertaken by the City to preserve, rehabilitate, or replace low-income housing. It also accounts for the seven-year housing levy approved by voters in 1995 and an additional seven-year levy that was approved by the voters in November 2002. At $52.5 million, the Low-Income Housing Fund ended the year with a fund balance increase of $9.3 million. Revenue increased by $0.7 million while expenditures decreased by $9.0 million. The increase in revenues is mainly due an increase in investment earnings as a result of higher interest earnings. The decrease in expenditures is attributed to the cyclical nature of the fund. Multi-family construction projects can span over several years from acquisition to final construction.

In 2006 the other **special revenue funds** showed a $14.2 million or 38.8 percent increase in fund balance as a result of operations. The most significant increases occurred in the Seattle Center Fund ($4.4 million), Library Fund ($3.5 million), Education and Development Services Fund ($2.9 million), and Human Services Fund ($1.7 million). The Housing and Community Development Revenue Sharing Fund declined by $1.2 million.

Total revenues for the special revenue funds were down $21.9 million, a 10.4 percent decrease from 2005. Program income, interest, and miscellaneous revenues (down $26.5 million) and grants, shared revenues, and contributions (down $5.2 million) accounted for the decrease while charges for services (up $5.9 million) and taxes, (up by $3.6 million) offset these decreases. The decrease in miscellaneous revenues was mainly credited to the receipt of $20.3 million from the Seattle Monorail Project and $5.7 million in float loans received by the Housing and Community Development Revenue Sharing Fund in 2005. The decline in grants and contributions revenue is related to the completion of the various library reconstructions in 2005.

Expenditures increased by $4.5 million, up 1.5 percent from 2005. The increase was mainly due to the cost-of-living salary adjustment and health care cost increases. In addition, several human services projects received additional funding for senior services, youth services, emergency and transitional housing.

The Other Financing Sources and Uses category increased in 2006, up by $33.0 million or 31.9 percent compared to 2005. This net increase resulted from a $2.5 million increase in sales of capital assets and increase in net transfers in from other funds of $30.5 million.

The fund balance in the **capital projects funds** showed a $13.9 million or 13.8 percent increase in 2006. The most significant increases came from the Local Improvement Fund for the South Lake Union Streetcar project (up $17.2 million), Seattle Center Redevelopment and Parks Community Center Fund (up $11.7 million), 2006 Multipurpose Long-Term General Obligation Bond Fund ($7.6 million), Shoreline Park Improvement Fund ($6.0 million), Seattle Center and Parks Multipurpose Levy ($5.6 million), the Public Safety Information Technology Fund ($2.0 million). These were offset by a fund balance decrease in 2005 Multipurpose Long-Term General Obligation Bond Fund ($18.0 million), Libraries for All Fund ($6.9 million), 2002 Multipurpose Long-Term General Obligation Bond Fund ($3.9 million), and 2007 Multipurpose Long-Term General Obligation Bond Fund ($3.1 million).

Revenues for the capital projects funds went up $5.1 million or 6.4 percent compared to 2005. Grants, shared revenues, and contributions increased by $8.4 million, mainly due to capital grants received for the Discovery Park and Magnuson Park projects. Tax revenues increased by $1.0 million while miscellaneous revenues declined by $4.0 million.

Expenditures for capital projects remained relatively constant, down $0.8 million, less than a 1.0 percent decrease compared to the 2005 expenditures of $93.7 million.

The 2006 fund balances of the **debt service funds** went up by $1.4 million. The **permanent funds** remained at about the same levels as 2005.

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

GENERAL FUND SUBFUNDS

(In Thousands)

	General	Judgment/ Claims	Arts Account	Cable Television Franchise	Cumulative Reserve
Revenues					
Taxes	$ 652,727	$ -	$ -	$ -	$ 53,636
Licenses and Permits	12,457	-	-	7,495	-
Grants, Shared Revenues, and Contributions	19,606	93	-	-	1,309
Charges for Services	41,669	10,067	-	-	467
Fines and Forfeits	18,320	-	-	-	-
Parking Fees and Space Rent	16,598	-	-	-	188
Program Income, Interest, and Miscellaneous Revenues	8,671	11	26	183	3,352
Total Revenues	770,048	10,171	26	7,678	58,952
Expenditures	524,455	19,756	1,118	4,657	31,087
Other Financing Sources and Uses					
Sales of Capital Assets	1	-	-	-	3,990
Transfers In (Out)	(229,181)	485	1,119	(853)	(14,785)
Total Other Financing Sources and Uses	(229,180)	485	1,119	(853)	(10,795)
Fund Balances					
Reserves Legally Segregated for Future Use	16,121	9,159	273	-	47,537
Reserves Not Available for Appropriation	1,933	-	-	-	-
Unreserved	53,790	-	231	3,273	34,398
Total Fund Balances	$ 71,844	$ 9,159	$ 504	$ 3,273	$ 81,935

	Neighborhood Matching	Development Rights	Emergency	Special Employment Program	Industrial Insurance
Revenues					
Taxes	$ -	$ -	$ -	$ -	$ -
Licenses and Permits	-	-	-	-	-
Grants, Shared Revenues, and Contributions	-	-	-	-	-
Charges for Services	-	-	-	232	490
Fines and Forfeits	-	-	-	-	-
Parking Fees and Space Rent	-	-	-	-	-
Program Income, Interest, and Miscellaneous Revenues	-	(2)	1	-	150
Total Revenues	-	(2)	1	232	640
Expenditures	3,073	-	(350)	271	2,447
Other Financing Sources and Uses					
Sales of Capital Assets	-	-	-	-	-
Transfers In (Out)	3,185	-	2,837	-	-
Total Other Financing Sources and Uses	3,185	-	2,837	-	-
Fund Balances					
Reserves Legally Segregated for Future Use	4,996	-	22	-	735
Reserves Not Available for Appropriation	-	-	6,741	-	-
Unreserved	568	(319)	29,808	118	1,833
Total Fund Balances	$ 5,564	$ (319)	$ 36,571	$ 118	$ 2,568

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

GENERAL FUND SUBFUNDS (continued)

(In Thousands)

	Unemployment Compensation	Health Care	Group Term Life Insurance	Total General Fund 2006	Total General Fund 2005
Revenues					
Taxes	$ -	$ -	$ -	$ 706,363	$ 659,686
Licenses and Permits	-	-	-	19,952	18,686
Grants, Shared Revenues, and Contributions	-	-	-	21,008	22,910
Charges for Services	-	-	-	52,925	54,387
Fines and Forfeits	-	-	-	18,320	17,023
Parking Fees and Space Rent	-	-	-	16,786	15,069
Program Income, Interest, and Miscellaneous Revenues	2,102	13,034	74	27,602	21,523
Total Revenues	2,102	13,034	74	862,956	809,284
Expenditures	-	6,343	-	592,857	546,333
Other Financing Sources and Uses					
Sales of Capital Assets	-	-	-	3,991	14,301
Transfers In (Out)	-	729	-	(236,464)	(205,756)
Total Other Financing Sources and Uses	-	729	-	(232,473)	(191,455)
Fund Balances	-				
Reserves Legally Segregated for Future Use	-	3,501	-	82,344	82,152
Reserves Not Available for Appropriation	-	-	-	8,674	13,703
Unreserved	6,057	20,205	317	150,279	107,817
Total Fund Balances	$ 6,057	$ 23,706	$ 317	$ 241,297	$ 203,672

Proprietary Funds

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

City Light Utility. The Utility realized net income of $161.8 million in 2006 compared to $81.9 million in 2005. As a result of improved precipitation in the Northwest region, net revenue from short-term wholesale power sales was $128.9 million compared to $87.4 million in 2005, an increase of $41.5 million. Operating revenues, outside of short-term wholesale power sales, increased $56.7 million. The increase in operating revenues was offset by a $32.3 million increase in operating expenses other than the cost of wholesale purchases. Also contributing to the higher net income in 2006 were higher non-operating revenues of $6.6 million, higher capital contributions and fees of $5.6 million, and slightly lower non-operating expenses of $1.8 million.

Net cash provided by operating activities decreased to $243.7 million in 2006 compared to $253.0 million in 2005, a decrease of $94.5 million. Restricted assets were $31.5 million in 2006, down from $35.8 million in 2005. The decrease was largely due to the elimination of $3.8 million in restricted cash that was available to pay streetlight refunding claims at the end of 2005. All remaining claims were paid in 2006, and the $3.5 million residual balance was transferred to operating cash. The significant component of restricted assets continues to be the $25.0 million Contingency Reserve Account established in 2005. Utility plant and other capital assets were $1.517 billion and $1.459 billion in 2006 and 2005, respectively, a net increase of $58.2 million. The majority of the capital asset additions were in the distribution system, hydraulic production, and transmission.

Total net revenue bonds payable were $1.409 billion in 2006 and $1.473. billion in 2005, a net decrease of $64.0 million. Interest expense was $69.4 million in 2006 and $71.3 million in 2005. Future debt service requirements on the subordinate lien bonds, based on 2006 end-of-year actual interest rates, range from 3.4 percent to 3.86 percent through year 2021. Including long-term debt, the total liabilities were $1.584 billion in 2006 and $1.671 billion in 2005.

Total net assets were $547.561 million in 2006 and $385.8 million in 2005.

Water Utility. The net operating income of the Water Utility decreased by $5.3 million to $25.5 million in 2006 from $30.8 million in 2005. Operating revenues increased $9.0 million due to an increase in water rates and consumption, while operating expenses increased $14.4 million. The increase in operating expenses is attributed to several factors: an increase in depreciation expense for assets acquired in prior years but depreciated starting in 2006, an increase in taxes due to increased taxable revenues, an increase in general and administrative expenses for program development, and Chinook research and monitoring. Net income decreased to $0.6 million in 2006 compared to $3.7 million in 2005, a decrease of $3.1 million.

Net cash provided by operating activities decreased to $48.8 million in 2006 from $65.9 million in 2005, a decrease of $17.1 million. Total operating and restricted cash and investments were $121.9 million in 2006 compared to $76.0 million in 2005, an increase of $45.9 million. This increase in cash and investments is primarily due to an increase in construction fund cash and investments from the issuance of bonds.

Utility plant and other capital assets were $1.042 billion and $985.2 million in 2006 and 2005, respectively, an increase of $57.0 million. Significant capital was spent on installation and replacement of service meters, completion of the control and data acquisition system for operating and monitoring all water utility infrastructure, and restoration and improvements to water pipelines.

The Water Utility issued $190.0 million of Water System Revenue and Refunding Bonds in October 2006. A portion of the proceeds from the issuance were used to refund the 1999 Water System Bonds. As a consequence of the refunding, the Fund reduced total debt service requirements by $10.1 million, resulting in an economic gain (difference between the present value of the debt service payments on the old and new debts) of $6.4 million. Total revenue bonds payable was $861.7 million and $776.8 million in 2006 and 2005, respectively. Interest expense was $35.0 million in 2006 and $34.8 million in 2005. Including revenue bonds payable, total liabilities were $934.0 million and $840.1 million in 2006 and 2005, respectively.

Total net assets were $302.6 million in 2006 and $302.1 million in 2005.

Drainage and Wastewater Utility. Operating income of the Utility decreased to $0.3 million in 2006 from $11.1 million in 2005, a net decrease of $10.8 million. Operating revenue increased $10.3 million and operating expense increased $21.2 million between 2006 and 2005. The Utility realized net gains of $1.0 million in 2006 and $1.3 million in 2005. The increase in net income was primarily due to contributions of infrastructure assets from private developers and the Seattle Housing Authority.

Net cash provided by operating activities decreased to $21.5 million in 2006 from $28.3 million in 2005. Total operating and restricted cash and investments were $65.5 million in 2006 compared to $37.8 million in 2005, an increase of $27.7 million, primarily due to an increase in construction fund cash and investments from the issuance of bonds.

Utility plant, net of accumulated depreciation, and other capital assets increased to $499.7 million in 2006 from $471.8 million in 2005, an increase of $27.9 million. Acquisition of new assets included $7.4 million in donated infrastructure from the Seattle Housing Authority and $5.2 million for rehabilitation of sewer pipes. Significant capital was spent on flood control and local drainage projects, combined sewer overflow, and general improvements to the sewer and drainage infrastructure.

The Utility issued $121.8 million of Drainage and Wastewater Revenue and Refunding Bonds in November 2006. A portion of the proceeds from the issuance was used to refund the 1995 and 1999 Bonds. As a consequence of the refunding, the Utility reduced total debt service requirements by $12.8 million, resulting in an economic gain (difference between the present value of the debt service payments on the old and new debts) of $6.4 million. The total outstanding bond liabilities were $334.6 million in 2006 and $294.9 million in 2005. Interest expense was $13.6 million in 2006 and $13.7 million in 2005. Total liabilities, including revenue bonds, were $385.4 million in 2006 and $338.4 million in 2005.

Total net assets were $245.5 million in 2006 and $244.5 million in 2005.

Fiduciary Funds

The City maintains fiduciary funds for the assets of the City of Seattle Employees' Retirement System (SCERS), the Firemen's Pension Fund, the Police Relief and Pension Fund, the S.L. Denny Private Purpose Trust Fund, and various agency funds. Total net assets of the combined fiduciary funds at the end of 2006 were $2.023 billion. SCERS represents 99.4 percent of that amount.

SCERS assets that are held in trust for the payment of future benefits exceeded current amounts owed as of December 31, 2006, by $2.014 billion. Net assets increased by $219.4 million (12.2 percent) during 2006, primarily due to gains in the equity markets in the U.S. and abroad and in hedge funds and real estate. Total revenues (additions to net assets) for 2006 were $319.4 million, which includes member and employer contributions of $76.3 million and total net investment income of $243.1 million. Total expenses (deductions from net assets) in 2006 were $100.0 million, an increase of $5.3 million (5.6 percent) from 2005. The largest part of the 2006 increase in total expenses (deductions) was for retiree benefits which increased by $5.3 million (6.4 percent).

At December 31, 2006, the net assets held in trust in the Firemen's Pension Fund and the Police Relief and Pension Fund for the payment of future benefits were $10.0 million and $1.3 million, respectively.

GENERAL FUND BUDGETARY HIGHLIGHTS

The City's final expenditure budget for the General Fund differed from the original budget due to supplemental legislation/appropriations approved during the year. In fiscal year 2006 the General Fund's original budget was $765.6 million. That original budget was increased by $48.1 million (6.3 percent) in supplemental appropriations after a reduction for reimbursements received for Personnel's services (a $109.0 million reduction).

The most significant budget revisions are described below:

- A $6.5 million increase to the Cumulative Reserve Subfunds, REET I, REET II, and Unrestricted including $2.6 million for the South Lake Union Park Development Project

- The City Council authorizes the acceptance of all grant funds. If a grant is not included as a part of the adopted budget, a separate ordinance is required. In 2006 over $4.3 million in additional grant funds were appropriated. Most of the grant funds were for public safety purposes, including over $3.3 million in UASI/Homeland Security grants to increase the capacity of the Seattle urban area to prevent, respond to, and recover from threats or acts of terrorism.

- The Police Department budget was increased by $4.4 million, including $3.3 million for grants, $1.5 million in quarterly supplemental appropriations, and $0.8 million for additional officers.

- The Fire Department budget was increased by $4.6 million, including $2.9 million from ordinance 122226, the second quarter supplemental, and $0.8 million in Homeland Security and other grants.

- An $18.0 million increase for the Judgment and Claims Subfund covered unexpectedly high claims costs.

- Personnel received a $7.3 million increase for over-runs of health care costs, a $2.7 million increase for higher than expected workers compensation payments both for workers' claims and medical costs.

- At year-end 2006 actual expenditures were $111.9 million less than budgeted. Of this amount, $82.0 million of the budget was carried over into 2007 to cover outstanding encumbrances, grants, capital spending, and special carryovers. The balance of the expenditure budget, $29.9 million, was lapsed. The Judgment/Claims Subdfunds lapsed $5.3 million due to liability claim payments being lower than anticipated. The Health Care Fund lapsed $3.9 million, the Industrial Insurance Fund lapsed $1.5 million, and the Unemployment Compensation Fund lapsed $2.1 million, all also due to lower than anticipated claim payments. Indigent Defense Services lapsed $2.2 million due to lower than expected billings. In mid-2005 the City switched from using King County to administer the assignment and payment of public defenders to contracting with firms providing these services directly. The Fire Department lapsed $1.6 million due to salary savings in their Operations Division.

- During the year budgetary revenue estimates exceeded actual revenues by $72.0 million. Tax revenues exceeded the budget by $47.9 million, Charges for Services and Fines and Forfeits both exceeded estimates by over $2.0 million, Parking Fees and Space Rental barely exceeded estimates, all other categories were less than budget. An additional $6.8 million is related to incomplete grant projects and is expected to be collected in the future.

CAPITAL ASSETS

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

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

(In Thousands)

	Governmental Activities		Business-Type Activities		Total	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**
Land	$ 401,605	$ 372,008	$ 84,508	$ 67,684	$ 486,113	$ 439,692
Plant in Service, Excluding Land	-	-	2,768,892	2,647,666	2,768,892	2,647,666
Buildings and Improvements	1,356,121	1,285,961	53,542	55,976	1,409,663	1,341,937
Machinery and Equipment	94,284	91,479	8,916	9,108	103,200	100,587
Infrastructure	479,914	480,293	-	-	479,914	480,293
Construction in Progress	245,488	213,378	230,226	198,491	475,714	411,869
Other Capital Assets	10,023	9,489	16,733	32,896	26,756	42,385
Total Capital Assets	$ 2,587,435	$ 2,452,608	$ 3,162,817	$ 3,011,821	$ 5,750,252	$ 5,464,429

Capital assets for governmental activities increased $134.8 million in 2006. Major increases include the following:

- Seattle Center capitalized improvements to various facilities, amounting to $4.4 million, and spent $0.2 million to complete construction of the Performance Hall. Construction in progress amounted to $1.9 million at the end of 2006.

- The Library completed construction of several branch libraries, such as Douglass-Truth, Montlake, Northgate, and South Park Libraries. It spent $7.8 million for buildings, $3.4 million for land acquisition, and $5.5 million for building improvements. Construction in progress at December 31, 2006, was $29.7 million.

- The Parks Department completed construction of various community centers at a cost of $12.1 million. Additional costs of $46.2 million were expended for park improvement projects, and several parcels of land were purchased at $7.0 million. Construction in progress at December 31, 2006, stood at $6.5 million, a decrease of $13.1 million over last year.

- The Department of Transportation capitalized $27.0 million for various infrastructure assets (roads, bridges, sidewalks, signs, illuminations, and others). Construction in progress at December 31, 2006, was $140.8 million, including a streetcar at a cost of $4.0 million, expected to be in service in 2007.

- The Fleets and Facilities Department incurred approximately $20.5 million to complete construction of the City Hall. Land parcels were acquired for museums ($2.0 million), training facilities ($2.5 million), and fire stations ($8.1 million). The Public Safety Building was demolished to prepare the site for future use, and the $6.6 million cost was added to the land value. Construction in progress at the end of December 31, 2006, was $53.6 million.

- Machinery and equipment were purchased at a cost of $24.7 million, $15.6 million of which was for fleet additions and upgrades.

Capital assets for business-type activities increased $151.0 million as follows:

- City Light capital assets increased by $58.2 million in 2006. These increases were mainly for the hydroelectric production plant, including the North Cascades Environmental Learning Center, turbine overhaul, transformer replacement, electrical system upgrade, and generator air circuit breaker at Gorge and Ross Dam; transmission plant, including equipment replacement and transmission towers and lines; distribution plant, including poles, overhead conductors for capacity additions and relocations, underground conduit and conductors, transformers, overhead and underground services, and ductbanks and vaults installed for the undergrounding distribution system along Martin Luther King Way South related to the Sound Transit light rail project; and general plant, including customer billing system enhancements and computer and communication equipment purchases.

- Water Utility capital assets increased by $56.9 million in 2006. Major capital outlays included upgrades to the Supervisory Control and Data Acquisition system (SCADA) at a cost of $18.8 million, new direct and replacement meters costing $15.6 million, security improvements at $9.6 million, and improvements to distribution water mains at $6.1 million. Other additions include costs of restoring the Tolt pipeline No. 1 to service, the upgrade of computer systems, facility improvements, and the purchase of fire fighting heavy equipment for the Cedar River Watershed. Construction Work in Progress at year end December 31, 2006, amounted to $72.2 million.

- Drainage and Wastewater Utility capital assets increased by $27.9 million. Major capital improvements included Seattle Housing Authority donations of infrastructure, rehabilitation of sewer pipes, configuring the new Joint Training Facility, and additions to computer applications including the Real Property Records System, the Enterprise Asset Management/ Work Management System, and upgrade to the financial system. Construction work in progress amounted to $55.3 million at December 31, 2006.

- Nonmajor enterprise funds capital assets increased by $7.9 million. Increases in the Solid Waste Utility included significant progress in implementing the Facilities Master Plan. Heavy equipment purchases included a loader used at the South Recycling and Disposal Station, rail haul containers, forklifts, and two tractors used to transport compacted garbage to the rail yard. Various equipment purchases were also made by the Department of Planning and Development.

DEBT ADMINISTRATION

At the end of fiscal year 2006 the City had $3.463 billion in outstanding bonded debt that included general obligation and revenue bonds, compared to $3.443 billion in 2005. This represents an increase of approximately $20.0 million (0.6 percent). Additionally in 2006 the City issued, without lending its full faith and credit but obligated in some manner, special assessment bonds in the amount of $21.9 million for the design and construction of the South Lake Union Streetcar. The City will start paying the bonds in 2007 with collections from property owners within the local improvement district.

In 2006 the City issued general obligation bonds to finance various capital improvement projects and ventures, including the Alaskan Way Tunnel/Sea Wall ($5.2 million), Mercer Corridor ($2.5 million), South Lake Union Street Car ($1.5 million), and Pier 59 ($1.8 million), and to refinance a portion of the 2003 limited tax general obligation bonds that relate to the Park 90/5 Earthquake Repair ($11.7 million). The City also issued revenue bonds for the Water and Drainage and Wastewater Utilities' capital improvement projects and the Water Utility's conservation programs ($111.4 million for Water and $48.0 million for Drainage and Wastewater). The City also extended the maturity date of the Solid Waste revenue bond anticipation notes to December 31, 2007, and expanded the line of credit to $31.8 million. The City drew another $11.6 million against the line of credit to finance ongoing Solid Waste Utility capital projects. The City again took advantage of the prevailing low-interest rates in the year to improve cash flow by refunding a series of general obligation bond issue, a series of Water and two series of Drainage and Wastewater revenue bonds for a total new issue of $154.6 million. By refinancing the debt the City will save $22.8 million in principal and interest over the next eight years for the LTGO and 19 years for the revenue bonds.

The City's bond ratings remained the same as in the previous year. The City's unlimited tax general obligation bonds are rated Aaa by Moody's Investors Service, AAA by FitchRatings, and AAA by Standard & Poors. The City's limited tax general obligation bonds are rated Aa1 by Moody's Investors Services, AA+ by FitchRatings, and AAA by Standard and Poors. The City maintained its high bond ratings on its Light, Water, Drainage and Wastewater, and Solid Waste revenue bonds.

The City's limited and unlimited general obligation debt is capped at 7.5 percent of assessed value by state law. The 2007 assessed value of taxable properties for the City is $106.2 billion. At year-end 2006 the net outstanding general obligation debt of the City that includes bonds, leases, compensated absences net of sick leave, and guarantees of indebtedness amounted to $943.9 million, well below the limit of $7.0 billion. Within the 7.5 percent limitation, state law restricts outstanding limited tax general obligation bonds to 1.5 percent of assessed value. At year-end 2006 the net outstanding limited tax general obligation was $767.4 million.

The City is self-insured for workers compensation and for most health care costs. The City carries general liability insurance with a self-insured retention. For these claims, including those incurred but not reported, the City recognized a total liability of $79.9 million at the end of the year. In addition, City utilities recorded $18.3 million in estimated environmental liabilities. At the end of 2006 City Light had $15.4 million in liabilities related to its purchased power commitments. Other obligations were accrued compensated absences and other notes and contracts. The other notes and contracts included draws from the State's Public Works Trust Loan (PWTL) Program which are serviced with revenues from three participating City departments, one with a governmental-type fund and one whose PWTL activities are reported in two of its business-type funds.

More detailed information about the City's long-term liabilities is presented in Note 8 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Seattle's 2007 budget reflects strong economic growth. The strong recent economic performance is expected to continue but the rate of growth is expected to slow over time as the real estate market cools and the pace of national economic growth slows. The 2007 adopted budget therefore focuses resources on a combination of one-time investments and priority programs as discussed in the transmittal letter.

General Subfund. Revenues are projected to grow at a rate of 4.6 percent in 2007 with a portion of the growth resulting from reclassifying revenues to the General Fund that previously were deposited in other funds. Tax revenues are expected to grow by 3.4 percent in 2007. The main drivers of these growth rates are the business and occupation (B&O) and sales taxes. Revenues from the B&O tax is expected to grow by 4.7 percent in 2007. Sales tax revenues, led by construction, hotels and retail sales, are projected to grow by 5.5 percent in 2007. Sizable rate increases in the drainage/wastewater rates charged by Seattle Public Utilities to its customers back up a projected 7.8 percent increase over 2006 in revenues from the Drainage and Wastewater Fund.

About 125 general government full-time-equivalent positions were added in the 2007 budget.

Utilities. Seattle City Light rates effective January 1, 2007, reflect an 8.4 percent reduction in the average retail customer rates, including reductions of 6.2 percent for residential customers and 17 percent for medium-sized commercial customers. The rates generate revenue to operate the utility, maintain physical plant and infrastructure, and pay down long-term debt incurred as a result of the energy crisis. The 2007 adopted budget includes funding for utility relocation necessitated by the Alaskan Way Viaduct and Seawall Replacement Project, and continued work to relicense the Boundary facility.

The Seattle Public Utilities (SPU) is continuing its asset management approach for selecting what capital projects to build and when, and is broadening the focus to include operational practices. This approach provides an analytical and modeling framework to find the most economical balance between capital investments and operation and maintenance expenditure to minimize life-cycle costs.

Financial Contact

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

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STATEMENT OF NET ASSETS
December 31, 2006
(In Thousands)

	Primary Government		Comparative Totals		Component Unit
	Governmental Activities	Business-Type Activities	2006	Restated 2005	Seattle Public Library Foundation
ASSETS					
Current Assets					
Operating Cash and Equity in Pooled Investments	$ 503,529	$ 187,816	$ 691,345	$ 618,123	$ 4,270
Restricted Cash and Equity in Pooled Investments	-	51,396	51,396	24,273	-
Investments	-	-	-	-	42,969
Receivables, Net of Allowances	85,144	202,622	287,766	246,332	2,348
Restricted Investments	-	54,858	54,858	53,149	-
Restricted Investment Interest Receivables	-	1,041	1,041	265	-
Internal Balances	15,762	(15,946)	(184)	(1)	-
Due from Other Governments	72,250	6,638	78,888	85,360	-
Inventories	3,230	28,857	32,087	29,346	-
Prepaid and Other Current Assets	153	1,311	1,464	1,643	10
Noncurrent Assets					
Restricted Cash and Equity in Pooled Investments	31	49,095	49,126	54,656	-
Restricted Investments	-	35,224	35,224	-	-
Unamortized Debt Costs	2,674	15,150	17,824	18,455	-
Contracts and Notes	258,859	91	258,950	255,708	-
Capitalized Purchased Power Commitment	-	15,402	15,402	25,891	-
Deferred Conservation Costs, Net	-	176,070	176,070	157,648	-
Deferred Landfill Closure and Postclosure Costs, Net	-	33,406	33,406	35,585	-
Net Pension Asset	78,064	-	78,064	78,064	-
Deferred Muckleshoot Settlement Costs	-	3,000	3,000	18,000	-
Other Deferred Charges and Noncurrent Assets	22,373	159,408	181,781	157,312	5,036
Capital Assets, Net of Accumulated Depreciation					
Land and Land Rights	401,606	84,508	486,114	439,693	-
Plant in Service, Excluding Land	-	2,768,892	2,768,892	2,647,666	-
Buildings and Improvements	1,356,121	53,542	1,409,663	1,341,936	-
Machinery and Equipment	94,284	8,916	103,200	100,587	11
Infrastructure	479,914	-	479,914	480,294	-
Construction in Progress	245,488	230,226	475,714	411,870	-
Other Capital Assets	10,023	16,733	26,756	42,385	-
Total Assets	3,629,505	4,168,256	7,797,761	7,324,240	54,644

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

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STATEMENT OF NET ASSETS
December 31, 2006
(In Thousands)

	Primary Government				Component Unit
			Comparative Totals		
	Governmental Activities	Business-Type Activities	2006	Restated 2005	Seattle Public Library Foundation
LIABILITIES					
Current Liabilities					
Accounts Payable	$ 57,636	$ 63,686	$ 121,322	$ 134,809	$ 391
Salaries, Benefits, and Taxes Payable	28,461	15,064	43,525	40,535	-
Matured Bonds and Interest Payable	-	-	-	20	-
Contracts Payable	4,510	191	4,701	4,602	-
Due to Other Governments	8,540	8,046	16,586	14,969	-
Interest Payable	13,522	35,991	49,513	49,035	-
Street Refund Payable	-	7	7	3,864	-
Taxes Payable	40	10,372	10,412	9,695	-
Deposits Payable	1,012	-	1,012	1,182	-
Deferred Credits	7,505	10,233	17,738	14,049	1,013
Current Portion of Long-Term Debt					
Bonds and Revenue Anticipation Notes Payable	57,025	123,516	180,541	181,927	-
Special Assessment Bonds with Governmental Commitment	1,220	-	1,220	-	-
Accrued Interest - Deferred Interest Bonds	-	555	555	459	-
Compensated Absences Payable	13,656	2,033	15,689	15,731	-
Purchased Power Obligation	-	11,770	11,770	11,240	-
Notes and Contracts Payable	2,581	4,723	7,304	7,863	-
Claims Payable	24,113	15,110	39,223	37,248	-
Habitat Conservation Program Liability	-	3,356	3,356	-	-
Muckleshoot Settlement Liability	-	1,495	1,495	18,000	-
Landfill Closure and Postclosure Liability	-	5,410	5,410	1,610	-
Arbitrage Rebate Liability	-	-	-	-	-
Other Current Liabilities	281	2,782	3,063	2,893	-
Noncurrent Liabilities					
Bonds and Anticipation Notes Payable, Net of Unamortized Premiums, Discounts, and Other	700,908	2,595,264	3,296,172	3,264,771	-
Accrued Interest - Deferred Interest Bonds	-	3,691	3,691	3,570	-
Special Assessment Bonds with Governmental Commitment	20,705	-	20,705	-	-
Compensated Absences Payable	44,674	19,389	64,063	61,152	-
Claims Payable	35,039	24,549	59,588	71,112	-
Notes and Contracts Payable	21,928	6,220	28,148	28,836	-
Purchased Power Obligation	-	3,632	3,632	14,651	-
Landfill Closure and Postclosure Liability	-	22,873	22,873	27,672	-
Vendor Deposits Payable	31	372	403	533	-
Habitat Conservation Program Liability	-	11,447	11,447	-	-
Deferred Credits	308,865	62,008	370,873	329,932	-
Arbitrage Rebate Liability	-	-	-	106	-
Other Noncurrent Liabilities	852	1,071	1,923	1,290	-
Total Liabilities	1,353,104	3,064,856	4,417,960	4,353,356	1,404
NET ASSETS					
Invested in Capital Assets, Net of Related Debt	1,825,203	813,091	2,638,294	2,343,807	11
Restricted for					
Debt Service	25,621	7,983	33,604	38,587	-
Contingency Reserve Account	-	25,000	25,000	25,000	-
Capital Projects	136,925	-	136,925	91,319	241
Education and Development Services	15,373	-	15,373	12,472	17,382
Special Deposits	3,229	75	3,304	3,153	-
Deferred Conservation and Environmental Costs	-	7,153	7,153	53,147	-
Bonneville Power Administration Projects	-	1,872	1,872	3,676	-
Deferred External Infrastructure Costs	-	9,245	9,245	31,513	-
Muckleshoot Settlement	-	421	421	-	-
Other Deferred Charges	-	7,412	7,412	29,428	-
Other Purposes	-	-	-	-	162
Nonexpendable	2,190	-	2,190	2,196	24,482
Unrestricted	267,862	231,148	499,010	336,586	10,962
Total Net Assets	$ 2,276,403	$ 1,103,400	$ 3,379,803	$ 2,970,884	$ 53,240

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

B-2 **STATEMENT OF ACTIVITIES**

Page 1 of 2 **For the Year Ended December 31, 2006**

(In Thousands)

	Program Expenses		Program Revenues		
Functions/Programs	**Expenses**	**Indirect Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**
GOVERNMENTAL ACTIVITIES					
General Government	$ 128,825	$ (1,448)	$ 51,071	$ 11,958	$ -
Judicial	20,344	-	17,852	507	-
Public Safety	354,827	(744)	14,422	11,587	753
Physical Environment	7,331	-	1,587	24	-
Transportation	87,103	507	25,306	13,578	30,438
Economic Environment	78,957	-	7,519	26,100	3,246
Health and Human Services	56,904	-	62	25,613	-
Culture and Recreation	215,081	-	62,768	4,484	17,736
Interest on Long-Term Debt	35,399	-	-	-	-
Total Governmental Activities	984,771	(1,685)	180,587	93,851	52,173
BUSINESS-TYPE ACTIVITIES					
Light	698,403	760	817,310	1,442	30,386
Water	161,585	358	153,171	282	6,798
Drainage and Wastewater	199,172	206	186,118	187	12,251
Solid Waste	114,414	113	112,474	461	1
Planning and Development	49,956	247	44,655	40	-
Downtown Parking Garage	8,505	-	6,608	-	-
Total Business-Type Activities	1,232,035	1,684	1,320,336	2,412	49,436
Total Government-Wide Activities	$ 2,216,806	$ (1)	$ 1,500,923	$ 96,263	$ 101,609
COMPONENT UNIT	$ 7,795	$ -	$ 120	$ 4,322	$ -

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

B-2 **STATEMENT OF ACTIVITIES**

Page 2 of 2 **For the Year Ended December 31, 2006**

(In Thousands)

	Net Revenue (Expense) and Changes in Net Assets				
	Primary Government				Component Unit
			Comparative Totals		
	Governmental Activities	Business-Type Activities	2006	2005	Seattle Public Library Foundation
GOVERNMENTAL ACTIVITIES					
General Government	$ (64,348)	$ -	$ (64,348)	$ (28,548)	
Judicial	(1,985)	-	(1,985)	(1,282)	
Public Safety	(327,321)	-	(327,321)	(298,614)	
Physical Environment	(5,720)	-	(5,720)	(5,041)	
Transportation	(18,288)	-	(18,288)	(15,099)	
Economic Environment	(42,092)	-	(42,092)	(56,434)	
Health and Human Services	(31,229)	-	(31,229)	(33,013)	
Culture and Recreation	(130,093)	-	(130,093)	(118,731)	
Interest on Long-Term Debt	(35,399)	-	(35,399)	(39,539)	
Total Governmental Activities	(656,475)	-	(656,475)	(596,301)	
BUSINESS-TYPE ACTIVITIES					
Light	-	149,975	149,975	76,569	
Water	-	(1,692)	(1,692)	1,967	
Drainage and Wastewater	-	(822)	(822)	(615)	
Solid Waste	-	(1,591)	(1,591)	1,498	
Planning and Development	-	(5,508)	(5,508)	(5,706)	
Downtown Parking Garage	-	(1,897)	(1,897)	(2,234)	
Total Business-Type Activities	-	138,465	138,465	71,479	
Total Government-Wide Activities	(656,475)	138,465	(518,010)	(524,822)	
COMPONENT UNIT					$ (3,353)
General Revenues					
Property Taxes	318,490	-	318,490	311,613	-
Sales Taxes	155,311	-	155,311	146,060	-
Business Taxes	311,015	-	311,015	280,139	-
Excise Taxes	58,397	-	58,397	55,507	-
Other Taxes	4,929	-	4,929	4,636	-
Penalties and Interest on Delinquent Taxes	3,349	-	3,349	2,125	-
Unrestricted Investment Earnings	22,020	16,242	38,262	21,099	5,675
Gain (Loss) on Sale of Capital Assets	35,353	1,823	37,176	3,359	-
Transfers	(9,260)	9,260	-	-	-
Total General Revenues and Transfers	899,604	27,325	926,929	824,538	5,675
Changes in Net Assets	243,129	165,790	408,919	299,716	2,322
Net Assets - Beginning of Year	2,027,895	937,610	2,965,505	2,684,926	50,918
Prior-Year Adjustments	5,379	-	5,379	(13,757)	-
Net Assets - Beginning of Year as Restated	2,033,274	937,610	2,970,884	2,671,169	50,918
Net Assets - End of Year	$ 2,276,403	$ 1,103,400	$ 3,379,803	$ 2,970,885	$ 53,240

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

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BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2006
(In Thousands)

	General	Transportation	Low-Income Housing
ASSETS			
Cash and Equity in Pooled Investments	$ 196,329	$ 12,118	$ 52,502
Cash with Fiscal Agent	-	-	-
Receivables, Net of Allowances			
Taxes	48,824	-	301
Accounts	1,284	2,070	-
Contracts and Notes	5	-	-
Interest and Dividends	991	288	204
Unbilled and Others	143	1,287	96
Due from Other Funds	14,733	3,883	-
Due from Other Governments	40,764	10,264	118
Inventories	4	-	-
Prepaid and Other Current Assets	73	-	-
Contracts and Notes - Noncurrent	6,086	-	209,021
Advances to Other Funds/Interfund Notes Receivable	6,741	-	-
Deferred Charges and Other Assets	(19)	-	-
Total Assets	$ 315,958	$ 29,910	$ 262,242
LIABILITIES			
Accounts Payable	$ 20,420	$ 9,783	$ 188
Matured Long-Term Debt - Principal	-	-	-
Contracts Payable	372	2,350	-
Due to Other Funds	4,782	1,845	163
Due to Other Governments	5,228	-	5
Salaries, Benefits, and Taxes Payable	17,160	2,318	-
Interest Payable	31	17	9
Deposits Payable	469	143	133
Revenue Collected/Billed in Advance - Current	5,199	16	-
Other Current Liabilities	170	-	-
Advances from Other Funds	-	-	-
Deferred Revenues	20,829	2,933	209,255
Total Liabilities	74,660	19,405	209,753

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

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BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2006
(In Thousands)

	Other Governmental	Comparative Totals 2006	Comparative Totals 2005
ASSETS			
Cash and Equity in Pooled Investments	$ 202,646	$ 463,595	$ 388,133
Cash with Fiscal Agent	-	-	20
Receivables, Net of Allowances			
Taxes	7,144	56,269	48,099
Accounts	4,539	7,893	8,231
Contracts and Notes	7,223	7,228	6
Interest and Dividends	2,525	4,008	1,283
Unbilled and Others	1,343	2,869	2,896
Due from Other Funds	6,149	24,765	23,039
Due from Other Governments	18,407	69,553	77,252
Inventories	901	905	998
Prepaid and Other Current Assets	80	153	697
Contracts and Notes - Noncurrent	43,751	258,858	255,453
Advances to Other Funds/Interfund Notes Receivable	-	6,741	11,001
Deferred Charges and Other Assets	22,392	22,373	1,311
Total Assets	$ 317,100	$ 925,210	$ 818,419
LIABILITIES			
Accounts Payable	$ 22,588	$ 52,979	$ 55,279
Matured Long-Term Debt - Principal	-	-	20
Contracts Payable	1,736	4,458	3,221
Due to Other Funds	7,513	14,303	18,314
Due to Other Governments	3,307	8,540	6,953
Salaries, Benefits, and Taxes Payable	6,762	26,240	24,984
Interest Payable	2	59	53
Deposits Payable	267	1,012	1,182
Revenue Collected/Billed in Advance - Current	2,290	7,505	3,926
Other Current Liabilities	109	279	332
Advances from Other Funds	4,241	4,241	7,501
Deferred Revenues	75,847	308,864	275,697
Total Liabilities	124,662	428,480	397,462

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

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BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2006
(In Thousands)

	General	Transportation	Low-Income Housing
FUND BALANCES			
Reserves Legally Segregated for Future Use			
Capital Improvements	$ 47,538	$ -	$ -
Continuing Appropriations	17,901	10,023	29,924
Debt Service	9,159	-	-
Encumbrances	4,517	480	7,210
Health Care Union Rate Stabilization	3,229	-	-
Reserves Not Available for Appropriation			
Endowments	-	-	-
Gifts	-	-	-
Interfund Loans	6,741	-	-
Inventories	-	-	-
Petty Cash	1,933	2	-
Unreserved, Reported in			
Major Funds			
Designated for Special Purposes	28,531	-	-
Undesignated	121,749	-	15,355
Special Revenue Funds	-	-	-
Capital Projects Funds	-	-	-
Total Fund Balances	241,298	10,505	52,489
Total Liabilities and Fund Balances	$ 315,958	$ 29,910	$ 262,242

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

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Page 4 of 4

BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2006
(In Thousands)

	Other Governmental	Comparative Totals 2006	Comparative Totals 2005
FUND BALANCES			
Reserves Legally Segregated for Future Use			
Capital Improvements	$ 131,338	$ 178,876	$ 145,156
Continuing Appropriations	13,819	71,667	47,084
Debt Service	16,462	25,621	33,369
Encumbrances	1,392	13,599	34,237
Health Care Union Rate Stabilization	-	3,229	3,153
Reserves Not Available for Appropriation			
Endowments	2,050	2,050	2,050
Gifts	3,479	3,479	2,288
Interfund Loans	-	6,741	11,001
Inventories	658	658	711
Petty Cash	24	1,959	2,723
Unreserved, Reported in			
Major Funds			
Designated for Special Purposes	-	28,531	73,959
Undesignated	-	137,104	50,806
Special Revenue Funds	26,341	26,341	14,420
Capital Projects Funds	(3,125)	(3,125)	-
Total Fund Balances	192,438	496,730	420,957
Total Liabilities and Fund Balances	$ 317,100		

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

	2006	2005
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	2,509,213	2,378,237
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	6,043	5,919
Internal service funds are used by management to charge the costs of Fleets and Facilities, Information Technology, and Engineering Services to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net assets. Adjustments to reflect the consolidation of internal service fund (ISF) activities related to enterprise funds and prior-year adjustment (B-6) are added back to ISF total net assets, and the latter amounts are included in governmental activities.	112,041	107,276
Negative net pension obligation shown as Net Pension Asset in governmental activities.	78,064	78,064
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.		
Claims Payable - Current	(23,706)	(26,176)
Accrued Interest Payable	(13,318)	(14,679)
Current Portion of Long-Term Debt	(59,627)	(69,620)
Compensated Absences Payable	(13,332)	(13,925)
General Obligation Bonds Payable	(688,480)	(722,000)
Less Bond Discount and Premium	(13,942)	(15,170)
Notes and Contracts Payable	-	(19,266)
Special Assessment Bonds	(20,705)	-
Unamortized Losses on Refunding	2,423	3,566
Unamortized Debt Expense	2,674	2,545
Capital Leases	-	(14)
Notes and Other Long-Term Liabilities	(21,927)	(1,896)
Compensated Absences - Long-Term	(41,527)	(38,969)
Claims Payable - Long-Term	(24,283)	(30,898)
Workers' Compensation	(9,938)	(10,572)
Arbitrage	-	(106)
Net Adjustments	1,779,673	1,612,316
Net Assets of Governmental Activities	$ 2,276,403	$ 2,033,274

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

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Page 1 of 2

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2006
(In Thousands)

	General	Transportation	Low-Income Housing
REVENUES			
Taxes	$ 706,363	$ -	$ 11,816
Licenses and Permits	19,953	7,585	-
Grants, Shared Revenues, and Contributions	21,008	44,017	6,273
Charges for Services	52,924	24,396	22
Fines and Forfeits	18,320	26	-
Parking Fees and Space Rent	16,786	55	27
Program Income, Interest, and Miscellaneous Revenues	27,603	259	6,077
Total Revenues	862,957	76,338	24,215
EXPENDITURES			
Current			
General Government	154,187	-	-
Judicial	20,569	-	-
Public Safety	347,496	-	-
Physical Environment	7,085	-	-
Transportation	8,609	74,003	-
Economic Environment	16,620	-	18,217
Health and Human Services	116	-	-
Culture and Recreation	4,629	-	-
Capital Outlay			
General Government	14,102	-	-
Judicial	-	-	-
Transportation	-	80,913	-
Public Safety	3,601	-	-
Economic Environment	16	-	-
Culture and Recreation	15,829	-	-
Debt Service			
Principal	-	2,038	-
Advance Refunding to Escrow	-	-	-
Interest	-	412	-
Bond Issuance Cost	-	-	-
Other	-	-	-
Total Expenditures	592,859	157,366	18,217
Excess (Deficiency) of Revenues Over Expenditures	270,098	(81,028)	5,998
OTHER FINANCING SOURCES (USES)			
Long-Term Debt Issued	-	5,000	-
Refunding Debt Issued	-	-	-
Premium on Bonds Issued	-	-	-
Payment to Refunded Bond Escrow Agent	-	-	-
Sales of Capital Assets	3,992	-	-
Transfers In	4,150	77,915	3,257
Transfers Out	(240,615)	(2,469)	-
Total Other Financing Sources (Uses)	(232,473)	80,446	3,257
Net Change in Fund Balances	37,625	(582)	9,255
Fund Balances - Beginning of Year	203,673	11,087	43,234
Fund Balances - End of Year	$ 241,298	$ 10,505	$ 52,489

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

B-4 **STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**
Page 2 of 2 **IN FUND BALANCES**

GOVERNMENTAL FUNDS

For the Year Ended December 31, 2006

(In Thousands)

	Other Governmental	Comparative Totals 2006	Comparative Totals 2005
REVENUES			
Taxes	$ 133,187	$ 851,366	$ 799,928
Licenses and Permits	810	28,348	25,612
Grants, Shared Revenues, and Contributions	85,804	157,102	155,130
Charges for Services	47,903	125,245	127,436
Fines and Forfeits	2,884	21,230	19,759
Parking Fees and Space Rent	27,876	44,744	42,703
Program Income, Interest, and Miscellaneous Revenues	12,954	46,893	68,968
Total Revenues	311,418	1,274,928	1,239,536
EXPENDITURES			
Current			
General Government	6,095	160,282	136,309
Judicial	-	20,569	19,229
Public Safety	4,900	352,396	333,548
Physical Environment	490	7,575	6,902
Transportation	-	82,612	94,806
Economic Environment	48,490	83,327	95,186
Health and Human Services	58,607	58,723	57,017
Culture and Recreation	186,989	191,618	181,318
Capital Outlay			
General Government	28,590	42,692	36,885
Judicial	-	-	6
Transportation	-	80,913	61,555
Public Safety	327	3,928	4,829
Economic Environment	-	16	-
Culture and Recreation	69,607	85,436	77,023
Debt Service			
Principal	69,634	71,672	92,198
Advance Refunding to Escrow	-	-	9,596
Interest	37,187	37,599	36,462
Bond Issuance Cost	380	380	438
Other	177	177	40
Total Expenditures	511,473	1,279,915	1,243,347
Excess (Deficiency) of Revenues Over Expenditures	(200,055)	(4,987)	(3,811)
OTHER FINANCING SOURCES (USES)			
Long-Term Debt Issued	44,635	49,635	60,840
Refunding Debt Issued	2,195	2,195	71,450
Premium on Bonds Issued	378	378	7,837
Payment to Refunded Bond Escrow Agent	(2,253)	(2,253)	(75,412)
Sales of Capital Assets	31,764	35,756	27,218
Transfers In	200,512	285,834	290,069
Transfers Out	(47,703)	(290,787)	(289,857)
Total Other Financing Sources (Uses)	229,528	80,758	92,145
Net Change in Fund Balances	29,473	75,771	88,334
Fund Balances - Beginning of Year	162,965	420,959	332,623
Fund Balances - End of Year	$ 192,438	$ 496,730	$ 420,957

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

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RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2006

(In Thousands)

	Comparative Totals 2006	Comparative Totals 2005
Amounts reported for governmental activities in the statement of activities are different because:		
Net change in fund balance - total governmental funds	$ 75,772	$ 88,334
Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of those assets is allocated over the estimated useful lives and reported as depreciation expense:		
Depreciation expense for the year	(74,292)	(69,735)
Capital outlay reported as expenditure	202,311	169,426
Retirement and sale of capital assets	(505)	(18,985)
Capital assets received as donations	3,462	1,671
Collection of interfund receivable related to sale of capital assets as deferred in governmental funds	-	(5,159)
Collection of long-term loan receivable from Seattle Monorail project as deferred revenue in governmental funds.	-	(20,000)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	124	152
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance cost, premium, discount, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. These amounts are the result of the differences in the treatment of long-term debt and related items:		
Proceeds of general obligation bonds	(24,905)	(58,090)
Proceeds of long-term intergovernmental loan	-	(2,750)
Proceeds of special assessment bonds with government commitment	(21,925)	-
Premium on general obligation bonds	(378)	(7,837)
Proceeds from bond refunding	-	(71,450)
Proceeds of long-term loans	(5,000)	-
Principal payments bonds/notes	71,673	92,197
Bond interest	180	(3,116)
Remittance to refunding escrow using City funds	-	9,599
Bond issuance costs	1,985	478
Other debt service costs	-	(406)
Remittance to refunding escrow using refunding proceeds	2,253	75,412
Amortization of debt expense	(251)	(287)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:		
Compensated absences	(1,964)	(1,561)
Injury and damage claims	8,959	28,204
Workers' compensation	759	370
Arbitrage	106	137
Internal service funds are used by management to charge the cost of Fleets and Facilities, Information Technology, and Engineering Services to individual funds. Adjustments reflect the consolidation of internal service funds activities to governmental funds:		
Operating loss (income) allocated to enterprise funds	(855)	(1,561)
Net revenue of internal service funds activities reported with governmental activities	5,620	3,487
Change in Net Assets of Governmental Activities	$ 243,129	$ 208,530

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

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STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
December 31, 2006
(In Thousands)

	Business-Type Activities - Enterprise Funds			
	Light		Water	
	2006	2005	2006	2005
ASSETS				
Current Assets				
Operating Cash and Equity in Pooled Investments	$ 127,148	$ 141,898	$ 11,837	$ 8,879
Restricted Cash and Equity in Pooled Investments	-	-	37,750	18,743
Receivables, Net of Allowances				
Accounts	74,179	63,302	9,553	9,200
Interest and Dividends	651	495	-	83
Unbilled	64,485	60,731	7,314	7,177
Energy Contracts, Notes, and Other Contracts	6,680	1,835	47	74
Restricted Investments	-	-	32,261	35,224
Restricted Investment Interest Receivables	-	-	873	127
Due from Other Funds	1,398	2,612	390	1,306
Due from Other Governments	4,445	3,437	1,350	817
Materials and Supplies Inventory	24,157	21,651	4,646	4,483
Prepayments and Other Current Assets	1,053	939	239	5
Total Current Assets	304,196	296,900	106,260	86,118
Noncurrent Assets				
Restricted Cash and Equity in Pooled Investments	31,503	35,815	12,356	13,127
Restricted Investments	-	-	27,724	-
Unamortized Bond Issue Costs, Net	7,244	8,018	5,024	5,133
Notes and Contracts Receivable	-	-	91	255
Capitalized Purchased Power Commitment	15,402	25,891	-	-
Deferred Conservation Costs, Net	138,077	130,658	37,993	26,990
Deferred Landfill Closure and Postclosure Costs, Net	-	-	-	-
Deferred External Insfrastructure Costs	-	-	-	-
Capitalized Relicensing Costs	28,852	24,159	-	-
Deferred Muckleshoot Settlement Costs	-	-	3,000	18,000
Other Deferred Charges	89,268	76,571	2,039	7,329
Capital Assets				
Land and Land Rights	39,831	41,242	33,355	15,120
Plant in Service, Excluding Land	2,485,489	2,356,719	1,308,847	1,241,602
Less Accumulated Depreciation	(1,109,486)	(1,047,055)	(372,512)	(349,961)
Building and Improvements	-	-	-	-
Less Accumulated Depreciation	-	-	-	-
Machinery and Equipment	-	-	-	-
Less Accumulated Depreciation	-	-	-	-
Construction in Progress	86,411	76,938	72,212	78,184
Other Property, Net	14,729	30,891	275	275
Total Noncurrent Assets	1,827,320	1,759,847	1,130,404	1,056,054
Total Assets	2,131,516	2,056,747	1,236,664	1,142,172

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

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STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
December 31, 2006
(In Thousands)

	Business-Type Activities - Enterprise Funds			
	Drainage and Wastewater		Nonmajor Funds	
	2006	2005	2006	2005
ASSETS				
Current Assets				
Operating Cash and Equity in Pooled Investments	$ 16,530	$ 8,752	$ 32,301	$ 27,320
Restricted Cash and Equity in Pooled Investments	13,646	5,529	-	-
Receivables, Net of Allowances				
Accounts	12,631	10,985	14,497	11,624
Interest and Dividends	49	45	126	70
Unbilled	12,170	11,835	238	249
Energy Contracts, Notes, and Other Contracts	2	2	-	-
Restricted Investments	22,597	17,925	-	-
Restricted Investment Interest Receivables	168	138	-	-
Due from Other Funds	284	1,298	659	1,185
Due from Other Governments	458	328	385	186
Materials and Supplies Inventory	-	-	54	7
Prepayments and Other Current Assets	19	2	-	-
Total Current Assets	78,554	56,839	48,260	40,641
Noncurrent Assets				
Restricted Cash and Equity in Pooled Investments	5,227	5,631	9	-
Restricted Investments	7,500	-	-	-
Unamortized Bond Issue Costs, Net	2,470	2,285	412	475
Notes and Contracts Receivable	-	-	-	-
Capitalized Purchased Power Commitment	-	-	-	-
Deferred Conservation Costs, Net	-	-	-	-
Deferred Landfill Closure and Postclosure Costs, Net	-	-	33,406	35,585
Deferred External Insfrastructure Costs	21,779	22,126	-	-
Capitalized Relicensing Costs	-	-	-	-
Deferred Muckleshoot Settlement Costs	-	-	-	-
Other Deferred Charges	15,615	24,185	1,854	1,633
Capital Assets				
Land and Land Rights	9,531	9,531	1,791	1,791
Plant in Service, Excluding Land	601,118	578,322	46,344	42,797
Less Accumulated Depreciation	(166,176)	(153,832)	(24,732)	(20,926)
Building and Improvements	-	-	73,012	73,012
Less Accumulated Depreciation	-	-	(19,470)	(17,036)
Machinery and Equipment	-	-	14,524	13,319
Less Accumulated Depreciation	-	-	(5,608)	(4,210)
Construction in Progress	55,270	37,781	16,333	5,588
Other Property, Net	-	-	1,730	1,730
Total Noncurrent Assets	552,334	526,029	139,605	133,758
Total Assets	630,888	582,868	187,865	174,399

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

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STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
December 31, 2006
(In Thousands)

	Business-Type Activities - Enterprise Funds Comparative Totals		Governmental Activities - Internal Service Funds	
	2006	**2005**	**2006**	**2005**
ASSETS				
Current Assets				
Operating Cash and Equity in Pooled Investments	$ 187,816	$ 186,849	$ 39,935	$ 43,121
Restricted Cash and Equity in Pooled Investments	51,396	24,272	-	-
Receivables, Net of Allowances				
Accounts	110,860	95,111	993	617
Interest and Dividends	826	693	174	127
Unbilled	84,207	79,992	17	6
Energy Contracts, Notes, and Other Contracts	6,729	1,911	-	-
Restricted Investments	54,858	53,149	-	-
Restricted Investment Interest Receivables	1,041	265	-	-
Due from Other Funds	2,731	6,401	6,519	7,081
Due from Other Governments	6,638	4,768	2,697	3,340
Materials and Supplies Inventory	28,857	26,141	2,324	2,207
Prepayments and Other Current Assets	1,311	946	-	-
Total Current Assets	537,270	480,498	52,659	56,499
Noncurrent Assets				
Restricted Cash and Equity in Pooled Investments	49,095	54,573	31	83
Restricted Investments	35,224	-	-	-
Unamortized Bond Issue Costs, Net	15,150	15,911	-	-
Notes and Contracts Receivable	91	255	-	-
Capitalized Purchased Power Commitment	15,402	25,891	-	-
Deferred Conservation Costs, Net	176,070	157,648	-	-
Deferred Landfill Closure and Postclosure Costs, Net	33,406	35,585	-	-
Deferred External Insfrastructure Costs	21,779	22,126	-	-
Capitalized Relicensing Costs	28,852	24,159	-	-
Deferred Muckleshoot Settlement Costs	3,000	18,000	-	-
Other Deferred Charges	108,776	109,718	-	-
Capital Assets				
Land and Land Rights	84,508	67,684	81	81
Plant in Service, Excluding Land	4,441,798	4,219,440	-	-
Less Accumulated Depreciation	(1,672,906)	(1,571,774)	-	-
Building and Improvements	73,012	73,012	2,574	2,574
Less Accumulated Depreciation	(19,470)	(17,036)	(718)	(482)
Machinery and Equipment	14,524	13,319	155,388	146,019
Less Accumulated Depreciation	(5,608)	(4,210)	(84,435)	(79,153)
Construction in Progress	230,226	198,491	5,333	5,333
Other Property, Net	16,734	32,896	-	-
Total Noncurrent Assets	3,649,663	3,475,688	78,254	74,455
Total Assets	4,186,933	3,956,186	130,913	130,954

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

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STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
December 31, 2006
(In Thousands)

	Business-Type Activities - Enterprise Funds			
	Light		Water	
	2006	2005	2006	2005
LIABILITIES				
Current Liabilities				
Accounts Payable	$ 44,577	$ 55,873	$ 6,508	$ 4,655
Salaries, Benefits, and Payroll Taxes Payable	8,965	8,157	2,474	2,150
Contracts Payable	-	-	-	-
Compensated Absences Payable	1,005	511	398	382
Due to Other Funds	7,356	6,439	4,361	2,575
Due to Other Governments	23	-	-	56
Interest Payable	20,422	21,084	10,694	8,414
Street Refund Payable	7	3,864	-	-
Deferred Interest on Long-Term Debt Due Within One Year	-	-	-	-
Taxes Payable	9,511	8,830	439	495
General Obligation Bonds Due Within One Year	-	-	-	-
Revenue Bonds Due Within One Year	66,755	63,435	18,485	24,090
Energy and Other Contracts Payable	191	1,276	-	-
Claims Payable	9,937	4,527	998	1,504
Purchased Power Obligation	11,770	11,240	-	-
Notes and Contracts Payable	4,227	5,275	118	118
Habitat Conservation Program Liability	-	-	3,356	-
Muckleshoot Liability	-	-	1,495	18,000
Landfill Closure and Postclosure Liability	-	-	-	-
Deferred Credits	4,732	6,090	1,228	1,436
Other Current Liabilities	2,247	2,560	1	-
Total Current Liabilities	191,725	199,161	50,555	63,875
Noncurrent Liabilities				
Advances from Other Funds/Interfund Notes Payable	-	-	-	-
Compensated Absences Payable	10,388	10,480	3,584	3,555
Claims Payable	11,065	13,861	2,385	3,837
Notes and Contracts Payable	285	4,319	-	-
Long-Term Purchased Power Obligation	15,402	25,891	-	-
Less Obligation Due Within One Year	(11,770)	(11,240)	-	-
Public Works Trust Loan	-	-	709	828
Landfill Closure and Postclosure Liability	-	-	-	-
Vendor and Other Deposits Payable	-	-	189	205
Habitat Conservation Program Liability	-	-	11,447	-
Deferred Credits	34,369	30,789	12,362	11,936
Other Noncurrent Liabilities	186	192	442	159
General Obligation Bonds, Due Serially	-	-	-	-
Less Bonds Due Within One Year	-	-	-	-
Bond Discount and Premium, Net	-	-	-	-
Accrued Interest on Deferred Interest Bonds	-	-	-	-
Less Accrued Interest Due Within One Year	-	-	-	-
Revenue Bonds and Anticipation Notes	1,409,215	1,472,650	861,670	776,790
Less Revenue Bonds Due Within One Year	(66,755)	(63,435)	(18,485)	(24,090)
Bond Discount and Premium, Net	32,247	36,126	29,339	21,589
Deferred Loss on Advanced Refunding	(42,402)	(47,844)	(20,155)	(18,576)
Total Noncurrent Liabilities	1,392,230	1,471,789	883,487	776,233
Total Liabilities	1,583,955	1,670,950	934,042	840,108

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

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STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
December 31, 2006
(In Thousands)

	Business-Type Activities - Enterprise Funds			
	Drainage and Wastewater		Nonmajor Funds	
	2006	2005	2006	2005
LIABILITIES				
Current Liabilities				
Accounts Payable	$ 3,922	$ 3,752	$ 9,207	$ 8,560
Salaries, Benefits, and Payroll Taxes Payable	1,603	1,357	2,022	1,847
Contracts Payable	-	-	-	-
Compensated Absences Payable	249	214	381	380
Due to Other Funds	4,829	3,993	2,131	1,439
Due to Other Governments	7,662	7,587	361	373
Interest Payable	4,403	4,049	472	560
Street Refund Payable	-	-	-	-
Deferred Interest on Long-Term Debt Due Within One Year	-	-	555	459
Taxes Payable	208	140	214	200
General Obligation Bonds Due Within One Year	-	-	1,145	1,101
Revenue Bonds Due Within One Year	9,165	6,755	27,966	16,146
Energy and Other Contracts Payable	-	-	-	-
Claims Payable	3,930	4,313	244	273
Purchased Power Obligation	-	-	-	-
Notes and Contracts Payable	378	198	-	-
Habitat Conservation Program Liability	-	-	-	-
Muckleshoot Liability	-	-	-	-
Landfill Closure and Postclosure Liability	-	-	5,410	1,610
Deferred Credits	2,019	443	2,254	2,153
Other Current Liabilities	-	-	534	-
Total Current Liabilities	38,368	32,801	52,896	35,101
Noncurrent Liabilities				
Advances from Other Funds/Interfund Notes Payable	-	-	-	-
Compensated Absences Payable	2,240	1,991	3,177	3,027
Claims Payable	10,592	10,368	507	607
Notes and Contracts Payable	-	-	-	-
Long-Term Purchased Power Obligation	-	-	-	-
Less Obligation Due Within One Year	-	-	-	-
Public Works Trust Loan	5,226	4,043	-	-
Landfill Closure and Postclosure Liability	-	-	22,873	27,672
Vendor and Other Deposits Payable	183	245	-	-
Habitat Conservation Program Liability	-	-	-	-
Deferred Credits	-	-	15,278	11,511
Other Noncurrent Liabilities	88	54	355	-
General Obligation Bonds, Due Serially	-	-	70,023	71,124
Less Bonds Due Within One Year	-	-	(1,145)	(1,101)
Bond Discount and Premium, Net	-	-	293	306
Accrued Interest on Deferred Interest Bonds	-	-	4,246	4,029
Less Accrued Interest Due Within One Year	-	-	(555)	(459)
Revenue Bonds and Anticipation Notes	334,625	294,870	40,901	33,471
Less Revenue Bonds Due Within One Year	(9,165)	(6,755)	(27,966)	(16,146)
Bond Discount and Premium, Net	8,419	2,660	276	399
Deferred Loss on Advanced Refunding	(5,138)	(1,887)	(532)	(739)
Total Noncurrent Liabilities	347,070	305,589	127,731	133,701
Total Liabilities	385,438	338,390	180,627	168,802

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

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STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
December 31, 2006
(In Thousands)

	Business-Type Activities - Enterprise Funds Comparative Totals		Governmental Activities - Internal Service Funds	
	2006	**2005**	**2006**	**2005**
LIABILITIES				
Current Liabilities				
Accounts Payable	$ 64,214	$ 72,840	$ 4,567	$ 5,675
Salaries, Benefits, and Payroll Taxes Payable	15,064	13,511	2,220	2,041
Contracts Payable	-	-	53	105
Compensated Absences Payable	2,033	1,487	325	320
Due to Other Funds	18,677	14,446	1,125	3,337
Due to Other Governments	8,046	8,016	-	-
Interest Payable	35,991	34,107	146	196
Street Refund Payable	7	3,864	-	-
Deferred Interest on Long-Term Debt Due Within One Year	555	459	-	-
Taxes Payable	10,372	9,665	40	31
General Obligation Bonds Due Within One Year	1,145	1,101	815	780
Revenue Bonds Due Within One Year	122,371	110,426	-	-
Energy and Other Contracts Payable	191	1,276	-	-
Claims Payable	15,109	10,617	407	456
Purchased Power Obligation	11,770	11,240	-	-
Notes and Contracts Payable	4,723	5,591	383	361
Habitat Conservation Program Liability	3,356	-	-	-
Muckleshoot Liability	1,495	18,000	-	-
Landfill Closure and Postclosure Liability	5,410	1,610	-	-
Deferred Credits	10,233	10,122	-	-
Other Current Liabilities	2,782	2,560	2	-
Total Current Liabilities	333,544	330,938	10,083	13,302
Noncurrent Liabilities				
Advances from Other Funds/Interfund Notes Payable	-	-	2,500	3,500
Compensated Absences Payable	19,389	19,053	3,148	3,130
Claims Payable	24,549	28,673	818	969
Notes and Contracts Payable	285	4,319	1	381
Long-Term Purchased Power Obligation	15,402	25,891	-	-
Less Obligation Due Within One Year	(11,770)	(11,240)	-	-
Public Works Trust Loan	5,935	4,871	-	-
Landfill Closure and Postclosure Liability	22,873	27,672	-	-
Vendor and Other Deposits Payable	372	450	31	83
Habitat Conservation Program Liability	11,447	-	-	-
Deferred Credits	62,009	54,236	-	-
Other Noncurrent Liabilities	1,071	405	852	886
General Obligation Bonds, Due Serially	70,023	71,124	1,675	2,455
Less Bonds Due Within One Year	(1,145)	(1,101)	(815)	(780)
Bond Discount and Premium, Net	293	306	49	79
Accrued Interest on Deferred Interest Bonds	4,246	4,029	-	-
Less Accrued Interest Due Within One Year	(555)	(459)	-	-
Revenue Bonds and Anticipation Notes	2,646,411	2,577,781	-	-
Less Revenue Bonds Due Within One Year	(122,371)	(110,426)	-	-
Bond Discount and Premium, Net	70,281	60,774	-	-
Deferred Loss on Advanced Refunding	(68,227)	(69,046)	-	-
Total Noncurrent Liabilities	2,750,518	2,687,312	8,259	10,703
Total Liabilities	3,084,062	3,018,250	18,342	24,005

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

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STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
December 31, 2006
(In Thousands)

	Business-Type Activities - Enterprise Funds			
	Light		Water	
	2006	2005	2006	2005
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	$ 287,597	$ 145,886	$ 291,610	$ 285,513
Restricted for				
Debt Service	2,939	-	-	-
Contingency Reserve Account	25,000	25,000	-	-
Special Deposits and Other	75	-	-	-
Deferred Conservation and Environmental Costs	-	44,166	6,494	7,974
Bonneville Power Administration Projects	-	-	1,872	3,676
Deferred External Infrastructure Costs	-	21,655	-	-
Muckleshoot Settlement	-	-	421	-
Other Deferred Charges	-	16,608	571	1,981
Unrestricted	231,950	132,482	1,654	2,920
Total Net Assets	$ 547,561	$ 385,797	$ 302,622	$ 302,064
Adjustment to Reflect the Consolidation of Internal Service Fund Activities Related to Enterprise Funds				
Net Assets of Business-Type Activities				

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

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STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
December 31, 2006
(In Thousands)

	Business-Type Activities - Enterprise Funds			
	Drainage and Wastewater		Nonmajor Funds	
	2006	2005	2006	2005
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	$ 218,835	$ 219,397	$ 15,049	$ 13,673
Restricted for				
Debt Service	5,044	5,216	-	-
Contingency Reserve Account	-	-	-	-
Special Deposits and Other	-	-	-	-
Deferred Conservation and Environmental Costs	659	1,007	-	-
Bonneville Power Administration Projects	-	-	-	-
Deferred External Infrastructure Costs	9,245	9,858	-	-
Muckleshoot Settlement	-	-	-	-
Other Deferred Charges	5,969	9,768	872	1,071
Unrestricted	5,698	(768)	(8,683)	(9,147)
Total Net Assets	$ 245,450	$ 244,478	$ 7,238	$ 5,597
Adjustment to Reflect the Consolidation of Internal Service Fund Activities Related to Enterprise Funds				
Net Assets of Business-Type Activities				

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

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STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
December 31, 2006
(In Thousands)

	Business-Type Activities - Enterprise Funds Comparative Totals		Governmental Activities - Internal Service Funds	
	2006	**2005**	**2006**	**2005**
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	$ 813,091	$ 664,469	$ 76,501	$ 71,097
Restricted for				
Debt Service	7,983	5,216	-	-
Contingency Reserve Account	25,000	25,000	-	-
Special Deposits and Other	75	-	-	-
Deferred Conservation and Environmental Costs	7,153	53,147	-	-
Bonneville Power Administration Projects	1,872	3,676	-	-
Deferred External Infrastructure Costs	9,245	31,513	-	-
Muckleshoot Settlement	421	-	-	-
Other Deferred Charges	7,412	29,428	-	-
Unrestricted	230,619	125,487	36,069	35,852
Total Net Assets	1,102,871	937,936	$ 112,570	$ 106,949
Adjustment to Reflect the Consolidation of Internal Service Fund Activities Related to Enterprise Funds	529	(327)		
Net Assets of Business-Type Activities	$ 1,103,400	$ 937,609		

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

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STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS PROPRIETARY FUNDS
For the Year Ended December 31, 2006
(In Thousands)

	Business-Type Activities - Enterprise Funds			
	Light		Water	
	2006	2005	2006	2005
OPERATING REVENUES				
Charges for Services and Other Revenues	$ 831,810	$ 748,553	$ 155,175	$ 146,119
OPERATING EXPENSES				
Long-Term Purchased Power	210,239	225,061	-	-
Short-Term Wholesale Power Purchases	47,361	62,214	-	-
Generation	19,564	18,896	-	-
Transmission	46,825	38,163	-	-
Distribution	50,338	40,403	-	-
Energy Management and Other Power Expenses	42,927	20,296	-	-
Science, Sustainability and Watershed	-	-	9,929	11,949
Utility Systems Management	-	-	12,212	10,037
Field Operations	-	-	17,075	14,936
Engineering Services	-	-	4,557	3,372
Customer Services	37,986	31,639	7,939	8,819
Wastewater Treatment	-	-	-	-
Solid Waste Collection	-	-	-	-
Operations and Maintenance	-	-	-	-
General and Administrative	48,962	52,746	17,538	12,206
City Business and Occupation Taxes	35,591	33,394	17,907	14,114
Other Taxes	27,977	27,232	5,428	5,050
Amortization of Landfill and Postclosure Costs	-	-	-	-
Depreciation and Other Amortization	74,271	74,549	37,114	34,816
Total Operating Expenses	642,041	624,593	129,699	115,299
Operating Income (Loss)	189,769	123,960	25,476	30,820
NONOPERATING REVENUES (EXPENSES)				
Investment and Interest Income	9,994	5,710	2,985	2,492
Interest Expense	(69,445)	(71,324)	(35,014)	(34,778)
Amortization of Debt Costs	(2,336)	(2,322)	(284)	(266)
Gain (Loss) on Sale of Capital Assets	2,126	283	(278)	10
Contributions and Grants	1,442	1,991	282	321
Others, Net	(172)	(576)	593	349
Total Nonoperating Revenues (Expenses)	(58,391)	(66,238)	(31,716)	(31,872)
Income (Loss) Before Capital Contributions and Grants and Transfers	131,378	57,722	(6,240)	(1,052)
Capital Contributions and Grants	30,386	24,188	6,798	4,773
Transfers In	-	-	-	-
Transfers Out	-	-	-	-
Change in Net Assets	161,764	81,910	558	3,721
Net Assets - Beginning of Year	385,797	303,887	302,064	298,343
Net Assets - End of Year	$ 547,561	$ 385,797	$ 302,622	$ 302,064
Adjustment to Reflect the Consolidation of Internal Service Fund Activities Related to Enterprise Funds				
Change in Net Assets of Business-Type Activities				

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

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STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Year Ended December 31, 2006
(In Thousands)

	Business-Type Activities - Enterprise Funds			
	Drainage and Wastewater		Nonmajor Funds	
	2006	2005	2006	2005
OPERATING REVENUES				
Charges for Services and Other Revenues	$ 186,832	$ 176,482	$ 165,623	$ 156,522
OPERATING EXPENSES				
Long-Term Purchased Power	-	-	-	-
Short-Term Wholesale Power Purchases	-	-	-	-
Generation	-	-	-	-
Transmission	-	-	-	-
Distribution	-	-	-	-
Energy Management and Other Power Expenses	-	-	-	-
Science, Sustainability and Watershed	3,326	2,669	3,399	747
Utility Systems Management	4,988	3,946	1,269	1,558
Field Operations	12,428	11,295	8,121	8,488
Engineering Services	2,613	3,420	79	98
Customer Services	5,157	6,091	10,329	11,200
Wastewater Treatment	89,839	90,491	-	-
Solid Waste Collection	-	-	60,093	58,035
Operations and Maintenance	-	-	44,321	37,801
General and Administrative	27,878	11,930	13,392	13,561
City Business and Occupation Taxes	21,919	20,079	15,512	14,948
Other Taxes	2,254	752	1,551	1,529
Amortization of Landfill and Postclosure Costs	-	-	3,175	3,175
Depreciation and Other Amortization	16,141	14,673	7,873	6,625
Total Operating Expenses	186,543	165,346	169,114	157,765
Operating Income (Loss)	289	11,136	(3,491)	(1,243)
NONOPERATING REVENUES (EXPENSES)				
Investment and Interest Income	1,833	1,898	1,430	711
Interest Expense	(13,559)	(13,721)	(5,337)	(5,373)
Amortization of Debt Costs	(93)	(90)	(63)	(63)
Gain (Loss) on Sale of Capital Assets	(39)	-	14	145
Contributions and Grants	187	571	501	396
Others, Net	103	10	(674)	(324)
Total Nonoperating Revenues (Expenses)	(11,568)	(11,332)	(4,129)	(4,508)
Income (Loss) Before Capital Contributions and Grants and Transfers	(11,279)	(196)	(7,620)	(5,751)
Capital Contributions and Grants	12,251	1,479	1	3
Transfers In	-	-	9,260	8,456
Transfers Out	-	-	-	-
Change in Net Assets	972	1,283	1,641	2,708
Net Assets - Beginning of Year	244,478	243,195	5,597	2,889
Net Assets - End of Year	$ 245,450	$ 244,478	$ 7,238	$ 5,597
Adjustment to Reflect the Consolidation of Internal Service Fund Activities Related to Enterprise Funds				
Change in Net Assets of Business-Type Activities				

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

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STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS PROPRIETARY FUNDS

For the Year Ended December 31, 2006

(In Thousands)

	Business-Type Activities - Enterprise Funds Comparative Totals		Governmental Activities - Internal Service Funds	
	2006	**2005**	**2006**	**2005**
OPERATING REVENUES				
Charges for Services and Other Revenues	$ 1,339,440	$ 1,227,676	$ 119,398	$ 115,534
OPERATING EXPENSES				
Long-Term Purchased Power	210,239	225,061	-	-
Short-Term Wholesale Power Purchases	47,361	62,214	-	-
Generation	19,564	18,896	-	-
Transmission	46,825	38,163	-	-
Distribution	50,338	40,403	-	-
Energy Management and Other Power Expenses	42,927	20,296	-	-
Science, Sustainability and Watershed	16,654	15,365	-	-
Utility Systems Management	18,469	15,541	110	-
Field Operations	37,624	34,719	-	-
Engineering Services	7,249	6,890	7,531	6,817
Customer Services	61,411	57,749	-	-
Wastewater Treatment	89,839	90,491	-	-
Solid Waste Collection	60,093	58,035	-	-
Operations and Maintenance	44,321	37,801	84,983	79,912
General and Administrative	107,770	90,443	9,567	7,845
City Business and Occupation Taxes	90,929	82,535	5	5
Other Taxes	37,210	34,563	379	252
Amortization of Landfill and Postclosure Costs	3,175	3,175	-	-
Depreciation and Other Amortization	135,399	130,663	13,258	13,261
Total Operating Expenses	1,127,397	1,063,003	115,833	108,092
Operating Income (Loss)	212,043	164,673	3,565	7,442
NONOPERATING REVENUES (EXPENSES)				
Investment and Interest Income	16,242	10,811	2,279	1,307
Interest Expense	(123,355)	(125,196)	(70)	(287)
Amortization of Debt Costs	(2,776)	(2,741)	-	-
Gain (Loss) on Sale of Capital Assets	1,823	438	102	(154)
Contributions and Grants	2,412	3,279	3,104	3,846
Others, Net	(150)	(541)	948	-
Total Nonoperating Revenues (Expenses)	(105,804)	(113,950)	6,363	4,712
Income (Loss) Before Capital Contributions and Grants and Transfers	106,239	50,723	9,928	12,154
Capital Contributions and Grants	49,436	30,443	-	-
Transfers In	9,260	8,456	893	1,447
Transfers Out	-	-	(5,200)	(10,115)
Change in Net Assets	164,935	89,622	5,621	3,486
Net Assets - Beginning of Year			106,949	103,463
Net Assets - End of Year			$ 112,570	$ 106,949
Adjustment to Reflect the Consolidation of Internal Service Fund Activities Related to Enterprise Funds	855	1,561		
Change in Net Assets of Business-Type Activities	$ 165,790	$ 91,183		

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

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STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended December 31, 2006
(In Thousands)

	Business-Type Activities - Enterprise Funds			
	Light		Water	
	2006	2005	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash Received from Customers	$ 778,970	$ 742,713	$ 155,143	$ 146,192
Cash Paid to Suppliers	(295,085)	(280,003)	(35,949)	(17,512)
Cash Paid to Employees	(171,084)	(145,790)	(45,580)	(42,891)
Cash Paid for Taxes	(69,067)	(63,740)	(24,784)	(19,879)
Net Cash from Operating Activities	243,734	253,180	48,830	65,910
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Principal and Interest Paid on Loan/Note	(290)	-	-	-
Decrease in Bond Reserve Account	-	(87,407)	-	-
Increase in Contingency Reserve Account	-	25,000	-	-
Operating Grants Received	1,472	8,924	282	321
Service for Others	-	-	-	-
Transfers In	-	-	-	-
Transfers Out	-	-	-	-
Receipts for Energy Conservation Augmentation	4,011	4,825	-	-
Payments for Energy Conservation Augmentation	(17,648)	(16,384)	-	-
Intergovernmental Revenues and Other	-	-	593	349
Gains from Bankruptcy Distributions	681	-	-	-
Net Cash from Noncapital Financing Activities	(11,774)	(65,042)	875	670
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Draw-On Line of Credit - Revenue Anticipation Note	-	-	-	-
Proceeds from Sale of Bonds and Other Long-Term Debt	957	-	115,160	10
Principal Payments on Long-Term Debt and Refunding	(69,691)	(75,030)	(24,208)	(22,488)
Capital Expenditures and Deferred Charges Paid	(145,640)	(130,739)	(65,994)	(62,945)
Interest Paid On Long-Term Debt	(72,665)	(69,368)	(34,998)	(37,112)
Capital Fees and Grants Received	24,671	10,910	4,854	4,773
Increase in Construction Account	-	62,407	-	-
Debt Issuance Costs	-	-	(915)	-
Proceeds from Sale of Capital Assets	1,508	307	44	14
Net Cash from Capital and Related Financing Activities	(260,860)	(201,513)	(6,057)	(117,748)
CASH FLOWS FROM INVESTING ACTIVITIES [a]				
Proceeds from Sale of Investments	-	26,888	141,181	339,962
Purchases of Investments	-	-	(166,093)	(287,239)
Interest Received on Investments	9,838	6,662	2,457	2,542
Net Cash from Investing Activities	9,838	33,550	(22,455)	55,265
Net Increase (Decrease) in Cash and Equity in Pooled Investments	(19,062)	20,175	21,193	4,097
CASH AND EQUITY IN POOLED INVESTMENTS				
Beginning of Year	177,713	157,538	40,750	36,653
End of Year	$ 158,651	$ 177,713	$ 61,943	$ 40,750
CASH AT THE END OF THE YEAR CONSISTS OF				
Operating Cash and Equity in Pooled Investments	$ 127,148	$ 141,898	$ 11,837	$ 8,879
Current Assets Restricted Cash and Equity in Pooled Investments	-	-	37,750	18,744
Noncurrent Assets Restricted Cash and Equity in Pooled Investments	31,503	35,815	12,356	13,127
Total Cash at the End of the Year	$ 158,651	$ 177,713	$ 61,943	$ 40,750

[a] Increases and decreases in the fair value of investments are treated as additions or deductions to cash and equity in pooled investments and long-term investments. Information on the increases or decreases in the fair value of long-term investments is shown in the schedule of noncash activities of the Statement of Cash Flows.

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

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STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended December 31, 2006
(In Thousands)

	Business-Type Activities - Enterprise Funds			
	Drainage and Wastewater		Nonmajor Funds	
	2006	2005	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash Received from Customers	$ 187,358	$ 175,295	$ 167,559	$ 160,500
Cash Paid to Suppliers	(114,811)	(102,201)	(97,555)	(93,032)
Cash Paid to Employees	(27,527)	(25,398)	(43,278)	(40,212)
Cash Paid for Taxes	(23,510)	(19,381)	(17,681)	(17,755)
Net Cash from Operating Activities	21,510	28,315	9,045	9,501
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Principal and Interest Paid on Loan/Note	-	-	-	-
Decrease in Bond Reserve Account	-	-	-	-
Increase in Contingency Reserve Account	-	-	-	-
Operating Grants Received	187	571	501	396
Service for Others	-	-	(674)	(324)
Transfers In	-	-	9,260	8,456
Transfers Out	-	-	-	-
Receipts for Energy Conservation Augmentation	-	-	-	-
Payments for Energy Conservation Augmentation	-	-	-	-
Intergovernmental Revenues and Other	(2,051)	(1,508)	-	-
Gains from Bankruptcy Distributions	-	-	-	-
Net Cash from Noncapital Financing Activities	(1,864)	(937)	9,087	8,528
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Draw-On Line of Credit - Revenue Anticipation Note	-	-	11,600	4,000
Proceeds from Sale of Bonds and Other Long-Term Debt	50,586	3,376	-	-
Principal Payments on Long-Term Debt and Refunding	(7,087)	(6,375)	(5,271)	(5,015)
Capital Expenditures and Deferred Charges Paid	(23,990)	(39,360)	(15,379)	(10,411)
Interest Paid On Long-Term Debt	(14,786)	(14,696)	(5,458)	(5,155)
Capital Fees and Grants Received	1,728	1,479	1	3
Increase in Construction Account	-	-	-	-
Debt Issuance Costs	(188)	-	-	-
Proceeds from Sale of Capital Assets	-	-	14	145
Net Cash from Capital and Related Financing Activities	6,263	(55,576)	(14,493)	(16,433)
CASH FLOWS FROM INVESTING ACTIVITIES [a]				
Proceeds from Sale of Investments	103,843	184,140	-	-
Purchases of Investments	(116,174)	(154,775)	-	-
Interest Received on Investments	1,912	1,495	1,351	702
Net Cash from Investing Activities	(10,419)	30,860	1,351	702
Net Increase (Decrease) in Cash and Equity in Pooled Investments	15,490	2,662	4,990	2,298
CASH AND EQUITY IN POOLED INVESTMENTS				
Beginning of Year	19,913	17,250	27,320	25,022
End of Year	$ 35,403	$ 19,912	$ 32,310	$ 27,320
CASH AT THE END OF THE YEAR CONSISTS OF				
Operating Cash and Equity in Pooled Investments	$ 16,530	$ 8,752	$ 32,301	$ 27,320
Current Assets Restricted Cash and Equity in Pooled Investments	13,646	5,529	9	-
Noncurrent Assets Restricted Cash and Equity in Pooled Investments	5,227	5,631	-	-
Total Cash at the End of the Year	$ 35,403	$ 19,912	$ 32,310	$ 27,320

[a] Increases and decreases in the fair value of investments are treated as additions or deductions to cash and equity in pooled investments and long-term investments. Information on the increases or decreases in the fair value of long-term investments is shown in the schedule of noncash activities of the Statement of Cash Flows.

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

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STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended December 31, 2006
(In Thousands)

	Business-Type Activities - Enterprise Funds Comparative Totals		Governmental Activities - Internal Service Funds	
	2006	**2005**	**2006**	**2005**
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash Received from Customers	$ 1,289,030	$ 1,224,700	$ 120,319	$ 113,021
Cash Paid to Suppliers	(543,400)	(492,748)	(57,884)	(46,090)
Cash Paid to Employees	(287,469)	(254,291)	(47,384)	(45,341)
Cash Paid for Taxes	(135,042)	(120,755)	(426)	(247)
Net Cash from Operating Activities	323,119	356,906	14,625	21,343
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Principal and Interest Paid on Loan/Note	(290)	-	(1,000)	(1,100)
Decrease in Bond Reserve Account	-	(87,407)	-	-
Increase in Contingency Reserve Account	-	25,000	-	-
Operating Grants Received	2,442	10,212	3,104	3,846
Service for Others	(674)	(324)	-	-
Transfers In	9,260	8,456	893	1,447
Transfers Out	-	-	(5,200)	(10,115)
Receipts for Energy Conservation Augmentation	4,011	4,825	-	-
Payments for Energy Conservation Augmentation	(17,648)	(16,384)	-	-
Intergovernmental Revenues and Other	(1,458)	(1,159)	-	-
Gains from Bankruptcy Distributions	681	-	-	-
Net Cash from Noncapital Financing Activities	(3,676)	(56,781)	(2,203)	(5,922)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Draw-On Line of Credit - Revenue Anticipation Note	11,600	4,000	-	-
Proceeds from Sale of Bonds and Other Long-Term Debt	166,703	3,386	-	-
Principal Payments on Long-Term Debt and Refunding	(106,257)	(108,908)	(780)	(950)
Capital Expenditures and Deferred Charges Paid	(251,003)	(243,455)	(17,110)	(15,209)
Interest Paid On Long-Term Debt	(127,907)	(126,331)	(152)	(201)
Capital Fees and Grants Received	31,254	17,165	-	-
Increase in Construction Account	-	62,407	-	-
Debt Issuance Costs	(1,103)	-	-	-
Proceeds from Sale of Capital Assets	1,566	466	102	(154)
Net Cash from Capital and Related Financing Activities	(275,147)	(391,270)	(17,940)	(16,514)
CASH FLOWS FROM INVESTING ACTIVITIES [a]				
Proceeds from Sale of Investments	245,024	550,990	-	-
Purchases of Investments	(282,267)	(442,014)	-	-
Interest Received on Investments	15,558	11,401	2,279	1,308
Net Cash from Investing Activities	(21,685)	120,377	2,279	1,308
Net Increase (Decrease) in Cash and Equity in Pooled Investments	22,611	29,232	(3,239)	215
CASH AND EQUITY IN POOLED INVESTMENTS				
Beginning of Year	265,696	236,463	43,204	42,989
End of Year	$ 288,307	$ 265,695	$ 39,965	$ 43,204
CASH AT THE END OF THE YEAR CONSISTS OF				
Operating Cash and Equity in Pooled Investments	$ 187,816	$ 186,849	$ 39,935	$ 43,121
Current Assets Restricted Cash and Equity in Pooled Investments	51,405	24,273	30	83
Noncurrent Assets Restricted Cash and Equity in Pooled Investments	49,086	54,573	-	-
Total Cash at the End of the Year	$ 288,307	$ 265,695	$ 39,965	$ 43,204

[a] Increases and decreases in the fair value of investments are treated as additions or deductions to cash and equity in pooled investments and long-term investments. Information on the increases or decreases in the fair value of long-term investments is shown in the schedule of noncash activities of the Statement of Cash Flows.

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

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STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended December 31, 2006
(In Thousands)

	Business-Type Activities - Enterprise Funds			
	Light		Water	
	2006	2005	2006	2005
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES				
Operating Income (Loss)	$ 189,769	$ 123,960	$ 25,476	$ 30,820
Adjustments to Reconcile Net Operating Income (Loss) to Net Cash from Operating Activities				
Depreciation and Amortization	76,230	74,549	37,114	34,816
Amortization of Deferred Power Costs	6,573	8,301	-	-
Changes in Operating Assets and Liabilities				
Accounts Receivable	(18,553)	15,065	(353)	338
Unbilled Receivables	(3,754)	1,072	(138)	97
Bad Debt Expense	11,436	-	-	-
Power Revenue and Expense	81	-	-	-
Other Receivables	1,253	(10)	191	103
Due from Other Funds	1,709	17,623	999	(2)
Due from Other Governments	(1,008)	6,076	(533)	567
Materials and Supplies Inventory	(2,706)	(2,765)	(163)	127
Accounts Payable	(11,520)	18,934	2,919	(288)
Salaries, Benefits, and Payroll Taxes Payable	809	2,138	324	2
Compensated Absences Payable	(45)	141	46	321
Due to Other Funds	917	1,174	1,786	505
Due to Other Governments	23	-	(57)	(619)
Claims Payable	(2,010)	2,782	(1,958)	(957)
Energy and Other Contracts Payable	-	(434)	-	-
Taxes Payable	681	463	(56)	(125)
Streetlight Refund Payable	-	(16,134)	-	-
Deferred Credits	(6,650)	-	426	1,038
Other Assets and Liabilities	499	245	(17,193)	(833)
Total Adjustments	53,965	129,220	23,354	35,090
Net Cash from Operating Activities	$ 243,734	$ 253,180	$ 48,830	$ 65,910
SCHEDULE OF NONCASH ACTIVITIES				
In-Kind Capital Contributions	$ 504	$ 7,322	$ -	$ -
Amortization of Debt Related Costs, Net	(2,336)	-	-	-
Change in Valuation of Derivative Financial Instruments	5,930	-	-	-
Change in Valuation of Deferred Gain on Power Exchange	(1,003)	-	-	-
Allowance for Funds Used During Construction	2,576	-	-	-
Power Exchange Revenues	22,320	-	-	-
Power Exchange Expenses	(20,880)	-	-	-
Change in Capitalized Purchased Power Commitment/Obligation	(10,490)	-	-	-
Note Assumed for Software Agreement	832	-	-	-
Power Revenue Netting Activity	38,834	-	-	-
Power Expense Netting Activity	(40,357)	-	-	-
Note Payable for Acquisition of Capital Assets	-	9,594	-	-
Fair Value Adjustment of Long-Term Investments	-	-	1	36
Bonds Proceeds Deposited with Escrow Agent to Refund Bonds	-	-	83,378	143,987
Bond Issuance Costs Deducted from Bond Proceeds	-	-	915	1,069
Contributed Infrastructure	-	-	1,944	-
Total Noncash Activities	$ (4,070)	$ 16,916	$ 86,238	$ 145,092

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

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STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended December 31, 2006
(In Thousands)

	Business-Type Activities - Enterprise Funds			
	Drainage and Wastewater		Nonmajor Funds	
	2006	2005	2006	2005
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES				
Operating Income (Loss)	$ 289	$ 11,136	$ (3,491)	$ (1,243)
Adjustments to Reconcile Net Operating Income (Loss) to Net Cash from Operating Activities				
Depreciation and Amortization	16,141	14,673	11,048	9,800
Amortization of Deferred Power Costs	-	-	-	-
Changes in Operating Assets and Liabilities				
Accounts Receivable	(1,646)	(488)	(2,873)	1,538
Unbilled Receivables	(335)	(1,007)	12	17
Bad Debt Expense	-	-	-	-
Power Revenue and Expense	-	-	-	-
Other Receivables	-	-	-	-
Due from Other Funds	1,725	(45)	549	(271)
Due from Other Governments	(130)	694	(199)	34
Materials and Supplies Inventory	-	-	(48)	58
Accounts Payable	170	902	1,062	(347)
Salaries, Benefits, and Payroll Taxes Payable	246	120	176	187
Compensated Absences Payable	285	180	152	337
Due to Other Funds	835	1,482	693	307
Due to Other Governments	74	378	(14)	103
Claims Payable	2,256	169	(128)	(288)
Energy and Other Contracts Payable	-	-	-	-
Taxes Payable	68	(32)	15	(9)
Streetlight Refund Payable	-	-	-	-
Deferred Credits	1,576	172	3,867	2,117
Other Assets and Liabilities	(44)	(19)	(1,776)	(2,839)
Total Adjustments	21,221	17,179	12,536	10,744
Net Cash from Operating Activities	$ 21,510	$ 28,315	$ 9,045	$ 9,501
SCHEDULE OF NONCASH ACTIVITIES				
In-Kind Capital Contributions	$ -	$ -	$ -	$ -
Amortization of Debt Related Costs, Net	-	-	-	-
Change in Valuation of Derivative Financial Instruments	-	-	-	-
Change in Valuation of Deferred Gain on Power Exchange	-	-	-	-
Allowance for Funds Used During Construction	-	-	-	-
Power Exchange Revenues	-	-	-	-
Power Exchange Expenses	-	-	-	-
Change in Capitalized Purchased Power Commitment/Obligation	-	-	-	-
Note Assumed for Software Agreement	-	-	-	-
Power Revenue Netting Activity	-	-	-	-
Power Expense Netting Activity	-	-	-	-
Note Payable for Acquisition of Capital Assets	-	-	-	-
Fair Value Adjustment of Long-Term Investments	10	47	-	-
Bonds Proceeds Deposited with Escrow Agent to Refund Bonds	77,608	-	-	-
Bond Issuance Costs Deducted from Bond Proceeds	579	-	-	-
Contributed Infrastructure	10,523	-	-	-
Total Noncash Activities	$ 88,720	$ 47	$ -	$ -

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

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STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended December 31, 2006
(In Thousands)

	Business-Type Activities - Enterprise Funds Comparative Totals		Governmental Activities - Internal Service Funds	
	2006	**2005**	**2006**	**2005**
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES				
Operating Income (Loss)	$ 212,043	$ 164,673	$ 3,565	$ 7,442
Adjustments to Reconcile Net Operating Income (Loss) to Net Cash from Operating Activities				
Depreciation and Amortization	140,533	133,838	13,258	13,261
Amortization of Deferred Power Costs	6,573	8,301	-	-
Changes in Operating Assets and Liabilities				
Accounts Receivable	(23,425)	16,453	(546)	(533)
Unbilled Receivables	(4,215)	179	(12)	(1)
Bad Debt Expense	11,436	-	-	-
Power Revenue and Expense	81	-	-	-
Other Receivables	1,444	93	-	-
Due from Other Funds	4,982	17,305	(61)	(1,558)
Due from Other Governments	(1,870)	7,371	643	(509)
Materials and Supplies Inventory	(2,917)	(2,580)	(116)	(145)
Accounts Payable	(7,369)	19,201	(1,107)	1,709
Salaries, Benefits, and Payroll Taxes Payable	1,555	2,447	179	80
Compensated Absences Payable	438	979	23	151
Due to Other Funds	4,231	3,468	(1,462)	1,687
Due to Other Governments	26	(138)	-	-
Claims Payable	(1,840)	1,706	(201)	(87)
Energy and Other Contracts Payable	-	(434)	-	-
Taxes Payable	708	297	8	11
Streetlight Refund Payable	-	(16,134)	-	-
Deferred Credits	(781)	3,327	(46)	88
Other Assets and Liabilities	(18,514)	(3,446)	500	(253)
Total Adjustments	111,076	192,233	11,060	13,901
Net Cash from Operating Activities	$ 323,119	$ 356,906	$ 14,625	$ 21,343
SCHEDULE OF NONCASH ACTIVITIES				
In-Kind Capital Contributions	$ 504	$ 7,322	$ -	$ -
Amortization of Debt Related Costs, Net	(2,336)	-	-	-
Change in Valuation of Derivative Financial Instruments	5,930	-	-	-
Change in Valuation of Deferred Gain on Power Exchange	(1,003)	-	-	-
Allowance for Funds Used During Construction	2,576	-	-	-
Power Exchange Revenues	22,320	-	-	-
Power Exchange Expenses	(20,880)	-	-	-
Change in Capitalized Purchased Power Commitment/Obligation	(10,490)	-	-	-
Note Assumed for Software Agreement	832	-	-	-
Power Revenue Netting Activity	38,834	-	-	-
Power Expense Netting Activity	(40,357)	-	-	-
Note Payable for Acquisition of Capital Assets	-	9,594	-	-
Fair Value Adjustment of Long-Term Investments	11	83	-	-
Bonds Proceeds Deposited with Escrow Agent to Refund Bonds	160,986	143,987	-	-
Bond Issuance Costs Deducted from Bond Proceeds	1,494	1,069	-	-
Contributed Infrastructure	12,467	-	-	-
Total Noncash Activities	$ 170,888	$ 162,055	$ -	$ -

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

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STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
December 31, 2006
(In Thousands)

	Pension Trust Funds	S. L. Denny Private-Purpose Trust	Agency Funds
ASSETS			
Cash and Equity in Pooled Investments	$ 38,165	$ 184	$ 7,743
Short-Term Investments	66,630	-	-
Securities Lending Collateral	145,097	-	-
Investments at Fair Value			
U.S. Government Obligations	140,159	-	-
Domestic Corporate Bonds	71,834	-	-
Domestic Stocks	970,965	-	-
International Stocks	212,329	-	-
Real Estate	237,797	-	-
Alternative/Venture Capital	199,070	-	-
Mezzanine Debt	88,390	-	-
Total Investments at Fair Value	1,920,544	-	-
Receivables			
Employer - Due from Other Funds	90	-	623
Employer - Other	3,749	-	-
Employee	1,182	-	-
Interest and Dividends	2,447	1	-
Total Receivables	7,468	1	623
Equipment, at Cost, Net of Accumulated Depreciation	3	-	-
Total Assets	2,177,907	185	8,366
LIABILITIES			
Accounts Payable	-	-	7
Refunds Payable and Other	10,284	-	-
Salaries, Benefits, and Payroll Taxes Payable	-	-	1,505
Deposits Payable	-	-	6,854
Securities Lending Collateral	145,097	-	-
Total Liabilities	155,381	-	8,366
Net Assets Held in Trust for Pension Benefits and Other Purposes	$ 2,022,526	$ 185	$ -

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

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STATEMENT OF CHANGES IN NET ASSETS
FIDUCIARY FUNDS
For the Year Ended December 31, 2006
(In Thousands)

	Pension Trust Funds	S.L. Denny Private-Purpose Trust
ADDITIONS		
Contributions		
Employer	$ 71,285	$ -
Plan Member	38,228	-
Total Contributions	109,513	-
Investment Income (Loss)		
From Investment Activities		
Net Appreciation (Depreciation) in Fair Value of Investments	221,669	-
Interest	16,063	9
Dividends	9,063	-
Total Investment Activities Income (Loss)	246,795	9
Investment Activities Expenses		
Investment Management Fees	3,554	-
Performance Measurement Fees	104	-
Investment Custodial Fees	76	-
Total Investment Activities Expenses	3,734	-
Net Income (Loss) from Investment Activities	243,061	9
From Securities Lending Activities		
Securities Lending Income	5,474	-
Securities Lending Expenses		
Borrower Rebates	5,035	-
Management Fees	109	-
Total Securities Lending Expenses	5,144	-
Net Income (Loss) from Securities Lending Activities	330	-
Total Net Investment Income (Loss)	243,391	9
Total Additions	352,904	9
DEDUCTIONS		
Benefits	119,575	-
Refund of Contributions	10,553	-
Administrative Expense	2,698	-
Total Deductions	132,826	-
Change in Net Assets	220,078	9
Net Assets - Beginning of Year	1,802,447	176
Net Assets - End of Year	$ 2,022,525	$ 185

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

REPORTING ENTITY

The City of Seattle (the primary government for financial reporting purposes) consists of the funds, departments, agencies, boards and commissions (referred to in this note as organizations) over which the City exercises financial accountability, and a component unit over which the City is not financially accountable but is required to be reported due to the nature and significance of its relationship with the City. Additional information on the component unit may be found in Note 10. The City does not have other relationships with organizations of such nature and significance that exclusion would render the City's financial statements incomplete or misleading.

Indicators of Financial Accountability

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

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

Joint Venture

A joint venture is an organization that results from a contractual arrangement and is owned, operated, or governed by two or more participants as a separate activity. In addition to joint control, each participant must have either an ongoing financial interest or an ongoing financial responsibility. The City participates in a joint venture with King County with regard to the Seattle-King County Work Force Development Council. Additional information on the existing joint venture may be found in Note 11.

Organizations Excluded: Related Organizations

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

Housing Authority of the City of Seattle

City of Seattle Industrial Development Corporation

Burke-Gilman Place Public Development Authority

ACCOUNTING STANDARDS

In 2006 the City implemented the following Government Accounting Standards Board (GASB) and Financial Accounting Standards Board (FASB) statements:

GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section*. This statement establishes and modifies the requirements related to supplementary information presented in the statistical section that accompanies the basic financial statements. The statistical section provides historical perspective, context, and detail to the information in the financial statements, notes to financial statements, and required supplementary information to assist users in understanding and assessing a government's economic condition.

GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*. This statement establishes and modifies the requirements related to restrictions of net assets resulting from enabling legislation. This statement requires disclosure of the portion of total net assets that is restricted by enabling legislation; specifies accounting and reporting requirements if new enabling legislation replaces existing legislation or if legal enforceability is reevaluated; and clarifies that a legally enforceable legislation restriction is one that a government can be compelled to honor by parties external to the government, such as its citizens, public interest groups, or the judiciary. This statement was implemented in 2006 and did not have a material effect on the City's financial position or operations.

GASB Statement No. 47, *Accounting for Termination Benefits*. This statement establishes accounting standards for termination benefits and requires implementation effective in two parts. The provisions of this statement pertaining to voluntary termination benefits, such as early retirement incentives, and involuntary termination benefits, such as severance benefits, were implemented in 2006. However, the City did not provide such benefits in 2006, so the implementation had no impact on the City's financial position or operations. The provisions of Statement No. 47 with regard to termination benefits included in an existing other postemployment benefit (OPEB) plan are required to be implemented simultaneously with GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and will therefore be implemented in 2007.

FASB Statement of Financial Accounting Standards (SFAS) No. 153, *Exchanges of Nonmonetary Assets –an amendment of APB Opinion No. 29*. This statement eliminates the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. These nonmonetary exchanges are to be measured at fair value. Previously, these transactions were recognized at the blended weighted average cost of power in accordance with Accounting Principles Board (APB) Opinion No. 29. The implementation of SFAS No. 153 effective January 1, 2006, affected a long-term Capacity and Energy Exchange Agreement entered into by Seattle City Light and resulted in increases in the utility's accounts receivable by $3.7 million, revenues by $2.4 million, and expenses by $0.2 million; as well as in recognition of deferred unrealized gain of $1.5 million.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

Statement of Net Assets

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

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

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

Statement of Activities

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

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

Fund Financial Statements

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

The City reports the following major governmental funds:

The **General Fund** is the City's primary operating fund. It accounts for all financial resources of the general government except those required to be accounted for in other funds.

The **Low-Income Housing Fund** manages activities undertaken by the City to preserve, rehabilitate, or replace low-income housing. It also accounts for a seven-year housing levy approved by the voters in 2002 to provide, produce, and/or preserve affordable housing in Seattle and to assist low-income tenants in Seattle.

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

The City reports the following major proprietary funds:

The **Light Fund** (City Light) accounts for operating the City's electric utility which owns and operates generating, transmission, and distribution facilities. The Utility supplies electricity to approximately 381,000 customers in the Seattle area as well as to other City agencies.

The **Water Fund** accounts for operating the City's water utility. The Utility maintains more than 180 miles of water supply mains and more than 494 million gallons of distribution storage capacity in the Cedar and Tolt Rivers and Highline Well Field watersheds. The distribution system serves a population of over 1,350,000 people, with an average daily total consumption of about 119 million gallons of water.

The **Drainage and Wastewater Fund** accounts for operating the sewer and drainage utility facilities and its pumping stations. These facilities and stations are necessary to collect the sewage of the City and discharge it into the King County Department of Natural Resources Wastewater Treatment System for treatment and disposal.

Additionally, the City reports the following fund types:

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

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

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

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

The Firemen's Pension Fund accounts for revenues from an annual property tax levy of up to $0.45 per thousand dollars of assessed value, a portion of the state-levied fire insurance premium tax, and General Fund contributions. It pays medical and pension benefits to sworn firemen.

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

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

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Government-wide Financial Statements

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

Governmental Fund Financial Statements

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

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

Proprietary Fund Financial Statements

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal activity. The principal operating revenues of the City's Light, Water, Solid Waste, Drainage and Wastewater

Utilities, the Parking Garage, the Planning and Development Fund, and the City's internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of personnel services, contractual services, other supplies and expenses, and depreciation on capital assets. All other revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

Fiduciary Fund Financial Statements

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

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

BUDGETS AND BUDGETARY ACCOUNTING

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

ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

Cash and Investments

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Receivables

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

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

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

Inventories

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

The cost is recorded as expenditure in governmental funds at the time individual inventory items are purchased. This is known as the purchase method. Governmental fund inventories are equally offset by a fund balance reserve to indicate that they do not constitute available spendable resources even though they are included in net current assets.

Inventories in the proprietary funds are expensed as consumed.

Capital Assets

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

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

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

Utility plant	33 - 100 years
Buildings	25 - 50 years
Improvements other than buildings	25 - 50 years
Infrastructure	10 - 50 years
Equipment	2 - 25 years

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

Restricted Assets

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

Capital leases are recorded at the present value of future lease payments and amortized on a straight-line basis over the life of the lease.

Deferred Charges

Deferred charges may include the preliminary costs of projects and information systems, programmatic conservation costs, landfill closure costs, certain purchased power expenses, the cost of future construction of plant owned and operated by other entities for future services, and charges related to bond issues.

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

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

Accumulated Compensated Absences

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

Vacation Pay

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

Sick Pay

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

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

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

Other Compensated Absences

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

Risk Management

A liability for claims is reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Claims liabilities are discounted at the City’s average investment rate of return (Note 13).

Other Accrued Liabilities

Other accrued liabilities include deposits, interest payable on obligations other than bonds, and current portions of lease-purchase agreements.

Interfund Activity and Contracts/Advances

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

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

Deferred Revenues

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

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

Reservations and Designations

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

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

Program Revenues

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

Prior-Year Comparative Data

The basic financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the City of Seattle's financial statements for the year ended December 31, 2005, from which the summarized information was derived.

(2) STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

BUDGETARY INFORMATION

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

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

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

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

(In Thousands)

	2006
Annual Budget	$ 935,504
Carryovers	
Encumbrances	6,760
Continuing Appropriations	72,541
Carryover Adjustments	-
Intrafund	(114,144)
Budget Revisions	64,515
Total Budget	$ 965,175

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

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

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

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

The Finance Director may approve the transfer of appropriations. Beginning in 2003 the following restrictions to budget transfers within a budget year were imposed by ordinance. Total budget transfers into a budget control level may not exceed 10 percent of its original budgeted allowance, and in no case may they be greater than $500,000. Total transfers out may not exceed 25 percent of the original budgeted allowance. Within a budget control level departments may transfer appropriations without the Finance Director’s approval.

Budgetary comparisons for proprietary funds may be requested from the Department of Executive Administration. Budget figures consist of the adopted annual budget, which includes appropriation carryovers from previous years and any revisions during the year. The budgetary basis is substantially the same as the accounting basis in all governmental fund types except for the treatment of encumbrances, which do not lapse and are included with expenditures.

DEFICITS IN FUND BALANCES AND NET ASSETS

The Downtown Parking Garage Fund has negative fund net assets of $20.3 million. This is mostly attributable to the cumulative effects of depreciation expenses which have not been planned to be covered by operating revenues. The Garage has been generating revenues to cover debt service payments and operating expenses, excluding depreciation. The negative fund equity will continue; however, the Garage is expected to cover future operating costs and debt service as they become due.

The Engineering Services Fund has $3.1 million of deficit net assets. This deficit is largely the consequence of inadequate overhead rates during the mid-1990s, which led to significant under-recovery of expenditures and disputed costs on projects performed for other agencies and departments. Disputed billing and overhead issues have been addressed and are now closely monitored, and deficit-recovery surcharges are being applied to Engineering Services Fund services. The financial position of the Engineering Services Fund has improved from a $4.0 million deficit in 2005 and is expected to continue to improve in future years.

The 2007 Multipurpose LTGO Bond Fund has negative fund net assets of $3.1 million. The fund was created by Ordinance 122121 that authorized a loan of up to $3.0 million from the City's Consolidated (Residual) Cash Pool repayable by June 2007. This was later increased to $6.3 million due by June 2008 by Ordinance 122211. The repayment is to come from future proceeds of limited tax general obligation bonds.

(3) CASH AND INVESTMENTS

CASH AND EQUITY IN POOLED INVESTMENTS

Cash resources of all City funds are combined to form a pool of cash that is managed by the Department of Executive Administration. Under the City’s investment policy, all temporary cash surpluses in the pool are invested. Each fund’s share of the cash pool is included in the participating fund’s balance sheet under the caption “Cash and Equity in Pooled Investments.” The pool operates like a demand deposit account in that all City funds may deposit cash at any time and also withdraw cash out of the pool without prior notice or penalty.

Custodial Credit Risk – Deposits. As of December 31, 2006, the City’s cash pool had cash on deposit with the City’s custodial banks in the amount of $19.4 million. This amount represents cash that had been credited in the City books but remains in the bank to cover checks that were issued by the City but were unredeemed at the end of the year. The Federal Deposit Insurance Corporation (FDIC) insures the City’s deposits up to $0.1 million; the rest is uninsured and uncollateralized and is therefore exposed to custodial risk, which is the risk that deposits may not be returned to the City in the event of bank failure. The City minimizes exposure to custodial credit risk for deposits by requiring depository banks to have sufficient capital to support the activities of City accounts. Banks having a deposit relationship with the City are also required to provide financial statements for the City’s use in reviewing the bank’s financial condition. All deposits not covered by FDIC insurance are covered by the Public Deposit Protection Commission (PDPC) of the State of Washington.

The PDPC is a statutory authority established under RCW 39.58. It constitutes a multiple financial institution collateral pool. In the case of a loss by any public depository in the state, each public depository is liable for an amount up to 11 percent of its public deposits. Provisions of RCW 39.58.060 authorize the PDPC to make pro rata assessments in proportion to the maximum liability of each such depository as it existed on the date of loss.

CITY TREASURY INVESTMENTS

Note 1 describes the investment policies of the City. Banks or trust companies acting as the City's agents hold all of the City's investments in the City's name. As of December 31, 2006, the City's cash investment pool had the following investments and maturities.

Table 3-1

INVESTMENTS AND MATURITIES

TREASURY RESIDUAL INVESTMENTS AND

SECURITIES HELD FOR DEDICATED FUNDS

(In Thousands)

	Fair Value			
Investments	Treasury Residual Investments	Securities Held for Dedicated Funds	Carrying Amount	Weighted Average Maturity (Days)
Repurchase Agreements	$ 112,045	$ -	$ 112,045	2
U.S. Government Obligations	24,914	-	24,914	46
U.S. Government Agencies	487,817	61,903	549,720	325
Commercial Paper	200,814	28,656	229,470	18
Municipal Bonds	7,928	-	7,928	182
Total	$ 833,518	$ 90,559	$ 924,077	
Weighted Average Maturity of the Treasury Residual Investments and Securities Held for Dedicated Funds				201

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates over time will adversely affect the fair value of an investment. To manage its exposure to declines in fair values, the City adopted an investment policy that limits the weighted average maturity of its investment portfolio to no longer than five years. Furthermore, to achieve its financial objective of maintaining liquidity to meet its operating cash flow needs, the City typically selects investments that have much shorter average maturities.

Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In accordance with its investment policy the City manages its exposure to credit risk by limiting its investments in commercial paper purchased on the secondary market to those with maturities not longer than 180 days from purchase and with the highest rating by at least two nationally recognized statistical rating organizations. As of December 31, 2006, the City's investments in commercial paper were rated P-1 by Moody's Investors Service, A-1 by Standard & Poor's, and/or F-1 by Fitch Ratings. The municipal bonds were rated Aa1 by Moody's Investors Service and AA by Standard & Poor's.

The City also purchases obligations of government-sponsored enterprises which are eligible as collateral for advances to member banks as determined by the Board of Governors of the Federal Reserve System. These include, but are not limited to, debt securities of the Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, Federal Farm Credit Bank, and Federal National Mortgage Association. As of December 31, 2006, 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 contra-party, and repurchase transactions may only be conducted with primary dealers, the City's bank of record, or master custodial bank. Securities delivered as collateral must be priced at a minimum of 102 percent of their market value for U.S. Treasuries and at higher margins of 103 percent to 105 percent for debentures of U.S. federal government-sponsored enterprises, mortgage-backed pass-throughs, banker's acceptances, and commercial paper. In addition, collateral securities must have the highest credit ratings of at least two nationally recognized statistical rating organizations (NRSROs). As of December 31, 2006, 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 investments portfolio as a whole. The City limits its investments in any one issuer to no higher than twenty percent of its portfolio, except for investments in U.S. government obligations or U.S. government agency securities, which may comprise up to one hundred percent of the portfolio. The City's investments in which five percent or more is invested in any single issuer as of December 31, 2006, are shown in the following table.

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

(In Thousands)

Issuer	Fair Value	Percent of Total Investments
Bank of America	$ 111,000	12 %
Federal Home Loan Bank	49,675	5

Custodial Credit Risk – Investments. The custodial credit risk for investments is the risk that, in the event of failure of the counterparty, the system will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City minimizes custodial credit risk for its investments by having its investment securities held by the City's agent and not by the counterparty or the counterparty's trust department or agent. In accordance with its investment policy the City also maintains a list of security dealers and financial institutions authorized to provide investment services to the City. The security dealers and financial institutions may include primary dealers or regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule) and investment departments of local banks which passed evaluation of their financial condition, strength and capability to fulfill commitments; overall reputation with other dealers and investors; regulatory status; and background and expertise on their individual representative.

Foreign Currency Risk. The City Treasury investment pool and securities held for dedicated funds portfolios do not invest in foreign currencies.

INVESTMENTS OF THE SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM (SCERS)

Investments of the Seattle City Employees' Retirement System are accounted for in the Employees' Retirement Fund, a fiduciary fund which is not included in the Citywide financial statements because its resources belong to the retirement system and do not support City programs.

The retirement fund investments are made in accordance with the prudent person rule as defined by RCW 35.39.060.

Table 3-3 **SCERS' INVESTMENTS**

(In Thousands)

Investments	Amount
U.S. Government Obligations	$ 139,700
International Bonds	71,834
Domestic Stocks	970,965
International Stocks	212,329
Other	
Short-Term Investment Funds	66,630
Securities Lending	145,097
Mezzanine Debt	88,390
Real Estate	237,797
Alternative/Venture Capital	199,070
Total	$ 2,131,812

Credit Risk. In accordance with its policy the Retirement Board provides its investment managers with a set of investment guidelines that specify eligible investments and applicable restrictions necessary for risk control. Managers do not have authority to depart from those guidelines.

SCERS' fixed income portfolio is primarily managed by three external money management firms. SCERS' investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from interest rates.

Table 3-4 **SCERS' FIXED INCOME PORTFOLIO**

(In Thousands)

		Investment Maturities (In Years)			
Investment Type	**Fair Value**	**<1**	**1 - 5**	**6 - 10**	**>10**
Fixed Income					
U.S. Government	$	$	$	$	$
Treasuries, Notes, and Bonds	24,332	2,449	12,336	5,862	3,686
Treasury Inflation-Protected Securities	8,681	-	3,472	2,176	3,034
Agencies	15,402	870	6,589	3,200	4,744
Mortgage-Backed					
Government Pass-Throughs	15,438	7	270	2,853	12,307
Corporate Pass-Throughs	21,985	471	166	-	21,347
Government Collateralized Mortgage Obligations	7,026	161	257	3,281	3,326
Corporate Collateralized Debt and Loan Obligations	18,650	-	-	3,019	15,632
Corporate					
Bonds	45,471	1,508	17,951	9,842	16,170
Asset-Backed	13,116	363	4,968	1,341	6,444
Private Placements	17,320	-	9,823	3,497	4,001
Government/Sovereign Developed Markets	406	-	-	247	158
Government/Sovereign Emerging Markets	1,043	-	446	130	468
Convertible Bonds	3,136	-	-	-	-
Convertible Preferred	1,621	-	-	-	-
Derivatives	132	-	-	-	-
Index Funds	7,185	-	-	-	-
Mutual Funds	12,349	-	-	-	-
Short-Term					
Repurchase Agreements	46,320	-	-	-	-
Pooled Funds	11,695	-	-	-	-
Total Portfolio	$ 271,308	$ 5,829	$ 56,278	$ 35,448	$ 91,317

Interest Rate Risk. SCERS' investment policy requires the Retirement Board to provide its investment managers with a set of investment guidelines that specify eligible investments and applicable restrictions necessary for risk control. Managers do not have authority to depart from those guidelines.

SCERS' investment policy does not limit fixed income investments based on ratings by any nationally recognized rating agencies although, based on the prudent person rule, speculative investments should be avoided.

Table 3-5 **SCERS' FIXED INCOME RATINGS BY STANDARD AND POOR'S**

(In Thousands)

Investment Type	**AAA**	**AA**	**A**	**BBB**	**BB**	**B**	**CCC and Below**	**Not Rated**
Fixed Income								
Mortgage-Backed Corporate Pass-Throughs	$ 20,270	$ 35	$ 337	$ 52	$ 554	$ 73	$ 663	$ -
Corporate Collateralized Debt and								
Loan Obligations	-	-	-	- 1,014	10,066	-	-	7,571
Corporate								
Bonds	1,423	2,543	8,547	15,747	5,297	8,712	1,428	1,774
Asset-Backed	6,023	230	341	246	487	735	-	5,053
Private Placements	1,326	356	2,684	2,640	2,078	1,374	-	6,862
Government/Sovereign Developed Markets	158	-	247	-	-	-	-	-
Government/Sovereign Emerging Markets	118	-	-	426	-	-	-	499
Total Portfolio	$ 29,318	$ 3,164	$ 12,156	$ 20,125	$ 18,482	$ 10,894	$ 2,091	$ 21,759

SCERS' investments are made in accordance with the prudent person rule as defined by RCW 35.39. The investment policy specifies target percentages for diversification of investments in order to minimize the risk of large losses.

Table 3-6 **SCERS' ASSET ALLOCATION**

Asset Class	Actual	Target
Cash and Cash Equivalents	1.3 %	1.0 %
Equities		
Domestic	48.6	48.0
International	10.6	10.0
Alternative	9.9	10.0
Debt		
Bonds	13.4	14.0
Mezzanine	4.4	5.0
Real Estate	11.8	12.0
Total	100.0 %	100.0 %

Concentration of Credit Risk. The Investment Committee reviews its portfolio holdings quarterly to ensure compliance with the specified targets. Regular, systematic rebalancing of the portfolio back to the target percentages are undertaken to ensure compliance with the specified targets. In line with its policy, the System does not have any investments in any issuer that represent more than five percent of the System's net assets, except for investments in U.S. government obligations or U.S. government agency securities. The Retirement Board provides its investment managers with a set of investment guidelines that specify eligible investments, minimum diversification standards, and applicable restrictions necessary for diversification. Managers do not have authority to depart from those guidelines.

Custodial Credit Risk. The system mitigates custodial credit risk by having its investment securities held by the System's custodian and registered in the System's name.

Foreign Currency Risk. Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. The System's currency risk exposure or exchange rate risk primarily resides within the international equity holdings. The System's investment managers maintain adequately diversified portfolios to limit currency security risk. Per the System's policy, individual manager guidelines include the ranges of acceptable exposure.

SECURITIES LENDING TRANSACTIONS

The City cash pool as well as the Seattle City Employees' Retirement System is allowed to engage in securities lending transactions similar to that instituted by the Washington State Treasurer's Office and other municipal corporations in the State of Washington.

Under the authority of RCW 41.28.005 and the SMC 4.36.130, the Seattle City Employees' Retirement System Board of Administration adopted investment policies that define eligible investments, which include securities lending transactions whereby securities are loaned for the purpose of generating additional income to SCERS. Gross income from securities lending transactions of SCERS as well as the various fees paid to the institution that oversees the lending activity is reported in the fund's operating statements. Assets and liabilities include the value of the collateral that is being held.

The market value of the required collateral must meet or exceed 102 percent of the market value of the securities loaned, providing a margin against a decline in the market value of the collateral. There are no restrictions on the amount of securities that may be loaned. The contractual agreement with the SCERS' custodian provides indemnification in the event the borrower fails to return the securities lent or fails to pay SCERS' income distribution by the securities' issuers while the securities are on loan. Cash and U.S. government securities were received as collateral for these loans.

SCERS invests cash collateral received; accordingly, any investment made with cash collateral is reported as an asset. A corresponding liability is recorded as SCERS must return the cash collateral to the borrower upon the expiration of the loan. There have been no losses resulting from a default, and SCERS did not have negative credit exposure at December 31, 2006.

Table 3-7 **SCERS' SECURITIES LENT AND COLLATERAL**

(In Thousands)

	2006		2005	
Type of Securities Lent	**Fair Values of Securities Lent**	**Collateral**	**Fair Values of Securities Lent**	**Collateral**
U.S. Government and Agencies	$ 33,327	$ 34,051	$ 19,145	$ 19,845
U.S. Corporate Fixed Income	14,309	14,663	9,649	9,870
U.S. Equities	93,376	96,384	89,992	93,148
Total Securities Lent	$ 141,012	$ 145,098	$ 118,786	$ 122,863

Collateral	**2006**	**2005**
U.S. Corporate Obligations	$ 17,500	$ 55,005
Bank Obligations	16,000	23,996
Commercial Paper	-	4,977
Repurchase Agreements	84,853	6,169
Asset-Backed Securities	18,742	4,708
Certificates of Deposit	-	14,994
Time Deposits	-	5,000
Euro Clear Floater	8,002	8,014
Total Collateral	$ 145,097	$ 122,863

REVERSE REPURCHASE AGREEMENTS

The City regularly enters into reverse repurchase agreements as part of its investment strategy. These agreements are sales of securities with simultaneous agreements to repurchase them at a future date at the same prices plus contracted rates of interest. The fair value of the securities underlying the agreements normally exceeds the cash received, providing the dealers a margin against a decline in the fair value of the securities.

RCW 35.39.030 and City investment policy allow the investment of City moneys in excess of current City needs in reverse repurchase agreements structured with securities eligible for purchase provided a master repurchase agreement has been executed with the contra-party. The securities eligible for purchase pursuant to City investment policy are included in Note 1.

Credit Risk – Reverse Repurchase Agreements. If the dealers default on their obligations to resell securities to the City or provide securities or cash of equal value, the City would suffer an economic loss equal to the difference between the fair value plus accrued interest of the underlying securities and the agreement obligation, including accrued interest. The City had no outstanding reverse repurchase agreements as of December 31, 2006.

(4) RECEIVABLES AND INTERFUND TRANSACTIONS

Table 4-1 **TAX REVENUES AND RECEIVABLES**

(In Thousands)

	December 31 2006 Revenues	**December 31 2006 Receivables**
Property Taxes	$ 318,365	$ 7,794
General Business and Occupation Taxes	219,984	48,475
Totals	$ 538,349	$ 56,269

TAXING POWERS AND LIMITATIONS

State law limits the regular property tax rate for general City operations to $3.60 per $1,000 of assessed value. This includes $3.375 for general municipal purposes and an additional $0.225 for the Firemen's Pension Fund and for general municipal purposes under conditions spelled out in state law. From 1997 through 2001 state law limited the annual growth in the City's regular property tax levy to the lesser of 1.06 percent or the annual rate of inflation. The passage of Initiative 747 in November 2001 reduced the 1.06 percent to 1.01 percent. The growth limit does not count tax revenues from new construction or property remodeled within the last year. With simple-majority voter approval, the City can levy additional property taxes above the 1.01 percent annual growth limit, as long as the City's regular levy rate per $1,000 of assessed value does not exceed the $3.60 limit. Excess tax levies for capital purposes require a 60-percent approval by voters and do not fall under either of the limits. The City levied $2.01 per $1,000 for general operations and Firemen's Pension Fund in 2006. In addition, the levy included $1.15 per $1,000 of assessed value for debt service and other voter-approved levies. The total 2006 levy was $3.16 per $1,000 of assessed value. Not included in this total is the levy for Emergency Medical Services, which was $0.22 per $1,000 of assessed value.

Property taxes are levied by the County Assessor and collected by the County Finance Director. Assessments are based on 100 percent of true and fair market value. They are levied and become a lien on the first day of the levy year. They may be paid in two equal installments if the total amount exceeds $30. The first half is due on April 30, or else the total amount becomes delinquent May 1. The balance is due October 31, becoming delinquent November 1. Delinquent taxes bear interest at the rate of one percent per month until paid and are subject to additional penalties of three percent and another eight percent on the total unpaid delinquent balance on June 1 and December 1, respectively. Foreclosure action is commenced on properties when taxes are delinquent for three years.

INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The City reports interfund balances between funds. The interfund balances are presented in the balance sheets for governmental funds and statements of net assets for proprietary funds.

The following table shows the current interfund balances at December 31, 2006, as reported in the fund financial statements.

Table 4-2 **DUE FROM AND TO OTHER FUNDS**

(In Thousands)

Receivable Fund	Payable Fund(s)	Amount
General	Drainage and Wastewater	$ 3,024
	Nonmajor Enterprise	1,316
	Nonmajor Governmental	1,936
	Internal Service	474
	Transportation	239
	Light	5,034
	Water	2,710
	Total General Fund	14,733
Transportation	Drainage and Wastewater	722
	Nonmajor Enterprise	106
	General	1,206
	Nonmajor Governmental	1,281
	Internal Service	98
	Light	103
	Water	368
	Total Transportation	3,884
Light	Drainage and Wastewater	224
	Nonmajor Enterprise	188
	General	241
	Nonmajor Governmental	1
	Transportation	206
	Internal Service	296
	Water	242
	Total Light Fund	1,398
Water	Drainage and Wastewater	234
	Nonmajor Enterprise	60
	Nonmajor Governmental	7
	General	1
	Transportation	7
	Internal Service	9
	Light	72
	Total Water Fund	390

Table 4-2 **DUE FROM AND TO OTHER FUNDS (continued)**

(In Thousands)

Receivable Fund	Payable Fund(s)	Amount
Drainage and Wastewater	Nonmajor Governmental	$ 7
	General	1
	Transportation	87
	Light	189
	Total Drainage and Wastewater Fund	284
Nonmajor Governmental	Drainage and Wastewater	391
	Nonmajor Enterprise	222
	General	1,067
	Nonmajor Governmental	3,293
	Internal Service	122
	Low-Income Housing	163
	Transportation	49
	Light	594
	Water	249
	Total Nonmajor Governmental Funds	6,150
Nonmajor Enterprise	Drainage and Wastewater	136
	Nonmajor Enterprise	46
	General	132
	Nonmajor Governmental	51
	Internal Service	26
	Transportation	6
	Light	139
	Water	122
	Total Nonmajor Enterprise Funds	658
Internal Service	Drainage and Wastewater	98
	Nonmajor Enterprise	193
	General	2,127
	Nonmajor Governmental	936
	Internal Service	101
	Light	1,143
	Transportation	1,251
	Water	671
	Total Internal Service Funds	6,520
Fiduciary	General	8
	Nonmajor Governmental	-
	Light	82
	Total Fiduciary Funds	90
Grand Total		$ 34,107

The balances in Table 4-2 resulted from the time lag between the dates that (1) interfund goods and services were provided or reimbursable expenditures occurred, (2) transactions were recorded in the accounting system, and (3) payments between funds were made.

Table 4-3 **ADVANCES, NOTES, AND LOANS FROM AND TO OTHER FUNDS**

(In Thousands)

Advances, Notes, and Loans From	Advances, Notes, and Loans To	Amount
General Fund	Seattle Center	$ 1,150
	2007 Multipurpose Long-Term General Obligation Bond Fund	3,091
	Engineering Services	2,500
Total City		$ 6,741

These interfund loans have all been approved by the City Council through ordinance. The Seattle Center's loan was approved by Ordinances 120992 and 121262 and was implemented to cover deficits caused by a downturn in the economy and increased competition from other facilities for sports and other entertainment business. The loan is to be repaid by 2010. The loan to the 2007 Multipurpose Long Term General Obligation Bond Fund was approved by Ordinance 122211 and was implemented to allow construction to proceed prior to the issuance of general obligation bonds. When they are issued the loan will be paid off. This is to occur by June 2008. The Engineering Services' loan was approved and amended through a series of ordinances, most recently Ordinance 120534. The loan was required because of inadequate overhead recovery rates and disputed billings in the 1990s. These issues have been addressed and repayment is scheduled by 2010.

Table 4-4 **INTERFUND TRANSFERS**

(In Thousands)

	Transfers Out				
Transfers In	**General**	**Nonmajor Governmental**	**Internal Service**	**Fiduciary**	**Total**
General Fund	$ -	$ 1,260	$ 2,890	$ -	$ 4,150
Low Income Housing	3,095	162			3,257
Nonmajor Governmental	170,941	24,792	2,310	2,469	200,512
Nonmajor Enterprise	9,260	-	-	-	9,260
Internal Service	893	-	-	-	893
Transportation	56,426	21,489	-	-	77,915
Total Transfers	$ 240,615	$ 47,703	$ 5,200	$ 2,469	$ 295,988

Transfers are used to (1) move revenues from the fund wherein the statute or budget requires them to be collected to the fund wherein the statute or budget requires them to be expended and (2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

(5) CAPITAL ASSETS

Table 5-1 **CHANGES IN CAPITAL ASSETS**

(In Thousands)

	Restated Balance January 1	Additions	Deletions	Balance December 31
GOVERNMENTAL ACTIVITIES [a]				
CAPITAL ASSETS NOT BEING DEPRECIATED				
Land	$ 372,008	$ 29,966	$ 369	$ 401,605
Construction in Progress	213,378	196,054	163,944	245,488
Total Capital Assets Not Being Depreciated	585,386	226,020	164,313	647,093
CAPITAL ASSETS BEING DEPRECIATED				
Buildings and Improvements	1,609,412	110,890	1,188	1,719,114
Machinery and Equipment	197,772	24,697	9,277	213,192
Infrastructure	888,224	27,018	-	915,242
Other Capital Assets	10,135	709	30	10,814
Total Capital Assets Being Depreciated	2,705,543	163,314	10,495	2,858,362
Accumulated Depreciation				
Buildings and Improvements	323,451	39,587	45	362,993
Machinery and Equipment	106,293	20,727	8,112	118,908
Infrastructure	407,931	27,397	-	435,328
Other Capital Assets	646	145	-	791
Total Accumulated Depreciation	838,321	87,856	8,157	918,020
Total Capital Assets Being Depreciated, Net	1,867,222	75,458	2,338	1,940,342
Governmental Activities Capital Assets, Net	$ 2,452,608	$ 301,478	$ 166,651	$ 2,587,435
BUSINESS-TYPE ACTIVITIES				
CAPITAL ASSETS NOT BEING DEPRECIATED				
Land	$ 67,684	$ 18,847	$ 2,023	$ 84,508
Construction in Progress	198,491	292,940	261,205	230,226
Total Capital Assets Not Being Depreciated	266,175	311,787	263,228	314,734
CAPITAL ASSETS BEING DEPRECIATED				
Plant in Service, Excluding Land	4,219,439	240,638	18,281	4,441,796
Buildings	73,013	-	-	73,013
Machinery and Equipment	13,319	1,205	-	14,524
Other Capital Assets	35,477	3,045	19,189	19,333
Total Capital Assets Being Depreciated	4,341,248	244,888	37,470	4,548,666
Accumulated Depreciation				
Plant in Service, Excluding Land	1,571,773	125,140	24,009	1,672,904
Buildings	17,037	2,434	-	19,471
Machinery and Equipment	4,211	1,397	-	5,608
Other Capital Assets	2,581	19	-	2,600
Total Accumulated Depreciation	1,595,602	128,990	24,009	1,700,583
Total Capital Assets Being Depreciated, Net	2,745,646	115,898	13,461	2,848,083
Business-Type Activities Capital Assets, Net	$ 3,011,821	$ 427,685	$ 276,689	$ 3,162,817

[a] The capital assets for governmental activities include the capital assets of the internal service funds. Schedules H-1, H-2, and H-3 provide additional information on the governmental funds capital assets.

Table 5-2 **DEPRECIATION EXPENSE BY FUNCTION**

(In Thousands)

GOVERNMENTAL ACTIVITIES	
General Government	$ 15,579
Public Safety	3,105
Transportation	27,540
Economic Environment	1
Culture and Recreation	28,065
Subtotal	74,290
Capital assets held by internal service funds are charged to the various functions based on their usage of the assets	13,566
Total Governmental Activities	$ 87,856
BUSINESS-TYPE ACTIVITIES	
Light	$ 76,079
Water	32,893
Solid Waste	4,067
Drainage and Wastewater	12,101
Planning and Development	1,289
Parking Garage	2,542
Total Business-Type Activities	$ 128,971

(6) COMPENSATED ABSENCES

GOVERNMENTAL FUNDS

Unpaid compensated absences associated with governmental fund operations of $54.9 million and $52.9 million at December 31, 2006 and 2005, respectively, have been recorded in the government-wide statements. These amounts include unpaid holiday, compensatory, merit, and furlough time of $12.7 million and $12.0 million at the end of 2006 and 2005, respectively; accumulated unpaid vacation pay of $33.2 million and $32.1 million at the end of 2006 and 2005, respectively; and the balance for sick leave which was estimated based on the termination method.

PROPRIETARY FUNDS

Unpaid compensated absences for the proprietary and pension trust funds were $25.2 million and $24.3 million on December 31, 2006 and 2005, respectively, as shown in the following table.

Table 6-1 **COMPENSATED ABSENCES IN PROPRIETARY AND PENSION TRUST FUNDS**

(In Thousands)

	2006	2005
Enterprise Funds		
Light	$ 11,393	$ 10,991
Water	3,983	3,937
Drainage and Wastewater	2,489	2,205
Solid Waste	1,245	1,181
Planning and Development	2,313	2,225
Internal Service Funds		
Fleets and Facilities	1,574	1,608
Information Technology	1,317	1,290
Engineering Services	581	551
Pension Trust Funds		
Employees' Retirement	58	57
Firemen's Pension	138	143
Police Relief and Pension	67	66
Totals	$ 25,158	$ 24,254

Compensated absences in governmental activities and business-type activities are presented in the aggregate in Note 8, Long-Term Debt, Table 8-9, which also shows the amount estimated to be due within the year.

(7) LEASES

CAPITAL LEASES

The City leases certain office equipment under various capital lease agreements. The City's capital lease obligations and the related assets were recorded in the appropriate funds and government-wide statements. The net capital lease assets shown below reflect those continuing to be financed through capital leases. The minimum capital lease payments reflect the remaining capital obligations on these assets.

Table 7-1 **CAPITAL LEASES**

(In Thousands)

Net Capital Lease Assets	Capital Assets Governmental Activities
Machinery and Equipment	$ 54
Less Accumulated Depreciation	(43)
December 31, 2006	$ 11

Minimum Capital Lease Payments	Long-Term Liabilities Governmental Activities
2007	$ 13
2008	3
Total Minimum Lease Payments	16
Less Interest	(1)
Principal	$ 15

The principal portion of the minimum capital lease payments is also presented in Table 8-9 of Note 8, Long-Term Debt.

OPERATING LEASES

Governmental Activities

The City has operating lease commitments for both real and personal property managed by the Fleets and Facilities Department, which also manages the buildings and facilities owned by the City. Most leases for real property are maintained for a duration of three years and are renewable at the end of the lease period. Fleets and Facilities paid rentals of approximately $3.8 million and $3.1 million in 2006 and 2005, respectively, on the lease commitments. There are no projected rent increases apart from lease agreements entered into by the City.

In addition, Seattle Center leases a building for office space and workshop on a type of lease called a “triple net lease” for its Technical Facilities Management. The lease agreement commenced on July 17, 2000, and expires on July 30, 2010, requiring a fixed rent of $18,500 per month subject to increases on each July 1 beginning in 2001 and every year thereafter by the percentage of change, if any, in the Consumer Price Index (CPI) for All Urban Consumers, United States Average for All Items (1982 - 84 = 100) published by the Bureau of Labor Statistics, United States Department of Labor CPI from the CPI last published in the preceding year, but not to exceed five percent for any lease year. If there is a decline in the CPI, the fixed rent during the succeeding year will be equal to the fixed rent during the immediate preceding year. All other amounts required by the landlord to be paid by Seattle Center on the lease shall constitute additional rent. On a triple net lease Seattle Center will pay all impositions on the lease, insurance premiums, utilities, taxes, operating expenses, maintenance charges, repair costs, and other charges, costs, and expenses which arise or may be contemplated during the lease term. Seattle Center paid rent, including property taxes on the lease property, in the amount of approximately $274,900 and $265,100 in 2006 and 2005, respectively, on the lease. Rents are paid as they become due and payable.

Minimum payments under the leases are:

Table 7-2

OPERATING LEASE COMMITMENTS

GOVERNMENTAL ACTIVITIES

(In Thousands)

	Minimum Lease Payments		
Year Ending December 31	Fleets and Facilities	Seattle Center	Total
2007	$ 1,916	$ 261	$ 2,177
2008	1,526	261	1,787
2009	1,211	261	1,472
2010	1,162	153	1,315
2011	1,142	-	1,142
Thereafter	2,803	-	2,803
Total	$ 9,760	$ 936	$ 10,696

Business-Type Activities

In December 1994 the City entered into an agreement on behalf of the Seattle City Light Department for a ten-year lease of office facilities in downtown Seattle commencing February 1, 1996. In early 1996 the City purchased the building in which these facilities are located, thus becoming the Department's lessor. This lease extended through December 2006. Beginning in 2007, the Department will make monthly lease payments to the City via the central cost allocation process, similar to all other payments for tenancy of city property and through the budget process. The Department also leases office equipment and smaller facilities for various purposes through long-term operating lease agreements. Expense under the leases totaled $4.4 million and $3.9 million in 2006 and 2005, respectively. There are no scheduled rent increases apart from these lease agreements.

The Seattle Public Utilities has non-cancelable operating lease commitments for real and personal property for its three funds: Water Fund, Drainage and Wastewater Fund, and Solid Waste Fund. The minimum payments made respectively in 2006 and 2005 were: $207,545 and $88,000 for the Water Fund; $22,585 and none for the Drainage and Wastewater Fund, and $10,104 and none for the Solid Waste Fund.

Minimum payments under the leases are:

Table 7-3

OPERATING LEASE COMMITMENTS

BUSINESS-TYPE ACTIVITIES

(In Thousands)

	Minimum Payments				
Year Ending December 31	City Light	Water	Drainage & Wastewater	Solid Waste	Total
2007	$ 397	$ 454	$ 61	$ 116	$ 1,028
2008	383	469	63	121	1,036
2009	162	290	66	126	644
2010	6	202	69	132	409
2011	-	210	72	137	419
Thereafter	-	1,130	385	736	2,251
Total	$ 948	$ 2,755	$ 716	$ 1,368	$ 5,787

LEASE REVENUES - GOVERNMENTAL ACTIVITIES

The Fleets and Facilities Department collects occupancy charges from the various tenants occupying real property owned or leased by the City. These tenants include other City departments, other government offices, social service agencies, and private businesses. Social service agencies frequently pay occupancy charges at reduced rates in consideration of offsetting benefits accruing to the City as a result of the services they provide to the public. Rental revenues derived from these activities are accounted for in the Fleets and Facilities Fund, an internal service fund.

Table 7-4 MAJOR SOURCES OF RENTAL INCOME ON REAL PROPERTY MANAGED BY FLEETS AND FACILITIES

(In Millions)

	2006
Non-City Property Subleased to City Departments	$ 3.9
City-Owned Property Occupied by City Departments	22.5
City-Owned Property Leased to Non-City Tenants	3.7
Total	$ 30.1

The amounts in the above table include the following:

- The City owns the Seattle Municipal Tower. In 2006 the gross rental revenues of the building were $7.9 million. Of this amount, $5.1 million relates to City department tenants.

- The Airport Way Center (formerly known as Police Support Facility) provides rental space for tenants. The gross rental revenues of the center were $1.0 million, of which $0.3 million relates to City department tenants.

- Other City buildings, including non-City owned buildings, generated $21.3 million in gross rental revenues. Of this amount, $21.1 million relates to City department tenants.

Additionally, in 2006 the SeaPark Garage and the Seattle Municipal Tower Building each generated $1.6 million in parking revenues, which were recorded in the Fleets and Facilities Operating Fund.

Also, in 2006 the City recognized $6.6 million in parking revenues in the Downtown Parking Garage Fund, an enterprise fund, from the operation of the garage at Pacific Place.

(8) LONG-TERM DEBT

GENERAL OBLIGATION BONDS

The City issues general obligation bonds to provide funding for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. The City issues two types of general obligation bonds, limited tax general obligation bonds (LTGO) and unlimited tax general obligation bonds (UTGO).

At the end of 2005 the original amount of general obligation bonds issued in prior years was $1.3 billion. The amount of bonds outstanding at December 31, 2005, was $865.2 million. The following paragraph discusses the general obligation bonds issued during 2006.

On April 26, 2006, the City issued the $24.95 million LTGO and Refunding Bonds with interest rates ranging from 4.0 percent to 5.5 percent and maturing serially from March 1, 2006, through March 1, 2026. The proceeds of the bonds are used to pay all or part of the costs of construction and acquisition of various City capital projects, including the Alaskan Way Tunnel/Sea Wall, Mercer Corridor, South Lake Union Street Car, and improvements on Pier 59; refinancing the portion of the 2003 LTGO bonds relating to the Park 90/5 Earthquake Repair that was due on August 1, 2006, and refunded $2.2 million of the 1995 Various Purpose LTGO bonds. The refunding portion of the issue was slightly lower than the $2.2 million that was refunded. The proceeds of the refunding bonds were placed in an irrevocable trust for the purchase of federal, state, and local government securities to provide for the call of the refunded bonds scheduled for July 1, 2006. Further discussion on the refunding is shown in the "Advance and Current Refundings" section of this note.

The City had no short-term general obligation debt at the end of 2006.

The following table presents the individual general obligation bonds outstanding as of December 31, 2006, and other relevant information on each outstanding bond issue.

Table 8-1 **GENERAL OBLIGATION BONDS**

(In Thousands)

Name and Purpose of Issue	Issuance Date	Maturity Date	Effective Interest Rate	Bond Issuance	Redemptions 2006	Redemptions To Date [a]	Bonds Outstanding December 31
LIMITED TAX GENERAL OBLIGATION (LTGO) BONDS - NON-VOTED							
Various Purpose-West Precinct, HRIS, 9th & Lenora & COPs Refunding, 1995	12/28/95	07/01/96-15	5.122 %	$ 28,670	$ 3,260	$ 28,670	$ -
Various Purpose-Concert Hall, Key Tower, Police Support Facility, 1996 Series A	08/01/96	01/15/04-20	5.920	97,740	4,290	97,740	-
Various Purpose-Key Tower, Police Support Facility, 1996 Series C	08/28/96	01/15/20-26	5.380 [b]	5,595 [c]	-	-	5,595
Various Purpose-Key Tower, Police Support Facility, 1996 Series D	10/06/99	01/15/23-24	3.920 [b]	51,925 [c]	-	-	51,925
Various Purpose-Sand Point, Convention Center, Transportation, 1997 Series A	02/06/97	08/01/97-17	5.199	26,670	1,855	24,725	1,945
Refunding-Various LTGO Bonds, 1998 Series B	03/17/98	09/01/98-12	4.493	43,710	2,430	28,035	15,675 [d]
Deferred Interest Parking Garage, 1998 Series E	11/12/98	12/15/01-14	4.714	13,042	1,101	3,824	9,218
Parking Garage, 1998 Series F	11/12/98	12/15/14-28	5.148	60,805	-	-	60,805
Various Purpose-Civic Center, Galer St, 1999 Series B	10/19/99	12/01/00-28	5.677	85,500	3,405	76,395	9,105
Various Purpose-Civic Center, South Police Precincts, Training Facilities, Information Technology, Etc., 2001	08/21/01	08/01/02-31	4.908	129,760	4,180	24,700	105,060
Improvement (Various) and Refunding, 2002	01/30/02	07/01/02-32	4.778	125,510	8,995	39,785	85,725
Improvement (Various) and Refunding, 2002 Series B	09/26/02	10/01/03-14	3.127	64,560	4,185	31,880	32,680
Various Purpose and Refunding, 2003	02/26/03	08/01/04-23	3.469	60,855	13,905	33,980	26,875
Refunding, 2004	05/24/04	07/01/04-20	4.118	91,805	445	2,940	88,865
Various Purpose and Refunding, 2005	03/23/05	08/01/05-28	4.167	129,540	8,400	10,205	119,335
Various Purpose and Refunding, 2006	04/26/06	03/01/07-26	4.254	24,905	-	-	24,905
Total Limited Tax General Obligation Bonds				1,040,592	56,451	402,879	637,713
UNLIMITED TAX GENERAL OBLIGATION (UTGO) BONDS - VOTED							
Fire Station/Shops, 1968 Series 1	10/01/68	10/01/70-08	4.726	1,700	80	1,525	175
Sewer Improvement, 1968 Series 1	10/01/68	10/01/70-08	4.726	7,000	335	6,280	720
Refunding-Various UTGO Bonds, 1998 Series A	03/17/98	09/01/98-17	4.470	53,865	3,730	35,170	18,695
Library Facilities, 1999 Series A	07/01/99	12/01/00-18	5.135	100,000	4,495	26,065	73,935
Improvement (Library Facilities) and Refunding, 2002	09/26/02	12/01/03-21	3.892	117,025	8,625	31,875	85,150
Total Unlimited Tax General Obligation Bonds				279,590	17,265	100,915	178,675
Total General Obligation Bonds				$ 1,320,182	$ 73,716	$ 503,794	$ 816,388

[a] Includes all bonds that matured to date and all called, refunded, and defeased bonds on issues that have outstanding balances at the beginning of the year.

[b] Variable-rate bonds – interest rates in effect December 31, 2006. Effective August 30, 2006, bonds were in a weekly mode and interest is payable on the first Wednesday of each month. These rates were used to calculate annual debt service interest requirements for these bonds.

[c] Of the original $57.52 million taxable 1996C bonds, $17 million were converted in October 1999 and $34.925 million were converted in February 2003 to nontaxable 1996D bonds.

[d] The accreted value of the outstanding bonds as of December 31, 2006, is $13,463,663. The difference is also recognized as long-term accrued interest in the Downtown Parking Garage Fund, an enterprise fund, where the bond outstanding is also recorded.

The requirements to amortize the general obligation bonds as of December 31, 2006, are presented in the following table. Debt service for the LTGO bonds is met by operating transfers generally from the General Fund and certain special revenue funds and by reimbursements from proprietary funds of the City. Debt service for the UTGO bonds is covered by property tax levies that authorized the bond issues and were approved by at least 60 percent of the voters in elections in which the number of voters exceeded 40 percent of the voters in the most recent election preceding the election to vote on the bond issue.

Table 8-2 ANNUAL DEBT SERVICE REQUIREMENTS TO MATURITY
GENERAL OBLIGATION BONDS
(In Thousands)

Year Ending December 31	Governmental Activities Principal	Governmental Activities Interest	Business-Type Activities Principal	Business-Type Activities Interest	Total
2007	$ 57,025	$ 34,837	$ 1,145	$ 3,698	$ 96,705
2008	47,605	32,306	1,179	3,810	84,900
2009	47,715	30,184	1,205	3,934	83,038
2010	43,870	28,002	1,226	4,068	77,166
2011	43,200	25,938	1,247	4,202	74,587
2012-2016	200,550	99,828	10,931	18,882	330,191
2017-2021	161,655	54,557	23,035	11,523	250,770
2022-2026	102,135	24,485	28,055	4,357	159,032
2027-2031	40,030	6,530	2,000	154	48,714
2032	2,580	134	-	-	2,714
Total	$ 746,365	$ 336,801	$ 70,023	$ 54,628	$ 1,207,817

SPECIAL ASSESSMENTS BONDS WITH GOVERNMENTAL COMMITMENT

The bonds are special fund obligations of the City, the debt service of which will be paid from collections from related local improvement district (LID) assessments levied against the benefited properties located within the boundaries of the LID. Though guaranteed by the City's LID Guaranty Fund, this type of special assessments bonds does not constitute an obligation or any political subdivision thereof other than the City, and neither the full faith and credit nor the taxing power of the City is pledged to the payment of the bonds. There were no such bonds outstanding at the end of 2005. The following paragraph describes a new bond issue in 2006.

On December 13, 2006, the City issued the Local Improvement District (LID) No. 6750 bonds with a par amount of $21.9 million. The bonds are serial bonds maturing between December 15, 2007, and December 15, 2024, and with interest rates ranging from 3.6 percent to 4.28 percent. The proceeds are used to pay for a portion of the costs of design and construction of a modern streetcar line to serve downtown Seattle around Westlake Park, the Denny Triangle, and South Lake Union (these areas dubbed as the LID No. 6750) and the cost of issuance of the bonds.

The following table shows more detail on this issue.

Table 8-3 SPECIAL ASSESSMENT BONDS WITH GOVERNMENTAL COMMITMENT
(In Thousands)

Name of Issue	Issuance Date	Maturity Date	Effective Interest Rate	Bond Issuance	Redemptions 2006	Redemptions To Date	Bonds Outstanding December 31
Local Improvement District No. 6750 Bonds, 2006	09/13/06	12/15/07-24	4.102 %	$21,925	$ -	$ -	$ 21,925

The requirements to amortize the special assessments with governmental commitment as of December 31, 2006 are shown below:

Table 8-4 ANNUAL DEBT SERVICE REQUIREMENTS TO MATURITY
SPECIAL ASSESSMENT BONDS WITH GOVERNMENTAL COMMITMENT
(In Thousands)

Year Ending December 31	Principal	Interest	Total
2007	$ 1,220	$ 876	$ 2,096
2008	1,220	828	2,048
2009	1,220	783	2,003
2010	1,220	738	1,958
2011	1,220	692	1,912
2012-2016	6,100	2,757	8,857
2017-2021	6,080	1,537	7,617
2022-2024	3,645	311	3,956
Total	$ 21,925	$ 8,522	$ 30,447

NOTES AND CONTRACTS PAYABLE – GOVERNMENTAL ACTIVITIES

The Seattle Department of Transportation (SDOT) has outstanding notes drawn in several years from the Washington State's Public Works Trust Loan program administered by the Washington State Public Works Board, a division of the Department of Community, Trade and Economic Development. The notes were drawn at varying low annual interest rates ranging from 0.5 to 3.0 percent. The proceeds of the loan support City road and bridge improvements. The amount drawn in 2006 is $5.0 million. The City paid $2.4 million and $0.4 million in principal and interest respectively in 2006. The outstanding balance on the notes at December 31, 2006 is $24.1 million. The following table presents the annual debt service requirements to maturity on the notes as of the end of 2006.

Table 8-5 **ANNUAL DEBT SERVICE REQUIREMENTS TO MATURITY**

SEATTLE DEPARTMENT OF TRANSPORTATION

PUBLIC WORKS TRUST LOAN NOTES

(In Thousands)

Year Ending December 31	Principal	Interest	Total
2007	$ 2,185	$ 442	$ 2,627
2008	2,186	398	2,584
2009	2,134	354	2,488
2010	2,049	312	2,361
2011	1,945	270	2,215
2012-2016	8,092	652	8,744
2017-2021	4,458	234	4,692
2022-2024	1,060	16	1,076
Total	$ 24,109	$ 2,678	$ 26,787

The Department of Information Technology has installment contracts with IBM Credit Corporation that financed the purchase of technology storage and server equipment at an annual interest rate of 4.37 percent. In 2006 the department paid approximately $362,200 and $22,700 in principal and interest respectively. As of December 31, 2006, the amount outstanding on the contracts is approximately $384,600 of which $383,500 and $1,100 will be due respectively in 2007 and in 2008. The interest due in 2007 and 2008 will be $9,700 and $100 respectively.

REVENUE BONDS AND REVENUE ANTICIPATION NOTES

The City also issues revenue bonds to provide financing for the capital programs of the four utilities of the City, namely, City Light and the utilities grouped under Seattle Public Utilities (SPU), which are Water, Drainage and Wastewater, and Solid Waste. The City does not pledge its full faith and credit for the payment of debt service on revenue bonds. Payment of debt service on the bonds issued for each utility is derived solely from the revenues generated by the related utility. At the end of 2005 the original amount of revenue bonds and anticipation notes issued in prior years was approximately $3.1 billion. The total outstanding amount at December 31, 2005, was $2.6 billion. During 2006 an additional $311.8 million of revenue bonds and $11.6 million of revenue anticipation notes were issued as follows:

Water

On October 23, 2006, the City issued $190.0 million in Water System Revenue and Refunding Bonds, with varying annual principal payments due from February 1, 2008, through September 1, 2037, at interest rates ranging from 4.0 percent to 5.0 percent. A portion of the proceeds from the issuance were used to advance refund $81.0 million of the 1999 Water System Revenue Bonds, while the remaining proceeds will be used for certain capital improvement projects and conservation programs for the Water Utility. The proceeds of the refunding bonds were placed in an irrevocable trust for the purchase of federal, state, and local government securities to provide funding when all the refunded bonds will be called on March 1, 2009. See "Advance and Current Refundings" section of this note for further discussion on the refunding.

Drainage and Wastewater

On November 1, 2006, the City issued $121.8 million in Drainage and Wastewater Revenue and Refunding Bonds with varying annual principal payments due from February 1, 2007, to February 2037, at interest rates ranging from 4.0 percent to 5.0 percent. A portion of the proceeds from the issuance was used to refund $30.1 million and $45.2 million of the 1995 and 1999 Wastewater Revenue bonds respectively, and the remaining proceeds will be used to pay for the cost of certain capital improvement projects of the Drainage and Wastewater Utility. The proceeds of the refunding bonds were placed in an irrevocable trust for the purchase of federal, state, and local government securities to provide funding when the refunded 1995 bonds were called on December 1, 2006; and the 1999 refunded bonds will be called on November 1, 2009. See "Advance and Current Refundings" section of this note for further discussion on the refunding.

Solid Waste

On November 3, 2003, the City issued the Solid Waste Revenue Bond Anticipation Notes (non-revolving line of credit), which were scheduled to mature on July 31, 2005. In April 2005 the City extended the maturity date to December 31, 2006. In November 2006 the City again extended the maturity date to December 31, 2007, and expanded the dollar amount of the credit line. The City may draw on the line of credit an amount not to exceed $31.8 million. The City has the option to choose LIBOR-based (London Inter-Bank Offering Rate) or a prime-based rate, and interest payments are made on a quarterly basis. The City has made eight draws on the line of credit for a total of $23.6 million.

The business-type funds had no short-term debt at December 31, 2006.

The following table presents the individual revenue bonds and anticipation notes outstanding as of December 31, 2006, and other pertinent information on each outstanding bond issue.

Table 8-6 **REVENUE BONDS AND REVENUE ANTICIPATION NOTES**

(In Thousands)

Name and Purpose of Issue	Issuance Date	Maturity Dates	Effective Interest Rates [a]	Bond Issuance	Redemptions 2006	Redemptions To Date [b]	Bonds Outstanding December 31
MUNICIPAL LIGHT AND POWER (ML&P) BONDS							
1990 Subordinate Lien	11/27/90	11/01/96-15	1.10-5.25	$ 25,000	$ 1,200	$ 9,700	$ 15,300
1991 Subordinate Lien, Series A	11/20/91	05/01/11-16	.088-6.00	25,000	-	-	25,000
1991 Subordinate Lien, Series B	11/20/91	05/01/98-11	1.30-6.00	20,000	1,800	8,300	11,700
1993 Subordinate Lien	11/17/93	11/01/99-18	.088-3.42	22,000	1,000	7,100	14,900
1996 Parity	10/31/96	10/01/02-21	5.670	30,000	1,055	30,000	-
1996 Subordinate Lien	12/11/96	06/01/02-21	1.00-5.75	19,800	775	3,580	16,220
1997 Parity	12/30/97	07/01/03-22	5.131	30,000	1,055	3,965	26,035
1998 Parity, Series A, Refunding	01/27/98	07/01/98-20	4.884	104,650	4,360	12,605	92,045
1998 Parity, Series B	10/29/98	06/01/04-24	4.919	90,000	2,830	8,165	81,835
1999 Parity	10/27/99	10/01/06-24	5.960	158,000	3,000	141,250	16,750
2000 Parity	12/27/00	12/01/06-25	5.298	98,830	2,875	2,875	95,955
2001 Parity	03/29/01	03/01/04-26	5.082	503,700	6,770	16,150	487,550
2002 Parity, Refunding	12/04/02	12/01/03-14	3.470	87,735	9,270	29,260	58,475
2003 Parity, Refunding	08/20/03	11/01/04-28	3.517	251,850	22,745	57,185	194,665
2004 Parity	12/23/04	08/01/05-29	4.159	284,855	4,700	12,070	272,785
Total Light Bonds				1,751,420	63,435	342,205	1,409,215
MUNICIPAL WATER BONDS							
1995 Adjustable Rate	09/20/95	09/01/00-25	3.820	45,000	1,300	8,000	37,000
1997 Parity	04/08/97	08/01/97-26	5.712	53,000	1,215	51,725	1,275
1998 Parity	07/04/98	10/01/99-27	5.110	80,000	1,780	12,305	67,695
1999 Parity	06/23/99	03/01/00-29	5.373	100,000	83,000	93,440	6,560
1999 Parity, Series B	10/23/99	07/01/01-29	5.912	110,000	2,145	102,915	7,085
2001 Parity	11/20/01	11/01/05-31	4.972	52,525	1,085	2,135	50,390
2002 Adjustable Rate, Series A	05/15/02	05/15/03-32	3.930	32,500	-	2,400	30,100
2002 Adjustable Rate, Series B	05/15/02	05/15/03-32	3.920	32,500	1,300	2,500	30,000
2003 Parity, Refunding	05/12/03	09/01/03-33	4.083	271,320	9,505	46,825	224,495
2004 Parity	10/25/04	09/01/05-34	4.580	84,750	1,365	3,295	81,455
2005 Parity, Refunding	12/28/05	09/01/06-29	4.482	138,040	2,395	2,395	135,645
2006 Parity, Refunding	10/23/06	02/01/08-37	4.424	189,970	-	-	189,970
Total Water Bonds				1,189,605	105,090	327,935	861,670
MUNICIPAL DRAINAGE AND WASTEWATER BONDS							
1995 Improvement and Refunding	12/28/95	12/01/96-25	5.309	40,390	31,255	39,125	1,265
1998 Parity	05/15/98	11/01/98-18	5.122	24,170	525	4,045	20,125
1999 Parity	09/28/99	11/01/00-29	5.720	55,000	46,265	51,500	3,500
2001 Parity	06/22/01	11/01/02-31	5.260	60,680	1,145	5,340	55,340
2002 Improvement and Refunding	12/17/02	07/01/03-32	4.751	78,550	1,750	5,980	72,570
2004 Parity	10/28/04	09/01/05-34	4.609	62,010	1,070	1,950	60,060
2006 Improvement and Refunding	11/01/06	02/01/07-37	4.180	121,765	-	-	121,765
Total Drainage and Wastewater Bonds				442,565	82,010	107,940	334,625
SOLID WASTE BONDS							
1999 Refunding	01/19/99	08/01/99-09	4.839	40,900	3,950	27,720	13,180
1999 Parity, Series B	10/26/99	11/01/00-19	5.732	5,500	220	1,355	4,145
Total Solid Waste Bonds				46,400	4,170	29,075	17,325
Total Utility Revenue Bonds				3,429,990	254,705	807,155	2,622,835
SOLID WASTE REVENUE ANTICIPATION NOTES							
2003 Line of Credit	11/03/03	12/31/2007	4.096	23,576	-	-	23,576
Total Utility Revenue Bonds and Anticipation Notes				$ 3,453,566	$ 254,705	$ 807,155	$ 2,646,411

[a] The ML&P subordinate lien bonds are variable rate bonds for which the life-to-date actual low and high rates are shown. The Municipal Water adjustable-rate bonds show the interest rate in effect at the end of 2006. These bonds are remarketed each week at market rates attained by remarketing agents, except for the 1990 and 1991B ML&P bonds which are in commercial paper mode and as such remarketed periodically for terms determined by the City at market rates obtained by remarketing agents. Interest rates in effect at December 31, 2006, were used to calculate annual interest requirements for these obligations. The interest rates on the Solid Waste revenue anticipation notes (line of credit) is the weighted-average interest rate for all draws made since inception. This rate was used to calculate the annual interest requirement for the notes.

[b] Includes all bonds that matured to date and all called, refunded, and defeased bonds on issues that have outstanding balances at the beginning of the year.

The requirements to amortize the revenue bonds and anticipation notes as of December 31, 2006, are presented below.

Table 8-7 **ANNUAL DEBT SERVICE REQUIREMENTS TO MATURITY**
REVENUE BONDS AND REVENUE ANTICIPATION NOTES
(In Thousands)

Year Ending	Light		Water		Drainage and Wastewater		Solid Waste		
December 31	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Total
2007	$ 66,755	$ 69,743	$ 18,485	$ 38,790	$ 9,165	$ 14,787	$ 27,966	$ 1,922	$ 247,613
2008	70,460	66,371	21,385	39,975	8,070	15,865	4,635	716	227,477
2009	74,260	62,790	22,280	38,994	8,440	15,510	4,885	462	227,621
2010	78,230	59,017	23,345	37,949	8,830	15,110	265	194	222,940
2011	74,340	55,351	24,425	36,882	9,230	14,722	280	180	215,410
2012-2016	390,500	220,938	139,775	166,327	53,065	66,719	1,645	652	1,039,621
2017-2021	348,175	124,990	175,615	128,794	66,435	52,011	1,225	147	897,392
2022-2026	277,420	42,818	183,765	83,117	71,470	34,643	-	-	693,233
2027-2031	29,075	2,397	128,630	42,677	69,960	16,739	-	-	289,478
2032-2036	-	-	117,200	8,029	27,120	3,340	-	-	155,689
2037	-	-	6,765	152	2,840	64	-	-	9,821
Total	$ 1,409,215	$ 704,415	$ 861,670	$ 621,686	$ 334,625	$ 249,510	$ 40,901	$ 4,273	$ 4,226,295

NOTES AND CONTRACTS PAYABLE – BUSINESS-TYPE ACTIVITIES

City Light

In March 2006 the Light Department negotiated a note payable with the State of Washington for the purchase of software installed department-wide in 2006. The total amount of the note payable was $0.8 million, with final maturity in 2008 at an imputed interest rate of 5.0 percent. During 2006 $0.3 million was repaid leaving a balance of approximately $0.6 million. Respective principal and interest of approximately $270,200 and $21,000 are due in 2007; and $284,900 and $7,200 are due in 2008.

The Light Department also negotiated in 2003 an agreement with Sound Transit, the regional transit authority, to perform electrical work pertaining to the undergrounding of utilities along Martin Luther King Way in South Seattle for the new light rail line under construction. There are two major components of this work. The first consists of installing an underground ductbank and the second is to perform the necessary underground electrical work within the ductbank. Financial terms of this agreement that resulted in a note payable to Sound Transit were finalized during 2005. Sound Transit completed the underground ductbank at a cost of $18.7 million, of which the Department is responsible for $11.8 million, payable to Sound Transit. A total of $8.8 million, including an additional principal payment of nearly $1.0 million, has been repaid through the end of 2006, leaving an outstanding balance of $2.9 million at December 31, 2006. The underground electrical work is being financed in part by Sound Transit, and the total amount due Sound Transit totaled $3.1 million. During 2006 the note payable was increased by nearly $1.0 million for additional electrical work performed. A total of $3.0 million, including an additional principal amount of $0.3 million, has been repaid through the end of 2006, leaving an outstanding balance of $1.0 million at the end of 2006. Both of these items comprise a total note balance of $4.0 million, all of which is due in 2007 plus interest of approximately $102,400 based on an interest rate of 3.9 percent plus an additional amount as an inflation factor.

Water

During 1993 SPU, for its Water Fund, entered a note agreement to borrow up to $2.2 million from the Washington State Department of Community, Trade, and Economic Development under its Public Works Trust Loan Program for the construction of certain capital improvements. Amounts borrowed under the agreement accrue interest at 1.0 percent per annum and are to be repaid in 19 annual installments. In 2006, amounts paid from the Water Fund totaled $118,217 and $8,866 in principal and interest respectively on the loan. The remaining outstanding balance at December 31, 2006, amounts to approximately $0.8 million, the minimum debt service requirements to maturity of which is included in Table 8-8.

Drainage and Wastewater

SPU, for its Drainage and Wastewater Fund, drew $890,300 on a loan from the State of Washington Department of Ecology in 2006. The loan agreement originated in 2005 and allows borrowings up to $2,714,050 to support the construction of improvements of the High Point Natural Drainage Systems Project. Amounts borrowed under the agreement accrue interest at 1.5 percent per annum and are to be repaid in 20 annual installments. As of December 31, 2006, the City's draws on the loan totaled $1,491,100.

During 2006 the City received a $680,000 draw on a new note agreement from the Washington Statement Department of Community, Trade, and Economic Development under its Public Works Trust Loan program for the construction of the South Park Flood Control and Local Drainage Program. Amounts borrowed under the agreement accrue interest at 0.5 percent per annum and are to be repaid in 20 annual installments.

In 2006, amounts paid from Drainage and Water totaled approximately $573,500 and $28,100 in principal and interest respectively on the loans. The remaining outstanding balance at December 31, 2006, for the loans amounts to approximately $5.6 million, the minimum debt service requirements to maturity of which is included in Table 8.8 below.

Table 8-8 **ANNUAL DEBT SERVICE REQUIREMENTS TO MATURITY**

SEATTLE PUBLIC UTILITIES

PUBLIC WORKS TRUST LOAN AND OTHER NOTES

(In Thousands)

Year Ending	Water		Drainage and Wastewater		
December 31	Principal	Interest	Principal	Interest	Total
2007	$ 118	$ 8	$ 378	$ 49	$ 553
2008	118	7	215	46	386
2009	119	6	216	44	385
2010	118	5	291	43	457
2011	118	4	293	39	454
2012-2016	237	3	1,414	153	1,807
2017-2021	-	-	1,388	97	1,485
2022-2026	-	-	1,185	44	1,229
2027-2029	-	-	224	7	231
Total	$ 828	$ 33	5,604	522	$ 6,987

The following table shows the long-term liability activities during the year ended December 31, 2006.

Table 8-9 **CHANGES IN LONG-TERM LIABILITIES [a]**

(In Thousands)

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
GOVERNMENTAL ACTIVITIES					
Bonds Payable					
General Obligation Bonds	$ 794,075	$ 24,905	$ 72,615	$ 746,365	$ 57,025
Add (Deduct) Deferred Amounts					
Issuance Premiums	15,252	378	1,636	13,994	-
Issuance Discounts	(3)	-	(1)	(2)	-
On Refunding	(3,566)	-	(1,143)	(2,423)	-
Special Assessment Bonds with Governmental Commitment [b]	-	21,925	-	21,925	1,220
Total Bonds Payable	805,758	47,208	73,107	779,859	58,245
Notes and Contracts					
Capital Leases	29	-	14	15	12
Other Notes and Contracts	21,890	5,000	2,396	24,494	2,569
Total Notes and Contracts	21,919	5,000	2,410	24,509	2,581
Compensated Absences	56,344	54,165	52,179	58,330	13,656
Claims Payable					
Workers' Compensation	16,964	5,647	6,488	16,123	5,462
General Liability	42,572	15,764	24,660	33,676	9,298
Health Care Claims	9,534	9,353	9,534	9,353	9,353
Total Claims Payable c	69,070	30,764	40,682	59,152	24,113
Arbitrage Rebate Liability	106	-	106	-	-
Total Long-Term Liabilities from Governmental Activities	$ 953,197	$ 137,137	$ 168,484	$ 921,850	$ 98,595
BUSINESS-TYPE ACTIVITIES					
Bonds Payable					
General Obligation Bonds	$ 71,124	$ -	$ 1,101	$ 70,023	$ 1,145
Revenue Bonds	2,565,805	311,735	254,705	2,622,835	98,795
Add (Deduct) Deferred Amounts					
Issuance Premiums	64,001	14,006	5,628	72,379	-
Issuance Discounts	(2,921)	-	(1,116)	(1,805)	-
On Refunding	(69,045)	(6,362)	(7,180)	(68,227)	-
Total Bonds Payable	2,628,964	319,379	253,138	2,695,205	99,940
Revenue Anticipation Notes Payable	11,976	11,600	-	23,576	23,576
Accrued Interest - Deferred Interest Bonds	4,029	676	459	4,246	555
Notes and Contracts - Other	14,781	3,357	7,196	10,942	4,722
Compensated Absences	20,538	26,036	25,152	21,422	2,033
Claims Payable					
Workers' Compensation	6,069	2,179	2,326	5,922	2,006
General Liability	15,813	7,248	4,794	18,267	8,370
Muckleshoot Liability	18,000	495	17,000	1,495	1,495
Habitat Conservation Program Liability	-	14,803	-	14,803	3,356
Environmental Liability					
General Contamination Cleanup	17,407	4,297	4,369	17,335	3,546
Total Claims Payable [c]	57,289	29,022	28,489	57,822	18,773
Landfill Closure and Postclosure Costs	29,282	-	1,995	27,287	5,410
Purchased Power Obligation	25,891	-	10,489	15,402	11,770
Total Long-Term Liabilities from Business-Type Activities	$ 2,792,750	$ 390,070	$ 326,918	$ 2,855,902	$ 166,779

[a] Some amounts may have rounding differences with Statements of Net Assets.

[b] The Special Assessment Bonds carry neither premiums nor discounts.

[c] See Note 13, Contingencies, for a discussion of risk management, environmental, and other matters. The table in Note 13 also includes information on workers' compensation and health care.

The City's internal service funds predominantly serve governmental funds. For this reason the above totals in the governmental activities include the long-term liabilities for these funds. At the end of the year notes and contracts, compensated absences and claims payable of these funds amounted to approximately $0.4 million, $3.5 million, and $1.3 million, respectively, and are liquidated from each fund's own resources. Notes and contracts (including public works trust loans), compensated absences, and workers' compensation other than those pertaining to the internal service funds are liquidated using the respective governmental funds of operating City departments, including those funded by the General Fund. General liability and health care claims relating to internal service funds, except for the Engineering Services Fund which pays its own general liability, are liquidated using the General Fund. Liabilities for compensated absences for governmental activities in governmental funds that have department operating budgets, though they are reported as general obligations of the City, are paid from these funds when these compensated absences are used by the employees or cashed out by them at termination or retirement. Arbitrage rebate liabilities in governmental activities are paid as they are due and usually come from available resources in governmental funds that received the related bond proceeds and investment earnings from the proceeds.

In addition to paying for debt service on the bond issues for business-type City operations, each business-type fund liquidates its respective other long-term liabilities, with the exception of the Department of Planning and Development (DPD) for general liability. The General Fund pays for DPD's general liability, if any. Environmental liabilities of business-type activity funds are paid respectively from the utility funds. Purchased power obligations are obligations of City Light and therefore paid from the Light Fund. For further discussion on purchased power, see Note 12, Commitments.

ADVANCE AND CURRENT REFUNDINGS

In order to lower interest costs, the City refunded and defeased certain bonds. To do so, the City issued new refunding bonds to refund certain prior bond issues and also used its own resources to defease certain prior bond issues. City resources and the proceeds of refunding bonds are placed in irrevocable trusts for the purchase of federal, state, and local government securities to provide for all future debt service on the old bonds. As a result, the old bonds including those refunded are considered defeased, and the corresponding liabilities are not included in the Statement of Net Assets. The following paragraphs discuss the advance and current refundings that occurred in 2006.

The refunding portion of the $24.9 million LTGO Improvement and Refunding Bonds, 2006, issued on April 26, 2006, in the amount of $2.2 million refunded $2.2 million of the 1995 LTGO bonds. The aggregate total debt service on the refunded bonds requires a cash flow of $2.8 million, including $0.6 million in interest. The aggregate total debt service on the refunding bonds requires a cash flow of $2.7 million including interest of $0.5 million. The difference between the cash flows required to service the old and the new debt and complete the refunding totaled approximately $137,100, and the aggregate economic gain amounted to approximately $101,200 at net present value.

The Water System Revenue and Refunding Bonds, 2006, issued on October 23, 2006, in the amount of $190.0 million refunded $81.0 million of the Water System Revenue Bonds, 1999. The aggregate total debt service on the refunded bonds requires a cash flow of $144.2 million including interest of $63.2 million. The aggregate total debt service on the refunding bonds requires a cash flow of $134.2 million including interest of $55.6 million. The difference between the cash flows required to service the old and the new debt and complete the refunding totaled $10.0 million, and the aggregte economic gain amounted to $6.4 million at net present value.

The Drainage and Wastewater Revenue and Refunding Bonds, 2006, issued on November 1, 2006, in the amount of $121.8 million refunded $30.1 million and $45.2 million of the 1995 and 1999 Drainage and Wastewater Revenue Bonds respectively. The aggregate total debt service on the refunded bonds requires a cash flow of $131.3 million including interest of $56.8 million. The aggregate total debt service on the refunding bonds requires a cash flow of $118.6 million including interest of $44.8 million. The difference between the cash flows required to service the old and the new debt and complete the refunding totaled $12.7 million, and the aggregte economic gain amounted to $6.4 million at net present value.

The following is a schedule of outstanding bonds that are either refunded or defeased.

Table 8-10 **REFUNDED/DEFEASED BONDS**

(In Thousands)

Name of Issue	Issuance Date	Maturity Date	Effective Interest Rate	Original Bond Issuance	Amount Transferred To Trustee	Trustee Redemptions To Date 2006	Defeased Outstanding December 31
GENERAL OBLIGATION BONDS							
Limited Tax (Non-Voted)							
Various Purpose-West Precinct, HRIS, 9th & Lenora & COPs Refunding, 1995, Refunded 3/23/05	12/28/95	07/01/96-15	5.122 %	$ 28,670	$ 9,685	$ 9,685	$ -
Various Purpose-West Precinct, HRIS, 9th & Lenora & COPs Refunding, 1995, Refunded 4/26/06					2,215	2,215	-
Various Purpose-Concert Hall, Key Tower, Police Support Facility, 1996 Series A, Refunded 05/24/04	08/01/96	01/15/04-20	5.920	97,740	88,000	88,000	-
Various Purpose-Sand Point, Convention Center, Transportation, 1997 Series A, Refunded 3/23/05	02/06/97	08/01/97-17	5.199	26,670	10,475	-	10,475
Refunding-Various LTGO Bonds, 1998 Series B, Defeased 9/26/05	03/17/98	09/01/98-12	4.493	43,710	620	75	545
Various Purpose-Civic Center, Galer St, 1999 Series B, Refunded 3/23/05	10/19/99	12/01/00-28	5.677	85,500	49,865	-	49,865
Improvement (Various) and Refunding, 2002, Defeased 9/26/05	01/30/02	07/01/02-32	4.778	125,510	8,470	535	7,935
REVENUE BONDS							
Municipal Light and Power							
1996 Parity	10/31/96	10/01/02-21	5.670	30,000	25,225	25,225	-
1999 Parity	10/27/99	10/01/06-23	5.960	158,000	138,250	-	138,250
Municipal Water							
1977 Parity	04/08/97	08/01/97-26	5.712	53,000	42,155	-	42,155
1999 Parity	06/23/99	03/01/00-29	5.373	100,000	81,000	-	81,000
1999 Parity, Series B	10/23/99	07/01/01-29	5.912	110,000	91,360	-	91,360
Drainage and Wastewater							
1995 Improvement and Refunding	12/28/95	12/01/96-25	5.309	40,390	30,050	30,050	-
1999 Parity	09/28/99	11/01/00-29	5.720	55,000	45,205	-	45,205
Total Refunded/Defeased Bonds				$ 954,190	$ 622,575	$ 155,785	$ 466,790

ARBITRAGE

Since 1995 the City has been reviewing arbitrage rebate liability on its outstanding tax-exempt bonds and certificates of participation under Section 148(f) of the Internal Revenue Code. For bonds that have reached their installment computation dates (bonds outstanding for five years initially and every five years thereafter until the last of the bond issue matures) the City paid no arbitrage rebate in 2005 and approximately $158,400 in 2006 on the City's general obligation bonds. The City paid no rebate in 2005 and in 2006 for the Municipal Light and Power, Water System, Drainage and Wastewater, and Solid Waste revenue bonds. There is no estimated arbitrage liability recognized at the end of 2006 on the general obligation bonds as well on each of the revenue bonds.

(9) PENSIONS, DEFERRED COMPENSATION, AND OTHER POSTEMPLOYMENT BENEFITS

City of Seattle employees are covered in one of the following defined benefit pension plans: Seattle City Employees' Retirement System (SCERS), Firemen's Pension Fund, Police Relief and Pension Fund, and Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF). The first three plans are considered as part of the City's reporting entity and are reported as pension trust funds. The State of Washington through the Department of Retirement Systems (DRS) administers and reports LEOFF Plans 1 and 2.

Table 9-1 **PENSION PLAN INFORMATION**

	Employees' Retirement	Firemen's Pension	Police Relief and Pension	LEOFF Plan 1	LEOFF Plan 2
Actuarial Valuation Date	1/1/2006	1/1/2007	1/1/2007	9/30/2005	9/30/2005
Actuarial Cost Method	Entry Age	Projected Unit Credit	Projected Unit Credit	Frozen Initial Liability [a]	Aggregate [b]
Asset Valuation Method	Fair Value	Fair Value	Fair Value	8-Year Graded Smoothed Fair Value [c]	8-Year Graded Smoothed Fair Value [c]
Amortization					
Method	Level %	Level $	Level $	Level %/Level $ [d]	N/A
Period	30.0 years	14.4 years [e]	15.9 years [e]	18 years	N/A
Approach	Open	Open	Open	Closed	N/A
Actuarial Assumptions					
Inflation Rate (CPI)	3.50%	2.50%	2.50%	3.50%	3.50%
Investment Rate of Return	7.75%	5.125%	5.125%	8.00%	8.00%
Projected Salary Increases	4.00%	3.50%	3.50%	11.70%	11.70%
Postretirement Benefit Increases	0.67%	CPI (Seattle) Increase 2% Minimum	CPI (Seattle) Increase 2% Minimum	CPI Increase	CPI Increase Maximum 3%

[a] Based on a variation of the Frozen Initial Liability cost method.

[b] The aggregate cost method does not identify or separately amortize unfunded actuarial liabilities.

[c] The actuarial value of assets is calculated under an adjusted market value method by starting with the market value of assets. For subsequent years the actuarial value of assets is determined by adjusting the market value of assets to reflect the difference between the actual investment return and the expected investment return during each of the last eight years or, if fewer, the completed years since adoption.

[d] Funding is Level %; GASB is Level $.

[e] The Annual Required Contribution has been developed to equal actual employer contributions. The methodology used is a level payment with an open amortization period. This means the amortization period for the unfunded accrued liability will change over time as actual experience emerges that is different from the actuarial assumptions. This methodology is acceptable under GASB Statement Nos. 25 and 27 provided the amortization period remains within GASB guidelines.

SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM

Plan Description

The Seattle City Employees' Retirement System (SCERS) is a single-employer defined-benefit public employee retirement system established and administered by the City in accordance with Seattle Municipal Code (SMC) 4.36.

All employees of the City of Seattle are eligible for membership in the system with the exception of law enforcement officers and fire fighters who are covered under the statewide LEOFF plans administered by the state Department of Retirement Systems. Employees of METRO and the King County Health Department who established membership in the system when these organizations were City of Seattle departments were allowed to continue their membership. Current membership in SCERS consisted of the following at December 31, 2006:

Retirees and Beneficiaries Receiving Benefits	5,093
Terminated Plan Members Entitled To But Not Yet Receiving Benefits, Vested	1,648
Terminated Plan Members Who Have Restored Their Contributions Due to the Provisions of the Portability Statutes and May Be Eligible for Future Benefits, Vested	258
Active Plan Members, Vested and Non-vested	8,587

SCERS provides retirement, death, and disability benefits. Retirement benefits vest after 5 years of credited service, while death and disability benefits vest after 10 years of service. Retirement benefits are calculated as 2 percent multiplied by years of creditable service, multiplied by average salary, based on the highest 24 consecutive months. The benefit is actuarially reduced for early retirement. City employees may retire at any age with 30 years of service, at age 52 or older with 20-29 years of service, at age 57 or older with 10-19 years of service, and at age 62 or older with 5 to 9 years of service. These benefit provisions and all other requirements are established and may be amended by City ordinances.

The City also provides implicit rate subsidies to retirees for health care coverage by charging them premiums based on a blended rate for both active employees and retirees that is less than the premium for retirees alone.

The Seattle City Employees' Retirement System issues a stand-alone financial report. A copy of the report is available from the Seattle City Employees' Retirement System at 720 Third Avenue, Suite 1000, Seattle, WA 98104; by telephone at 206-386-1293; or by accessing the web site http://www.seattle.gov/retirement/annual_report.htm

Summary of Significant Accounting Policies

Basis of Accounting

The Seattle City Employees' Retirement System is accounted for as a pension trust fund. The financial statements were prepared using the economic resources measurement focus and the accrual basis of accounting as discussed in Note 1. All assets, liabilities, and additions to and deductions from (including contributions, benefits, and refunds) plan net assets are recognized when the transactions or events occur. Employee and employer contributions are reported in the period in which the contributions are due. Member benefits, including refunds, are due and payable by the plan in accordance with plan terms.

Investments, including security lending transactions, as discussed in Note 3, are reported at fair market value. The fair market value of investments in common stock, international equities, fixed income, international fixed income, and short-term investments is based on the quoted market price. The fair market value of venture capital and real estate equities has been determined by independent appraisers. Securities and security lending transactions are reflected in the financial statements on a trade-date basis. Investment policies as set by the Retirement Board require that investments in any one corporation or organization may not exceed 5 percent of net assets available for benefits.

Contributions and Reserves

Member and employer contribution rates are established by SMC 4.36.

SCERS funding policy provides for periodic employee and employer contributions at actuarially determined rates expressed as percentages of annual covered payroll to accumulate sufficient assets to pay benefits when due. Funds accumulated and investment earnings are used to pay present and future benefit obligations and administrative expenses. The employer contribution rate is determined by the actuarial formula identified as the Entry-Age Cost Method. The formula determines the amount of contributions necessary to fund the current service cost, representing the estimated amount necessary to pay for benefits earned by the employees during the current service year and the amount of contributions necessary to pay for prior service costs. Total necessary contributions, including amounts necessary to pay administrative costs, are determined through biennial actuarial valuations.

Actuarially determined contribution rates are currently 8.03 percent for members and 8.03 percent for the employer. There are no long-term contracts for contributions outstanding and no legally required reserves.

As of December 31, 2006, based on the actuarial valuation of January 1, 2006, the actuarial value of plan net assets available for benefits was $1,791.8 million, and the actuarial accrued liability was $2,017.5 million. The unfunded actuarial accrued liability (UAAL) was $225.8 million and the funding ratio was 88.8 percent.

Three-year trend information (in thousands) is shown below:

Fiscal Year Ending December 31	Annual Pension Cost (APC)	Total Employer Contribution	Percentage of APC Contributed	Net Pension Obligation (NPO)
2003	$ 31,883	$ 34,201	107 %	$ (74,501)
2004	34,921	36,682	105	(76,262)
2005 [a]	34,095	35,897	105	(78,064)

Annual pension cost (APC) and net pension obligation (NPO) (in thousands) were:

Fiscal Year Ending December 31	Annual Required Contribution (ARC) at End of Year	Interest on NPO	ARC Adjustment	Annual Pension Cost (APC)	Total Employer Contributions	Change in NPO	NPO Beginning Balance	NPO Ending Balance
2005 [a]	$ 35,897	$ (5,910)	$ 4,108	$ 34,095	$35,897	$ (1,802)	$ (76,262)	$ (78,064)

Authority to change benefits and contribution rates rests on the City Council. City ordinance does not permit a reduction in the employer contribution rate to less than the employee rate.

Trend data on funding progress and employer contributions including pension information notes are presented in the Required Supplementary Information Section, Pension Plan Information.

FIREMEN'S PENSION AND POLICE RELIEF AND PENSION FUNDS

Plan Description

The Firemen's Pension and the Police Relief and Pension Funds are single-employer defined-benefit pension plans that were established by the City in compliance with the requirements of the Revised Code of Washington (RCW) 41.18 and 41.20.

Since the effective date of the state LEOFF on March 1, 1970, no payroll for employees was covered under these pension plans, and the primary liability for pension benefits for these plans shifted from the City to the state LEOFF. However, the City was still liable for all benefits in pay status at that time plus any future benefits payable to active law enforcement officers and fire fighters on March 1, 1970, under the old City plan in excess of current LEOFF benefits. Generally, benefits under the LEOFF system are greater than or equal to the benefits under the old City plan when payment begins. However, LEOFF retirement benefits increase with the consumer price index (CPI - Seattle) while some City benefits increase with wages of current active members. If wages go up faster than the CPI, the City becomes liable for this residual amount. Due to this leveraging effect, projection of the City of Seattle's liabilities is especially sensitive to the difference between wage and CPI increase assumptions.

All law enforcement officers and fire fighters of the City who served before March 1, 1970, are participants of these pension plans; and those hired between March 1, 1970, and September 30, 1977, are eligible for a supplemental retirement benefit plus sick benefits under these plans. Eligible law enforcement officers may retire with full benefits after 25 years of service at any age and fire fighters at age 50 after completing 25 years of service. These pension plans provide death and disability pension benefits plus sick benefits for eligible active and retired employees. In addition, these plans provide medical benefits in accordance with state statutes and City ordinances to active and retired members from the City. Currently 1,029 fire and 946 police retirees meet these eligibility requirements. The City fully reimburses the amount of valid claims for medical and hospitalization costs incurred by active members and pre-Medicare retirees. The City also reimburses the full amount of premiums for part B of Medicare for each retiree eligible for Medicare.

The only postemployment benefits the City provides, other than death benefits, are medical benefits in the Firemen's and Police Relief and Pension plans, and these are financed on a pay-as-you-go basis. Total postemployment medical benefits for Firemen's Pension were $7.8 million in 2006 and $7.2 million in 2005; and for Police Relief and Pension, $10.0 million in 2006 and $8.3 million in 2005.

[a] Actuarial data for SCERS are determined through biennual actuarial valuations. The latest actuarial valuation was completed as of January 1, 2006.

The Firemen's Pension and Police Relief and Pension benefit provisions are established in the state statute, RCW 41.16, 41.18, and 41.20, and may be amended only by the state legislature. Retirement benefits are determined under RCW 41.18 and 41.26 for Firemen's Pension and RCW 41.20 and 41.26 for Police Relief and Pension. Medical benefit payments for both plans are based on estimates of current and expected experience.

Current membership in Firemen's Pension and Police Relief and Pension consisted of the following at December 31, 2006:

	Firemen's Pension	Police Relief and Pension
Retirees and Beneficiaries Receiving Benefits	941	710
Terminated Plan Members Entitled To But Not Yet Receiving Benefits	-	-
Active Plan Members, Vested	75	63
Active Plan Members, Nonvested	-	-

These pension plans do not issue separate financial reports.

Summary of Significant Accounting Policies

The Firemen's Pension and Police Relief and Pension Funds are accounted for as pension trust funds. The financial statements were prepared using the economic resources measurement focus and the full accrual basis of accounting as shown in Note 1. All assets, liabilities, and additions to and deductions from (including contributions, benefits, and refunds) plan net assets of the retirement funds are recognized when the transaction or events occur. Employer contributions are reported in the period in which the contributions are due. Member benefits, including refunds, are due and payable by the plan in accordance with the plan terms.

Investments are recorded at fair value as shown in Note 3. Fair value of investments is based on quoted market prices.

Contributions and Reserves

Since these two pension plans were closed to new members effective October 1, 1977, the City did not need to adopt a plan to fund the actuarial accrued liability (AAL) but is paying benefits as they become due. Contributions are no longer required from plan members or the City departments they represent. Under state law, partial funding of the Firemen's Pension Fund may be provided by an annual tax levy of up to $0.45 per $1,000 of assessed value of all taxable property of the City. The Firemen's Pension Fund also receives a share of the state tax on fire insurance premiums. Additional funding through the General Fund adopted budget is provided to both pension funds as necessary. The Police Relief and Pension Fund also gets police auction proceeds of unclaimed property. Administrative costs for the Firemen's Pension are financed by real estate property tax and fire insurance premium tax. Administrative costs for the Police Relief and Pension are financed by police auction proceeds and the General Fund. Contribution rates are not applicable to these plans.

Three-year trend information (in thousands) for the Firemen's Pension and the Police Relief and Pension Funds as of the January 1, 2007, actuarial valuation are:

Retirement System	Fiscal Year Ending December 31	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (NPO)
Firemen's Pension Fund	2004	9,315	100	-
	2005	9,704	100	-
	2006	9,385	100	-
Police Relief and Pension Fund	2004	8,244	100	-
	2005	7,187	100	-
	2006	6,056	100	-

There are no securities held by the City for these pension funds except for the Firemen's Pension Actuarial Account described below. No loans are provided by the funds to the City or other related parties.

In July 1994 the City adopted a funding policy under Ordinance 117216 that is designed to fully fund the AAL of the Firemen's Pension Fund by the year 2018 plus additional contributions, if necessary, to fund benefit payments in excess of contributions to fully fund all retirement benefit liabilities by December 31, 2018. The level contributions were set aside in the Firemen's Pension Actuarial Account with a fund balance of $7.8 million as of December 31, 2006. The funding policy does not fund for future medical liabilities. No similar program has been established for the Police Relief and Pension Fund.

The AAL as of December 31, 2006, based on the actuarial valuation as of January 1, 2007, was $154.5 million for Firemen's Pension and $119.3 million for Police Relief and Pension. The Police Relief and Pension AAL is funded on a pay-as-you-go basis. Annual requirements are funded through the City's adopted budget, and any budget requirements exceeding the adopted budget are fully covered by supplemental appropriations.

Following are the Firemen's Pension and the Police Relief and Pension financial statements for fiscal year ending December 31, 2006.

Table 9-2 **STATEMENT OF NET ASSETS**

FIREMEN'S PENSION AND POLICE RELIEF AND PENSION FUNDS

December 31, 2006

(In Thousands)

	Firemen's Pension	Police Relief and Pension	2006	2005
ASSETS				
Cash and Equity in Pooled Investments	$ 10,300	$ 2,152	$ 12,452	$ 12,506
Investments at Fair Value				
U.S. Government Obligations	458	-	458	454
Receivables				
Employer - Due from Other Funds	-	-	-	9
Interest and Dividends	28	-	28	18
Total Receivables	28	-	28	27
Total Assets	10,786	2,152	12,938	12,987
LIABILITIES				
Refunds Payable and Other - Other	742	825	1,567	2,304
Total Liabilities	742	825	1,567	2,304
Net Assets Held in Trust for Pension Benefits	$ 10,044	$ 1,327	$ 11,371	$ 10,683

employee contributions was 5.5 percent compounded quarterly. Employees in Plan 1 and 2 can elect to withdraw total employee contributions and interest earnings upon separation from LEOFF-covered employment.

Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement with 5 years of service at the age of 50. The benefit per year of service calculated as a percent of final average salary (FAS) is as follows:

Term of Service	Percent of FAS
20 +	2.0 %
10 - 19	1.5 %
5 - 9	1.0 %

The FAS is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last 10 years of service. If membership was established in LEOFF after February 18, 1974, the service retirement benefit is capped at 60 percent of FAS. A cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index).

Plan 2 retirement benefits are vested after an employee completes 5 years of eligible service. Plan 2 members may retire at the age of 50 with 20 years of service or at the age of 53 with 5 years of service, with an allowance of 2 percent of the FAS per year of service (FAS is based on the highest consecutive 60 months). Plan 2 retirements prior to the age of 53 are reduced 3 percent for each year that the benefit commences prior to age 53 and to reflect the choice of a survivor option. There is no cap on years of service credit; and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

Plan 1 provides death and disability benefits. Death benefits for Plan 1 members on active duty consist of the following: (1) if eligible spouse, 50 percent of the FAS, plus 5 percent of FAS for each surviving child, with a limitation on the combined allowances of 60 percent of the FAS; or (2) if no eligible spouse, 30 percent of FAS for the first child plus 10 percent for each additional child, subject to a 60 percent limitation of FAS. In addition, a duty death benefit of $150,000 is provided to Plan 1and Plan 2 members.

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

Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 allowance amount is 2 percent of the FAS for each year of service. Benefits are actuarially reduced for each year that the member's age is less than 53, unless the disability is duty-related, and to reflect the choice of a survivor option.

Plan 2 members who leave service because of a line-of-duty disability are allowed to withdraw 150 percent of accumulated member contributions. This withdrawal benefit is not subject to federal income tax. Alternatively, Plan 2 members who leave service because of a line-of-duty disability may be eligible to receive a retirement allowance of at least 10 percent of final average salary and two percent per year of service beyond 5 years. The first 10 percent of the FAS is not subject to federal income tax.

The following changes to the LEOFF plans are the result of recent years' legislation:

Effective July 24, 2005:

- Plan 1 retirees can designate a spouse from a post-retirement marriage as a beneficiary, even if an ex-spouse is receiving a portion of the retiree's benefit under a court-approved property settlement. (HB 1329, Chapter 67, Laws 2005)
- The spouse of a Plan 1 retiree who receives a portion of the retiree's monthly pension under a court-ordered property settlement, can continue receiving that portion after the retiree dies. (HB 1319, Chapter 62, Laws 2005)
- Plan 2 retirees may return to work in an eligible position covered by another retirement system, choose membership in that system and suspend their pension benefits, or not choose membership and continue receiving pension benefits without interruption. (HB 1270, Chapter 372, Laws 2005)
- Plan 2 members can purchase credit for military service that interrupted employment, if they are disabled while on active duty and cannot return to employment. Should the member die during this active duty, the surviving spouse or

eligible child(ren) of member may purchase service credit on behalf of the deceased member. (HB 1325, Chapter 64, Laws 2005)

- Current members of PERS who are emergency medical technicians can elect to become members of Plan 2. (SHB 1936, Chapter 459, Laws 2005)

Effective March 14, 2006:

- Plan 2 members who are severely disabled in the line of duty and incapable of substantial gainful employment in any capacity in the future, can receive a catastrophic disability benefit equal to 70 percent of their final average salary subject to offsets for workers' compensation and Social Security disability benefits received. (HB 2932, Chapter 39, Laws 2006)

Effective June 7, 2006:

- Coverage is extended for the $150,000 death benefit to Plan 2 members who die from a duty-related illness such as an infectious disease or cancer, which results from a job-related exposure. (SHB 2933, Chapter 351, Laws 2006)

- Survivors of Plan 2 members who are killed in the line of duty are reimbursed for the cost of on-going health care insurance coverage. (SB 6723, Chapter 345, Laws 2006)

There were no other material changes in benefit provisions for the fiscal year ended June 30, 2006. LEOFF pension benefit provisions have been established by RCW 41.26.

There are 102 participating employers in LEOFF Plan 1 and 376 participating employers in Plan 2 as of June 30, 2006. Membership in LEOFF consisted of the following as of the latest actuarial valuation date of September 30, 2005.

	Plan 1	Plan 2
Retirees and Beneficiaries Receiving Benefits	8,149	574
Terminated Members Entitled To But Not Yet Receiving Benefits	7	570
Active Plan Members, Vested	723	11,625
Active Plan Members, Nonvested	-	3,543
Total	8,879	16,312

All law enforcement officers and fire fighters of the City of Seattle participate in LEOFF. Current active members (vested and non-vested) are 138 under Plan 1 and 2,149 under Plan 2.

The state Department of Retirement Systems prepares a stand-alone financial report. A copy of the report that includes financial statements and required supplementary information for LEOFF may be obtained by writing to Washington State Department of Retirement Systems, PO Box 48380, Olympia, Washington 98504-8380; by calling 360-664-7000 in Olympia or 1-800-547-6657; or by accessing their web site at http://www.drs.wa.gov.

Summary of Significant Accounting Policies

LEOFF plans are accounted for in pension trust funds of DRS using the economic resources measurement focus and the accrual basis of accounting. Plan member contributions are recognized as revenues in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plans.

Investments are presented at fair value. The fair value of investments is based on published market prices and quotations from national security exchanges and security pricing services, or by the respective fund managers for securities that are not actively traded. Privately held mortgages are valued at cost which approximates fair market value. Certain pension trust fund investments, including real estate and private equity, are valued based on appraisals or by independent advisors. LEOFF pension plans have no investments of any commercial or industrial organization whose market value exceeds 5 percent or more of each plan's net assets.

Contributions and Reserves

Funding Policy

The state Legislature establishes laws pertaining to the creation and administration of LEOFF plans. Plan members together with their employers and the state provide funding for all costs of the system based upon actuarial valuations. The state establishes benefit levels and approves the actuarial assumptions used in determining contribution levels.

Starting on July 1, 2000, Plan 1 employers and employees will contribute zero percent as long as the plan remains fully funded. Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plan. Plan 2 employers and employees are required to pay at the level adopted by the Plan 2 Retirement Board in accordance with RCW 41.45. All employers are required to contribute at the level required by state law.

Required contribution rates for cities (expressed as a percentage of current year covered payroll) at the close of fiscal year 2006 are as follows:

	LEOFF Actual Contribution Rates	
	Plan 1	Plan 2
Employer (includes an administrative expense rate of 0.18 percent)	0.18 %	4.90 %
Employee	-	7.85
State of Washington Contributions	-	3.13

Administration of the LEOFF plans was funded by an employer rate of 0.19 percent of employee salaries.

The state Legislature has the ability, by means of a special funding arrangement, to appropriate money from the state General Fund to supplement the current service liability and fund the prior service costs of Plans 1 and 2 in accordance with the requirements of the Pension Funding Council. However, this special funding situation is not mandated by the state constitution and this funding requirement could be returned to the employers by a change of statute. For fiscal year 2006 the state contributed $31.7 million to Plan 2.

Employer Contributions Required and Paid

LEOFF annual required contributions (in millions) and percentage contributed in accordance with the funding policy were:

	Plan 1		Plan 2	
Year	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed
2004	$ -	N/A	$ 69.2	74 %
2005	-	N/A	80.8	67
2006	-	N/A	101.3	79

The City of Seattle required and actual contributions (in thousands) are shown in the following table. Percentages contributed are not available.

	Plan 1	Plan 2
2004	$ 28	$ 4,941
2005	23	6,149
2006	21	8,082

There are no long-term contracts for contributions under the LEOFF retirement plans.

Reserves

Member Reserves. The member reserves reflect the total liability for all contributions made by members. These reserves are increased by employee contributions and interest earnings and are decreased by contributions refunded and contributions transferred to the benefit reserves for current year retirees. The member reserves are considered fully funded. Member reserves (in thousands) were:

	June 30, 2006	June 30, 2005
Plan 1	$ 85,326	$ 94,633
Plan 2	1,107,722	1,000,804

Benefit Reserves. The benefit reserves reflect the funded liability associated with all retired members. These reserves are increased by employer contributions, state contributions, investment earnings, and employee contributions which are attributable to current year retirees. These reserves are decreased by the amounts of pensions actually paid in the current year, interest payments transferred to the member reserves, and administrative expenses. Benefit reserves (in thousands) were:

	June 30, 2006	June 30, 2005
Plan 1	$5,478,118	$4,938,445
Plan 2	3,020,542	2,410,864

The funded status of each of the benefit reserves is the same as the funded status of each of the respective pension plans.

DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code (IRC) Section 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is payable to employees upon termination, retirement, death, or unforeseen emergency.

Beginning in 2006 the Deferred Compensation Plan (DCP) was amended to allow separating employees to cash out accrued vacation balances into their DCP accounts. Eligible retiring employees may also cash out up to 35 percent of their sick leave balances into their DCP accounts. Vacation and sick leave cash-outs made to the DCP are considered contributions and are subject to the maximum annual contribution limit.

It is the opinion of the City's legal counsel that the City has no liability for losses under the plan. Under the plan, participants select investments from alternatives offered by the plan administrator, who is under contract with the City to manage the plan. Investment selection by a participant may be changed from time to time. The City manages none of the investment selections. By making the selection, enrollees accept and assume all risks that pertain to the plan and its administration.

The City placed the deferred compensation plan assets into trust for the exclusive benefit of plan participants and beneficiaries in accordance with Governmental Accounting Standards Board (GASB) Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans.*

The City has little administrative involvement and does not perform the investing function for the plan. The City does not hold the assets in a trustee capacity and does not perform fiduciary accountability for the plan. Therefore, the City employees' deferred compensation plan created in accordance with IRC 457 is not reported in the financial statements of the City.

(10) COMPONENT UNIT

SEATTLE PUBLIC LIBRARY FOUNDATION

The Seattle Public Library Foundation is a Washington non-profit corporation, a public charity organized exclusively for educational, charitable, and scientific purposes for the benefit and support of the Seattle Public Library by providing goods and services and facilities over and above what the traditional tax-based funding of Seattle Public Library has provided. The foundation is located in Seattle, has all the corporate powers to carry out the purposes for which it is formed, and is governed by a Board of Directors. Although the City of Seattle is not financially accountable for the Seattle Public Library

Table 9-3

STATEMENT OF CHANGES IN
PLAN NET ASSETS
FIREMEN'S PENSION AND POLICE RELIEF AND PENSION FUNDS
For Year Ended December 31, 2006
(In Thousands)

	Defined Benefit		Postemployment Healthcare		Comparative Totals	
	Firemen's Pension	Police Relief and Pension	Firemen's Pension	Police Relief and Pension	2006	2005
ADDITIONS						
Contributions						
Employer	$ 9,385	$ 6,056	$ 7,777	$ 9,989	$ 33,207	$ 32,373
Investment Income						
From Investment Activities						
Net Appreciation (Depreciation) in Fair Value of Investments	40	-	-	-	40	(48)
Interest	293	-	-	-	293	186
Total Net Investment Income	333	-	-	-	333	138
Total Additions	9,718	6,056	7,777	9,989	33,540	32,511
DEDUCTIONS						
Benefits	7,878	6,348	7,777	9,989	31,992	28,993
Administrative Expense	512	348	-	-	860	807
Total Deductions	8,390	6,696	7,777	9,989	32,852	29,800
Change in Net Assets	1,328	(640)	-	-	688	2,711
Net Assets - Beginning of Year	8,716	1,967	-	-	10,683	7,972
Net Assets - End of Year	$ 10,044	$ 1,327	$ -	$ -	$ 11,371	$ 10,683

Pension trend data on funding progress and employer contributions for the Firemen's Pension and the Police Relief and Pension are presented in the Required Supplementary Information under Pension Plan Information.

LAW ENFORCEMENT OFFICERS' AND FIRE FIGHTERS' RETIREMENT SYSTEM (LEOFF) PLANS 1 AND 2

Plan Description

LEOFF is a cost-sharing, multiple-employer retirement system comprised of two separate defined-benefit plans. LEOFF participants who joined the system by September 30, 1977, are Plan 1 members. Those who joined on or after October 1, 1977, are Plan 2 members.

LEOFF was established in 1970 by the state Legislature. Membership includes all full-time, fully compensated, local law enforcement officers and firefighters. Membership is comprised primarily of non-state employees, with Department of Fish and Wildlife enforcement officers who were first included prospectively effective July 27, 2003, being a major exception. Effective July 1, 2003, the LEOFF Plan 2 Retirement Board was established by Initiative 790 to provide governance of Plan 2. The Board's duties include adopting contribution rates and recommending policy changes to the Legislature for Plan 2. LEOFF retirement benefit provisions are established in state statute and may be amended only by the state Legislature. The State of Washington DRS administers LEOFF.

LEOFF retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays through state legislative appropriations. Employee contributions to Plans 1 and Plan 2 accrue interest at a rate specified by DRS. During fiscal year 2006 the DRS-established rate on

Foundation, the foundation is considered a component unit and is discretely presented in the City's financial statements because of the following: (1) the economic resources received or held by the foundation are entirely for the direct benefit of the Seattle Public Library; (2) the Seattle Public Library is entitled to or has the ability to otherwise access a majority of the economic resources received or held by the foundation because the foundation has a history of supporting the library, and (3) the economic resources received or held by the foundation that the library is entitled to or has the ability to otherwise access are significant to the library.

The Seattle Public Library Foundation reports on a fiscal year-end consistent with the City of Seattle, the primary government. The Foundation issues its own audited financial statement. These statements are available at the Seattle Public Library Foundation at 1000 4th Avenue, Seattle, WA 98104, or by telephone at 206-386-4130.

Table 10-1

CONDENSED STATEMENT OF NET ASSETS
SEATTLE PUBLIC LIBRARY FOUNDATION
December 31, 2006
(In Thousands)

	2006	2005
ASSETS		
Cash, Investments, and Other Assets	$ 54,633	$ 52,168
Capital Assets, Net	11	9
Total Assets	54,644	52,177
LIABILITIES		
Current Liabilities	1,404	1,259
Total Liabilities	1,404	1,259
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	11	9
Restricted	42,267	42,330
Unrestricted	10,962	8,579
Total Net Assets	$ 53,240	$ 50,918

Table 10-2

CONDENSED STATEMENT OF ACTIVITIES
SEATTLE PUBLIC LIBRARY FOUNDATION
For Year Ended December 31, 2006
(In Thousands)

	2006	2005
EXPENSES		
Support to Seattle Public Library	$ 7,063	$ 11,411
Management and General	267	325
Fundraising	410	466
Depreciation	55	50
Total Expenses	7,795	12,252
PROGRAM REVENUES		
Contributions/Endowment Gain	4,322	2,904
Charges for Services	120	183
Total Program Revenues	4,442	3,087
Net Program (Expense) Received	(3,353)	(9,165)
GENERAL REVENUES		
Investment Income	5,675	3,050
Change in Net Assets	2,322	(6,115)
NET ASSETS		
Net Assets - Beginning of Year	50,918	57,033
Net Assets - End of Year	$ 53,240	$ 50,918

(11) JOINT VENTURES

SEATTLE-KING COUNTY WORKFORCE DEVELOPMENT COUNCIL

The Seattle-King County Workforce Development Council (WDC) is a joint venture between King County and the City of Seattle. It was established as a nonprofit corporation in the State of Washington on July 1, 2000, as authorized under the Workforce Investment Act (WIA) of 1998. It functions as the Department of Labor pass-through agency to receive the employment and training funds for the Seattle-King County area. The King County Executive and the Mayor of the City of Seattle, serving as the chief elected officials (CEO) of the local area, have the joint power to appoint the members of the WDC board of directors and the joint responsibility for administrative oversight. An ongoing financial responsibility exists because the CEO is potentially liable to the grantor for disallowed costs. If expenditure of funds is disallowed by the grantor agency, the WDC can recover the funds in the following order: (1) the agency creating the liability; (2) the insurance carrier; (3) future program years; and (4) as a final recourse, from King County and the City of Seattle who each will be responsible for one-half of the disallowed amount. As of December 31, 2006, there are no outstanding program eligibility issues that may lead to a City of Seattle liability.

The WDC contracts with the City of Seattle which provides programs related to the WIA Youth In-School Program. For the year 2006, WDC has paid $0.9 million to the City of Seattle.

The WDC issues independent financial statements that may be obtained from its offices at 2003 Western Avenue, Suite 250, Seattle, WA 98121-2162.

(12) COMMITMENTS

GENERAL

Capital Improvement Program

The City adopted the 2006-2007 Capital Improvement Program (CIP), which functions as a capital financing plan for the years 2006-2011 totaling $3.0 billion. The adopted CIP for 2006 was $515.8 million, consisting of $279.6 million for City-owned utilities and $236.2 million for nonutility departments. The utility allocations are: $148.5 million for City Light, $72.6 million for Water, $38.3 million for Drainage and Wastewater, $11.3 million for Solid Waste, and $8.9 million for Seattle Public Utilities' Technology Projects. Expenditures may vary significantly based upon facility requirements and unforeseen events. A substantial portion of contractual commitments relates to these amounts.

CITY LIGHT

Power received under long-term purchased power agreements in average annual megawatts (aaMW) is shown in the following table.

Table 12-1 **LONG-TERM PURCHASED POWER**

(In Average Annual Megawatts)

	2006	2005
Bonneville Block	174.4	109.4
Bonneville Slice	451.1	385.1
Lucky Peak	46.5	25.8
British Columbia - Ross Dam	36.1	35.4
City of Klamath Falls	11.4	66.4
State Line Wind	43.9	37.4
Pend Oreille County Public Utility District	-	3.0
Grant County Public Utility District	2.8	32.9
Grand Coulee Project Hydroelectric Authority	27.6	28.5
British Columbia-Boundary Encroachment	2.6	1.7
Exchange Energy	0.7	0.2
Long-Term Purchased Power Booked Out	(26.2)	-
Total Long-Term Purchased Power	770.9	725.8

Purchased and Wholesale Power

Bonneville Power Administration

City Light (the Utility) purchases electric energy from the U.S. Department of Energy, Bonneville Power Administration (BPA), under the Block and Slice Power Sales Agreement, a 10-year contract that expires September 30, 2011. The agreement provides power equal to the Utility's annual net requirement, defined as the difference between projected load and firm resources declared to serve that load. The Block product provides fixed amounts of power per month.

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

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

Lucky Peak

In 1984 the Utility entered into a purchase power agreement with four irrigation districts to acquire 100 percent of the net output of a hydroelectric facility constructed in 1988 at the existing Army Corps of Engineers Lucky Peak Dam on the Boise River near Boise, Idaho. The irrigation districts are owners and license holders of the project, and the Federal Energy Regulatory Commission (FERC) license expires in 2030. The agreement, which expires in 2038, obligates the Utility to pay all ownership and operating costs, including debt service, over the term of the contract whether or not the plant is operating or operable. To properly reflect its rights and obligations under this agreement, the Utility includes as an asset and liability the outstanding principal of the project's debt net of the balance in the project's reserve account.

British Columbia-Ross Dam

In 1984 an agreement was reached between the Province of British Columbia and the City of Seattle (City) under which British Columbia will provide the Utility with power equivalent to that which would result by increasing the height of Ross Dam. The agreement was ratified by a treaty between Canada and the United States in the same year. Power delivery began in 1986, and power is to be received for 80 years.

In addition to the direct costs of power under the agreement, the Utility incurred costs of approximately $8.0 million in prior years related to the proposed addition and was obligated to help fund the Skagit Environmental Endowment Commission through four annual $1.0 million payments. These costs have been deferred and are being amortized to purchased power expense over 35 years through 2035.

Power Exchanges

Northern California Power Authority (NCPA) and the Utility executed a long-term Capacity and Energy Exchange Agreement in March 1993. The Utility delivers a total of 90,580 MWh of exchange power to NCPA from June through October 15. NCPA returns a total of 91,584 MWh, or an option of 108,696 MWh under conditions specified in the contract at a 1.2:1 ratio of exchange power, from December through April. The agreement, which includes a financial settlement option, may be terminated in May 2014 with seven years advance written notice by either party. The Utility adopted Statement of Financial Accounting Standards (SFAS) No. 153, *Exchanges of Nonmonetary Assets - an amendment of APB Opinion No. 29*, as of January 1, 2006. The effect of implementation was to increase accounts receivable by $3.7 million, revenues by $2.4 million, and expenses by $0.2 million and to recognize a deferred unrealized gain of $1.5 million.

Estimated Future Payments under Purchase Power and Transmission Contracts

The Utility's estimated payments under its contracts with BPA, the Public Utility Districts (PUDs), irrigation districts, Lucky Peak Project, British Columbia – High Ross Agreement, PacifiCorp Power Marketing Inc. (PPM Energy) and PacifiCorp for wind energy and net integration and exchange services, and for transmission with BPA and others for the period from 2007 through 2065, undiscounted, are shown in the following table.

Table 12-2 **ESTIMATED FUTURE PAYMENTS UNDER PURCHASE POWER CONTRACTS AND TRANSMISSION CONTRACTS**

(In Thousands)

Year Ending December 31	Estimated Payments
2007	$ 281,490
2008	264,223
2009	259,893
2010	261,653
2011	208,577
2012 - 2016 [a]	480,833
2017 - 2021	493,545
2022 - 2026 [b]	290,990
2027 - 2031	38,822
2032 - 2036	31,215
2037 - 2041	13,408
2042 - 2065	3,982
Total	$ 2,628,631

[a] Bonneville Block and Slice contract expires September 30, 2011.

[b] Bonneville transmission contract expires July 31, 2025.

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.

Payments under these long-term power contracts totaled $231.2 million and $238.0 million in 2006 and 2005, respectively. Payments under the transmission agreements amounted to $37.5 million and $32.7 million in 2006 and 2005, respectively.

Skagit and South Fork Tolt Licensing Mitigation and Compliance

In 1995 FERC issued a license for operation of the Skagit hydroelectric facilities through April 30, 2025. On July 20, 1989, the FERC license for operation of the South Fork Tolt hydroelectric facilities through July 19, 2029, became effective. As a condition for both of these licenses, the Utility has taken and will continue to take required mitigating and compliance measures. Total Skagit mitigation costs from the effective date until expiration of the federal operating license were estimated at December 31, 2006, to be $118.6 million, of which $85.2 million was expended; and estimated costs for South Fork Tolt, were $4.8 million, and $1.0 million was expended. Capital improvements, other deferred costs, and operations and maintenance costs are included in the estimates for both licenses.

Application Process for New Boundary License

The Utility's FERC license for the Boundary Project expires on September 30, 2011. The Utility intends to submit an application for a new license by October 2009. Application process costs are estimated at $56.1 million; as of December 31, 2006, $11.1 million was expended and deferred. A new license may require additional mitigation efforts for endangered species, including water quality standards, the full extent of which is not known at this time. Cost projections for new license requirements are not included in the forecast.

Endangered Species

Several fish species that inhabit waters where hydroelectric projects are owned by the Utility or where the Utility purchases power have been listed under the Endangered Species Act (ESA) as threatened or endangered. On the Columbia River system, the National Oceanographic Atmospheric Administration (NOAA) Fisheries has developed a broad species recovery plan for listed salmon and steelhead, including recommendations for upstream and downstream fish passage requirements. As a result, the Utility's power generation at its Boundary Project is reduced in the fall and winter when the region experiences its highest sustained energy demand. The Boundary Project's firm capability is also reduced.

In Puget Sound both bull trout and chinook salmon have been listed as threatened. A draft recovery plan and proposed critical habitat for Puget Sound bull trout was issued by the U.S. Fish and Wildlife Service in July 2004. Final critical habitat has been designated for Puget Sound chinook salmon. A recovery plan for Puget Sound chinook salmon and bull trout, developed by regional stakeholders, was adopted by NOAA Fisheries in January 2007. The U.S. Fish and Wildlife Service has agreed to support this plan. Bull trout are present in the waters of Skagit, Tolt, and Cedar River projects; and chinook salmon are present downstream of these projects. Steelhead, which are also present downstream of these projects, are undergoing a one-year review by NOAA Fisheries for potential listing as a threatened species in Puget Sound. The decision to list steelhead is expected to be finalized by the end of March 2007. While it is unknown how other listings will affect the Utility's hydroelectric projects and operations, the Utility is carrying out an ESA Early Action program in cooperation with agencies, tribes, local governments, and salmon groups that will assist in the recovery of bull trout and chinook salmon on the Skagit and Tolt. The Utility has been participating in the implementation of this plan on both the regional and watershed levels. On the Cedar the Utility's activities are covered by a Habitat Conservation Plan that authorizes operations with regard to all listed species. Hydroelectric projects must also satisfy the requirements of the Clean Water Act in order to obtain a FERC license. Estimated total costs through 2011 at December 31, 2006, for the Endangered Species Act were $9.6 million, of which $5.4 million had been expended.

Project Impact Payments

Effective November 1999 the Utility committed to pay a total of $11.6 million and $7.8 million over ten years ending in 2008 to Pend Oreille County and Whatcom County, respectively, for the impacts on county governments from the operations of the Utility's hydroelectric projects. The payments compensate the counties and certain school districts and towns located in these counties for lost revenues and additional financial burdens associated with the projects. The Boundary Project located on the Pend Oreille River affects Pend Oreille County, and Skagit River hydroelectric projects affect Whatcom County. The combined impact compensation, including an annual inflation factor of 3.1 percent, and retroactive payments totaled $1.2 million to Pend Oreille County in 2006 and 2005, and $0.8 million to Whatcom County in each year.

Streetlight Litigation

In November 2003 the Washington Supreme Court ruled that a 1999 ordinance related to inclusion of streetlight costs in the general rate base for Seattle and Tukwila customers was unlawful. As a result of this decision the Utility resumed billing the City of Seattle for streetlight costs. In May 2004, trial court proceedings resulted in a ruling that the Utility be required to refund the amount collected from ratepayers since December 1999 attributable to streetlight costs. The ruling also provided that the City of Seattle General Fund will have to repay the Utility for the streetlight costs that would have been billed over the same period.

The judgment was entered in October 2004 and required the City of Seattle General Fund to pay approximately $23.9 million to the Utility, an amount representing billings for streetlight services that should have been made to the City from late December 1999 through November 2003. In addition, the judgment required the City's General Fund to pay approximately $222,000 to the Utility for "loss of use" of funds, calculated as a percentage of the difference between the amount that should have been billed to the City and the amount paid by ratepayers for streetlight services. Payments were due on an installment schedule. The Utility received $6.2 million in 2004, an additional $6.2 million in January 2005, and the final $12.9 million in April 2005.

The Utility was to refund to ratepayers in Seattle and Tukwila the amount of streetlight costs billed to them from January 2000 through November 2003. Gross refunds were estimated to be $21.5 million, plus $2.6 million to compensate ratepayers for "loss of use" of funds. $3.3 million of plaintiffs' attorney fees and $0.7 million in administrative costs related to the refunds were deducted from the gross refund amount, leaving $20.0 million to be refunded to ratepayers. In 2005, refunds to current customers totaling $15.7 million were made by providing a credit on their electric utility bills. Currently inactive customers who received one or more billings during the period from January 2000 through November 2003 received refund checks during 2006 totaling $22,000 and totaling $0.4 million in 2005. In December 2006 $3.5 million of remaining funds representing unclaimed streetlight refunds was transferred to operations in accordance with the streetlight judgment.

Also in this partial judgment the City of Seattle's One Percent for Art Ordinance was declared invalid as applied to the Utility. The City appealed this ruling. On December 19, 2005, the Washington Court of Appeals reversed the trial court's ruling that had declared the ordinance invalid as applied to the Utility but affirmed the trial court's ruling that art funded by the Utility must have a "sufficiently close nexus" to the Utility's purpose of providing electricity. Consequently, in 2005 the Utility recorded a reduction of $1.0 million in the One Percent for Art assets to comply with the court's ruling. During 2006 $1.1 million plus interest was received from the City of Seattle General Fund.

In 2006 the State Supreme Court also ruled that certain greenhouse gas offset contracts must be paid for by the City of Seattle General Fund, although the Court is reconsidering that decision.

SEATTLE PUBLIC UTILITIES (SPU)

Water Fund

Habitat Conservation Program Liability

Seattle Public Utilities (SPU) prepared a comprehensive environmental management plan for its Cedar River Watershed. The purpose of the Habitat Conservation Plan (HCP) is to protect all species of concern that may be affected by SPU and City Light in the Cedar River Watershed while allowing the City to continue to provide high quality drinking water to the region. The Federal government has accepted the HCP. The total cost of implementing the HCP is expected to be $83.1 million (in 2006 dollars) over a period of 50 years. Expenses are being funded from a combination of operating revenues and debt. The cost of HCP to SPU is $41.6 million thru 2006. The remaining cost of $41.5 million is comprised of a $14.8 million liability, of which $3.4 million is expected to be spent in 2007, and $26.7 million for construction and operating commitments.

Muckleshoot Liability

The City of Seattle is committed to work with the Muckleshoot Tribe in order to achieve salmon recovery in Cedar River-Lake Washington system. The Tribe's exercise of its treaty rights to hunt and gather in the Cedar River Municipal Watershed, its interest in wildlife management in the Watershed, and its interest in conducting traditional activities are being addressed in an agreement between Muckleshoot Tribe, National Marine Fisheries Service, and the City of Seattle. In 2005 the Water Fund committed $14.0 million to the Muckleshoot Tribe for fishery purposes, $2.5 million for wildlife studies, $0.5 million for habitat improvements, and $1.5 million in lieu of property on the White River and at Yakima Pass. The Water Fund recorded a liability for $18.0 million in 2005 and increased the liability by $0.5 million in 2006 due to an increase in expected costs to acquire Yakima Pass land. The costs of $3.0 million for wildlife studies and habitat improvements were deferred and amortized over a 10-year period. The remainder of costs was capitalized in 2006 as land rights.

In 2006 the Water Fund paid $17.0 million to the Muckleshoot Tribe. The remaining $1.5 million liability was held for the purchase of the White River and Yakima Pass properties to be transferred to the Tribe after acquisition, or for payment to the Tribe in lieu of property transfers.

Distribution System Reservoirs

The Water Fund is required by the Washington State Department of Health (WDOH) to complete a program to cover its open, above-ground distribution system reservoirs by the year 2020. The total cost of burying five reservoirs is expected to be $132.0 million through the year 2012, and the cost beyond 2012 is not estimable at the time of this footnote. The total cost incurred as of December 31, 2006, is $19.1 million. Seattle Public Utilities is authorized a loan of $8.0 million from WDOH to fulfill its obligation to improve the security of the drinking water system. As of December 31, 2006, the loan from WDOH has not been executed.

Drainage and Wastewater Fund

Duwamish Site

The U.S. Environmental Protection Agency (EPA) has indicated that it will require the clean-up and remediation of certain Duwamish sites under its "Superfund" authority. No specific requirements for remediation by potentially liable parties (PLP) have been made by EPA at the time of this note, except related to specific "early action sites" which are or have been under administrative orders on consent. In order to manage the liability the City of Seattle is working with EPA and other PLPs on a Remedial Investigation (RI) and Feasibility Study (FS) to evaluate the risk to human health and the environment within the six mile superfund area, identify the possible early action clean-up sites, and generally evaluate the feasibility of clean-up options for use in the ultimate remedial actions that EPA will require. Prior to the issuance of an EPA ruling on Duwamish River-wide liability, SPU, together with other PLPs, has voluntarily agreed to initiate clean-up of certain early action sites identified during the RI under EPA-issued administrative orders on consent. The EPA is expected to provide a ruling on river-wide liability in 2008 or early 2009. The reserve includes SPU's share of the early-action site study, clean-up expense at two sites, and SPU's estimated expense for completing the RI and FS.

East Waterway Site

In 2006 the EPA issued an Administrative Order on Consent (AOC) for a Supplemental RI and FS for the East Waterway, an operable unit of the Harbor Island Superfund Site. Subsequent to an agreement between EPA, the Port of Seattle (Port), King County and the City of Seattle (City), the Port signed the order. Both the City and King County signed a memorandum of agreement with the Port to participate as cost-share partners in the work required by EPA. That work is expected to be completed in 2008 or 2009. The reserve includes SPU's share of the estimated expense for completing the RI and FS. No specific requirements for remediation by PLPs have been made by EPA at the time of this note.

Gas Works Park Sediment Site

The Department of Ecology (DOE) named the City and Puget Sound Energy as PLPs in April 2002 for contamination at the Gas Works Sediment Site in North Lake Union. The City and Puget Sound Energy signed an agreed order with the DOE in 2005 to initiate two RIs and FSs for the sediment site – one in the western portion of the site led by the City, and another in the eastern portion of the site led by Puget Sound Energy. The City, with SPU as lead, is now working to complete the RI and FS for the western portion of the site for submittal to the DOE. The RI and FS include an evaluation of the nature and extent of contamination on the site, an assessment of ecological and human health risks resulting from the contamination, an evaluation of multiple alternatives for remediating the sediments, and a recommended preferred alternative. The reserve includes estimated costs for the completion of the RI and FS.

Wastewater Disposal Agreement

SPU has a wastewater disposal agreement with the King County Department of Natural Resources Wastewater Treatment Division expiring in 2036. The monthly wastewater disposal charge paid to the Division is based on the Division's budgeted cost for providing the service. The charges are determined by water consumption and the number of single-family residences as reported by SPU and other component agencies. The 2006 and 2005 payments to the Division were approximately $89.4 million and $89.6 million, respectively.

Solid Waste Fund

Contractual Obligations

The City contracts with private companies for the collection of residential garbage, yard waste, and recycling. The contracts include certain additional costs related to bulky items collection and backyard service. Residential collection contracts with two private companies were implemented in April 2000. The contracts were scheduled to end on March 31, 2007. In 2006 the City extended the contracts until March 31, 2008, and retains the option to further extend the contracts until March 31, 2009. Total payments under the current contracts during 2006 and 2005 were $23.6 million and $22.6 million, respectively.

In 1990 the City signed a 38-year contract with Washington Waste Systems (WWS) for the disposal of nonrecyclable City waste, including the City's commercial waste collected by two state-franchised haulers. In 1996 and again in 2001 the City renegotiated this contract to extend the first date at which it can choose to unilaterally terminate the contract from March 31, 2000, to March 31, 2009. In exchange, WWS agreed to change the contract prices from $44.87 per ton in 1996 to $41.57 per ton beginning April 1, 1997, and $43.73 per ton beginning April 1, 2002. In addition, WWS agreed to reduce the price escalator in the contract from 90 percent of the Seattle-Tacoma CPI to 80 percent, effective April 1, 1998, and to 70 percent of CPI beginning April 1, 2003. WWS also agreed to further reduce the CPI-adjusted tonnage rate by $1.50 per ton for rates effective April 1, 2003, 2005, and 2007. The Utility paid WWS $19.0 million in 2006 and $18.8 million in 2005 under this contract.

For several years the City negotiated with the state-franchised haulers that have collected commercial waste in the City to bring them under contract with the City. The negotiations were successful and as of April 1, 2001, commercial garbage is collected under these new contracts. Payments under these contracts totaled approximately $15.7 million and $15.3 million in 2006 and 2005, respectively. The contracts will expire on March 31, 2008, but the City retains an option to extend them to March 31, 2009, or March 31, 2010. As part of these commercial collection contracts, the City also negotiated a long-term yard waste processing contract with Cedar Grove Composting, Inc., and changes to the disposal contract. The first opt-out date on the disposal contract was pushed out from March 31, 2006, to March 31, 2009, for price reductions of $1.50 per ton in 2003, an additional $1.50 per ton in 2005, and a final $1.50 per ton in 2007. Under this contract the Utility paid $1.7 million and $1.4 million in 2006 and 2005, respectively.

South Park

The Washington State Department of Ecology (DOE) indicated that it will require the clean-up and remediation of the historic South Park landfill sites under the State Model Toxics Control Act. No specific requirements for remediation by PLPs have been made by DOE at the time of this note. In order to manage the liability the City is working with DOE and other PLPs on a RI and FS to evaluate the risk to human health and the environment and to assess the feasibility of clean-up options for use in the ultimate remedial actions that DOE will require. The Solid Waste Fund accrued approximately $0.7 million for the expected cost of RI/FS as of December 31, 2006. This amount is also reflected as deferred costs and will be amortized as the costs are recovered from ratepayers.

Landfill Closure and Postclosure Care

At December 31, 2006 and 2005, accrued landfill and postclosure costs consisted primarily of monitoring, maintenance, and repair costs. It is the City Council's policy to include the Fund's share of all landfill closure and postclosure costs in the revenue requirements used to set future solid waste rates. Therefore, total estimated landfill closure and postclosure care costs are accrued and also reflected as deferred costs in the accompanying financial statements. These costs are being amortized as they are recovered from ratepayers. Actual costs for closure and postclosure care may be higher due to inflation, changes in technology, or changes in regulations. Such amounts would be added to the liability and deferred costs when identified.

In prior years SPU delivered its refuse to two leased disposal sites: Midway and Kent-Highlands landfills. Subsequent to signing the original lease agreement, federal and state requirements for closure of landfill sites were enacted. The Solid Waste Fund stopped disposing of municipal waste at the Midway site in 1983 and at the Kent-Highlands site in 1986.

Subsequent to their closings both Kent-Highlands and Midway landfills were declared Superfund sites by the federal government. In the same time period nearby landowners, residents, and the federal and state governments made various claims of damages related to these landfills and sought various forms of relief. These claims have been settled, and the City does not anticipate further actions related to the Kent-Highlands and Midway landfills. Any future changes in the accrued landfill liability will be reflected in Solid Waste Fund rates.

In 1996 the City filed suit against various parties that disposed of waste at the Kent-Highlands landfill. In its suit the City asserted that these parties (according to the Comprehensive Environmental Response, Compensation and Liability Act) were liable for a portion of the cost of closing the Kent-Highlands landfill. The City completed settlement with the defendants in this suit in December 1997 and has recovered approximately $2.2 million. The City settled a similar suit relating to the Midway landfill in 1994 and has since recovered $6.4 million. The City does not anticipate any further legal actions relating to either landfill.

(13) CONTINGENCIES

The City is exposed to the risk of loss from torts, theft of or damage to assets, business interruption, errors or omissions, law enforcement actions, contractual actions, natural disasters, failure to supply utilities, environmental regulations, and other third-party liabilities. The City also bears the risk of loss for job-related illnesses and injuries to employees. The City has been self-insured for most of its general liability risks prior to January 1, 1999, for workers' compensation since 1972, and for employees' health care benefits starting in 2000.

Since January 1, 1999, the City obtained excess general liability insurance coverage for occurrences on or after said date which covers losses over $2.5 million per occurrence self-insured retention and includes a $25.0 million limit per occurrence and in the aggregate. Starting February 1, 2002, the City's excess general liability insurance covers losses over $5.0 million per occurrence self-insured retention, with a $25.0 million limit per occurrence and in the aggregate.

Since 2005 the City has purchased an excess liability insurance policy to address general, automobile, professional, public official, and other exposures. The policy has limits of $25 million above a $5 million self-insured retention for each occurrence. The City also purchased an all-risk property insurance policy that provides $500 million in limits above a $0.5 million deductible (for most buildings) with $100 million in earthquake and flood limits and $100 million in terrorism limits, with boiler and machinery, building risk, and electronic data processing coverage endorsements. Hydroelectric and other utility producing/processing projects owned by the City are not covered by the property policy. Insurance is also in place for excess workers' compensation, fiduciary and crime liability, contractors' equipment, transportation, inland marine, fine arts, volunteers, and an assortment of commercial general liability, medical, accidental death and dismemberment, and miscellaneous policies. Bonds are purchased for public officials, notary public, pension exposures, and specific projects and activities as necessary.

The City did not purchase any annuity contracts in 2006 to resolve litigation. No structured settlements were entered into by the City in 2006. No large liability settlements were received from an insurer in 2006 or 2005; and no settlements made in 2006, 2005, or 2004 were in excess of insurance coverage.

Claims liabilities are based on the estimated ultimate cost of settling claims, which include case reserve estimates and incurred but not reported (IBNR) claims. Liabilities for lawsuits and other claims are assessed and projected annually using historical claims, lawsuit data, and current reserves. The Personnel Department estimates case reserves for workers' compensation using statistical techniques and historical experience. The ultimate cost of settling claims was estimated for lawsuits, workers' compensation, and other claims based on independent actuarial studies performed in 2005 on data as of year-end 2004, and for health care as of year-end 2006. An actuary study on data as of December 31, 2006 will be performed in 2007. IBNR undiscounted totaled $3.3 million and $10.4 million at December 31, 2006 and 2005, respectively. The $7.1 million reduction in the IBNR amount in 2006 compared to 2005 was mainly due to the lower estimates of liabilities by $10.3 million and offset by a decrease of $5.8 million in claims liability reserves. Changes in the reserves and liability estimates for workers' compensation claims accounted for the remaining $2.6 million change in IBNR.

Estimated claims expenditures are budgeted by the individual governmental and proprietary funds. Actual workers' compensation claims are processed by the General Fund and reimbursed by the funds that incurred them. Operating funds pay health care premiums to the General Fund, and the latter pays for all actual health care costs. The General Fund originally pays for lawsuits, claims, and related expenses then receives reimbursements from City Light, Water, Drainage and Wastewater, Solid Waste, Engineering Services, and the retirement funds for payments and expenses incurred by these funds.

Claims liabilities include claim adjustment expenditures if specific and incremental to a claim. Recoveries from unsettled claims, such as salvage or subrogation, and on settled claims are deposited in the General Fund and do not affect reserves for general government. Workers' compensation subrogation recoveries remained stable at $0.5 million in 2006 and 2005. All workers' compensation recoveries are deposited into the General Fund. Lawsuit and other claim recoveries of payments reimbursed by the utilities are deposited into the paying utility fund and do not affect the utility reserves.

Claim liabilities recorded in the financial statements are discounted at 3.966 percent for 2006 and 2.848 percent for 2005, the City's average annual rates of return on investments. The total discounted liability at December 31, 2006, was $78.7 million consisting of $47.3 million for general liability, $9.4 million for health care, and $22.0 million for workers' compensation.

RISK MANAGEMENT

Table 13-1 **RECONCILIATION OF CHANGES IN AGGREGATE LIABILITIES FOR CLAIMS**

(In Thousands)

	General Liability		Health Care		Workers' Compensation		Total City	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**
UNDISCOUNTED								
Balance - Beginning of Fiscal Year	$ 63,853	$ 76,309	$ 9,534	$ 8,621	$ 25,396	$ 25,624	$ 98,783	$ 110,554
Less Payments and Expenses During the Year	(27,748)	(10,778)	(101,180)	(89,393)	(12,377)	(11,238)	(141,305)	(111,409)
Plus Claims and Changes in Estimates	17,431	(1,678)	101,370	90,306	12,178	11,010	130,979	99,638
Balance - End of Fiscal Year	$ 53,536	$ 63,853	$ 9,724	$ 9,534	$ 25,197	$ 25,396	$ 88,457	$ 98,783
UNDISCOUNTED BALANCE AT END OF FISCAL YEAR CONSISTS OF								
Governmental Activities	$ 38,078	$ 46,563	$ 9,724	$ 9,534	$ 18,552	$ 18,706	$ 66,354	$ 74,803
Business-Type Activities	15,457	17,289	-	-	6,644	6,689	22,101	23,978
Fiduciary Activities	1	1	-	-	1	1	2	2
Balance - End of Fiscal Year	$ 53,536	$ 63,853	$ 9,724	$ 9,534	$ 25,197	$ 25,396	$ 88,457	$ 98,783
DISCOUNTED/RECORDED BALANCE AT END OF FISCAL YEAR CONSISTS OF								
Governmental Activities	$ 33,676	$ 42,573	$ 9,353	$ 9,270	$ 16,123	$ 16,964	$ 59,152	$ 68,807
Business-Type Activities	13,670	15,808		-	5,923	6,069	19,593	21,877
Fiduciary Activities	1	1		-	-	-	1	1
Balance - End of Fiscal Year	$ 47,347	$ 58,382	$ 9,353	$ 9,270	$ 22,046	$ 23,033	$ 78,746	$ 90,685

ENVIRONMENTAL

The sites named below are in various stages of the federal "Superfund" cleanup process under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), 42 U.S.C. § 9601 et seq. or the parallel process under the state Model Toxics Control Act (MTCA), Chapter 70.105D RCW. In general, the total costs of cleanup and of claims for payment of government response costs are difficult to estimate accurately, as is the City's ultimate share of responsibility.

- Harbor Island Superfund Site. City Light, SPU, and other entities will share in the costs of further investigation of contamination in the East Waterway alongside Harbor Island. City Light's involvement stems from its sale of transformers to a company on Harbor Island. The Port of Seattle will perform the investigative work. The next phase is estimated to cost $4.0 million to $6.0 million, which will be shared by four parties, including City Light. City Light's ultimate liability is indeterminate.

  SPU's involvement stems from discharges from storm drains and combined sewer overflows. The Port of Seattle will perform the investigative work. The next phase of the work is estimated to cost $4.0 million to $6.0 million. SPU's ultimate liability is indeterminate.

- Lower Duwamish Waterway Superfund Site. The Lower Duwamish Waterway was listed as a federal Superfund site in 2001 for contaminated sediments. In 2000 the City and three other parties entered into an administrative order on consent with the Environmental Protection Agency (EPA) and the Department of Ecology (Ecology) to conduct a remedial investigation/feasibility study regarding sediments in the Waterway. The four parties share costs equally on an interim basis subject to an eventual allocation proceeding that is likely to include additional potentially responsible parties.

  City Light is considered a potentially responsible party due to land ownership or use of property located along the river or possible releases from City Light facilities or equipment. City Light is currently sharing costs of the remedial investigation and feasibility study with Seattle Public Utilities (SPU). City Light is also sharing costs of investigation and cleanup at two early action areas within the Lower Duwamish Superfund Site. The City has filed suit in King County Superior Court against the former owner/operators at one of these sites, known as Terminal 117. The preliminary estimate of costs for completion of the cleanup at that site is $20.0 million. Estimated cleanup costs at the other early action area, known as Slip 4 is $8.0 million. Ecology has notified the City that it will be issuing an order requiring investigation of contamination at the North Boeing Field/Georgetown Steam Plant site, which is adjacent to Slip 4. It is too early to estimate costs but they are expected to be at least several million dollars. Costs at each site will be allocated among several liable parties. City Light's ultimate liability is indeterminate.

  SPU is considered a potentially responsible party for contaminated sediments in the Duwamish River due to discharges from storm drains and combined sewer overflows into the river. The City (both SPU and City Light contribute to the City's share) is currently sharing costs of the remedial investigation and feasibility study with three other parties, subject to later reallocation. SPU is also sharing costs of investigation and cleanup at two early action areas within the Lower Duwamish Superfund Site. SPU's ultimate liability is indeterminate.

- Boeing West Substation. The Boeing Company alleges that City Light is responsible for PCB contamination found in soil adjacent to a City Light substation at Boeing Plant 2 and also for PCB contamination in Duwamish waterway sediments adjacent to Boeing Plant 2. Boeing has asked City Light to pay $1.9 million for investigation and cleanup of the soil contamination. Costs related to the sediments would be additional. After extensive investigation City Light informed Boeing in April 2006 that it does not believe its equipment was the source of the contamination and is not, therefore, planning to contribute toward the costs of the soil or the sediment investigation and cleanup. City Light's ultimate liability at these locations, if any, is indeterminate.

- Gas Works Park Sediments. SPU is the lead for the City's share of investigatory work regarding contaminated sediments in Lake Union adjacent to Gas Works Park. The City and Puget Sound Energy have divided responsibility for the investigatory work, and both have signed an administrative order issued by Ecology. The City's liability for the costs of undertaking the remedial investigation and feasibility study is significant. The City's liability, if any, for design and construction of remedial actions to clean up contaminated sediments is indeterminate.

  In 1999 the City and Puget Sound Energy (PSE) entered into a consent decree with Ecology to perform a cleanup of the Park under MTCA. In 2000 the City and PSE reached a final settlement to allocate cleanup costs at the Park. City liability, if any, for contamination of the sediments adjacent to the Park was not resolved in this settlement. Ecology issued the City a potentially liable party (PLP) notice for sediment contamination in the waters adjacent to Gas Works Park in 2002 and the City has signed an administrative order on consent to perform further investigation. The City's liability, if any, is indeterminate.

- Storage Tanks. SPU anticipates future environmental cleanup costs related to lead-based paint and arsenic contamination surrounding several standing water tanks, as well as expected remediation efforts associated with underground fuel tank replacements. SPU's liability relating to City property remediation and to possible private claimants is indeterminate.

- South Park Landfill. Ecology has named the City a PLP for investigation and cleanup of the former South Park Landfill due to historic ownership and operation of a garbage dump on part of the site. SPU will be sharing costs with other parties on an interim basis, subject to later reallocation. SPU's ultimate liability is indeterminate.

- Kent Highlands Landfill. The Kent Highlands landfill is a closed Seattle municipal landfill that was designated as a federal Superfund site in 1990. Ecology administers the site under MTCA pursuant to an agreement with the EPA. The site is still on the Superfund list but was designated "construction complete" in 1995. In September of 2003 Ecology issued a final report for the second five-year review for the landfill, which concluded that additional remedial investigation and possibly remedial actions may be necessary at the landfill. The City disputed many of the conclusions in the review. The City has been addressing issues raised by Ecology by undertaking some additional remedial actions. The cost of additional remedial actions and any remaining liability is unlikely to be material.

OTHER MATTERS

- City Light Franchise Litigation. In July 2005 a class action lawsuit was filed against the City and five suburban cities that have franchise agreements with City Light for the provision of retail electric service. In each franchise City Light agreed to make a payment in exchange for the suburban city's agreement not to establish its own municipal electric utility. The plaintiffs claimed that these payments were illegal "franchise fees" under RCW 35.21.860(1). The trial court dismissed the plaintiffs' claims, and the State Supreme Court has heard oral argument. If the trial court's ruling is reversed and the payments are found to be illegal, it is possible that the suburban cities may be required to refund these payments to City Light. In such event the suburban cities would have the right to terminate the franchise upon 180 days' written notice. Due to the uncertainty of the litigation, the impact on City Light is uncertain.

- City Light Energy Crisis Litigation. The City is involved in various legal proceedings relating to the enormous price spikes in energy costs in California and the rest of the West Coast in 2000 and 2001.

  California Refund Case, Appeals and Related Litigation. In the proceeding before the Federal Energy Regulatory Commission (FERC) various public and private California entities sought refunds in markets that had been created by the State of California. City Light had sold energy in one of these markets. The City faced potential liability of approximately $6.5 million, subject to offsets. In 2001, FERC ordered refunds to the extent that actual energy prices exceeded rates that FERC determined to be "just and reasonable." On appeal the Court of Appeals for the Ninth Circuit held that FERC has no authority to order governmental entities such as the City to pay refunds. Following this ruling the three major California investor-owned utilities sought refunds from City Light and other governmental entities in federal district court on a breach of contract theory. In March 2007 the court dismissed all claims on procedural grounds. The investor-owned utilities have appealed the dismissal and also have filed a lawsuit in state court in California against the same governmental entities and on the same theory as in the federal action. It is impossible to predict whether a material adverse outcome will occur.

  Pacific Northwest Refund Case and Appeal. In the proceeding before FERC, various sellers of energy, including the City, sought refunds on energy sales in the Pacific Northwest between May 2000 and June 2001. City Light's claims currently are in excess of $100.0 million. In 2003 FERC declined to grant refunds on the grounds that there was no equitable way to do so. The City and other parties appealed to the Ninth Circuit. Oral argument has been heard, but there has been no decision. It is impossible to predict whether a material adverse outcome will occur.

- Joint Training Facility. In May 2005 the Army Corps of Engineers issued a stop work order to the Fleets and Facilities Department regarding construction of the City's Joint Training Facility. The Corps contended that the City had violated the Federal Clean Water Act by filling a wetland without a permit. In 2006 the City and the Corps finalized a settlement agreement that requires the City to perform mitigation on the Joint Training Facility site and also on a site adjacent to the Duwamish River. The ultimate cost may be a material adverse amount.

- Temporary Employees. The plaintiff class, comprised of over 3,000 current and former City temporary employees who worked over 916 hours in one year or over six months in a vacant regular position, alleged that the City failed to comply with an earlier settlement agreement in regularly reevaluating whether those temporary workers were doing work that should be done by regular employees. They also alleged the City mislabeled temporary employees and consequently denied them benefits and pay that they would be entitled to as regular employees under City ordinance and state law. In March 2006 the trial court approved a settlement for $11.5 million inclusive of costs and fees. The City distributed the settlement amounts to individual class members in various City departments and their attorneys in April and October of 2006. No further material liability is likely. In 2005 the City made claims on its excess liability insurance carriers for the losses it has incurred. The City settled its claims against its excess liability carriers for $5.3 million in April 2007.

- World Trade Organization (WTO) Conference. The WTO Conference was held in Seattle in 1999. This event spawned 407 claims and 26 lawsuits against the City. All but two lawsuits have been resolved for an aggregate nonmaterial amount. The two remaining lawsuits were consolidated on an issue common to both cases: plaintiff's challenge to the declaration of an emergency and the emergency order creating a limited access area. The Ninth Circuit affirmed the District Court's dismissal of the facial challenges to the relevant orders but reversed and remanded for trial on the plaintiffs' "as applied" claims regarding some police enforcement activity. In a separate ruling the Ninth Circuit Court also reversed the trial court's denial of class certification in one of the cases and remanded for further proceedings on that issue. The plaintiffs are attempting to certify a class of 200 individuals who were arrested. The likelihood of material adverse outcome in either matter cannot be predicted. The Court has certified a class of approximately 175 persons in the other case. A liability trial concluding in February 2007 resulted in a liability finding against the City. The City's insurer has reached a settlement of this matter for $1.0 million, all of which will be paid by the company with no City contribution.

- State Route 519 Improvements. Part of these improvements included the movement of a Burlington Northern Santa Fe Railroad (BNSF) spur track. The City and BNSF entered into a contract regarding the movement of the spur track. In part, the contract provided that BNSF would move its spur track upon the City's construction contractor providing BNSF with the contractually specified notice. Even though BNSF was given the required notice, BNSF failed to move the spur track. As a result, the City has paid material sums of money for an improvement that is not usable unless the spur rack is moved, and the City's construction contractor has suffered significant delay damages. BNSF has raised several defenses to its failure to move the spur track. The City has not made a formal demand upon BNSF for damages. The likelihood of a material recovery on any claims that may be made against BNSF cannot be predicted.

- Parking Meters. Plaintiffs allege that the City unlawfully requires payment at parking meters on "legal holidays" and has unlawfully ticketed violators. The complaint, which was not served until early 2006, contains class action allegations. This complaint has been dismissed but a new complaint alleging substantially identical claims against the City has been filed. It is impossible to predict whether a material adverse outcome will occur.

- Parking Citations. In two separate cases plaintiffs made individual and class allegations that the Seattle Police Department has improperly issued parking citations and that Seattle Municipal Court has improperly processed parking citations. One case was dismissed on summary judgment in May 2005. The other case is stayed pending appellate review in the first case. The Washington Supreme Court affirmed the dismissal of the first case in late 2006, and dismissal of the second case is expected. It is impossible to predict whether a material adverse outcome will occur.

- Impounding of Vehicles. A class action was filed in June 2003 regarding the legality of the City policy and practice of nondiscretionary impounding of vehicles of persons driving with suspended licenses. The class was decertified, and the City subsequently settled the case for $1.3 million plus attorneys' fees not to exceed $325,000, with the City possessing a reversionary interest in funds not claimed by plaintiffs. Any remaining City liability for individual claims is expected to be immaterial.

- Business Tax Refunds. Four cases involving potential tax refunds were filed as follows. (1) A telecommunications company filed a case with the City of Seattle Hearing Examiner in December 2005 challenging approximately $4.0 million to $5.0 million in utility taxes and interest it paid covering the period from January 1997 through March 2005. It is not possible to predict the likelihood of a material adverse outcome. (2) Another company alleges that the City's telecommunications utility tax should not apply to that portion of its gross receipts that it devotes to paying that utility tax. The City prevailed at the trial court and at the court of appeals. The Washington Supreme Court has denied discretionary review. This case initially posed a likelihood of a material adverse outcome but resolved in the City's favor. (3) A company is appealing an assessment of the City's business and occupation tax for its wholesale sales to dealers located in Seattle. The assessment totals $1.4 million, $0.4 million of which has been recorded as deferred revenue. If the company were to prevail, the assessments plus interest may have to be refunded. In April 2007 the Washington Supreme Court affirmed the trial court's decision and ruled in favor of the City. It is possible that the company will seek review of the case by the U.S. Supreme Court. Due to the small number of cases accepted for review by the U.S. Supreme Court, the likelihood of a material adverse outcome is low. (4) This is an appeal of an assessment of the City's telephone utility tax against cable modem providers. The court ruled in favor of the taxpayer and entered judgment against the City for approximately $2.2 million in December 2005. The City paid the judgment in 2005, and the City appealed the adverse ruling. The court of appeals reversed the trial court and ruled in favor of the City in December 2006. A cable company has petitioned the Washington Supreme Court for review of the court of appeals' decision. It is not possible to predict whether the City will ultimately prevail and recover the taxes.

- Costs Charges to Ratepayers. The class action plaintiffs alleged that various costs were improperly paid by SPU water ratepayers in Seattle and the suburbs.

  The plaintiffs sought refunds of the costs of fire hydrant service (estimated at $4 million per year, approximately ninety percent of which is attributable to Seattle). In August 2006 the trial court found that these costs had been improperly charged to SPU water ratepayers in Seattle and the suburbs for calendar years 2002 through 2004 and ordered refunds. Under the order Seattle's General Fund would reimburse SPU for refunds to Seattle customers. In 2007 the trial court found that the suburban entities, the cities of Shoreline, Burien and Lake Forest Park, and King County, were liable for the cost of hydrants in their respective jurisdictions. However, the court also found that SPU's franchise agreements with Shoreline and King County indemnified them for hydrant costs. Lake Forest Park has appealed the underlying 2006 ruling that the cost of hydrants is a General Fund expense. The likelihood of an adverse material outcome cannot be predicted.

  Also in 2006 the City and plaintiffs reached a settlement regarding certain payments by Seattle ratepayers for art, based on the decision of the court of appeals in a case involving the City's electric utility. The Seattle General Fund has already reimbursed SPU for these payments. In addition, the plaintiffs sought attorney's fees for allegedly causing

Seattle to change an ordinance governing relocation expenses incurred by City Light because of Sound Transit's construction of its light rail line. The court of appeals recently affirmed the trial court's award of $0.3 million but remanded for the trial court to explain why it had relied on a lower benchmark for fees than in similar class actions. The case is pending and its outcome is unknown.

- False Alarm Fees. An alarm monitoring company claims that the City's fee for each false alarm that is sent from a monitored burglar alarm is an impermissible "tax." The City has counterclaimed seeking more than $1.2 million in false alarm fees that the company has refused to pay. In aggregate, the City collected from all alarm monitoring companies over $1.2 million in such fees in 2004 and 2005 combined. If the company were to prevail in the instant lawsuit, the City might be subjected to claims for refunds of those amounts. The case was filed in late December 2005. The company's motion for partial summary judgment that the City's fee is unconstitutional was denied by the trail court, and review was denied by the court of appeals. Trial is set for October 2007. It is not possible to determine at this time whether a material adverse outcome or recovery will result.

- Cedar River Sockeye Hatchery. A lawsuit was filed alleging that the National Marine Fisheries Service erred in issuing an incidental take permit to the City for SPU's planned construction and operation of a sockeye hatchery based on the Cedar River Habitat Conservation Plan. The City intervened as a defendant. It is impossible to predict whether a material adverse outcome will result. If the lawsuit results in SPU being unable to construct the hatchery, then, under a settlement of another lawsuit with the Muckleshoot Tribe, SPU would owe the Tribe up to $14.0 million.

- Fremont Bridge Approach Replacement Project. In 2006 the project contractor filed on behalf of one of its contractors a claim in excess of $0.7 million alleging that the City had provided an ambiguous specification related to the new direct motor drives that will be used to open and close the bridge span. The contractor on this project has given the City notice that it intends to file a claim for an amount in excess of $0.7 million related to a claim that there was an error in the specifications related to direct motor drives. The City has denied that the claim has merit. It is impossible to predict whether a material adverse outcome will occur.

- Damaged Transformer. In 2006 the City sued a transport company for losses the City incurred in 2003 when the company damaged a new City Light transformer while moving it to its permanent location. The City paid a material amount to repair the damaged transformer. The likelihood of a material recovery in this lawsuit cannot be predicted.

- City Light Expense Litigation. This multi-phased litigation arose out of various challenges to the funding for selected City programs from City Light funds rather than general funds. What remains outstanding is the award of $1.0 million in attorney's fees for allegedly causing Seattle to change an ordinance governing relocation expenses incurred by City Light because of Sound Transit's construction of its light rail line. The court of appeals recently affirmed the award of attorney's fees but remanded for the trial court to explain why it had relied on a lower benchmark for fees than in similar class actions. The case is pending and its outcome is unknown.

  In 2006 in another phase of the case the Supreme Court ruled that the City's General Fund, rather than City Light, must pay for certain greenhouse gas offset contracts. The Supreme Court accepted reconsideration of its decision; it is presently unknown whether the liability will become material.

There may be other litigation or claims involving alleged substantial sums of money owing; however, the prospect of material adverse outcomes therein is remote. Other than the aforementioned cases and the claim liabilities recorded in the financial statements, there were and are no outstanding material judgments against the City.

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (HUD) SECTION 108 LOAN PROGRAM

The City of Seattle participates in the HUD Section 108 loan program. In the Section 108 program HUD obtains funds from private investors at a very low cost (i.e., low interest rate). Low-cost funds are available because HUD guarantees repayment to the private investors. HUD, in turn, provides the low-cost funds to jurisdictions nationwide including the City of Seattle. The City re-lends the funds to private borrowers. HUD deposits the funds directly with the City's loan servicing agent, JP Morgan Chase. JP Morgan Chase disburses funds on behalf of the City to the private borrowers.

The Brownfields Economic Development Initiative Grant (BEDI) program is a federal grant that is directly linked to the Section 108 loan program. The City uses BEDI grant funds as a loan loss reserve and interest subsidy on Section 108 loans. The U.S. Treasury deposits the grant funds with the City. The City then disburses the grant funds to its loan servicing agent, JP Morgan Chase.

Pursuant to RCW 35.21.735 the City is expressly authorized to participate in the Section 108 loan program. The state statute and the City's contracts/agreements with HUD clarify that the City never pledges its full faith and credit. Future block grant funds are pledged to HUD in the event of borrower default. Each loan is secured by a deed of trust and/or bank-issued letter of credit that provides the City with security in the event of borrower default. Additionally, the BEDI grant funds may be used by the City to protect against loan default.

On December 31, 2006, six accounts remained outstanding with a combined total amount of $12.3 million. BEDI grant funds amounting to $1.1 million are being held as loan loss reserves for four of the six accounts.

GUARANTEES OF THE INDEBTEDNESS OF OTHERS

The City has contingent liability for the following bonds issued by public development authorities chartered by the City which are not component units of the City:

Museum Development Authority

Special obligation bonds issued on November 16, 2005, in the amount of $60,720,000, which was outstanding at December 31, 2006. The bonds will be fully retired by April 1, 2031.

Pike Place Market Preservation and Development Authority

Special obligation deferred-interest refunding bonds issued on March 7, 1991, in the amount of $1,376,671, of which $866,634 was outstanding at December 31, 2006. The bonds will be fully retired by November 1, 2011.

Special obligation refunding bonds issued on November 1, 1996, in the amount of $6,210,000 to refund Series 1991A. The outstanding amount at December 31, 2006, was $5,090,000. The bonds will be fully retired by December 1, 2021.

Special obligation refunding bonds issued on March 28, 2002, in the amount of $5,925,000, of which $4,835,000 was outstanding on December 31, 2006. The bonds will be fully retired on November 1, 2017.

Seattle Chinatown-International District Preservation and Development Authority

Special obligation refunding bonds issued on September 15, 1996, in the amount of $9,000,000. The outstanding amount at December 31, 2006, was $7,555,000. The bonds will be fully retired by August 1, 2026.

Special obligation bonds, Series A, issued on December 12, 2002, in the amount of $7,700,000. The outstanding amount at December 31, 2006, was $2,960,000. The bonds will be fully retired by October 1, 2032.

Special obligation bonds, Series B, issued on December 12, 2002, in the amount of $2,790,000. The outstanding amount at December 31, 2006, was $2,680,000. The bonds will be fully retired by October 1, 2032.

Seattle Indian Services Commission

Special obligation refunding bonds issued on March 28, 2002, in the amount of $3,710,000, of which $3,180,000 was outstanding on December 31, 2006. The bonds will be fully retired on November 1, 2017.

Special obligation revenue refunding bonds issued on November 1, 2004, in the amount of $5,210,000, all of which was outstanding as of December 31, 2006. The bonds will be fully retired on November 1, 2024.

(14) RECLASSIFICATIONS, RESTATEMENTS, PRIOR-PERIOD ADJUSTMENTS, AND CHANGES IN ACCOUNTING PRINCIPLES

In the government-wide financial statements under governmental activities, prior-period adjustments were made to increase assets by $5.4 million due to the following: (1) capitalization of $3.0 million in work in process related to the Northgate Library and emergency power supply in various fire stations; (2) capitalization of $2.3 million in equipment purchases related to Urban Area Security Initiative (UASI) grants; (3) capitalization of $1.2 million in artwork installed in various library buildings; (4) adjustment of $1.0 million to reduce the cost of artwork erroneously recorded as a building cost; and (5) adjustment of $0.1 million to reduce the cost of artwork erroneously recorded as building improvement costs.

As a result of the above-mentioned prior period adjustments, the Statement of Activities' net revenue (expense) and change in net assets increased by $4.7 million (public safety, $1.9 million, and culture and recreation, $2.8 million). The remaining

$0.7 million represents adjustments to 2004 net assets. A functional reclassification of $20.0 million in revenues did not affect the 2005 net revenue (expense) and change in net assets.

In the Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities, capitalized expenditures of $4.7 million related to the prior period discussed above increased the change in net assets.

Reclassifications were made as follows: (1) Grants that were previously identified as pass-through grants in 2005 amounting to $23.5 million were reclassified as regular operating grants which resulted in an increase in operating grant revenue and a corresponding increase in health and human services expenditures; (2) Expenses related to the Education and Development Service Levy of $3.6 million erroneously recorded in economic development were reclassified as health and human services.

(15) SUBSEQUENT EVENTS

Bond Defeasance. On April 4, 2007, the City defeased $2.7 million of certain portions of the McCaw Hall - Long component of the 2003 Limited Tax General Obligation (LTGO) bonds. The City placed $2.9 million in an irrevocable trust to provide for future debt service payments on the defeased bonds and cost of the defeasance.

Bond Issue. On May 2, 2007, the City issued the $95.6 million LTGO Improvement and Refunding, 2007, bonds and the $60.9 million Unlimited Tax General Obligation (UTGO) Refunding, 2007, bonds. The proceeds of the new-money portion of the LTGO bonds of $36.4 million will provide funding for the capital projects and improvements for the Alaskan Way Tunnel/Seawall, Aquarium, Monorail Rehabilitation, Northgate Land Acquisition, Parking Pay Stations, and Zoo Garage. The proceeds of the balance of the LTGO bond issue, which is the refunding portion of $59.2 million, will provide sufficient resources to be placed in an irrevocable trust to pay for principal and interest on the refunded bonds of $60.8 million of the LTGO, 1998 Series F, bonds, all of which is scheduled to be called on December 15, 2008. The proceeds of the $60.9 million UTGO portion of the bond issue, which is refunding $59.2 million of the UTGO, 1999 Series A bonds, will also be placed in an irrevocable trust to pay for principal and interest on the refunded bonds, all of which is scheduled to be called on December 1, 2009.

Windstorm Costs Recovery. City Light sustained extended damage to its electrical system throughout the service area during the “Hanukkah Eve” windstorm of December 14, 2006. The cost of restoring power for 175,000 customers was $6.9 million. On February 14, 2007, President Bush declared a major disaster in 19 Washington counties and approved federal funds to help with repairs from the December 14-15 winter storm. The Department expects to receive assistance in the amount of approximately $5.3 million from the Federal Emergency Management Agency and the State of Washington.

Glaser Settlement. In April 2007 the City reached a settlement with National Union Insurance over insurance coverage for the City's 2005 payments in the Glaser case. National Union will provide a total of $5.3 million to the City to be paid in four installments in 2007 as follows: $1.5 million in June, $1.3 million in July, $1.5 million in August, and $1.0 million in September.

Interfund Loan. On June 18, 2007, the Council passed a bill which created the 2008 Multipurpose LTGO Bond Fund and authorized a loan to this fund in the amount of $17.98 million from the City's Consolidated (Residual) Cash Pool. The loan provides interim financing for transportation projects authorized by the Bridge the Gap special levy.

C-1

GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
For the Year Ended December 31, 2006
(In Thousands)

	Budgeted Amounts			
	Original	Final	Actual	Variance
REVENUES				
Taxes				
General Property Taxes	$ 208,399	$ 208,399	$ 209,697	$ 1,298
Retail Sales and Use Taxes	146,074	146,074	155,311	9,237
Business Taxes	189,102	189,102	204,959	15,857
Excise Taxes	37,373	37,373	53,615	16,242
Other Taxes	5,070	5,070	4,967	(103)
Penalties and Interest on Delinquent Taxes	-	-	3,014	3,014
Interfund Business Taxes	72,477	72,477	74,799	2,322
Total Taxes	658,495	658,495	706,362	47,867
Licenses and Permits	15,928	23,318	19,953	(3,365)
Grants and Shared Revenues	21,059	27,772	21,008	(6,764)
Charges for Services	50,087	50,704	52,924	2,220
Fines and Forfeits	15,541	15,935	18,321	2,386
Parking Fees and Space Rent	16,672	16,672	16,786	114
Program Income, Interest, and Miscellaneous Revenues	129,639	33,045	27,603	(5,442)
Total Revenues	907,421	825,941	862,957	37,016
EXPENDITURES AND ENCUMBRANCES				
Current				
General Government	259,323	183,939	156,879	27,060
Judicial	20,242	22,146	20,651	1,495
Public Safety	346,940	355,335	348,171	7,164
Utilities and Environment	7,299	7,295	7,103	192
Transportation	12,217	11,190	8,609	2,581
Economic Environment	17,919	22,712	17,212	5,500
Health and Human Services	306	231	231	-
Culture and Recreation	5,651	5,488	5,090	398
Capital Outlay				
General Government	27,280	27,478	14,102	13,376
Judicial	1,682	-	-	-
Public Safety	9,154	10,133	3,601	6,532
Utilities and Environment	50	50	-	50
Transportation	10,122	10,122	-	10,122
Economic Environment	7,662	2,582	16	2,566
Culture and Recreation	39,793	46,070	15,705	30,365
Debt Service				
Interest	-	-	5	(5)
Total Expenditures and Encumbrances	765,640	704,771	597,375	107,396
Excess (Deficiency) of Revenues over (under) Expenditures and Encumbrances	141,781	121,170	265,582	144,412
OTHER FINANCING SOURCES (USES)				
Sales of Fixed Assets	1,392	1,760	3,992	2,232
Transfers In	2,275	6,548	4,150	(2,398)
Transfers Out	(240,259)	(260,401)	(240,615)	19,786
Total Other Financing Sources (Uses)	(236,592)	(252,093)	(232,473)	19,620
Net Change in Fund Balance	$ (94,811)	$ (130,923)	33,109	$ 164,032
Fund Balance - Beginning of Year			176,915	
Encumbrances Continued from Last Year			13,054	
Changes in Unappropriable Reserves			5,030	
Fund Balance (Budgetary) - End of Year			228,108	
Adjustments to Conform to Generally Accepted Accounting Principles				
Reserves not Available for Appropriation			8,674	
Encumbrances			4,518	
Reimbursements				
Budgeted as Revenues			(10,864)	
Budgeted as Expenditures			10,864	
Ending Fund Balance - GAAP			$ 241,300	

C-2

TRANSPORTATION FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
For the Year Ended December 31, 2006
(In Thousands)

	Budgeted Amounts Original	Budgeted Amounts Final	Actual	Variance
REVENUES				
Licenses and Permits	$ 9,792	$ 9,792	$ 7,586	$ (2,206)
Grants and Shared Revenues	55,840	56,201	44,017	(12,184)
Charges for Services	40,328	40,726	24,396	(16,330)
Fines and Forfeits	-	-	26	26
Parking Fees and Space Rent	-	-	55	55
Program Income, Interest, and Miscellaneous Revenues	450	450	259	(191)
Total Revenues	106,410	107,169	76,339	(30,830)
EXPENDITURES AND ENCUMBRANCES				
Current				
Transportation	112,852	81,258	74,482	6,776
Capital Outlay				
Transportation	118,776	160,919	80,913	80,006
Debt Service				
Principal	5,877	5,877	2,038	3,839
Interest	-	-	412	(412)
Total Expenditures and Encumbrances	237,505	248,054	157,845	90,209
Excess (Deficiency) of Revenues over (under) Expenditures and Encumbrances	(131,095)	(140,885)	(81,506)	59,379
OTHER FINANCING SOURCES (USES)				
Proceeds of Long-Term Debt	2,304	2,304	5,000	2,696
Transfers In	38,905	50,177	77,915	27,738
Transfers Out	-	(2,469)	(2,469)	-
Total Other Financing Sources (Uses)	41,209	50,012	80,446	30,434
Net Change in Fund Balance	$ (89,886)	$ (90,873)	(1,060)	$ 89,813
Fund Balance - Beginning of Year			10,550	
Encumbrances Continued from Last Year			535	
Fund Balance (Budgetary) - End of Year			10,025	
Adjustments to Conform to Generally Accepted Accounting Principles				
Reserves not Available for Appropriation			3	
Encumbrances			480	
Ending Fund Balance - GAAP			$ 10,508	

C-3

LOW-INCOME HOUSING FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
For the Year Ended December 31, 2006
(In Thousands)

	Budgeted Amounts			
	Original	Final	Actual	Variance
REVENUES				
Taxes				
General Property Taxes	$ 5,703	$ 5,703	$ 11,816	$ 6,113
Grants and Shared Revenues	4,832	4,832	6,273	1,441
Charges for Services	1,385	1,385	22	(1,363)
Parking Fees and Space Rent	27	27	27	-
Program Income, Interest, and Miscellaneous Revenues	6,915	6,915	6,077	(838)
Total Revenues	18,862	18,862	24,215	5,353
EXPENDITURES AND ENCUMBRANCES				
Current				
Economic Environment	60,588	63,345	25,477	37,868
Capital Outlay				
Economic Environment	11,538	11,538	-	11,538
Total Expenditures and Encumbrances	72,126	74,883	25,477	49,406
Excess (Deficiency) of Revenues over (under) Expenditures and Encumbrances	(53,264)	(56,021)	(1,262)	54,759
OTHER FINANCING SOURCES (USES)				
Sales of Fixed Assets	99	99	-	(99)
Transfers In	2,425	3,257	3,257	-
Total Other Financing Sources (Uses)	2,524	3,356	3,257	(99)
Net Change in Fund Balance	$ (50,740)	$ (52,665)	1,995	$ 54,660
Fund Balance - Beginning of Year			9,449	
Encumbrance Continued from Last Year			33,785	
Fund Balance (Budgetary) - End of Year			45,229	
Adjustments to Conform to Generally Accepted Accounting Principles				
Encumbrances			7,260	
Ending Fund Balance - GAAP			$ 52,489	

SCHEDULES OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

The schedules of revenues, expenditures, and changes in fund balances – budget and actual are presented on a budgetary basis (Non-GAAP). A reconciliation of the budgetary fund balance to the GAAP fund balance is shown on the face of each schedule.

The budgetary basis of accounting is substantially the same as the modified accrual basis of accounting in all governmental funds except for the treatment of encumbrances. Encumbrances are included with expenditures in the City's budgetary basis of accounting.

C-4

PENSION PLAN INFORMATION
SCHEDULE OF FUNDING PROGRESS
December 31, 2006
(In Thousands)

Retirement System	Actuarial Valuation Date December 31	Actuarial Value of Assets	Actuarial Accrued Liabilities (AAL)[a]	Unfunded Actuarial Accrued Liabilities (UAAL)[b]	Funded Ratio	Covered Payroll[c]	UAAL as a Percentage of Covered Payroll
Seattle City Employees' Retirement System (SCERS)	1997[d]	$ 1,224,600	$ 1,266,700	$ 42,100	96.7 %	$ 341,500	12.3 %
	1998	1,375,000	1,326,600	(48,400)	103.6	370,400	(13.1)
	1999	1,582,700	1,403,100	(179,600)	112.8	383,600	(46.5)
	2001	1,383,700	1,581,400	197,700	87.5	405,100	48.8
	2003	1,527,500	1,778,900	251,400	85.9	424,700	59.2
	2005[e]	1,791,800	2,017,500	225,800	88.8	447,000	50.5
Firemen's Pension Fund	2001	2,354	99,330	96,976	2.4	N/A	N/A
	2002	3,573	98,471	94,898	3.6	N/A	N/A
	2003	4,803	89,071	84,268	5.4	N/A	N/A
	2004	6,221	88,705	82,484	7.0	N/A	N/A
	2005[f]	8,717	107,295	98,578	8.1	N/A	N/A
	2006	10,045	154,518	144,473	6.5	N/A	N/A
Police Relief and Pension Fund	2001	642	89,332	88,690	0.7	N/A	N/A
	2002	-	88,989	89,211	N/A	N/A	N/A
	2003	801	65,418	64,617	1.2	N/A	N/A
	2004	1,752	65,693	63,941	2.7	N/A	N/A
	2005[f]	1,967	69,935	67,968	2.8	N/A	N/A
	2006	1,327	119,280	117,953	1.1	N/A	N/A

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

[b] Actuarial accrued liabilities less actuarial value of assets, funding excess if negative.

[c] Covered payroll includes compensation paid to all active employees on which contributions are calculated. Not applicable for Firemen's Pension and Police Relief and Pension plans. These plans primarily cover inactive participants and there are no current member contributions.

[d] Reflects increased COLA benefits adopted by the City Council after the valuation was completed.

[e] Actuarial data for SCERS are determined through biannual actuarial valuations. The latest actuarial valuation was completed as of January 1, 2006.

[f] The results of revised actuarial accrued liabilities and unfunded actuarial accrued liabilities as of December 31, 2005, are reflected in the current schedule.

C-5

PENSION PLAN INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS
December 31, 2006
(In Thousands)

Retirement System	Fiscal Year Ending December 31	Covered Employee Payroll [a]	Actual Employer Contribution [b]	Actual Employer Contribution % [b]	Annual Required Contribution (ARC) [c]	Percentage of ARC Contributed
Seattle City Employees' Retirement System (SCERS)	2000	$ 383,600	$ 30,800	8.03 %	4.50 %	178 %
	2001	405,100	32,700	8.03	3.04	264
	2002	454,500	36,600	8.03	3.04	264
	2003	424,700	34,200	8.03	8.03	100
	2004	456,800	36,700	8.03	8.03	100
	2005	447,000	35,900	8.03	8.03	100
	2006 [d]	474,200	38,100	8.03	8.03	100
Firemen's Pension Fund	2001	N/A	8,252	100	8,252	100
	2002	N/A	9,480	100	9,480	100
	2003	N/A	9,167	100	9,167	100
	2004	N/A	9,315	100	9,315	100
	2005	N/A	9,704	100	9,704	100
	2006	N/A	9,385	100	9,385	100
Police Relief and Pension Fund	2001	N/A	7,415	100	7,415	100
	2002	N/A	5,955	100	5,955	100
	2003	N/A	7,403	100	7,403	100
	2004	N/A	8,244	100	8,244	100
	2005	N/A	7,187	100	7,187	100
	2006	N/A	6,056	100	6,056	100

[a] Computed as the dollar amount of the actual employer contribution made as a percentage of payroll divided by the contribution rate, expressed as a percentage of payroll for SCERS. Not applicable to the Firemen's Pension and Police Relief and Pension because these plans primarily cover inactive participants and there are no current member contributions.

[b] The actual and required employer contributions for the SCERS are expressed as a percentage of payroll, after first recognizing $12 per employee assessment made for the death benefits. This assessment per employee is included in the actual employer contributions reported and has been previously recognized by the actuary in determining the ARC.

[c] The City makes employer contributions as a percentage of actual payroll for SCERS as set in City ordinance. Thus, as long as the percentage equals the percentage required by the most recent actuarial valuation, the dollar amount of the ARC is equal to the actual dollar amount of the employer contributions. The City ordinance does not permit a reduction in the employer contribution rate less than the employee contribution rate. Thus, the City's SCERS contributions exceeded the ARC for 1999 through 2001 and resulted in a negative net pension obligation (NPO) amount.

[d] Actuarial data for SCERS are determined through biennual actuarial valuations. The latest actuarial valuation was completed as of January 1, 2006.

PENSION PLAN INFORMATION

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Defined benefit pension plans are required to provide two schedules of long-term actuarial data, Schedule of Funding Progress and Schedule of Employer Contributions as of the plans' reporting dates for the past six consecutive fiscal years. The information presented in these schedules was part of the latest actuarial valuations at the dates indicated in Note 9, Table 9-1.

City of Seattle
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2006

Grantor Agency/Program		Passthru Agency	J/F	CFDA#	Grant Expenditures
DEPARTMENT OF AGRICULTURE					
	Child and Adult Care Food Program	Department of Agriculture	J	10.558	687,806.05
	Summer Food Service Program for Children	Dept of Social and Health Svcs	J	10.559	519,310.24
	Senior Farmers Market Nutrition Program	Department of Agriculture	J	10.576	9,370.00
	Sub Total				**1,216,486.29**
DEPARTMENT OF COMMERCE					
	Pacific Coast Salmon Recovery		J	11.438	137,517.17
	Sub Total				**137,517.17**
DEPARTMENT OF EDUCATION					
	TRIO-Upward Bound		F	84.047	1,046,428.72
	Early Reading First		F	84.359	36,267.86
	Sub Total				**1,082,696.58**
DEPARTMENT OF ENERGY					
	Weatherization Assistance for Low-Income Persons	DCTED	J	81.042	467,447.35
	Sub Total				**467,447.35**
DEPARTMENT OF JUSTICE					
	Urban Areas Security Initiative		F	16.011	973,329.34
	Urban Areas Security Initiative	Military Department	J	16.011	2,396,889.09
	Services for Trafficking Victims		F	16.320	145,733.84
	Services for Trafficking Victims	Other Agencies PJ1652	J	16.320	409.58
	Juvenile Accountability Incentive Block Grant	King County	J	16.523	34,778.95
	Missing Childrens Assistance		F	16.543	290,097.44
	Edward Byrne Memorial State and Local Law Enforcem		F	16.580	658,070.54
	Grants to Encourage Arrest Policies and Enforcemen		F	16.590	451,977.42
	Local Law Enforcement Block Grants Program		F	16.592	94,940.85
	Community Capacity Development Office		F	16.595	300,541.07
	Bulletproof Vest Partnership Program		F	16.607	26,740.19
	Community Prosecution and Project Safe Neighborhoo		F	16.609	168,064.32
	Public Safety Partnership, Community Policing Grts		F	16.710	1,174,009.03
	Edward Byrne Memorial Justice		F	16.738	59,637.17
	Sub Total				**6,775,218.83**
DEPARTMENT OF LABOR					
	Senior Community Service Employment Program	Dept of Social and Health Svcs	J	17.235	263,075.86
	WIA-Adult Program	Workforce Development Council	J	17.258	6,146.20
	WIA Youth Activities	Workforce Development Council	J	17.259	838,479.23
	Sub Total				**1,107,701.29**
DEPARTMENT OF TRANSPORTATION					
	Federal Transit Formula Grants	Department of Transportation	J	20.507	705,749.50
	Highway Planning and Construction		J	20.205	19,080,331.05
	Sub Total				**19,786,080.55**
ENVIRONMENTAL PROTECTION AGENCY					
	Brownfields Assessment & Cleanup Cooperative Agree		F	66.818	33,768.18
	Sub Total				**33,768.18**
EQUAL EMPLOYMENT OPPORTUNITY COMMISSION					
	Employment Discrimination Title VII of the Civil R		F	30.001	78,795.00
	Sub Total				**78,795.00**

City of Seattle
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2006

	Grantor Agency/Program	Passthru Agency	J/F	CFDA#	Grant Expenditures
FEMA					
	Public Assistance Grants	Military Department	J	83.544	135,886.07
	Sub Total				**135,886.07**
HEALTH AND HUMAN SERVICES					
	Special Programs for the Aging_Title VII, Chapter	Dept of Social and Health Svcs	J	93.041	21,461.00
	Special Programs for the Aging_Title III, Part D_D	Dept of Social and Health Svcs	J	93.043	126,602.57
	Special Programs for the Aging_Title III, Part B_G	Dept of Social and Health Svcs	J	93.044	2,270,317.66
	Special Programs for the Aging_Title III, Part C_N	Dept of Social and Health Svcs	J	93.045	1,988,293.26
	National Family Caregiver Support	Dept of Social and Health Svcs	J	93.052	773,841.71
	Nutrition Services Incentive Program	Dept of Social and Health Svcs	J	93.053	482,716.36
	Centers for Research and Demonstration for Health	Dept of Social and Health Svcs	J	93.135	12,000.00
	Drug-Free Communities Support Program Grants	Other Agencies	J	93.276	20,798.00
	Centers For Disease Control and Prevention	Department of Health	J	93.283	27,419.54
	Low-Income Home Energy Assistance	DCTED	J	93.568	912,891.14
	Child Care and Development Block Grant	Department of Agriculture	J	93.575	27,636.79
	Refugee and Entrant Assistance_Discretionary Grant	Dept of Social and Health Svcs	J	93.576	50,000.00
	Medical Assistance Program	Dept of Social and Health Svcs	J	93.778	13,744,891.47
	Sub Total				**20,458,869.50**
HOMELAND SECURITY					
	State Domestic Preparedness Equipment Support Prog		F	97.004	428,825.34
	State Domestic Preparedness Equipment Support Prog	Military Department	J	97.004	638,932.01
	Urban Areas Security Initiative		F	97.008	3,158,237.48
	Urban Areas Security Initiative	Military Department	J	97.008	1,792,820.42
	Flood Mitigation Assistance	Military Department	J	97.029	99,320.04
	Public Assistance Grants	Public Assistance Grants	J	97.036	9,868.82
	Emergency Management Performance Grants		F	97.042	29,508.57
	Emergency Management Performance Grants	Military Department	J	97.042	288,200.85
	Assistance to Firefighters Grant		F	97.044	-14,503.86
	Interoperable Communications Equipment		F	97.055	247,103.01
	FY05 Homeland Security Grant		F	97.067	1,623,146.76
	FY05 Homeland Security Grant	King County	J	97.067	383,315.77
	Metropolitan Medical Response System	Military Department	J	97.071	-96,413.00
	Buffer Zone Protection Plan (BZPP)	Military Department	J	97.078	195,365.08
	Sub Total				**8,783,727.29**
HOUSING AND URBAN DEVELOPMENT					
	Community Development Block Grants/Entitlement Gra		F	14.218	15,743,670.59
	Emergency Shelter Grants Program		F	14.231	534,057.52
	Supportive Housing Program		F	14.235	8,238,621.70
	HOME Investment Partnerships Program		F	14.239	3,751,683.34
	Housing Opportunities for Persons with AIDS		F	14.241	1,390,226.27
	Fair Housing Assistance Program State and Local		F	14.401	107,610.00
	Public and Indian Housing	Seattle Housing Authority	J	14.850	681,683.17
	Sub Total				**30,447,552.59**
NATIONAL FOUNDATION OF ARTS&H					
	IMLS State Library Program	Library Commission	J	45.310	345,873.61
	Sub Total				**345,873.61**
	Federal Grants				**90,857,620.30**

CITY OF SEATTLE
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2006

NOTE 1 - BASIS OF ACCOUNTING

This schedule is prepared on the same basis of accounting as the City's financial Statements. The City uses the modified accrual basis in its governmental funds and the full accrual basis of accounting in its proprietary funds.

NOTE 2 - PROGRAM COST

The amounts shown as expenditures represent only the federal grant portion of the program costs. Entire program costs, including the City's portion may be more than shown.

NOTE 3 - REVOLVING LOAN - PROGRAM INCOME

The City has revolving loan program for low income housing. Under this federal program, repayments to the City are considered program revenues and loans to eligible recipients are considered expenditures.

NOTE 4 - SECTION 108/BEDI PROGRAM

The City of Seattle participates in the HUD Section 108 loan program. In the Section 108 program, HUD obtains funds from private investors at a very low cost (i.e., low interest rate). Low cost funds are available because HUD guarantees repayment to the private investors. HUD, in turn provides the low cost funds to jurisdictions nationwide including the City of Seattle. The City re-lends the funds to private borrowers. HUD deposits the funds directly to the City's loan servicing agent JP Morgan Chase. JP Morgan Chase disburses funds on behalf of the City to the private borrowers.

The Brownsfield Economic Development Initiative Grant (BEDI) program is a federal grant that is directly linked to the Section 108 loans. The U.S. Treasury deposits the grant funds with the City. The City then disburses the grant funds to its loan servicing agent JP Morgan Chase.

About The State Auditor's Office

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

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

The State Auditor's Office has 300 employees who are located around the state to deliver our services effectively and efficiently. Approximately 65 percent of our staff are certified public accountants or hold other certifications and advanced degrees.

Our regular audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. We also perform fraud and whistleblower investigations. In addition, we have the authority to conduct performance audits of state agencies and local governments.

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

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

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Director of Performance Audit	**Linda Long, CPA, CGFM**
Director of Special Investigations	**Jim Brittain, CPA**
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